

WEST RIDGE MINE
007/041

ADDENDUM TO
THE MINING AND RECLAMATION PLAN
FOR THE ADDITIONAL AREA
COMPRISING THE

PENTA CREEK FEE LEASE
STATE LEASE ML 47711
STATE LEASE ML 49287

INITIAL SUBMITTAL
SUBMITTED: MAY 27, 2004

File in:
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For additional information Confidential

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R645-301-100 CHAPTER 1**

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112.420 Ownership or control relationship to the applicant, including percentage of ownership and location in organizational structure.

Information regarding ownership or control relationship to the applicant is presented in Appendix 1-7.

112.500 Names and addresses of each legal or equitable owner of record of the surface and mineral property to be mined, each holder of record of any leasehold interest in the property to be mined, and any purchaser or record under a real estate contract for the property to be mined.

Surface Owners:

Bureau of Land Management
Utah State Office
136 East South Temple
Salt Lake City, Utah 84111

Glen Wells
700 West U.S. Hwy 6
Price, Utah 84501

Penta Creek, LLC
140 S. Newton
Albert Lea, MN 56007

Dave Hinkins
155 West 100 South
Orangeville, Utah 84537

School and Institutional Trust
Lands Administration
355 West North Temple, Suite 400
Salt Lake City, Utah 84180-1204

Matt Rauhala
1236 East Main
Price, Utah 84501

Subsurface Owners:

Bureau of Land Management
Utah State Office
136 East South Temple
Salt Lake City, Utah 84111

Penta Creek, LLC
140 S. Newton
Albert Lea, MN 56007

School and Institutional Trust
Lands Administration
355 West North Temple, Suite 400
Salt Lake City, Utah 84180-1204

WEST RIDGE Resources, Inc. is the holder of record for federal lease SL-068754 and UTU 78562 (see Table 1-1), state lease ML 47711 and ML 49287 (see Table 1-2A) and the Penta Creek Fee lease (see Table 1-2B) which is composed of the area as listed in Table 1-1.

Proof of lease assignment for lease SL-068754 and UTU 78562 is provided in Appendix 1-4, lease ML 47711 and ML 49287 in Appendix 1-16, and the Penta Creek fee lease in Appendix 1-14.

112.600 Names and addresses of owners of record of all property (surface and subsurface) contiguous to any part of the permit area.

Same as listed in 112.500 with the following additions:

Contiguous surface owners:

Bureau of Land Management
Utah State Office
136 East South Temple
Salt Lake City, Utah 84111

Dave Hinkins
155 West 100 South
Orangeville, Utah 84537

Glen Wells
700 West U.S. Hwy 6
Price, Utah 84501

Penta Creek, LLC
140 S. Newton
Albert Lea, MN 56007

School and Institutional Trust
Lands Administration
355 West North Temple, Suite 400
Salt Lake City, Utah 84180-1204

Contiguous subsurface owners:

School and Institutional Trust
Lands Administration
355 West North Temple, Suite 400
Salt Lake City, Utah 84180-1204

Penta Creek, LLC
140 S. Newton
Albert Lea, MN 56007

Bureau of Land Management
Utah State Office
136 East South Temple
Salt Lake City, Utah 84111

Dave Hinkins
155 West 100 South
Orangeville, Utah 84537

112.700 The MSHA numbers for all mine associated structures that require MSHA approval.

MSHA Identification Number: MSHA number 42-02233 was issued on March 12, 1999.

112.800 **There are no pending interests or bids existing** on lands contiguous to the present leased area.

~~WEST RIDGE Resources, Inc. has obtained an option to acquire mining rights for state coal reserves in T. 13 S., R. 13 E., Section 36.~~

112.900 After WEST RIDGE Resources, Inc. is notified that the application is approved, but before the permit is issued, WEST RIDGE Resources, Inc. will update, correct or indicate that no change has occurred in the information previously submitted under R645-301-112.100 through R645-301-112.800.

R645-301-113 VIOLATION INFORMATION

113.100 The applicant or any subsidiary, affiliate or persons controlled by or under common control with the applicant has not had a federal or state permit to conduct coal mining and reclamation operations suspended or revoked in the five years preceding the date of submission of the application.

113.120 The applicant etc. has not forfeited any performance bond or similar security

113.200 Not applicable

113.300 A listing of violations received by the applicant or any subsidiary, affiliate or persons controlled by or under common control with the applicant in connection with any coal mining and reclamation operation during the three year period preceding the application date is provided in Appendix 1-2. MSHA numbers for the operations listed in Appendix 1-2 can be found in Appendix 1-5.

113.400 After WEST RIDGE Resources, Inc. is notified that the application is approved, but before the permit is issued, WEST RIDGE Resources, Inc. will update, correct or indicate that no change has occurred in the information previously submitted under R645-301-113.

R645-301-114

RIGHT OF ENTRY INFORMATION

114.100 WEST RIDGE Resources, Inc., currently holds 4,297.01 acres of federal coal (2,650.67 acres leased under SL-068754 and 1646.34 acres leased under UTU 78562) in the Book Cliffs coal field (refer to Map 5-4A). WEST RIDGE currently holds 1682.34 acres of state coal (801.24 acres under ML 47711 and 881.10 under ML 49287. WEST RIDGE also holds a 382.08 acre lease on contiguous private (fee) coal lands located along the eastern side of the mineable reserve (see Appendix 1-14). These leases are not the subject of any pending litigation. WEST RIDGE Resources, Inc. bases its legal right to enter and conduct mining activities in the permit area pursuant to the language contained in the Federal Coal Lease, Part I Lease Rights Granted which reads as follows:

"That the lessor, in consideration of the rents and royalties to be paid and the covenants to be observed as hereinafter set forth, does hereby grant and lease to the lessee the exclusive right and privilege to mine and dispose of all the coal in, upon, or under the following described tracts of land, situated in the State of Utah... together with the right to construct all such works, buildings, plants, structures and appliances as may be necessary and convenient for the mining and preparation of the coal for market, the manufacture of coke or other products of coal, the housing and welfare of employees, and subject to the conditions herein provided, to use so much of the surface as may reasonably be required in the exercise of the rights and privileges herein granted."

The substitute topsoil borrow area, which is also included within the permit area, is located on lands administered by the State of Utah, School and Institutional Trust Lands Administration (SITLA). This area is located within the SE1/4 of section 16, T 14 S, R 13 E. SITLA has issued a long term special use permit to WEST RIDGE Resources, Inc. which provides full assurance that the topsoil resource in this area will be available for (and, indeed dedicated to) final reclamation of the West Ridge minesite if needed. (See Appendix 1-4)

Coal lease SL-068754-U-01215 was modified by the BLM. Refer to Appendix 1-9 for the coal lease modification.

The permit area consists of federal coal leases SL-068754-U-01215 and UTU 78562 (4297.01 acres as described in Table I-1), state coal leases ML 47711 and ML 49287 (1682.34 acres as described in Table 1-2A), the Penta Creek fee lease (382.07 acres as described in Table 1-2B), along with a special use state surface lease (9.6 acres as described in Table I-2A). The two areas are not contiguous however. The 9.6 acre state surface lease is for a possible topsoil borrow site if it is needed at the time of final reclamation. This permit area also includes a 0.23 acre right-of-way issued by the BLM for a water pumping station (refer to Appendix 1-12). The permit area also includes a 0.79 acre area along the Carbon County C Canyon Road down to and including the security gate (refer to Appendix 1-13). The total permit area is 6372.05

acres. Refer to Map 1-1 for the permit area location. Refer to Table 1-4 for the legal description of the permit area.

114.200 Not applicable, the fee lease mineral estate is not severed from the surface estate.

**TABLE I-2A
STATE COAL LEASE PROPERTIES***

<u>LEASE SERIAL NUMBER</u>	<u>DATE ISSUED</u>	<u>LEASE ACREAGE</u>	<u>LEGAL DESCRIPTION+</u>
ML 47711	04/01/2003	641.24	T 14 S, R 13 E Sec. 2: Lots 1-4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ (all)
		160.0	T 13 S, R 13 E Sec. 36: SW $\frac{1}{4}$
TOTAL		801.24	
ML 49287	04/01/2004	881.10	T 14 S, R 13 E Section 3: Lots 1-3, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$
			Section 10: W $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$
TOTAL		881.10	

STATE SURFACE LEASE

SPECIAL USE LEASE

<u>LEASE NUMBER</u>	<u>DATE ISSUED</u>	<u>LEASE ACREAGE</u>	<u>LEGAL DESCRIPTION+</u>
Special Use Lease Agreement #1163		9.6	T 14 S, R 13 E Sec. 16: (9.6 acres within the NE $\frac{1}{4}$ SE $\frac{1}{4}$)
TOTAL		9.6	
TOTAL STATE		1691.94	

* All state coal leases are within the State of Utah.

+ Utah State legal description utilizing the Salt Lake Base and Meridian.

**TABLE I-2B
PENTA CREEK FEE LEASE PROPERTY
ACQUIRED JANUARY 1, 2003**

<u>LEGAL DESCRIPTION</u>	<u>ACREAGE</u>
T 14 S, R 14 E S.L.B.& M	
Section 6: Lot 7, SE $\frac{1}{4}$ SW $\frac{1}{4}$	76.56
Section 7: Lot 1*, Lot 2*, NE $\frac{1}{4}$ NW $\frac{1}{4}$,* E $\frac{1}{2}$ SW $\frac{1}{4}$,* SW $\frac{1}{4}$ SE $\frac{1}{4}$	190.60
Section 18: Lots2, Lot 3, NW $\frac{1}{4}$ NE $\frac{1}{4}$	114.92
<p>Less and excepting from the portion of the above legal subdivisions in Section 7 (marked with *), those lands under and around Grassy Trail Dam and Reservoir owned by East Carbon City and Sunnyside City, such lands being more accurately described in Appendix 1-15.</p>	
Total Penta Creek Fee lease:	382.08

**Table 1-3
Surface Ownership within the Permit Area**

T(S)/R(E)	Section	BLM	Penta Creek	Hinkins	Wells	Rauhala	SITLA	Total
13/13	35	-	-	148.16	91.84	-	-	240.0
13/13	36	-	160	-	-	-	-	160.0
14/13	1	283.75	285.77	-	-	39.92	-	609.44
14/13	2	-	641.24	-	-	-	-	641.24
14/13	3	-	-	-	80.66	-	520.44	601.10
14/13	10	360	-	-	-	-	-	360
14/13	11	650.87	-	-	-	-	-	650.87
14/13	12	-	648.96	-	-	-	-	648.96
14/13	13	640	-	-	-	-	-	640
14/13	14	440	-	-	-	-	-	440
14/13	15	40.79	-	-	-	-	-	40.79
14/13	16	-	-	-	-	-	9.6	9.6
14/13	21	0.23	-	-	-	-	-	0.23
14/13	24	440	-	-	-	-	-	440
14/14	6	36.41	76.56	-	-	-	-	112.97
14/14	7	74.08	190.60	-	-	-	-	264.68
14/14	18	117.25	114.92	-	-	-	-	232.17
		3083.38	2118.05	148.16	172.50	39.92	810.04	6372.05

**TABLE 1-4
LEGAL DESCRIPTION OF PERMIT AREA**

<u>PARCEL</u>	<u>ACREAGE</u>	<u>LEGAL DESCRIPTION</u>
FEDERAL LEASE SL-068754-U-01215	2,570.67	T 14 S, R 13 E Section 10: NE $\frac{1}{4}$, N $\frac{1}{2}$ SE $\frac{1}{4}$, E $\frac{1}{2}$ NW $\frac{1}{4}$ Section 11: All Section 12: S $\frac{1}{2}$ SW $\frac{1}{4}$, NW $\frac{1}{4}$ SW $\frac{1}{4}$ Section 13: NW $\frac{1}{4}$, S $\frac{1}{2}$, S $\frac{1}{2}$ NE $\frac{1}{4}$, NW $\frac{1}{4}$ NE $\frac{1}{4}$ Section 14: E $\frac{1}{2}$, N $\frac{1}{2}$ NW $\frac{1}{4}$, SE $\frac{1}{4}$ NW $\frac{1}{4}$ Section 24: N $\frac{1}{2}$ SE $\frac{1}{4}$, N $\frac{1}{2}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$
FEDERAL LEASE SL-068754 (Lease Modification)	80.0	T 14 S, R 13 E Section 10: SE $\frac{1}{4}$ SE $\frac{1}{4}$ Section 15: NE $\frac{1}{4}$ NE $\frac{1}{4}$
FEDERAL LEASE UTU-78562	1,646.34	T 13 S, R 13 E Section 35: SE $\frac{1}{4}$, S $\frac{1}{2}$ SW $\frac{1}{4}$ T 14 S, R 13 E Section 1: Lots 2-7 S $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$, W $\frac{1}{2}$ SE $\frac{1}{4}$, SW $\frac{1}{4}$ Section 12: Lots 1-4 S $\frac{1}{2}$ N $\frac{1}{2}$, SE $\frac{1}{4}$, NE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 13: NE $\frac{1}{4}$ NE $\frac{1}{4}$ T 14 S, R 14 E Section 6: Lot 6 Section 7: Lots 3 and 4 Section 18: Lot 1 E $\frac{1}{2}$ NW $\frac{1}{4}$
NE $\frac{1}{4}$		

TABLE 1-4 (CONTINUED)
LEGAL DESCRIPTION OF PERMIT AREA

<u>PARCEL</u>	<u>ACREAGE</u>	<u>LEGAL DESCRIPTION</u>
STATE LEASE ML 47711	801.24	T 14 S, R 13 E Section 2: Lots 1 thru 4, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ T 14 S, R 13 E Section 36: SW $\frac{1}{4}$
STATE LEASE ML 49287	881.10	T 14 S, R 13 E Section 3: Lots 1,2,3, S $\frac{1}{2}$ N $\frac{1}{2}$, S $\frac{1}{2}$ Section 10: W $\frac{1}{2}$ NW $\frac{1}{4}$, SW $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$
PENTA CREEK FEE LEASE	382.08	T 14 S, R 14 E Section 6: Lot 7, SE $\frac{1}{4}$ SW $\frac{1}{4}$ Section 7: Lot 1, 2, NE $\frac{1}{4}$ SW $\frac{1}{4}$, E $\frac{1}{2}$ SW $\frac{1}{4}$, SW $\frac{1}{4}$ SE $\frac{1}{4}$ Section 18: Lots 2, 3, NW $\frac{1}{4}$ NE $\frac{1}{4}$
PUMPING STATION (BLM R.O.W. UTU-77120)	0.23	T 14 S, R 13 E Section 21: NE $\frac{1}{4}$ NE $\frac{1}{4}$
TOPSOIL SALVAGE AREA (SITLA special use agreement #1163)	9.6	T 14 S, R 13 E Section 16: NE $\frac{1}{4}$ SE $\frac{1}{4}$
SECURITY GATE (Carbon County authorization)	0.79	T 14 S, R 13 E Section 15: NW $\frac{1}{4}$ SE $\frac{1}{4}$ NE $\frac{1}{4}$
PENTA CREEK FEE LEASE	74.92	T 14 S, R 14 E Lots 2 and 3
TOTAL PERMIT AREA	6372.05	

R645-301-115 STATUS OF UNSUITABILITY CLAIMS

115.100 The proposed permit area is not within an area designated as unsuitable for mining. WEST RIDGE Resources, Inc. is not aware of any petitions currently in progress to designate the area as unsuitable for coal mining and reclamation activities.

The area in which the proposed facility will be located has been evaluated within area management plans. It has not been found unsuitable for mining activities under any categories of examination.

115.200 Not applicable.

115.300 WEST RIDGE Resources, Inc. will not be conducting mining operations within 100 feet of an occupied dwelling. WEST RIDGE Resources, Inc. has received permission from Carbon County to construct facilities and operate coal mining activities within 100 feet of a public road. Refer to the letter from Carbon County in Appendix 1-8.

R645-301-116 PERMIT TERM

116.100 The anticipated starting and termination dates of the coal mining and reclamation operation are as follows:

	<u>Begin</u>	<u>Complete</u>
Construction of Mining Pad, Mining Support Structures, and Portals	Apr. 1999	Dec. 1999
Begin Mining	Jan. 2000	
Terminate Mining		Dec. 2017*
Remove Facilities	Jan. 2018*	June 2018*
Regrade Area	July 2018*	Sept. 2018*
Revegetate Site	Oct. 2018*	Nov. 2018*

*This assumes mine life extended through acquisition of adjacent state and federal coal reserves.

Approximately 6,372.05 acres will be within the permit boundary. Of this acreage, about 25 acres will be utilized for surface facilities and structures. The proposed surface facilities should be capable of supporting the life of the mine operations as presented in this permit application.

APPENDIX 1-2

VIOLATION INFORMATION - R645-301-113.300

CRANDALL CANYON MINE
PERMIT NUMBER 015/032

DOGM VIOLATIONS 2001 THROUGH APRIL 2004

VIOLATION/ CESSATION NO.	DATE ISSUED	ABATEMENT DATE	VIOLATION DESCRIPTION
NO3-49-2-1	7/30/03	8/20/03	Failure to submit surface blast plan pf more than 5 pounds. Abated with submittal and approval of plan.
NO3-49-1-1	1/8/03	4/15/03	Failure to request permit renewal 120 days prior to permit expiration. Abated with submittal of permit renewal application.

WESTRIDGE MINE
PERMIT NUMBER 007/041

DOGM VIOLATIONS 2001 THROUGH APRIL 2004

VIOLATION/ CESSATION NO.	DATE ISSUED	ABATEMENT DATE	VIOLATION DESCRIPTION
NO2-49-2-1	11/19/02	2/18/02	Diverting mine water through channels and culverts and storing in sediment pond. Abated with submittal of permit change allowing use.
NO2-49-1-1	2/19/02	5/20/02	Failure to maintain or construct diversions according to approved MRP. Abated with the completion of a permit change approval and construction measures.
NO4-49-1-1	1/22/04	1/22/04	Failure to request permit renewal 120 prior to permit expiration. Abated with submittal of permit renewal application.

CENTENNIAL MINES
PERMIT NUMBER 007/019

DOGM VIOLATIONS 2001 THROUGH APRIL 2004

VIOLATION/ CESSATION NO.	DATE ISSUED	ABATEMENT DATE	VIOLATION DESCRIPTION
NO4-49-2-1	1/24/04	3/25/04	Failure to maintain disturbed diversion DD-4 and culvert.

APPENDIX 1-4

PROOF OF FEDERAL LEASE ASSIGNMENT

SL 687554

UTU 78562

APPENDIX 1-15

LEGAL DESCRIPTION OF GRASSY TRAIL RESERVOIR

EXHIBIT 'A'

DEEDED LAND - INCLUDING THE AREA OF GRASSY TRAIL RESERVOIR UNDER ELEVATION 7620.9 FEET AND THE AREA ADJACENT TO THE DAM.

A PARCEL OF LAND LOCATED IN CARBON COUNTY, STATE OF UTAH, WHICH IS IN THE NORTHWEST QUARTER AND THE NORTH HALF OF THE SOUTHWEST QUARTER OF SECTION 7, TOWNSHIP 14 SOUTH, RANGE 14 EAST, SALT LAKE BASE AND MERIDIAN, BEING FURTHER DESCRIBED AS FOLLOWS WITH A BEARING OF NORTH 0°00'00" EAST, BETWEEN THE WEST QUARTER CORNER AND THE NORTHWEST CORNER OF SAID SECTION 7 USED AS THE BASIS OF BEARING, AND BEING MORE PARTICULARLY DESCRIBED ACCORDING TO THE FOLLOWING COURSES AND DISTANCES, TO-WIT:

BEGINNING AT A POINT WHICH IS LOCATED SOUTH 89°34'34" WEST, 577.93 FEET ALONG THE SECTION LINE AND SOUTH 0°25'26" EAST, 616.36 FEET FROM THE NORTH QUARTER CORNER OF SECTION 7, TOWNSHIP 14 SOUTH, RANGE 14 EAST, SALT LAKE BASE AND MERIDIAN; AND RUNNING THENCE SOUTH 02°41'16" EAST, 167.59 FEET TO A POINT HAVING AN ELEVATION OF 7620.9 FEET; THENCE ALONG THE FOLLOWING COURSES AND DISTANCES HAVING AN ELEVATION OF 7620.9 FEET, THENCE SOUTH 06°04'29" WEST, 57.48 FEET; THENCE SOUTH 15°31'01" WEST, 39.60 FEET; THENCE SOUTH 31°57'10" WEST, 47.67 FEET; THENCE SOUTH 42°15'37" EAST, 50.63 FEET; THENCE SOUTH 00°42'36" EAST, 28.81 FEET; THENCE SOUTH 22°35'01" WEST, 44.34 FEET; THENCE SOUTH 25°42'34" WEST, 57.64 FEET; THENCE SOUTH 17°26'08" WEST, 67.42 FEET; THENCE SOUTH 37°19'52" WEST, 43.03 FEET; THENCE SOUTH 10°25'22" WEST, 38.28 FEET; THENCE SOUTH 27°18'51" WEST, 156.31 FEET; THENCE SOUTH 39°02'28" WEST, 53.40 FEET; THENCE SOUTH 45°00'45" WEST, 31.74 FEET; THENCE SOUTH 45°48'21" WEST, 99.45 FEET; THENCE SOUTH 21°28'34" WEST, 33.14 FEET; THENCE SOUTH 12°32'15" WEST, 78.54 FEET; THENCE SOUTH 06°45'46" WEST, 60.04 FEET; THENCE SOUTH 07°00'30" WEST, 41.44 FEET; THENCE SOUTH 03°29'47" EAST, 58.65 FEET; THENCE SOUTH 03°42'50" WEST, 89.17 FEET; THENCE SOUTH 06°39'56" WEST, 87.35 FEET; THENCE SOUTH 02°26'03" WEST, 131.79 FEET; THENCE SOUTH 01°48'02" WEST, 20.71 FEET; THENCE SOUTH 10°50'14" EAST, 121.17 FEET; THENCE SOUTH 02°51'32" EAST, 43.74 FEET; THENCE SOUTH 09°14'58" EAST, 44.46 FEET; THENCE SOUTH 22°58'03" EAST, 65.76 FEET; THENCE SOUTH 21°31'59" EAST, 167.75 FEET; THENCE LEAVING ELEVATION 7620.9 FEET; THENCE NORTH 90°00'00" EAST, 343.42 FEET; THENCE SOUTH 0°00'00" WEST, 203.21 FEET; THENCE SOUTH 49°46'54" WEST, 286.20 FEET; THENCE SOUTH 01°55'09" EAST, 150.27 FEET; THENCE SOUTH 74°29'37" WEST, 619.03 FEET TO THE EAST EDGE OF AN EXISTING ROAD; THENCE ALONG THE EAST EDGE OF AN EXISTING ROAD THE FOLLOWING FIVE CALLS; THENCE NORTH 33°21'55" WEST, 24.04 FEET; THENCE NORTH 24°08'49" WEST, 22.74 FEET; THENCE NORTH 16°21'28" WEST, 105.80 FEET; THENCE NORTH 10°56'05" WEST, 39.36 FEET; THENCE NORTH 4°35'47" WEST, 3.13 FEET TO THE EAST LINE OF LOT 3 OF SAID SECTION 7; THENCE NORTH 0°12'18" WEST, 403.37 FEET TO THE NORTHEAST CORNER OF SAID LOT 3; THENCE SOUTH 89°35'34" WEST, 305.92 FEET ALONG THE NORTH LINE OF SAID LOT 3; THENCE ALONG THE FOLLOWING COURSES AND DISTANCES HAVING AN ELEVATION OF 7620.9 FEET; THENCE NORTH 42°28'33" WEST, 10.05 FEET; THENCE NORTH 0°24'23" EAST, 87.17 FEET; THENCE NORTH 11°38'06" EAST, 63.67 FEET; THENCE NORTH 02°37'09" EAST, 59.99 FEET; THENCE NORTH 13°37'12" WEST, 51.20 FEET; THENCE NORTH 04°48'33" WEST, 116.52 FEET; THENCE NORTH 05°16'17" WEST, 58.68 FEET; THENCE NORTH 03°09'16" WEST, 32.25 FEET; THENCE NORTH 01°27'55" EAST, 239.53 FEET; THENCE NORTH 03°21'52" EAST, 64.03 FEET; THENCE NORTH 01°16'56" EAST, 79.58 FEET; THENCE NORTH 06°07'44" EAST, 64.79 FEET; THENCE NORTH 05°44'08" EAST, 67.38 FEET; THENCE NORTH 01°58'53" EAST, 59.43 FEET; THENCE NORTH 20°51'15" EAST, 41.86 FEET; THENCE NORTH 35°05'08" EAST, 54.15 FEET; THENCE NORTH 51°13'30" EAST, 77.72 FEET; THENCE NORTH 17°16'59" EAST, 15.12 FEET; THENCE NORTH 75°19'34" WEST, 74.24 FEET THENCE NORTH 13°07'54" EAST, 111.56 FEET; THENCE NORTH 26°10'10" EAST, 55.50 FEET; THENCE NORTH 05°47'47" EAST, 31.20 FEET; THENCE NORTH 27°33'55" WEST, 14.64 FEET; THENCE NORTH 44°03'09" WEST, 33.66 FEET; THENCE NORTH 34°27'47" WEST, 15.32 FEET; THENCE NORTH 32°54'17" WEST, 43.88 FEET; THENCE NORTH 30°47'37" WEST, 56.62 FEET; THENCE NORTH 35°50'20" WEST, 89.68 FEET; THENCE NORTH 48°39'14" WEST, 142.33 FEET; THENCE NORTH 31°05'31" WEST, 227.43 FEET; THENCE NORTH 21°04'32" WEST, 308.53 FEET CROSSING AN EXISTING ROAD; THENCE NORTH 68°55'28" EAST, 3.00 FEET; THENCE SOUTH 21°04'32" EAST, 60.19 FEET CROSSING AN EXISTING ROAD; THENCE SOUTH 57°07'04" EAST, 258.58 FEET; THENCE SOUTH 64°11'32" EAST, 119.79 FEET; THENCE SOUTH 59°28'18" EAST, 72.31 FEET; THENCE SOUTH 59°52'51" EAST, 43.41 FEET; THENCE SOUTH 46°34'03" EAST, 54.09 FEET; THENCE SOUTH 45°44'11" EAST, 46.23 FEET; THENCE SOUTH 79°53'05" EAST, 18.19 FEET; THENCE SOUTH 72°28'00" EAST, 28.13 FEET; THENCE SOUTH 66°07'17" EAST, 46.38 FEET; THENCE SOUTH 55°30'45" EAST, 63.83 FEET; THENCE SOUTH 50°26'19" EAST, 50.41 FEET; THENCE SOUTH 69°26'12" EAST, 90.12 FEET; THENCE SOUTH 58°53'36" EAST, 74.37 FEET; THENCE SOUTH 33°52'10" EAST, 38.44 FEET; THENCE SOUTH 71°49'18" EAST, 20.00 FEET; THENCE SOUTH 82°39'43" EAST, 3.68 FEET; THENCE NORTH 88°40'41" EAST, 55.25 FEET; THENCE NORTH 85°45'27" EAST, 66.99 FEET; THENCE NORTH 68°02'56" EAST, 30.93 FEET; THENCE NORTH 37°54'32" EAST, 138.07 FEET; THENCE NORTH 49°36'46" EAST, 133.26 FEET; THENCE LEAVING ELEVATION 7620.9 FEET GOING NORTH 48°56'09" EAST, 289.71 FEET TO THE POINT OF BEGINNING.

CONTAINS 44.52 ACRES, MORE OR LESS.

EXHIBIT 'B'

BUFFER ZONE - THE AREA OF LAND EXTENDING 100 FEET BEYOND THE ELEVATION LINE OF 7620.9 FEET ON THE EASTERLY, NORTHERLY, AND WESTERLY SIDE OF GRASSY TRAIL RESERVOIR.

A PARCEL OF LAND LOCATED IN CARBON COUNTY, STATE OF UTAH, WHICH IS IN THE NORTHWEST QUARTER AND THE NORTH HALF OF THE SOUTHWEST QUARTER OF SECTION 7, TOWNSHIP 14 SOUTH, RANGE 14 EAST, SALT LAKE BASE AND MERIDIAN, BEING FURTHER DESCRIBED AS FOLLOWS WITH A BEARING OF NORTH 0°00'00" EAST, BETWEEN THE WEST QUARTER CORNER AND THE NORTHWEST CORNER OF SAID SECTION 7 USED AS THE BASIS OF BEARING, AND BEING MORE PARTICULARLY DESCRIBED ACCORDING TO THE FOLLOWING COURSES AND DISTANCES, TO-WIT:

BEGINNING AT A POINT WHICH IS LOCATED SOUTH 89°34'34" WEST, 577.93 FEET ALONG THE SECTION LINE AND SOUTH 0°25'26" EAST, 616.36 FEET FROM THE NORTH QUARTER CORNER OF SECTION 7, TOWNSHIP 14 SOUTH, RANGE 14 EAST, SALT LAKE BASE AND MERIDIAN; AND RUNNING THENCE SOUTH 02°41'16" EAST, 167.59 FEET TO A POINT HAVING AN ELEVATION OF 7620.9 FEET; THENCE ALONG THE FOLLOWING COURSES AND DISTANCES HAVING AN ELEVATION OF 7620.9 FEET, THENCE SOUTH 06°04'29" WEST, 57.48 FEET; THENCE SOUTH 15°31'01" WEST, 39.60 FEET; THENCE SOUTH 31°57'10" WEST, 47.67 FEET; THENCE SOUTH 42°15'37" EAST, 50.63 FEET; THENCE SOUTH 00°42'36" EAST, 28.81 FEET; THENCE SOUTH 22°35'01" WEST, 44.34 FEET; THENCE SOUTH 25°42'34" WEST, 57.64 FEET; THENCE SOUTH 17°26'08" WEST, 67.42 FEET; THENCE SOUTH 37°19'52" WEST, 43.03 FEET; THENCE SOUTH 10°25'22" WEST, 38.28 FEET; THENCE SOUTH 27°18'51" WEST, 156.31 FEET; THENCE SOUTH 39°02'28" WEST, 53.40 FEET; THENCE SOUTH 45°00'45" WEST, 31.74 FEET; THENCE SOUTH 45°48'21" WEST, 99.45 FEET; THENCE SOUTH 21°28'34" WEST, 33.14 FEET; THENCE SOUTH 12°32'15" WEST, 78.54 FEET; THENCE SOUTH 06°45'46" WEST, 60.04 FEET; THENCE SOUTH 07°00'30" WEST, 41.44 FEET; THENCE SOUTH 03°29'47" EAST, 58.65 FEET; THENCE SOUTH 03°42'50" WEST, 89.17 FEET; THENCE SOUTH 06°39'56" WEST, 87.35 FEET; THENCE SOUTH 02°26'03" WEST, 131.79 FEET; THENCE SOUTH 01°48'02" WEST, 20.71 FEET; THENCE SOUTH 10°50'14" EAST, 121.17 FEET; THENCE SOUTH 02°51'32" EAST, 43.74 FEET; THENCE SOUTH 09°14'58" EAST, 44.46 FEET; THENCE SOUTH 22°58'03" EAST, 65.76 FEET; THENCE SOUTH 21°31'59" EAST, 167.75 FEET; THENCE LEAVING ELEVATION 7620.9 FEET; THENCE NORTH 90°00'00" EAST, 100.68 FEET; THENCE ALONG A LINE EXTENDING 100 FEET BEYOND THE ELEVATION LINE OF 7620.9 FEET ON THE EASTERLY, NORTHERLY AND WESTERLY SIDE OF GRASSY TRAIL RESERVOIR; THENCE NORTH 06°40'16" WEST, 24.74 FEET; THENCE NORTH 21°31'59" WEST, 182.04 FEET; THENCE NORTH 22°58'03" WEST, 54.98 FEET; THENCE NORTH 09°14'58" WEST, 26.85 FEET; THENCE NORTH 02°51'32" WEST, 45.13 FEET; THENCE NORTH 10°50'14" WEST, 117.07 FEET; THENCE NORTH 01°48'20" EAST, 9.08 FEET; THENCE NORTH 02°26'03" EAST, 127.54 FEET; THENCE NORTH 06°39'56" EAST, 86.23 FEET; THENCE NORTH 03°42'50" EAST, 98.05 FEET; THENCE NORTH 03°29'47" WEST, 55.76 FEET; THENCE NORTH 07°00'30" EAST, 32.46 FEET; THENCE NORTH 06°45'46" EAST, 55.21 FEET; THENCE NORTH 12°32'15" EAST, 65.68 FEET; THENCE NORTH 21°28'34" EAST, 3.77 FEET; THENCE NORTH 45°48'21" EAST, 78.59 FEET; THENCE NORTH 45°00'45" EAST, 37.65 FEET; THENCE NORTH 39°02'28" EAST, 68.88 FEET; THENCE NORTH 27°18'51" EAST, 181.42 FEET; THENCE NORTH 10°25'22" EAST, 29.21 FEET; THENCE NORTH 37°19'52" EAST, 36.65 FEET; THENCE NORTH 17°26'08" EAST, 77.71 FEET; THENCE NORTH 25°43'34" EAST, 53.14 FEET; THENCE NORTH 22°35'01" EAST, 67.70 FEET; THENCE NORTH 00°42'36" WEST, 87.35 FEET; THENCE NORTH 42°15'37" WEST, 17.45 FEET; THENCE NORTH 15°31'01" EAST, 46.90 FEET; THENCE NORTH 06°04'29" EAST, 30.23 FEET; THENCE NORTH 04°45'26" EAST, 50.76 FEET; THENCE NORTH 02°41'16" WEST, 374.34 FEET; THENCE SOUTH 48°55'47" WEST, 491.50 FEET; THENCE SOUTH 49°36'46" WEST, 147.29 FEET; THENCE SOUTH 37°54'32" WEST, 116.64 FEET; THENCE SOUTH 85°45'27" WEST, 41.03 FEET; THENCE SOUTH 88°40'41" WEST, 15.77 FEET; THENCE NORTH 33°52'10" WEST, 14.40 FEET; THENCE NORTH 58°53'36" WEST, 105.79 FEET; THENCE NORTH 69°26'12" WEST, 82.62 FEET; THENCE NORTH 50°26'19" WEST, 38.11 FEET; THENCE NORTH 55°30'45" WEST, 77.55 FEET; THENCE NORTH 66°07'17" WEST, 61.21 FEET; THENCE NORTH 72°28'00" WEST, 32.62 FEET; THENCE NORTH 45°44'11" WEST, 17.98 FEET; THENCE NORTH 46°34'03" WEST, 66.48 FEET; THENCE NORTH 59°52'51" WEST, 54.73 FEET; THENCE NORTH 59°28'18" WEST, 76.07 FEET; THENCE NORTH 64°11'32" WEST, 117.73 FEET; THENCE NORTH 57°07'04" WEST, 219.87 FEET; THENCE NORTH 21°04'32" WEST, 127.66 FEET; THENCE SOUTH 68°55'28" WEST, 203.00 FEET; THENCE SOUTH 21°04'32" EAST, 417.30 FEET; THENCE SOUTH 31°05'31" EAST, 251.64 FEET; THENCE SOUTH 48°39'14" EAST, 146.54 FEET; THENCE SOUTH 35°50'20" EAST, 74.04 FEET; THENCE SOUTH 30°47'37" EAST, 54.05 FEET; THENCE SOUTH 32°53'17" EAST, 47.08 FEET; THENCE SOUTH 34°27'47" EAST, 20.57 FEET; THENCE SOUTH 26°10'10" WEST, 27.17 FEET; THENCE SOUTH 13°07'54" WEST, 220.34 FEET; THENCE SOUTH 75°19'34" EAST, 9.55 FEET; THENCE SOUTH 35°05'08" WEST, 5.45 FEET; THENCE SOUTH 20°51'15" WEST, 70.96 FEET; THENCE SOUTH 01°58'53" WEST, 72.78 FEET; THENCE SOUTH 05°44'08" WEST, 63.76 FEET; THENCE SOUTH 06°07'44" WEST, 68.68

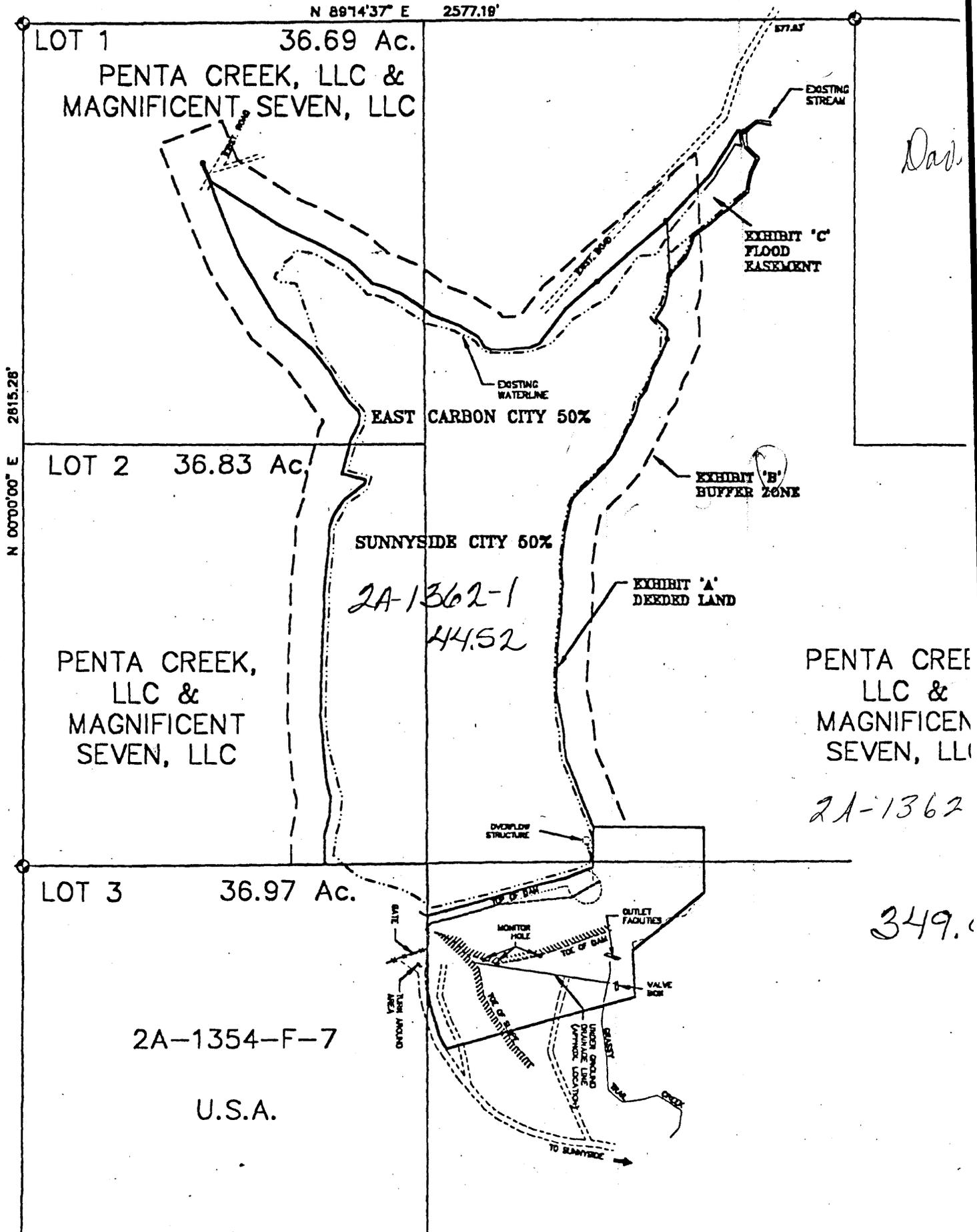
FEET; THENCE SOUTH 01°16'56" WEST, 82.00 FEET; THENCE SOUTH 03°21'52" WEST, 63.87 FEET; THENCE SOUTH 01°27'55" WEST, 245.22 FEET; THENCE SOUTH 03°09'16" EAST, 38.13 FEET; THENCE SOUTH 05°16'17" EAST, 60.12 FEET; THENCE SOUTH 04°48'33" EAST, 123.83 FEET; THENCE SOUTH 13°37'12" EAST, 44.64 FEET; THENCE SOUTH 02°37'09" WEST, 37.84 FEET; THENCE SOUTH 11°38'06" WEST, 65.62 FEET; THENCE SOUTH 00°24'23" WEST, 105.88 FEET TO THE NORTH LINE OF LOT 3, OF SAID SECTION 7; THENCE NORTH 89°35'34" EAST, 106.85 FEET ALONG THE NORTH LINE OF LOT 3, OF SAID SECTION 7; THENCE ALONG THE FOLLOWING COURSES AND DISTANCES HAVING AN ELEVATION OF 7620.9 FEET; THENCE NORTH 42°28'33" WEST, 10.05 FEET; THENCE NORTH 0°24'23" EAST, 87.17 FEET; THENCE NORTH 11°38'06" EAST, 63.67 FEET; THENCE NORTH 02°37'09" EAST, 59.99 FEET; THENCE NORTH 13°37'12" WEST, 51.20 FEET; THENCE NORTH 04°48'33" WEST, 116.52 FEET; THENCE NORTH 05°16'17" WEST, 58.68 FEET; THENCE NORTH 03°09'16" WEST, 32.25 FEET; THENCE NORTH 01°27'55" EAST, 239.53 FEET; THENCE NORTH 03°21'52" EAST, 64.03 FEET; THENCE NORTH 01°16'56" EAST, 79.58 FEET; THENCE NORTH 06°07'44" EAST, 64.79 FEET; THENCE NORTH 05°44'08" EAST, 67.38 FEET; THENCE NORTH 01°58'53" EAST, 59.43 FEET; THENCE NORTH 20°51'15" EAST, 41.86 FEET; THENCE NORTH 35°05'08" EAST, 54.15 FEET; THENCE NORTH 51°13'30" EAST, 77.72 FEET; THENCE NORTH 17°16'59" EAST, 15.12 FEET; THENCE NORTH 75°19'34" WEST, 74.24 FEET; THENCE NORTH 13°07'54" EAST, 111.56 FEET; THENCE NORTH 26°10'10" EAST, 55.50 FEET; THENCE NORTH 05°47'47" EAST, 31.20 FEET; THENCE NORTH 27°33'55" WEST, 14.64 FEET; THENCE NORTH 44°03'09" WEST, 33.66 FEET; THENCE NORTH 34°27'47" WEST, 15.32 FEET; THENCE NORTH 32°53'17" WEST, 43.88 FEET; THENCE NORTH 30°47'37" WEST, 56.62 FEET; THENCE NORTH 35°50'20" WEST, 89.68 FEET; THENCE NORTH 48°39'14" WEST, 142.33 FEET; THENCE NORTH 31°05'31" WEST, 227.43 FEET; THENCE NORTH 21°04'32" WEST, 308.53 FEET CROSSING AN EXISTING ROAD; THENCE NORTH 68°55'28" EAST, 3.00 FEET; THENCE SOUTH 21°04'32" EAST, 60.19 FEET CROSSING AN EXISTING ROAD; THENCE SOUTH 57°07'04" EAST, 258.58 FEET; THENCE SOUTH 64°11'32" EAST, 119.79 FEET; THENCE SOUTH 59°28'18" EAST, 72.31 FEET; THENCE SOUTH 59°52'51" EAST, 43.41 FEET; THENCE SOUTH 46°34'03" EAST, 54.09 FEET; THENCE SOUTH 45°44'11" EAST, 46.23 FEET; THENCE SOUTH 79°53'05" EAST, 18.19 FEET; THENCE SOUTH 72°28'00" EAST, 28.13 FEET; THENCE SOUTH 66°07'17" EAST, 46.38 FEET; THENCE SOUTH 55°30'45" EAST, 63.83 FEET; THENCE SOUTH 50°26'19" EAST, 50.41 FEET; THENCE SOUTH 69°26'12" EAST, 90.12 FEET; THENCE SOUTH 58°53'36" EAST, 74.37 FEET; THENCE SOUTH 33°52'10" EAST, 38.44 FEET; THENCE SOUTH 71°49'18" EAST, 20.00 FEET; THENCE SOUTH 82°39'43" EAST, 3.68 FEET; THENCE NORTH 88°40'41" EAST, 55.25 FEET; THENCE NORTH 85°45'27" EAST, 66.99 FEET; THENCE NORTH 68°02'56" EAST, 30.93 FEET; THENCE NORTH 37°54'32" EAST, 138.07 FEET; THENCE NORTH 49°36'46" EAST, 133.26 FEET; THENCE LEAVING ELEVATION 7620.9 FEET GOING NORTH 48°56'09" EAST, 289.71 FEET TO THE POINT OF BEGINNING.

CONTAINS 14.95 ACRES, MORE OR LESS.

CARBON COUNTY

SECTION 7

TOWNSHIP 14 SOL



APPENDIX 1-16

PROOF OF STATE LEASE ASSIGNMENT

ML 47711

NL 49287

GRANT: School

**UTAH STATE LEASE FOR COAL
ML 47711-OBA**

THIS COAL MINING LEASE AND AGREEMENT (the "Lease") is entered into and executed in triplicate as of April 1, 2003 (the "Effective Date") by and between the STATE OF UTAH, acting by and through the SCHOOL AND INSTITUTIONAL TRUST LANDS ADMINISTRATION, 675 East 500 South, Suite 500, Salt Lake City, Utah 84102 ("Lessor"), and ANDALEX RESOURCES, INC., a Delaware corporation, with an address at 45 West 10000 South, Suite 401, Sandy, Utah 84070 (hereinafter "ANDALEX") and INTERMOUNTAIN POWER AGENCY, a political subdivision of the State of Utah, with an address at 480 East 6400 South, Murray, Utah 84107 (hereinafter "IPA"), each having an undivided 50% ownership interest in the leasehold estate created by this Lease as tenants in common and collectively referred to herein as "Lessee," having a single address c/o ANDALEX Resources, Inc., 45 West 10000 South, Suite 401, Sandy, Utah 84070.

WITNESSETH:

That the State of Utah, as Lessor, in consideration of the rentals, royalties, and other financial consideration paid or required to be paid by Lessee, and the covenants of Lessee set forth below, does hereby **GRANT AND LEASE** to Lessee the exclusive right and privilege to explore for, drill for, mine, remove, transport, convey, cross-haul, commingle, and sell the coal located within the boundaries of the following-described tract of land (the "Leased Premises") located in Carbon County, State of Utah:

T. 14S., R. 13 E., SLB&M

Sec. 2: LOTS 1 THRU 4, S2N2, S2

T. 13., R. 13 E., SLB&M

Sec. 36: SW4.

Containing 801.24 acres, more or less.

Together with the right and privilege to make use of the surface (but only to the extent owned by Lessor) and subsurface of the Leased Premises for uses incident to the mining of coal by Lessee on the Leased Premises or on other lands under the control of Lessee or mined in connection with operations on the Leased Premises, including, but not limited to, conveying, storing, loading, hauling, commingling, cross-hauling, and otherwise transporting coal; excavating; removing, stockpiling, depositing and redepositing of surface materials; and the subsidence, mitigation, restoration and reclamation of the surface.

This Coal Mining Lease and Agreement is subject to, and Lessee hereby agrees to and accepts, the following covenants, terms, and conditions:

1. LEASED MINERALS.

1.1 Coal. This mineral lease covers coal, which shall mean and include black or brownish-black solid fossil fuels that have been subjected to the natural processes of coalification, and which fall within the classification of coal by rank as anthracitic, bituminous, sub-bituminous, or lignitic, together with closely associated substances which include, but are not limited to other hydrocarbon substances physically contained within the same geologic strata as the coal. In the event that minerals other than coal are discovered on or in the Leased Premises during lease operations, Lessee shall promptly notify the Lessor.

1.2 Coalbed Methane. To the extent that Lessor owns gas, coalbed methane or coal seam gas (collectively "coalbed methane") within the Leased Premises, Lessee may remove, vent, flare or capture such coalbed methane from the mine workings and the coal strata being mined and any overlying or underlying formations if such removal is necessary for safety reasons in the reasonable discretion of Lessee. If Lessee captures or uses such coalbed methane, it shall pay Lessor royalties on the value of such coalbed methane at the prevailing state royalty rate for natural gas, unless such royalties are expressly waived by Lessor. Except as expressly granted herein, the right to extract gas, coalbed methane and coal seam gas is not granted by this Lease.

1.3 No Warranty of Title. Lessor claims title to the mineral estate covered by this Lease. Lessor does not warrant title nor represent that no one will dispute the title asserted by Lessor. It is expressly agreed that Lessor shall not be liable to Lessee for any alleged deficiency in title to the mineral estate, nor shall Lessee become entitled to any refund for any rentals, bonuses, or royalties paid under this Lease in the event of title failure, except as provided in Utah Administrative Code R850-20-2100 (2002).

2. RESERVATIONS TO LESSOR. Subject to the exclusive rights and privileges granted to Lessee under this Lease, and further provided that Lessor shall refrain from taking actions with respect to the Leased Premises that may unreasonably interfere with Lessee's operations, Lessor hereby excepts and reserves from the operation of this Lease the following rights and privileges (to the extent that Lessor has the right to grant such rights and privileges):

2.1 Rights-of-Way and Easements. Lessor reserves the right, following consultation with the Lessee, to establish rights-of-way and easements upon, through or over the Leased Premises, under terms and conditions that will not unreasonably interfere with operations under this Lease, for roads, pipelines, electric transmission lines, transportation and utility corridors, mineral access, and any other purpose deemed reasonably necessary by Lessor.

2.2 Other Mineral Leases. Lessor reserves the right to enter into mineral leases and agreements with third parties covering minerals other than coal, under terms and conditions that will not

unreasonably interfere with operations under this Lease in accordance with Lessor's regulations, if any, governing multiple mineral development.

- 2.3 Use and Disposal of Surface. To the extent that Lessor owns the surface estate of the Leased Premises and subject to the rights granted to the Lessee pursuant to this Lease, Lessor reserves the right to use, lease, sell, or otherwise dispose of the surface estate or any part thereof. Lessor shall notify Lessee of any such sale, lease, or other disposition of the surface estate.
- 2.4 Previously Authorized Improvements. If authorized improvements have been placed upon the Leased Premises by a third party prior to the commencement of this Lease, Lessee shall allow the owner of such improvements to remove them within ninety (90) days after the Lease term commences. Nothing in this paragraph shall authorize Lessee to remove surface improvements where Lessor does not own the surface estate.
- 2.5 Rights Not Expressly Granted. Lessor further reserves all rights and privileges of every kind and nature, except as specifically granted in this Lease.

3. TERM OF LEASE; READJUSTMENT.

- 3.1 Primary Term. This Lease is granted for a "primary term" of ten (10) years commencing on the Effective Date and for a "secondary term" of an additional ten (10) years, subject to Lessee's compliance with the requirements of paragraph 3.3, Diligent Operations; Minimum Royalty.
- 3.2 Extension Beyond Secondary Term. Subject to Lessee's compliance with the other provisions of this Lease, this Lease shall remain in effect beyond the secondary term and for as long thereafter as coal is produced in commercial quantities from the Leased Premises, or from lands constituting either (i) a logical mining unit approved by the Bureau of Land Management containing the Leased Premises, or (ii) a mining unit, in which the recoverable coal reserves can be developed in an efficient, economical and orderly manner as a unit with due regard to the conservation of recoverable coal reserves. The second type of mining unit requires a determination by the Lessor that the criteria set forth in item (ii) have been satisfied. The satisfaction of either (i) or (ii) above shall mean that the Lease is contained within an "approved mining unit." For the purposes of this Lease, production of coal in commercial quantities shall mean production during each lease year of at least one per cent (1%) of the recoverable coal reserves within the Leased Premises or within lands constituting an approved mining unit which includes the Leased Premises, as such recoverable coal reserves are determined by Lessor after consultation with Lessee, subject to adjustment from time to time based upon reasonable justification from the Lessee.
- 3.3 Diligent Operations; Minimum Royalty. In the absence of actual production in commercial quantities as set forth in paragraph 3.2, Extension Beyond Secondary Term, this Lease shall remain in effect beyond the primary term only if the Lessee is engaged in diligent operations, exploration, research, or development activity (which development activity shall include, but not

be limited to, pursuit of required permits and approvals) which in Lessor's reasonable discretion is calculated to advance development or production of coal from the Leased Premises or lands constituting an approved mining unit which includes the Leased Premises, and Lessee pays an annual minimum royalty in advance on or before the anniversary date of the Effective Date. The minimum royalty shall be calculated by determining the production royalty that would be payable upon production of two and one-half per cent (2.5%) of the recoverable coal reserves within the Leased Premises, as such recoverable coal reserves are determined by Lessor after consultation with Lessee, subject to adjustment from time to time based upon reasonable justification from the Lessee. The unit value of the recoverable coal reserves for purposes of determining the minimum royalty shall be determined by Lessor using the methodology set forth in 43 Code of Federal Regulations §3483.4(c)(1)-(3) (1998). Minimum royalties paid by Lessee pursuant to this paragraph may be credited against production royalties accruing during the term of this Lease.

- 3.4 Expiration; Cessation of Production. This Lease may not be extended pursuant to paragraph 3.3, Diligent Operations; Minimum Royalty, beyond the end of the twentieth year after the Effective Date except by the actual production of coal in commercial quantities from the Leased Premises or from lands constituting an approved mining unit which includes the Leased Premises. After expiration of the secondary term, this Lease will expire of its own terms, without the necessity of any notice or action by Lessor, if Lessee ceases production of coal in commercial quantities for an entire lease year, unless the Lease is suspended pursuant to paragraph 16.3, Suspension.
- 3.5 Readjustment. At the end of the primary term and at the end of each period of ten (10) years thereafter, Lessor may reasonably readjust the terms and conditions of this Lease to reflect prevailing market conditions (including without limitation rental rates, minimum royalties, royalty rates and valuation methods, and provisions concerning reclamation). If within thirty (30) days after submission of the readjusted lease terms to the Lessee, the Lessee determines that any or all of the proposed readjusted terms and conditions are unacceptable, then Lessee shall so notify Lessor in writing and the parties shall attempt to resolve the objectionable term or condition. If the parties are unable to resolve the matter and agree upon the readjusted terms and conditions submitted by Lessor at the end of such ten (10) year period, Lessee shall forfeit any right to the continued extension of this lease, and the lease shall automatically terminate, provided that nothing herein shall be deemed to preclude Lessee from appealing any readjustment by Lessor pursuant to applicable law
- 3.6 Relinquishment. Lessee may relinquish all or portions of this Lease at any time by filing a written notice of relinquishment with Lessor. Lessor may disapprove any relinquishment if Lessee has failed to pay all rentals, royalties, and other amounts due and owing to the Lessor, if the lease is otherwise not in good standing, or if relinquishment would in Lessor's reasonable determination cause waste of economically recoverable coal. Lessee may not relinquish parcels smaller than a quarter-quarter section or surveyed lot. Upon approval, relinquishment shall relieve the Lessee of all future rental obligations as to the relinquished lands effective as of the

date of filing of the relinquishment, but shall not relieve Lessee from other obligations to the extent provided in paragraph 15.2, Effect of Termination.

4. **BONUS BID.** Lessee agrees to pay Lessor an initial bonus bid in the sum of Two Million Four Hundred Twelve Thousand Nine Hundred Dollars (\$2,412,900) as partial consideration for Lessor's issuance of this Lease, payable in twelve equal annual installments of \$201,075 commencing on the Effective Date. The unpaid balance of the bonus bid shall not bear interest; provided, however, that if this Lease is relinquished or otherwise terminated prior to the payment in full of the bonus bid, or if Lessee fails to make any bonus bid payment when due, the entire unpaid balance of the bonus bid shall immediately become due without regard to such relinquishment or termination, and such balance shall thereafter bear interest as provided in paragraph 16.2, Interest. Lessor may require ANDALEX to submit and maintain a letter of credit or other sufficient surety to secure Lessee's obligation to pay the unpaid balance of the bonus bid. The initial bonus bid may not be credited against any other bonus payments, annual rentals or royalties accruing under this Lease.
5. **RENTALS.** Lessee agrees to pay Lessor an annual rental of three dollars (\$3.00) for each acre and fractional part thereof within the Leased Premises. Lessee shall promptly pay annual rentals each year in advance on or before the anniversary date of the Effective Date. Lessee may not credit rentals against production royalties or against minimum royalties payable pursuant to paragraph 3.3, Diligent Operations; Minimum Royalty.

6. **ROYALTIES.**

- 6.1 **Production Royalties.** Lessee shall pay Lessor a production royalty of eight per cent (8%) of the value of all coal severed, removed and sold, used or otherwise disposed of from the Leased Premises. For all coal sold pursuant to an arm's-length contract, value shall be determined on the basis of the gross proceeds received by Lessee from the sale or disposition of such coal. Gross proceeds shall include all bonuses, allowances or other consideration of any nature received by Lessee for coal actually produced. For any coal that is sold or disposed of other than by an arms-length contract, or for coal that is used within the mine permit area containing the Leased Premises for generation of electricity or for gasification, liquefaction, in situ processing, or other method of extracting energy from such coal, the value of such coal shall be determined by Lessor with reference to (in order of priority): (i) comparable arms-length contracts or other dispositions of like-quality coal produced in the same coal field; (ii) prices reported for that coal to a public utility commission; (iii) prices reported to other governmental agencies; or (iv) other relevant information.
- 6.2 **Allowable Deductions.** It is expressly understood and agreed that none of Lessee's mining or production costs, including but not limited to costs for materials, labor, overhead, distribution, transportation within the mine permit area prior to the point of sale, loading, crushing, sizing, screening, or general and administrative activities, may be deducted in computing Lessor's royalty. All such costs shall be entirely borne by Lessee and are anticipated by the rate of royalty

set forth in this Lease. In the event that the point of sale for coal produced from this Lease is located outside the mine permit area boundary, Lessee may deduct the reasonable, actual costs of transportation of such coal from the mine permit area boundary to the point of sale from gross proceeds in computing Lessor's royalty; provided, however, that transportation deductions for coal transported by Lessee, Lessee's affiliates, or by non-arm's-length contract are subject to review and modification by Lessor. Lessee shall be allowed to deduct its actual, reasonable washing and treatment costs from gross proceeds in computing Lessor's royalty; provided, however, that, upon Lessor's request Lessee shall provide to Lessor appropriate justification to demonstrate that Lessee's costs are reasonable.

- 6.3 Reference to Federal Regulations. It is the intent of Lessor and Lessee that the calculation of the value of coal for royalty purposes be consistent with federal coal regulations governing the valuation of coal, except where this Lease expressly provides otherwise. In no event shall the value of coal used for calculation of royalties under this Lease be less than the value which would be obtained were federal royalty valuation regulations applied.
- 6.4 Royalty Payment. For all coal severed and removed from the Leased Premises that is used, sold, or otherwise disposed of during a particular month, Lessee shall pay royalties to Lessor on or before the end of the next succeeding month. Royalty payments shall be accompanied by a verified statement, in a form approved by Lessor, stating the amount of coal sold or otherwise disposed of, the gross proceeds accruing to Lessee, the calculation of allowable deductions, and any other information reasonably required by Lessor to verify production and disposition of the coal or coal products. In the event that Lessee uses or disposes of coal pursuant to a non-arm's-length contract, or uses coal for generation of electricity or for gasification, liquefaction, in situ processing, or other method of extracting energy from such coal, Lessee shall notify Lessor of such use or disposal on or before the end of the next succeeding month following such use or disposal, and shall pay royalties upon Lessee's good faith estimate of the value of such coal, subject to Lessor's right to determine the value of such coal pursuant to paragraph 6.1, Production Royalties.
- 6.5 Suspension, Waiver or Reduction of Rents or Royalties. Lessor, to the extent not prohibited by applicable law, is authorized to waive, suspend, or reduce the rental or minimum royalty, or reduce the royalty applicable with respect to the entire Lease, whenever in Lessor's judgment it is necessary to do so in order to promote development, or whenever in the Lessor's judgment the Lease cannot be successfully operated under the terms provided herein.

7. RECORDKEEPING; INSPECTION; AUDITS.

- 7.1 Registered Agent; Records. Lessee shall maintain a registered agent within the State of Utah to whom any and all notices may be sent by Lessor and upon whom process may be served. Lessee shall also maintain an office within the State of Utah containing originals or copies of all maps, engineering data, permitting materials, books, records or contracts (whether such documents are

in paper or electronic form) generated by Lessee that pertain in any way to coal production, output and valuation; mine operations; coal sales and dispositions; transportation costs; and calculation of royalties from the Leased Premises. Lessee shall maintain such documents for at least seven years after the date of the coal production to which the documents pertain.

- 7.2 Inspection. Lessor's employees and authorized agents at Lessor's sole risk and expense shall have the right to enter the Leased Premises to check scales as to their accuracy, and to go on any part of the Leased Premises to examine, inspect, survey and take measurements for the purposes of verifying production amounts and proper lease operations. Upon reasonable notice to Lessee, Lessor's employees and authorized agents shall further have the right to audit, examine and copy (at Lessor's expense) all documents described in paragraph 7.1, Registered Agent; Records, whether such documents are located at the mine site or elsewhere. Lessee shall furnish all conveniences necessary for said inspection, survey, or examination; provided, however, that such inspections shall be conducted in a manner that is in conformance with all applicable mine safety regulations and does not unreasonably interfere with Lessee's operations.
- 7.3 Geologic Information. In the event Lessee conducts core-drilling operations or other geologic evaluation of the Leased Premises, Lessor may inspect core samples, evaluations thereof, and proprietary geologic information concerning the Leased Premises.
- 7.4 Confidentiality. Any and all documents and geologic data obtained by Lessor through the exercise of its rights as set forth in paragraphs 7.2, Inspection., and 7.4, Geologic Information., may be declared confidential information by Lessee, in which event Lessor and its authorized agents shall maintain such documents and geologic data as protected records under the Utah Governmental Records Access Management Act or other applicable privacy statute, and shall not disclose the same to any third party without the written consent of Lessee, the order of a court of competent jurisdiction requiring such disclosure, or upon termination of this Lease or the cessation of mining operations in the approved mining unit whichever is the last to occur.

8. USE OF SURFACE ESTATE.

- 8.1 Lessor-Owned Surface. If Lessor owns the surface estate of all or some portion of the Leased Premises, by issuance of this Lease the Lessee has been granted the right to make use of such lands to the extent reasonably necessary and expedient for the economic operation of the leasehold. Lessee's right to surface use of Lessor-owned surface estate shall include the right to subside the surface. Such surface uses shall be exercised subject to the rights reserved to Lessor as provided in paragraph 2, RESERVATIONS TO LESSOR, and without unreasonable interference with the rights of any prior or subsequent lessee of Lessor.
- 8.2 Split-Estate Lands. If Lessor does not own the surface estate of any portion of the Leased Premises, Lessee's access to and use of the surface of such lands shall be determined by applicable law governing mineral development on split-estate lands, including without limitation

applicable statutes governing access by mineral owners to split estate lands, and reclamation and bonding requirements. Lessee shall indemnify, defend and hold Lessor harmless for all claims, causes of action, damages, costs and expenses (including attorney's fees and costs) arising out of or related to damage caused by Lessee's operations to surface lands or improvements owned by third parties.

9. APPLICABLE LAWS AND REGULATIONS; HAZARDOUS SUBSTANCES

- 9.1 Trust Lands Statute and Regulations. This Lease is issued pursuant to the provisions of Title 53C, Utah Code Annotated, 1953, as amended, and Lessee is subject to and shall comply with all current and future rules and regulations adopted by the School and Institutional Trust Lands Administration and its successor agencies.
- 9.2 Other Applicable Laws and Regulations. Lessee shall comply with all applicable federal, state and local statutes, regulations, and ordinances, including without limitation the Utah Coal Mining and Reclamation Act, applicable statutes and regulations relating to mine safety and health, and applicable statutes, regulations and ordinances relating to public health, pollution control, management of hazardous substances and environmental protection.
- 9.3 Hazardous Substances. Lessee [or other occupant pursuant to any agreement authorizing mining] shall not keep on or about the premises any hazardous substances, as defined under 42 U.S.C. ' 9601(14) or any other Federal environmental law, any regulated substance contained in or released from any underground storage tank, as defined by the Resource Conservation and Recovery Act, 42 U.S.C. ' 6991, *et seq.*, or any substances defined and regulated as "hazardous" by applicable State law, (hereinafter, for the purposes of this Lease, collectively referred to as "Hazardous Substances") unless such substances are reasonably necessary in Lessee's mining operations, and the use of such substances or tanks is noted and approved in the Lessee's mining plan, and unless Lessee fully complies with all Federal, State and local laws, regulations, statutes, and ordinances, now in existence or as subsequently enacted or amended, governing Hazardous Substances. Lessee shall immediately notify Lessor, the Bureau of Land Management, the surface management agency, and any other Federal, State and local agency with jurisdiction over the Leased Premises, or contamination thereon, of (i) all reportable spills or releases of any Hazardous Substance affecting the Leased Premises, (ii) all failures to comply with any applicable Federal, state or local law, regulation or ordinance governing Hazardous Substances, as now enacted or as subsequently enacted or amended, (iii) all inspections of the Leased Premises by, or any correspondence, order, citations, or notifications from any regulatory entity concerning Hazardous Substances affecting the Leased Premises, (iv) all regulatory orders or fines or all response or interim cleanup actions taken by or proposed to be taken by any government entity or private Party concerning the Leased Premises.
- 9.5 Hazardous Substances Indemnity. Lessee [or other occupant pursuant to any agreement authorizing mining] shall indemnify, defend, and hold harmless Lessor and its agencies,

employees, officers, and agents with respect to any and all damages, costs, liabilities, fees (including attorneys' fees and costs), penalties (civil and criminal), and cleanup costs arising out of or in any way related to Lessee's use, disposal, transportation, generation, sale or location upon or affecting the Leased Premises of Hazardous Substances, as defined in paragraph 9.4 of this Lease. This indemnity shall extend to the actions of Lessee's employees, agents assigns, sublessees, contractors, subcontractors, licensees and invitees. Lessee shall further indemnify, defend and hold harmless Lessor from any and all damages, costs, liabilities, fees (including attorneys' fees and costs), penalties (civil and criminal), and cleanup costs arising out of or in any way related to any breach of the provisions of this Lease concerning Hazardous Substances. This indemnity is in addition to, and in no way limits, the general indemnity contained in paragraph 16.1 of this Lease.

9.6 Waste Certification. The Lessee, or their operating agent, shall provide upon abandonment, transfer of operation, assignment of rights, sealing-off of a mined area, and prior to lease relinquishment, certification to the Lessor, based upon a complete search of all the operator's records for the Lease, and upon its knowledge of past operations, there have been no reportable quantities of hazardous substances as defined in 40 Code of Federal Regulations '302.4, or used oil as defined in Utah Administrative Code R315-15, discharged (as defined at 33 U.S.C. '1321(a)(2)), deposited or released within the Leased Premises, either on the surface or underground, and that all remedial actions necessary have been taken to protect human health and the environment with respect to such substances. Lessee shall additionally provide to Lessor a complete list of all hazardous substances, hazardous materials, and their respective Chemical Abstracts Service Registry Numbers, and oil and petroleum products used or stored on, or delivered to, the Leased Premises. Such disclosure will be in addition to any other disclosure required by law or agreement.

10. BONDING.

10.1 Lease Bond Required. Upon the request of Lessor, Lessee shall execute and file with the Lessor a good and sufficient bond or other financial guarantee acceptable to Lessor in order to: (a) guarantee Lessee's performance of all covenants and obligations under this Lease, including Lessee's obligation to pay production royalties; and (b) ensure compensation for damage, if any, to the surface estate and any surface improvements. The Lease Bond shall meet all federal mineral lease bond requirements as described in 43 Code of Federal Regulations Subpart 3474.

10.2 Reclamation Bonding. The bond filed with the Utah Division of Oil, Gas and Mining ("UDOGM") in connection with the issuance of a mine permit which includes the Leased Premises shall be deemed to satisfy Lessor's bonding requirements with respect to Lessee's reclamation obligations under this Lease; provided, however, upon notice to Lessee and a public hearing with respect to the basis for its decision, the Lessor may, in its reasonable discretion, determine that the bond filed with UDOGM is insufficient to protect Lessor's interests. In such an event the Lessor shall enter written findings as to the basis for its calculation of the perceived

insufficiency and enter an order establishing the amount of additional bonding required. Lessee shall file any required additional bond with Lessor within thirty (30) days after demand by Lessor. Lessor may increase or decrease the amount of any additional bond from time to time in accordance with the same procedure.

- 10.3 Release of Additional Bond. Any additional bond required by Lessor pursuant to 10.2, Reclamation Bonding, may be released by Lessor at any time and shall be released no later than the time of final bond release by UDOGM with respect to the Leased Premises.

11. WATER RIGHTS.

- 11.1 Water Rights in Name of Lessor. If Lessee files to appropriate water for coal mining operations on the Leased Premises, the filing for such water right shall be made by Lessee in the name of Lessor at no cost to Lessor, and such water right shall become an appurtenance to the Leased Premises, subject to Lessee's right to use such water right at no cost during the term of this Lease.

- 11.2 Option to Purchase. If Lessee purchases or acquires an existing water right for coal mining operations on the Leased Premises, Lessor shall have the option to acquire that portion of such water right as was used on the Leased Premises upon expiration or termination of this Lease. The option price for such water right shall be the fair market value of the water right as of the date of expiration or termination of this Lease. Upon expiration or termination of this Lease, Lessee shall notify Lessor in writing of all water rights purchased or acquired by Lessee for coal mining operations on the Leased Premises and its estimate of the fair market value of such water right. Lessor shall then have forty-five (45) days to exercise its option to acquire the water by payment to Lessee of the estimated fair market value. If Lessor disagrees with Lessee's estimate of fair market value, Lessor shall notify Lessee of its disagreement within the 45 day option exercise period. The fair market value of the water right shall then be appraised by a single appraiser mutually acceptable to both parties, which appraisal shall be final and not subject to review or appeal. If the parties cannot agree upon the choice of an appraiser, the fair market value of the water right shall be determined by a court of competent jurisdiction. Conveyance of any water right pursuant to this paragraph shall be by quit claim deed.

12. ASSIGNMENT OR SUBLEASE; OVERRIDING ROYALTIES.

- 12.1 Consent Required. Lessee shall not assign or sublease this Lease in whole or in part, or otherwise assign or convey any rights or privileges granted by this Lease, including, without limitation, creation of overriding royalties or production payments, without the prior written consent of Lessor. Any assignment, sublease or other conveyance made without prior written consent of Lessor shall have no legal effect unless and until approved in writing by Lessor. Exercise of any right with respect to the Leased Premises in violation of this provision shall constitute a default under this Lease.

- 12.2 Binding Effect. All of the terms and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties respective successors, assigns, and sublessees.
- 12.3 Limitation on Overriding Royalties. Lessor reserves the right to disapprove the creation of an overriding royalty or production payment that would, in Lessor's reasonable discretion, constitute an unreasonable economic burden upon operation of the Lease. In exercising its discretion to disapprove the creation of an overriding royalty, Lessor shall consult with Lessee and any third parties involved and shall prepare findings to evidence the basis of its decision. Cumulative overriding royalties of 2% or less shall be deemed presumptively reasonable unless special circumstances are shown by Lessor to exist.

13. OPERATIONS.

- 13.1 Permitting. Before Lessee commences exploration, drilling, or mining operations on the Leased Premises, it shall have obtained such permits and posted such bonds as may be required under applicable provisions of the Utah Coal Mining and Reclamation Act, the Surface Mining Control and Reclamation Act, and associated regulations, together with applicable regulations of the surface management agency. Lessee shall maintain any required permits in place for the duration of mining operations and reclamation. Upon request, Lessee shall provide Lessor with a copy of all regulatory filings relating to permitting matters.
- 13.2 Plan of Operations. Prior to the commencement of any underground mining operations on the Leased Premises, Lessee shall obtain Lessor's approval of a plan of operations for the Leased Premises. The plan of operations shall contain all information required to be contained in a federal Resource Recovery and Protection Plan, as described in 43 Code of Federal Regulations § 3482.1(b) and (c) (1998). Lessor may modify the proposed plan of operations as is needed to insure that there is no waste of economically recoverable coal reserves contained on the Leased Premises. In this context "waste" shall mean the inefficient utilization of, or the excessive or improper loss of an otherwise economically recoverable coal resource. Lessor shall notify Lessee in writing of its approval or modifications of the plan of operations. The plan of operations submitted by Lessee shall be deemed approved by Lessor if Lessor has not otherwise notified Lessee within sixty (60) days of filing.
- 13.3 Plan of Operations - Modification. In the event that material changes are required to the plan of operations during the course of mining, Lessee shall submit a modification of the plan of operations to the Lessor. Routine adjustments to the plan of operations based upon geologic circumstances encountered during day-to-day mining operations do not require the submission of a modification. If the proposed changes require emergency action by Lessor, then the Lessee shall so notify the Lessor at the time of submission of the modification and the parties shall use their best efforts to meet the Lessee's time schedule regarding implementation of the changes. Non-emergency modifications will be reviewed promptly by Lessor to insure that there is no waste of economically recoverable coal reserves pursuant to the plan of operations, as modified,

and Lessor shall notify lessee in writing of its approval or modification of the proposed modification. Modifications shall be deemed approved by Lessor if Lessor has not otherwise notified Lessee within thirty (30) days of filing.

- 13.4 Mine Maps. Lessee shall maintain at the mine office clear, accurate, and detailed maps of all actual and planned operations prepared and maintained in the manner prescribed by 43 Code of Federal Regulations §3482.3 (1998). Lessee shall provide copies of such maps to Lessor upon request.
- 13.5 Good Mining Practices. Lessee shall conduct exploration and mining operations on the Leased Premises in accordance with standard industry operating practices, and shall avoid waste of economically recoverable coal. Lessee shall comply with all regulations and directives of the Mine Safety and Health Administration or successor agencies for the health and safety of employees and workers. Lessee shall further comply with the performance standards for underground resource recovery set forth at 43 Code of Federal Regulations § 484.1(c) (1998); provided, however, that Lessor may waive such standards from time to time in its reasonable discretion, upon request by Lessee. Coal shall be mined from this Lease by underground methods only.
- 13.6 Mining Units. Lessor may approve the inclusion of the Leased Premises in a mining unit with federal, private or other non-state lands upon terms and conditions that it deems necessary to protect the interests of the Lessor, including without limitation segregation of production, accounting for commingled coal production, and minimum production requirements or minimum royalties for the Leased Premises.

14. EQUIPMENT; RESTORATION.

- 14.1 Equipment. Upon termination of this Lease, Lessee shall remove, and shall have the right to remove, all improvements, equipment, stockpiles, and dumps from the Leased Premises within six (6) months; provided, however, that Lessor may, at Lessor's sole risk and expense, and subject to Lessee's compliance with requirements imposed by UDOGM and MSHA, require Lessee to retain in place underground timbering supports, shaft linings, rails, and other installations reasonably necessary for future mining of the Leased Premises. All improvements and equipment remaining on the Leased Premises after six (6) months may be deemed forfeited to Lessor upon written notice of such forfeiture to Lessee. Lessee may abandon underground improvements, equipment of any type, stockpiles and dumps in place if such abandonment is in compliance with applicable law, and further provided that Lessee provides Lessor with financial or other assurances sufficient in Lessor's reasonable discretion to protect Lessor from future environmental liability with respect to such abandonment or any associated hazardous waste spills or releases. Lessee shall identify and locate on the mine map the location of all equipment abandoned on the Lease Premises.

14.2 Restoration and Reclamation. Upon termination of this Lease, Lessee shall reclaim the Leased Premises in accordance with the requirements of applicable law, including mine permits and reclamation plans on file with UDOGM. Lessee shall further abate any hazardous condition on or associated with the Leased Premises. Lessee and representatives of all governmental agencies having jurisdiction shall have the right to re-enter the Leased Premises for reclamation purposes for a reasonable period after termination of the Lease.

15. DEFAULT

15.1 Notice of Default; Termination. Upon Lessee's violation of or failure to comply with any of the terms, conditions or covenants set forth in this Lease, Lessor shall notify Lessee of such default by registered or certified mail, return receipt requested, at the last address for Lessee set forth in Lessor's files. Lessee shall then have thirty (30) days, or such longer period as may be granted in writing by Lessor, to either cure the default or request a hearing pursuant to the Lessor's administrative adjudication rules. In the event Lessee fails to cure the default or request a hearing within the specified time period, Lessor may cancel this Lease without further notice to or appeal by Lessee.

15.2 Effect of Termination. The termination of this Lease for any reason, whether through expiration, cancellation or relinquishment, shall not limit the rights of the Lessor to recover any royalties and/or damages for which Lessee may be liable, to recover on any bond on file, or to seek injunctive relief to enjoin continuing violations of the Lease terms. No remedy or election under this Lease shall be deemed exclusive, but shall, wherever possible, be cumulative with all other remedies available under this Lease, at law, or in equity. Lessee shall surrender the Leased Premises upon termination; however, the obligations of Lessee with respect to reclamation, indemnification and other continuing covenants imposed by this Lease shall survive the termination.

16. MISCELLANEOUS PROVISIONS.

16.1 Indemnity. Except as limited by paragraph 7.2, Inspection, Lessee shall indemnify and hold Lessor harmless for, from and against each and every claim, demand, liability, loss, cost, damage and expense, including, without limitation, attorneys' fees and court costs, arising in any way out of Lessee's occupation and use of the Leased Premises, including without limitation claims for death, personal injury, property damage, and unpaid wages and benefits. Lessee further agrees to indemnify and hold Lessor harmless for, from and against all claims, demands, liabilities, damages and penalties arising out of any failure of Lessee to comply with any of Lessee's obligations under this Lease, including without limitation attorneys' fees and court costs.

16.2 Interest. Except as set forth in paragraph 4, BONUS BID, interest shall accrue and be payable on all obligations arising under this Lease at such rate as may be set from time to time by rule

enacted by Lessor. Interest shall accrue and be payable, without necessity of demand, from the date each such obligation shall arise.

- 16.3 Suspension. In the event that Lessor in its reasonable discretion determines that suspension is necessary in the interests of conservation of the coal resource, or if Lessee has been prevented from performing any of its obligations or responsibilities under this Lease or from conducting mining operations by labor strikes, fires, floods, explosions, riots, adverse coal quality rendering the coal unmarketable, any unusual mining casualties or conditions, Acts of God, government restrictions or orders, severe weather conditions, or other extraordinary events beyond its control, then the time for performance of this Lease by Lessee shall be suspended during the continuance of such acts which prevent performance, excepting any payments due and owing to Lessor.
- 16.4 Consent to Suit; Jurisdiction. This Lease shall be governed by the laws of the State of Utah; Lessor and Lessee agree that all disputes arising out of this Lease shall be litigated only in the Third Judicial District Court for Salt Lake County, Utah; Lessee consents to the jurisdiction of such court; and Lessee shall not bring any action against Lessor without exhaustion of available administrative remedies and compliance with applicable requirements of the Utah Governmental Immunity Act.
- 16.5 No Waiver. No waiver of the breach of any provision of this Lease shall be construed as a waiver of any preceding or succeeding breach of the same or any other provision of this Lease, nor shall the acceptance of rentals or royalties by Lessor during any period of time in which Lessee is in default be deemed to be a waiver of such default.
- 16.6 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.
- 16.7 Entire Lease. This Lease, together with any attached stipulations, sets forth the entire agreement between Lessor and Lessee with respect to the subject matter of this Lease. No subsequent alteration or amendment to this Lease shall be binding upon Lessor and Lessee unless in writing and signed by each of them.

IN WITNESS WHEREOF, the parties have executed this Lease as of the date hereinabove first written.

APPROVED AS TO FORM:

Mark L. Shurtleff

ATTORNEY GENERAL

By 

Form Approved: 3/26/03

THE STATE OF UTAH, acting by and through the
SCHOOL AND INSTITUTIONAL TRUST LANDS
ADMINISTRATION ("LESSOR")

KEVIN S. CARTER, DIRECTOR

By 

LESSEE:

ANDALEX Resources, Inc.
a Delaware corporation

By: 
Douglas H. Smith
President

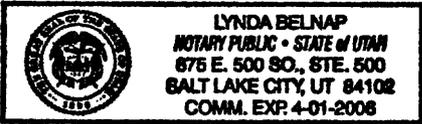
INTERMOUNTAIN POWER AGENCY,
a political subdivision of the State of Utah

By: Reed T. Searle
Reed T. Searle
General Manager

STATE OF UTAH)
: ss.
COUNTY OF SALT LAKE)

On the 26th day of March, 2003, personally appeared before me Kevin S. Carter, who being by me duly sworn did say that he is Director of the School and Institutional Trust Lands Administration of the State of Utah and the signer of the above instrument, who duly acknowledged that he executed the same.

Given under my hand and seal this 26th day of March, 2003.



Lynda Belnap
Notary Public
Residing at: SLC UT.

My commission expires: 4-1-06

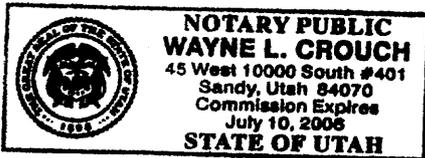
STATE OF UTAH)
: ss.
COUNTY OF SALT LAKE)

On the 28th day of March, 2003, personally appeared before me Douglas H. Smith, who being duly sworn did say that he is the President of ANDALEX Resources, Inc., and the signer of the above instrument, who duly acknowledged to me that said corporation executed the same.

Given under my hand and seal this 28th day of March, 2003.

Wayne L. Crouch
Notary Public
Residing at: Salt Lake County, Utah

My commission expires: 10 July 2006



STATE OF UTAH)

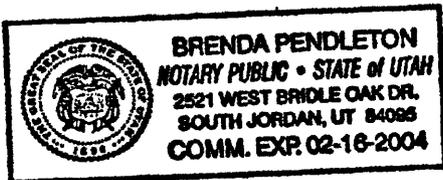
: ss.
COUNTY OF SALT LAKE)

On the 28th day of March, 2003, personally appeared before me Reed T. Searle, who being duly sworn did say that he is the General Manager of Intermountain Power Agency, who duly acknowledged to me that said political subdivision executed the same.

Given under my hand and seal this 28 day of March, 2003.

Brenda Pendleton
Notary Public
Residing at: South Jordan, Utah

My commission expires: 2/16/04



**UTAH STATE LEASE FOR COAL
ML 49287-OBA**

THIS COAL MINING LEASE AND AGREEMENT (the "Lease") is entered into and executed in duplicate as of APRIL 1, 2004 (the "Effective Date") by and between the STATE OF UTAH, acting by and through the SCHOOL AND INSTITUTIONAL TRUST LANDS ADMINISTRATION, 675 East 500 South, Suite 500, Salt Lake City, Utah 84102 ("Lessor"), and

ANDALEX Resources, Inc.
45 West 10000 South, Suite 401 &
Sandy, UT 84070

INTERMOUNTAIN POWER AGENCY
c/o Department of Water & Power of the City of Los Angeles
Attention: Coal Business Manager
Room 1263
111 North Hope Street
Los Angeles, California 90012

having business addresses as shown above (collectively "Lessee"), each with a 50% undivided interest.

WITNESSETH:

That the State of Utah, as Lessor, in consideration of the rentals, royalties, and other financial consideration paid or required to be paid by Lessee, and the covenants of Lessee set forth below, does hereby GRANT AND LEASE to Lessee the exclusive right and privilege to explore for, drill for, mine, remove, transport, convey, cross-haul, commingle, and sell the coal located within the boundaries of the following-described tract of land (the "Leased Premises") located in Carbon County, State of Utah:

T14S, R13E, SLB&M
Sec. 3: Lots 1, 2, 3, S2N2, S2
Sec. 10: W2NW4, SW4, SW4SE4

Containing 881.10 acres, more or less.

Together with the right and privilege to make use of the surface (but only to the extent owned by Lessor) and subsurface of the Leased Premises for uses incident to the mining of coal by Lessee on the Leased Premises or on other lands under the control of Lessee or mined in connection with operations on the Leased Premises, including, but not limited to, conveying, storing, loading, hauling, commingling, cross-hauling, and otherwise transporting coal; excavating; removing, stockpiling, depositing and redepositing of surface materials; and the subsidence, mitigation, restoration and reclamation of the surface.

This Coal Mining Lease and Agreement is subject to, and Lessee hereby agrees to and accepts, the following covenants, terms, and conditions:

1 LEASED MINERALS.

- 1.1 Coal. This mineral lease covers coal, which shall mean and include black or brownish-black solid fossil fuels that have been subjected to the natural processes of coalification, and which fall

within the classification of coal by rank as anthracitic, bituminous, sub-bituminous, or lignitic, together with closely associated substances which include, but are not limited to other hydrocarbon substances physically contained within the same geologic strata as the coal. In the event that minerals other than coal are discovered during lease operations, Lessee shall promptly notify the Lessor.

- 1.2 Coalbed Methane. To the extent that Lessor owns gas, coalbed methane or coal seam gas (collectively "coalbed methane") within the Leased Premises, Lessee may remove, vent, flare or capture such coalbed methane from the coal strata being mined and any overlying formations if such removal is necessary for safety reasons in the reasonable discretion of Lessee. If Lessee captures or uses such coalbed methane, it shall pay Lessor royalties on the value of such coalbed methane at the prevailing state royalty rate for natural gas, unless such royalties are expressly waived by Lessor. In the event that Lessor does not own coalbed methane within the Leased Premises, Lessee must obtain the consent of the owner of such coalbed methane prior to removal or capture of such gas. Except as expressly granted herein, the right to extract gas, coalbed methane and coal seam gas is not granted by this Lease.
- 1.3 No Warranty of Title. Lessor claims title to the mineral estate covered by this Lease. Lessor does not warrant title nor represent that no one will dispute the title asserted by Lessor. It is expressly agreed that Lessor shall not be liable to Lessee for any alleged deficiency in title to the mineral estate, nor shall Lessee become entitled to any refund for any rentals, bonuses, or royalties paid under this Lease in the event of title failure.

2. RESERVATIONS TO LESSOR. Subject to the exclusive rights and privileges granted to Lessee under this Lease, and further provided that Lessor shall refrain from taking actions with respect to the Leased Premises that may unreasonably interfere with Lessee's operations, Lessor hereby excepts and reserves from the operation of this Lease the following rights and privileges (to the extent that Lessor has the right to grant such rights and privileges):

- 2.1 Rights-of-Way and Easements. Lessor reserves the right, following consultation with the Lessee, to establish rights-of-way and easements upon, through or over the Leased Premises, under terms and conditions that will not unreasonably interfere with operations under this Lease, for roads, pipelines, electric transmission lines, transportation and utility corridors, mineral access, and any other purpose deemed reasonably necessary by Lessor.
- 2.2 Other Mineral Leases. Lessor reserves the right to enter into mineral leases and agreements with third parties covering minerals other than coal, under terms and conditions that will not unreasonably interfere with operations under this Lease in accordance with Lessor's regulations, if any, governing multiple mineral development.
- 2.3 Use and Disposal of Surface. To the extent that Lessor owns the surface estate of the Leased Premises and subject to the rights granted to the Lessee pursuant to this Lease, Lessor reserves the

right to use, lease, sell, or otherwise dispose of the surface estate or any part thereof. Lessor shall notify Lessee of any such sale, lease, or other disposition of the surface estate.

- 2.4 Previously Authorized Improvements. If authorized improvements have been placed upon the Leased Premises by a third party prior to the commencement of this Lease, Lessee shall allow the owner of such improvements to remove them within ninety (90) days after the Lease term commences. Nothing in this paragraph shall authorize Lessee to remove surface improvements where Lessor does not own the surface estate.
- 2.5 Rights Not Expressly Granted. Lessor further reserves all rights and privileges of every kind and nature, except as specifically granted in this Lease.

3. TERM OF LEASE; READJUSTMENT.

- 3.1 Primary Term. This Lease is granted for a "primary term" of ten (10) years commencing on the Effective Date and for a "secondary term" of an additional ten (10) years, subject to Lessee's compliance with the requirements of paragraph 3.3, Diligent Operations; Minimum Royalty.
- 3.2 Extension Beyond Secondary Term. Subject to Lessee's compliance with the other provisions of this Lease, this Lease shall remain in effect beyond the secondary term and for as long thereafter as coal is produced in commercial quantities from the Leased Premises, or from lands constituting either (i) a logical mining unit approved by the Bureau of Land Management containing the Leased Premises, or (ii) a mining unit, in which the recoverable coal reserves can be developed in an efficient, economical and orderly manner as a unit with due regard to the conservation of recoverable coal reserves. The second type of mining unit requires a determination by the Lessor that the criteria set forth in item (ii) have been satisfied. The satisfaction of either (i) or (ii) above shall mean that the Lease is contained within an "approved mining unit." For the purposes of this Lease, production of coal in commercial quantities shall mean production during each lease year of at least one per cent (1%) of the recoverable coal reserves within the Leased Premises or within lands constituting an approved mining unit which includes the Leased Premises, as such recoverable coal reserves are determined by Lessor after consultation with Lessee, subject to adjustment from time to time based upon reasonable justification from the Lessee.
- 3.3 Diligent Operations; Minimum Royalty. In the absence of actual production in commercial quantities as set forth in paragraph 3.2, Extension Beyond Secondary Term, this Lease shall remain in effect beyond the primary term only if the Lessee is engaged in diligent operations, exploration, research, or development activity (which development activity shall include, but not be limited to, pursuit of required permits and approvals) which in Lessor's reasonable discretion is calculated to advance development or production of coal from the Leased Premises or lands constituting an approved mining unit which includes the Leased Premises, and Lessee pays an annual minimum royalty in advance on or before the anniversary date of the Effective Date. The minimum royalty shall be calculated by determining the production royalty that would be payable

upon production of one per cent (1%) of the recoverable coal reserves within the Leased Premises, as such recoverable coal reserves are determined by Lessor after consultation with Lessee, subject to adjustment from time to time based upon reasonable justification from the Lessee. The unit value of the recoverable coal reserves for purposes of determining the minimum royalty shall be determined by Lessor using the methodology set forth in 43 Code of Federal Regulations §3483.4(c)(1)-(3) (1998). Minimum royalties paid by Lessee pursuant to this paragraph may be credited against production royalties accruing during the term of this Lease.

- 3.4 Expiration; Cessation of Production. This Lease may not be extended pursuant to paragraph 3.3, Diligent Operations; Minimum Royalty, beyond the end of the twentieth year after the Effective Date except by the actual production of coal in commercial quantities from the Leased Premises or from lands constituting an approved mining unit which includes the Leased Premises. After expiration of the secondary term, this Lease will expire of its own terms, without the necessity of any notice or action by Lessor, if Lessee ceases production of coal in commercial quantities for an entire lease year, unless the Lease is suspended pursuant to paragraph 16.3, Suspension.
- 3.5 Readjustment. At the end of the primary term and at the end of each period of ten (10) years thereafter, Lessor may readjust the terms and conditions of this Lease (including without limitation rental rates, minimum royalties, royalty rates and valuation methods, and provisions concerning reclamation). If within thirty (30) days after submission of the readjusted lease terms to the Lessee, the Lessee determines that any or all of the proposed readjusted terms and conditions are unacceptable, then Lessee shall so notify Lessor in writing and the parties shall attempt to resolve the objectionable term or condition. If the parties are unable to resolve the matter and agree upon the readjusted terms and conditions submitted by Lessor at the end of such ten (10) year period, Lessee shall forfeit any right to the continued extension of this lease, and the lease shall automatically terminate, provided that nothing herein shall be deemed to preclude Lessee from appealing any readjustment by Lessor pursuant to applicable law
- 3.6 Relinquishment. Lessee may relinquish all or portions of this Lease at any time by filing a written notice of relinquishment with Lessor. Lessor may disapprove any relinquishment if Lessee has failed to pay all rentals, royalties, and other amounts due and owing to the Lessor, if the lease is otherwise not in good standing, or if relinquishment would in Lessor's reasonable determination cause waste of economically recoverable coal. Lessee may not relinquish parcels smaller than a quarter-quarter section or surveyed lot. Upon approval, relinquishment shall relieve the Lessee of all future rental obligations as to the relinquished lands effective as of the date of filing of the relinquishment, but shall not relieve Lessee from other obligations to the extent provided in paragraph 15.2, Effect of Termination.
4. BONUS BID. Lessee agrees to pay Lessor, an initial bonus bid in the sum of \$1,400,000.00 as partial consideration for Lessor's issuance of this Lease, payable in not more than five equal annual installments of \$280,000.00. The first annual installment is due and payable upon submission of the bonus bid. Each subsequent annual installment shall be paid on or before each anniversary date of the effective date of the

lease until the total bonus bid has been paid in full. The unpaid balance of the bonus bid shall not bear interest; provided, however, that if this Lease is relinquished or otherwise terminated prior to the payment in full of the bonus bid, or if Lessee fails to make any bonus bid payment when due, the entire unpaid balance of the bonus bid shall immediately become due without regard to such relinquishment or termination, and such balance shall thereafter bear interest as provided in paragraph 16.2, Interest. Lessor may require Lessee to submit a bond or other sufficient surety to secure Lessee's obligation to pay the unpaid balance of the bonus bid. The initial bonus bid may not be credited against any other bonus payments, annual rentals or royalties accruing under the lease.

5. RENTALS. Lessee agrees to pay Lessor an annual rental of three dollars (\$3.00) for each acre and fractional part thereof within the Leased Premises. Lessee shall promptly pay annual rentals each year in advance on or before the anniversary date of the Effective Date. Lessee may not credit rentals against production royalties or against minimum royalties payable pursuant to paragraph 3.3, Diligent Operations; Minimum Royalty.

6. ROYALTIES.

6.1 Production Royalties. Lessee shall pay Lessor a production royalty of eight per cent (8%) of the value of all coal severed and removed from the Leased Premises. For all coal sold pursuant to an arm's-length contract, value shall be determined on the basis of the gross proceeds received by Lessee from the sale or disposition of such coal. Gross proceeds shall include all bonuses, allowances or other consideration of any nature received by Lessee for coal actually produced. For any coal that is sold or disposed of other than by an arms-length contract, or for coal that is used within the mine permit area containing the Leased Premises for generation of electricity or for gasification, liquefaction, in situ processing, or other method of extracting energy from such coal, the value of such coal shall be determined by Lessor with reference to (in order of priority): (i) comparable arms-length contracts or other dispositions of like-quality coal produced in the same coal field; (ii) prices reported for that coal to a public utility commission; (iii) prices reported to other governmental agencies; or (iv) other relevant information.

6.2 Allowable Deductions. It is expressly understood and agreed that none of Lessee's mining or production costs, including but not limited to costs for materials, labor, overhead, distribution, transportation within the mine permit area prior to the point of sale, loading, crushing, sizing, screening, or general and administrative activities, may be deducted in computing Lessor's royalty. All such costs shall be entirely borne by Lessee and are anticipated by the rate of royalty set forth in this Lease. In the event that the point of sale for coal produced from this Lease is located outside the mine permit area boundary, Lessee may deduct the reasonable, actual costs of transportation of such coal from the mine permit area boundary to the point of sale from gross proceeds in computing Lessor's royalty; provided, however, that transportation deductions for coal transported by Lessee, Lessee's affiliates, or by non-arm's-length contract are subject to review and modification by Lessor. Lessee shall be allowed to deduct its actual, reasonable washing and treatment costs from gross proceeds in computing Lessor's royalty; provided,

however, that, upon Lessor's request Lessee shall provide to Lessor appropriate justification to demonstrate that Lessee's costs are reasonable.

- 6.3 Reference to Federal Regulations. It is the intent of Lessor and Lessee that the calculation of the value of coal for royalty purposes be consistent with federal coal regulations governing the valuation of coal, except where this Lease expressly provides otherwise. In no event shall the value of coal used for calculation of royalties under this Lease be less than the value which would be obtained were federal royalty valuation regulations applied.
- 6.4 Royalty Payment. For all coal severed and removed from the Leased Premises that is used, sold, transported or otherwise disposed of during a particular month, Lessee shall pay royalties to Lessor on or before the end of the next succeeding month. Royalty payments shall be accompanied by a verified statement, in a form approved by Lessor, stating the amount of coal sold or otherwise disposed of, the gross proceeds accruing to Lessee, the calculation of allowable deductions, and any other information reasonably required by Lessor to verify production and disposition of the coal or coal products. In the event that Lessee uses or disposes of coal pursuant to a non-arm's-length contract, or uses coal for generation of electricity or for gasification, liquefaction, in situ processing, or other method of extracting energy from such coal, Lessee shall notify Lessor of such use or disposal on or before the end of the next succeeding month following such use or disposal, and shall pay royalties upon Lessee's good faith estimate of the value of such coal, subject to Lessor's right to determine the value of such coal pursuant to paragraph 6.1, Production Royalties.
- 6.5 Suspension, Waiver or Reduction of Rents or Royalties. Lessor, to the extent not prohibited by applicable law, is authorized to waive, suspend, or reduce the rental or minimum royalty, or reduce the royalty applicable with respect to the entire Lease, whenever in Lessor's judgment it is necessary to do so in order to promote development, or whenever in the Lessor's judgment the Lease cannot be successfully operated under the terms provided herein.

7. RECORDKEEPING; INSPECTION; AUDITS.

- 7.1 Registered Agent; Records. Lessee shall maintain a registered agent within the State of Utah to whom any and all notices may be sent by Lessor and upon whom process may be served. Lessee shall also maintain an office within the State of Utah containing originals or copies of all maps, engineering data, permitting materials, books, records or contracts (whether such documents are in paper or electronic form) generated by Lessee that pertain in any way to coal production, output and valuation; mine operations; coal sales and dispositions; transportation costs; and calculation of royalties from the Leased Premises. Lessee shall maintain such documents for at least seven years after the date of the coal production to which the documents pertain.
- 7.2 Inspection. Lessor's employees and authorized agents at Lessor's sole risk and expense shall have the right to enter the Leased Premises to check scales as to their accuracy, and to go on any part of

the Leased Premises to examine, inspect, survey and take measurements for the purposes of verifying production amounts and proper lease operations. Upon reasonable notice to Lessee, Lessor's employees and authorized agents shall further have the right to audit, examine and copy (at Lessor's expense) all documents described in paragraph 7.1, Registered Agent; Records, whether such documents are located at the mine site or elsewhere. Lessee shall furnish all conveniences necessary for said inspection, survey, or examination; provided, however, that such inspections shall be conducted in a manner that is in conformance with all applicable mine safety regulations and does not unreasonably interfere with Lessee's operations.

- 7.3 Federal Inspections. Lessee agrees that Bureau of Land Management ("BLM") agents authorized by the Lessor may conduct underground inspections of the Leased Premises.
- 7.4 Geologic Information. In the event Lessee conducts core-drilling operations or other geologic evaluation of the Leased Premises, Lessor may inspect core samples, evaluations thereof, and proprietary geologic information concerning the Leased Premises.
- 7.5 Confidentiality. Any and all documents and geologic data obtained by Lessor through the exercise of its rights as set forth in paragraphs 7.2, Inspection., and 7.4, Geologic Information., may be declared confidential information by Lessee, in which event Lessor and its authorized agents shall maintain such documents and geologic data as protected records under the Utah Governmental Records Access Management Act or other applicable privacy statute and shall not disclose the same to any third party without the written consent of Lessee, the order of a court of competent jurisdiction requiring such disclosure, or upon termination of this Lease.

8. USE OF SURFACE ESTATE.

- 8.1 Lessor-Owned Surface. If Lessor owns the surface estate of all or some portion of the Leased Premises, by issuance of this Lease the Lessee has been granted the right to make use of such lands to the extent reasonably necessary and expedient for the economic operation of the leasehold. Lessee's right to surface use of Lessor-owned surface estate shall include the right to subside the surface. Such surface uses shall be exercised subject to the rights reserved to Lessor as provided in paragraph 2, RESERVATIONS TO LESSOR, and without unreasonable interference with the rights of any prior or subsequent lessee of Lessor.
- 8.2 Split-Estate Lands. If Lessor does not own the surface estate of any portion of the Leased Premises, Lessee's access to and use of the surface of such lands shall be determined by applicable law governing mineral development on split-estate lands, including without limitation applicable statutes governing access by mineral owners to split estate lands, and reclamation and bonding requirements. Lessee shall indemnify, defend and hold Lessor harmless for all claims, causes of action, damages, costs and expenses (including attorney's fees and costs) arising out of or related to damage caused by Lessee's operations to surface lands or improvements owned by third parties.

9. APPLICABLE LAWS AND REGULATIONS; HAZARDOUS SUBSTANCES

- 9.1 Trust Lands Statute and Regulations. This Lease is issued pursuant to the provisions of Title 53C, Utah Code Annotated, 1953, as amended, and Lessee is subject to and shall comply with all current and future rules and regulations adopted by the School and Institutional Trust Lands Administration.
- 9.2 Other Applicable Laws and Regulations. Lessee shall comply with all applicable federal, state and local statutes, regulations, and ordinances, including without limitation the Utah Coal Mining and Reclamation Act, applicable statutes and regulations relating to mine safety and health, and applicable statutes, regulations and ordinances relating to public health, pollution control, management of hazardous substances and environmental protection.
- 9.3 Hazardous Substances. Lessee [or other occupant pursuant to any agreement authorizing mining] shall not keep on or about the premises any hazardous substances, as defined under 42 U.S.C. § 9601(14) or any other Federal environmental law, any regulated substance contained in or released from any underground storage tank, as defined by the Resource Conservation and Recovery Act, 42 U.S.C. § 6991, *et seq.*, or any substances defined and regulated as "hazardous" by applicable State law, (hereinafter, for the purposes of this Lease, collectively referred to as "Hazardous Substances") unless such substances are reasonably necessary in Lessee's mining operations, and the use of such substances or tanks is noted and approved in the Lessee's mining plan, and unless Lessee fully complies with all Federal, State and local laws, regulations, statutes, and ordinances, now in existence or as subsequently enacted or amended, governing Hazardous Substances. Lessee shall immediately notify Lessor, the Trust Lands Administration, the surface management agency, and any other Federal, State and local agency with jurisdiction over the Leased Premises, or contamination thereon, of (i) all reportable spills or releases of any Hazardous Substance affecting the Leased Premises, (ii) all failures to comply with any applicable Federal, state or local law, regulation or ordinance governing Hazardous Substances, as now enacted or as subsequently enacted or amended, (iii) all inspections of the Leased Premises by, or any correspondence, order, citations, or notifications from any regulatory entity concerning Hazardous Substances affecting the Leased Premises, (iv) all regulatory orders or fines or all response or interim cleanup actions taken by or proposed to be taken by any government entity or private Party concerning the Leased Premises.
- 9.4 Hazardous Substances Indemnity. Lessee [or other occupant pursuant to any agreement authorizing mining] shall indemnify, defend, and hold harmless Lessor its agencies, employees, officers, and agents with respect to any and all damages, costs, liabilities, fees (including attorneys' fees and costs), penalties (civil and criminal), and cleanup costs arising out of or in any way related to Lessee's use, disposal, transportation, generation, sale or location upon or affecting the Leased Premises of Hazardous Substances, as defined in paragraph 9.4 of this Lease. This

indemnity shall extend to the actions of Lessee's employees, agents assigns, sublessees, contractors, subcontractors, licensees and invitees. Lessee shall further indemnify, defend and hold harmless Lessor from any and all damages, costs, liabilities, fees (including attorneys' fees and costs), penalties (civil and criminal), and cleanup costs arising out of or in any way related to any breach of the provisions of this Lease concerning Hazardous Substances. This indemnity is in addition to, and in no way limits, the general indemnity contained in paragraph 16.1 of this Lease.

- 9.5 Waste Certification. The Lessee shall provide upon abandonment, transfer of operation, assignment of rights, sealing-off of a mined area, and prior to lease relinquishment, certification to the Lessor and the Trust Lands Administration that, based upon a complete search of all the operator's records for the Lease, and upon its knowledge of past operations, there have been no reportable quantities of hazardous substances as defined in 40 Code of Federal Regulations §302.4, or used oil as defined in Utah Administrative Code R315-15, discharged (as defined at 33 U.S.C. §1321(a)(2)), deposited or released within the Leased Premises, either on the surface or underground, and that all remedial actions necessary have been taken to protect human health and the environment with respect to such substances. Lessee shall additionally provide to Lessor a complete list of all hazardous substances, hazardous materials, and their respective Chemical Abstracts Service Registry Numbers, and oil and petroleum products used or stored on, or delivered to, the Leased Premises. Such disclosure will be in addition to any other disclosure required by law or agreement.

10. BONDING.

- 10.1 Lease Bond Required. At the time this Lease is executed, Lessee shall execute and file with the Lessor a good and sufficient bond or other financial guarantee acceptable to Lessor in order to: (a) guarantee Lessee's performance of all covenants and obligations under this Lease, including Lessee's obligation to pay royalties; and (b) ensure compensation for damage, if any, to the surface estate and any surface improvements. The Lease Bond shall meet all federal mineral lease bond requirements as described in 43 Code of Federal Regulations Subpart 3474. The Lease Bond shall further provide that upon forfeiture of the Leased Premises to the State of Utah, the Lease Bond shall be payable to the Trust Lands Administration.
- 10.2 Reclamation Bonding. The bond filed with the Utah Division of Oil, Gas and Mining ("UDOGM") in connection with the issuance of a mine permit which includes the Leased Premises shall be deemed to satisfy Lessor's bonding requirements with respect to Lessee's reclamation obligations under this Lease; provided, however, upon notice to Lessee and a public hearing with respect to the basis for its decision, the Lessor may, in its reasonable discretion, determine that the bond filed with UDOGM is insufficient to protect Lessor's interests. In such an event the Lessor shall enter written findings as to the basis for its calculation of the perceived insufficiency and enter an order establishing the amount of additional bonding required. Lessee shall file any required additional bond with Lessor within thirty (30) days after demand by Lessor.

Lessor may increase or decrease the amount of any additional bond from time to time in accordance with the same procedure.

- 10.3 Release of Additional Bond. Any additional bond required by Lessor pursuant to 10.2, Reclamation Bonding, may be released by Lessor at any time and shall be released no later than the time of final bond release by UDOGM with respect to the Leased Premises.

11. WATER RIGHTS.

- 11.1 Water Rights in Name of Lessor. If Lessee files to appropriate water for coal mining operations on the Leased Premises, the filing for such water right shall be made by Lessee in the name of Lessor at no cost to Lessor, and such water right shall become an appurtenance to the Leased Premises, subject to Lessee's right to use such water right at no cost during the term of this Lease.
- 11.2 Option to Purchase. If Lessee purchases or acquires an existing water right for coal mining operations on the Leased Premises, Lessor shall have the option to acquire that portion of such water right as was used on the Leased Premises upon expiration or termination of this Lease. The option price for such water right shall be the fair market value of the water right as of the date of expiration or termination of this Lease. Upon expiration or termination of this Lease, Lessee shall notify Lessor in writing of all water rights purchased or acquired by Lessee for coal mining operations on the Leased Premises and its estimate of the fair market value of such water right. Lessor shall then have forty-five (45) days to exercise its option to acquire the water by payment to Lessee of the estimated fair market value. If Lessor disagrees with Lessee's estimate of fair market value, Lessor shall notify Lessee of its disagreement within the 45 day option exercise period. The fair market value of the water right shall then be appraised by a single appraiser mutually acceptable to both parties, which appraisal shall be final and not subject to review or appeal. If the parties cannot agree upon the choice of an appraiser, the fair market value of the water right shall be determined by a court of competent jurisdiction. Conveyance of any water right pursuant to this paragraph shall be by quit claim deed.

12. ASSIGNMENT OR SUBLEASE; OVERRIDING ROYALTIES.

- 12.1 Consent Required. Lessee shall not assign or sublease this Lease in whole or in part, or otherwise assign or convey any rights or privileges granted by this Lease, including, without limitation, creation of overriding royalties or production payments, without the prior written consent of Lessor. Any assignment, sublease or other conveyance made without prior written consent of Lessor shall have no legal effect unless and until approved in writing by Lessor. Exercise of any right with respect to the Leased Premises in violation of this provision shall constitute a default under this Lease.
- 12.2 Binding Effect. All of the terms and provisions of this Lease shall be binding upon and shall inure to the benefit of their respective successors, assigns, and sublessees.

12.3 Limitation on Overriding Royalties. Lessor reserves the right to disapprove the creation of an overriding royalty or production payment that would, in Lessor's reasonable discretion, constitute an unreasonable economic burden upon operation of the Lease. In exercising its discretion to disapprove the creation of an overriding royalty, Lessor shall consult with Lessee and any third parties involved and shall prepare findings to evidence the basis of its decision. Cumulative overriding royalties of 2% or less shall be deemed presumptively reasonable unless special circumstances are shown by Lessor to exist.

13. OPERATIONS.

13.1 Permitting. Before Lessee commences exploration, drilling, or mining operations on the Leased Premises, it shall have obtained such permits and posted such bonds as may be required under applicable provisions of the Utah Coal Mining and Reclamation Act, the Surface Mining Control and Reclamation Act, and associated regulations, together with applicable regulations of the surface management agency. Lessee shall maintain any required permits in place for the duration of mining operations and reclamation. Upon request, Lessee shall provide Lessor with a copy of all regulatory filings relating to permitting matters.

13.2 Plan of Operations. Prior to the commencement of any underground mining operations on the Leased Premises, Lessee shall obtain Lessor's approval of a plan of operations for the Leased Premises. The plan of operations shall contain all information required to be contained in a federal Resource Recovery and Protection Plan, as described in 43 Code of Federal Regulations § 3482.1(b) and (c) (1998). Lessor may modify the proposed plan of operations as is needed to insure that there is no waste of economically recoverable coal reserves contained on the Leased Premises. In this context "waste" shall mean the inefficient utilization of, or the excessive or improper loss of an otherwise economically recoverable coal resource. Lessor shall notify Lessee in writing of its approval or modifications of the plan of operations. The plan of operations submitted by Lessee shall be deemed approved by Lessor if Lessor has not otherwise notified Lessee within sixty (60) days of filing.

13.3 Plan of Operations - Modification. In the event that material changes are required to the plan of operations during the course of mining, Lessee shall submit a modification of the plan of operations to the Lessor. Routine adjustments to the plan of operations based upon geologic circumstances encountered during day-to-day mining operations do not require the submission of a modification. If the proposed changes require emergency action by Lessor, then the Lessee shall so notify the Lessor at the time of submission of the modification and the parties shall use their best efforts to meet the Lessee's time schedule regarding implementation of the changes. Non-emergency modifications will be reviewed promptly by Lessor to insure that there is no waste of economically recoverable coal reserves pursuant to the plan of operations, as modified, and Lessor shall notify lessee in writing of its approval or modification of the proposed modification.

- 13.4 Mine Maps. Lessee shall maintain at the mine office clear, accurate, and detailed maps of all actual and planned operations prepared and maintained in the manner prescribed by 43 Code of Federal Regulations § 3482.3 (1998). Lessee shall provide copies of such maps to Lessor upon request.
- 13.5 Good Mining Practices. Lessee shall conduct exploration and mining operations on the Leased Premises in accordance with standard industry operating practices, and shall avoid waste of economically recoverable coal. Lessee shall comply with all regulations and directives of the Mine Safety and Health Administration or successor agencies for the health and safety of employees and workers. Lessee shall further comply with the performance standards for underground resource recovery set forth at 43 Code of Federal Regulations § 3484.1(c) (1998); provided, however, that Lessor may waive such standards from time to time in its reasonable discretion, upon request by Lessee. Coal shall be mined from this Lease by underground methods only.
- 13.6 Mining Units. Lessor may approve the inclusion of the Leased Premises in a mining unit with federal, private or other non-state lands upon terms and conditions that it deems necessary to protect the interests of the Lessor, including without limitation segregation of production, accounting for commingled coal production, and minimum production requirements or minimum royalties for the Leased Premises.

14. EQUIPMENT; RESTORATION.

- 14.1 Equipment. Upon termination of this Lease, Lessee shall remove, and shall have the right to remove, all improvements, equipment, stockpiles, and dumps from the Leased Premises within six (6) months; provided, however, that Lessor may, at Lessor's sole risk and expense, and subject to Lessee's compliance with requirements imposed by UDOGM and MSHA, require Lessee to retain in place underground timbering supports, shaft linings, rails, and other installations reasonably necessary for future mining of the Leased Premises. All improvements and equipment remaining on the Leased Premises after six (6) months may be deemed forfeited to Lessor upon written notice of such forfeiture to Lessee. Lessee may abandon underground improvements, equipment of any type, stockpiles and dumps in place if such abandonment is in compliance with applicable law, and further provided that Lessee provides Lessor with financial or other assurances sufficient in Lessor's reasonable discretion to protect Lessor from future environmental liability with respect to such abandonment or any associated hazardous waste spills or releases. Lessee shall identify and locate on the mine map the location of all equipment abandoned on the Lease Premises.
- 14.2 Restoration and Reclamation. Upon termination of this Lease, Lessee shall reclaim the Leased Premises in accordance with the requirements of applicable law, including mine permits and reclamation plans on file with UDOGM. Lessee shall further abate any hazardous condition on or

associated with the Leased Premises. Lessee and representatives of all governmental agencies having jurisdiction shall have the right to re-enter the Leased Premises for reclamation purposes for a reasonable period after termination of the Lease.

15. DEFAULT

15.1 Notice of Default; Termination. Upon Lessee's violation of or failure to comply with any of the terms, conditions or covenants set forth in this Lease, Lessor shall notify Lessee of such default by registered or certified mail, return receipt requested, at the last address for Lessee set forth in Lessor's files. Lessee shall then have thirty (30) days, or such longer period as may be granted in writing by Lessor, to either cure the default or request a hearing pursuant to the Lessor's administrative adjudication rules. In the event Lessee fails to cure the default or request a hearing within the specified time period, Lessor may cancel this Lease without further notice to or appeal by Lessee.

15.2 Effect of Termination. The termination of this Lease for any reason, whether through expiration, cancellation or relinquishment, shall not limit the rights of the Lessor to recover any royalties and/or damages for which Lessee may be liable, to recover on any bond on file, or to seek injunctive relief to enjoin continuing violations of the Lease terms. No remedy or election under this Lease shall be deemed exclusive, but shall, wherever possible, be cumulative with all other remedies available under this Lease, at law, or in equity. Lessee shall surrender the Leased Premises upon termination; however, the obligations of Lessee with respect to reclamation, indemnification and other continuing covenants imposed by this Lease shall survive the termination.

16. MISCELLANEOUS PROVISIONS.

16.1 Indemnity. Except as limited by paragraph 7.2, Inspection, Lessee shall indemnify and hold Lessor harmless for, from and against each and every claim, demand, liability, loss, cost, damage and expense, including, without limitation, attorneys' fees and court costs, arising in any way out of Lessee's occupation and use of the Leased Premises, including without limitation claims for death, personal injury, property damage, and unpaid wages and benefits. Lessee further agrees to indemnify and hold Lessor harmless for, from and against all claims, demands, liabilities, damages and penalties arising out of any failure of Lessee to comply with any of Lessee's obligations under this Lease, including without limitation attorneys' fees and court costs.

16.2 Interest. Except as set forth in paragraph 4, BONUS BID, interest shall accrue and be payable on all obligations arising under this Lease at such rate as may be set from time to time by rule enacted by Lessor. Interest shall accrue and be payable, without necessity of demand, from the date each such obligation shall arise.

- 16.3 Suspension. In the event that Lessor in its reasonable discretion determines that suspension is necessary in the interests of conservation of the coal resource, or if Lessee has been prevented from performing any of its obligations or responsibilities under this Lease or from conducting mining operations by labor strikes, fires, floods, explosions, riots, any unusual mining casualties or conditions, Acts of God, government restrictions or orders, severe weather conditions, or other extraordinary events beyond its control, then the time for performance of this Lease by Lessee shall be suspended during the continuance of such acts which prevent performance, excepting any payments due and owing to Lessor.
- 16.4 Consent to Suit; Jurisdiction. This Lease shall be governed by the laws of the State of Utah. Lessor and Lessee agree that all disputes arising out of this Lease shall be litigated only in the Third Judicial District Court for Salt Lake County, Utah. Lessee consents to the jurisdiction of such court. Lessee shall not bring any action against Lessor without exhaustion of available administrative remedies and compliance with applicable requirements of the Utah Governmental Immunity Act.
- 16.5 No Waiver. No waiver of the breach of any provision of this Lease shall be construed as a waiver of any preceding or succeeding breach of the same or any other provision of this Lease, nor shall the acceptance of rentals or royalties by Lessor during any period of time in which Lessee is in default be deemed to be a waiver of such default.
- 16.6 Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.
- 16.7 Special Stipulations. The special stipulations set forth in Exhibit "A" to this Lease are hereby incorporated into and made an integral part of this Lease.
- 16.8 Entire Lease. This Lease, together with any attached stipulations, sets forth the entire agreement between Lessor and Lessee with respect to the subject matter of this Lease. No subsequent alteration or amendment to this Lease shall be binding upon Lessor and Lessee unless in writing and signed by each of them.

IN WITNESS WHEREOF, the parties have executed this Lease as of the date hereinabove first written.

APPROVED AS TO FORM:
MARK L. SHURTLEFF

ATTORNEY GENERAL

By 

Form Approved: 2/26/04

THE STATE OF UTAH, acting by and through the
SCHOOL AND INSTITUTIONAL TRUST
LANDS ADMINISTRATION ("LESSOR")

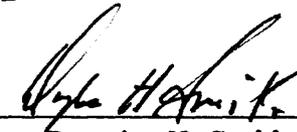
KEVIN S. CARTER, DIRECTOR

By 

Thomas B. Faddies, Assistant Director/Minerals

School & Institutional Trust Lands Administration - LESSOR

ANDALEX RESOURCES, INC.
LESSEE

By: 

Its: Douglas H. Smith, President

&

INTERMOUNTAIN POWER AGENCY
LESSEE

By: Reed J. Seale

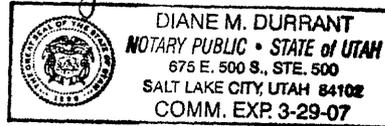
Its: Gen. Manager

STATE OF UTAH)
COUNTY OF SALT LAKE)

On the 22 day of March, 2004, personally appeared before me THOMAS B. FADDIES who duly sworn did say that he is Assistant Director of the School & Institutional Trust Lands Administration of the State of Utah and the signer of the above instrument, who duly acknowledged that he executed the same.

Given under my hand and seal this 22 day of March, 2004.

Diane M. Durrant NOTARY PUBLIC, residing at: Layton, UT
My Commission Expires: March 29, 2007

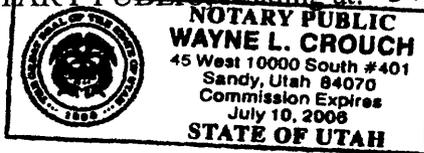


STATE OF UTAH)
COUNTY OF SALT LAKE)

On the 17th day of March, 2004, personally appeared before me Douglas H. Smith, who being duly sworn did say that he is an officer of ANDALEX Resources, Inc. and that said instrument was signed in behalf of said corporation by resolution of its Board of Directors, and said Douglas H. Smith acknowledged to me that said corporation executed the same.

Given under my hand and seal this 17th day of March, 2004.

Wayne L. Crouch NOTARY PUBLIC, residing at: Salt Lake County, UTAH
My Commission Expires: 10 July 2006

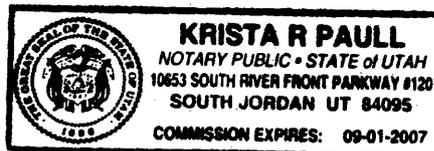


STATE OF)
COUNTY OF)

On the 19 day of March, 2004, personally appeared before me Reed T. Searke, who being duly sworn did say that he is an officer of INTERMOUNTAIN POWER AGENCY and that said instrument was signed in behalf of said corporation by resolution of its Board of Directors, and said Reed T. Searke acknowledged to me that said corporation executed the same.

Given under my hand and seal this 19 day of March, 2004.

NOTARY PUBLIC, residing at: Salt Lake County, UT.
My Commission Expires:



Krista R Paull

**TABLE OF CONTENTS- APPENDICES
R645-301-300 CHAPTER 3**

<u>APPENDIX NUMBER</u>	<u>DESCRIPTION</u>
APPENDIX 3-1	Plant Communities of the West Ridge Project Mine Area
APPENDIX 3-1A	Douglas Fir/Maple Community Reference Area (New): West Ridge Project Mine Area
APPENDIX 3-2	West Ridge Project Raptor Survey
APPENDIX 3-3	Wildlife Inventory
APPENDIX 3-4	Correspondence - Threatened and Endangered Species
APPENDIX 3-5	Plant Communities of the West Ridge Project Proposed Topsoil Borrow Area
APPENDIX 3-6	Comments from DWR
APPENDIX 3-7	Letter from DWR regarding eagle nests
APPENDIX 3-8	Nonvascular Plant Cover of the Douglas Fir/Rocky Mtn. Juniper Community at the West Ridge Project 1998
APPENDIX 3-9	Letter from DWR regarding Mexican spotted owl
APPENDIX 3-9A	Letter from EIS regarding Mexican Spotted Owl
APPENDIX 3-10	Letter from DWR regarding 2001 Raptor Survey
APPENDIX 3-11	Letter from DWR regarding Yellow-Billed Cuckoo
APPENDIX 3-12	A Survey of the Riparian Plant Communities near Grassy Trail Creek for the West Ridge Mine (Mt. Nebo Scientific)

surveyed the permit area and determined that the area was not suitable habitat for the spotted owl. A letter from DWR verifying this conclusion is included in Appendix 3-9.

On April 16, 2004 DWR and EIS conducted an additional spotted owl survey over the project area, including the expanded areas of the state leases and the fee lease. Based on this survey they re-confirmed their earlier conclusions that there is insufficient potential habitat in the permit area.

- 322.220 No streams, wetlands, riparian areas, or special migration areas are located within the permit area southwest of West Ridge. Grassy Trail Creek is an intermittent stream located in the permit area in Whitmore Canyon located northeast of West Ridge. Riparian areas exist along Grassy Trail Creek in this area, as depicted on Map 3-1. Wildlife wintering areas are depicted on Maps 3-4B, 3-4C and 3-4D.

R645-301-323 MAPS AND AERIAL PHOTOGRAPHS

- 323.100 The location of the reference areas for determining the success of revegetation is depicted on Map 3-2. The areas have been marked in the field using steel range posts.
- 323.200 Fixed monitoring stations were not used to gather information for fish and wildlife.
- 323.300 No permanent facilities are being proposed for the enhancement of fish, wildlife and related environmental values. The sediment treatment facilities, although temporary in nature, may provide a source of water until final reclamation. Reclamation will focus on providing wildlife forage and habitat.
- 323.400 Vegetation types and plant community, as well as sampling locations are shown on Map 3-2. Sampling transects utilized during the vegetation survey are shown on the map. The vegetation sampling transects were also utilized by the Natural Resources Conservation Service when they conducted the range condition evaluation at the proposed mine site.

APPENDIX 3-9A

**LETTER FROM E.I.S. REGARDING
MEXICAN SPOTTED OWL**



ENVIRONMENTAL INDUSTRIAL SERVICES

435-472-3814 • 800-641-2927 • FAX 435-472-8780 • eisec@sisna.com • 31 NORTH MAIN STREET HELPER, UTAH 84526

April 26, 2004

WestRidge Resources, Inc.
Mr. David Shaver
P.O. Box 1077
Price, Utah 84526

RE: Mexican spotted owl (MSO) Habitat Delineation – WestRidge Lease Area Properties

Dear Mr. Shaver:

As per your request, based on the plates you provided of the lease areas, I overlaid the 1997 and 2000 MSO habitat models to identify potential suitable MSO habitat (Plate I). Based on the overlay, it appeared there were some isolated areas that could provide roosting areas for MSO's. Due to the relatively small size it would be very unlikely to support a nesting site or a Protected Activity Center (PAC).

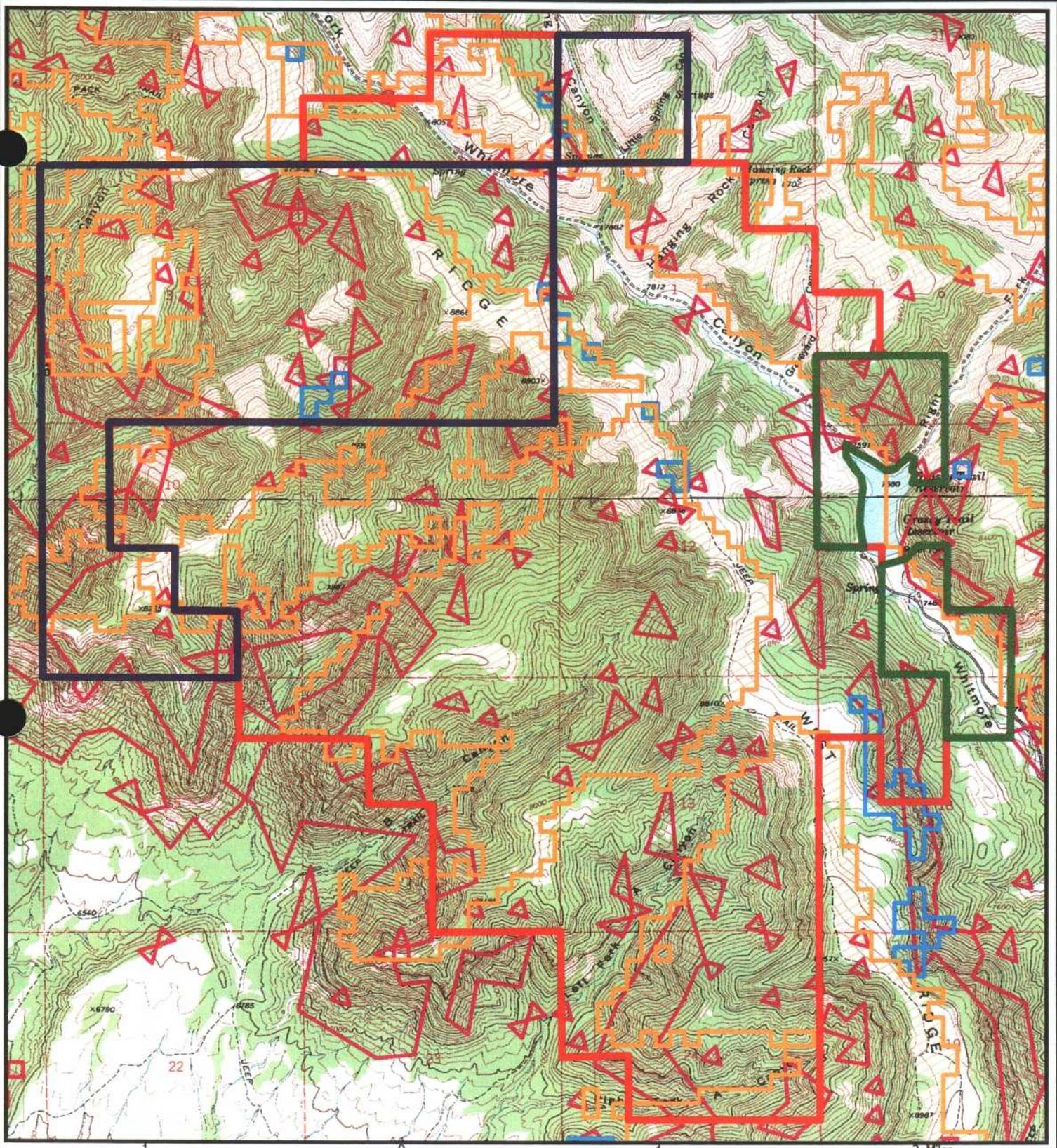
On Friday, April 16, 2004, Mr. Chris Colt, Mr. Brad Crompton and myself flew over the area utilizing a Bell LoneRanger Helicopter, the purpose of the flight was to ascertain (1) the overall habitat character as it related to the data provided by the models and (2) determine if a survey was warranted. We concluded that the data provided by the models was an accurate portrayal of the habitat and that a survey was not warranted. This conclusion was based on the isolated and small area which represented suitable habitat and the fact that the area would not be disturbed and virtually no impacts associated with disturbance such as habitat loss or habitat modification could occur. This conclusion is based on the depth of the coal seam (1,500 + feet) and the lack of evidence of subsidence impacting aquifers and/or the surface as a result of underground mining at these depths and I feel that a survey would not be warranted even if suitable nesting habitat were present.

If I or our firm can be of any further assistance, or we can answer any questions, please feel free to contact me at 1-800-641-2927.

Sincerely,

Katie J. Nash
Threatened, Endangered and Sensitive Species Specialist
EIS Environmental & Engineering Consulting
31 North Main Street, Helper, Utah 84526

CC: Chris Colt, UDWR
Brad Crompton, UDWR



Mexican Spotted Owl Habitat West Ridge Resources, Inc.

Range 13 & 14 East,
Township 13 & 14 South,
SLB&M

Created By: Katie Nash
Date: April 14, 2004

EIS Environmental & Engineering Consulting
31 North Main Street, Helper, Utah 84526

- West Ridge Lease Areas
- Federal
 - Fee
 - State
- MSO Habitat Model
- Gap Habitat 2000 Model
 - Canyon Habitat 2000 Model
 - Breeding Habitat 1997 Model

**TABLE OF CONTENTS- APPENDICES
R645-301-500 CHAPTER 5**

APPENDIX NUMBER	DESCRIPTION
APPENDIX 5-1	Reclamation Bond Calculations
APPENDIX 5-2*	Letter from Carbon County Commission
APPENDIX 5-3*	Resource Recovery and Protection Plan (R2P2)
APPENDIX 5-3A	SITLA Mine Plan Approval
APPENDIX 5-4*	Stability Evaluation for Construction and Reclaimed Slopes, West Ridge Mine
APPENDIX 5-5	Construction/Reclamation Plan
APPENDIX 5-6	Spill Prevention Control and Countermeasure Plan (SPCC)
APPENDIX 5-7	Pump House Reclamation and Sediment Control
APPENDIX 5-8*	Letter Regarding Pre-Subsidence Survey (Mayo and Associates)

*Not included on disk

R645-301-520 OPERATION PLAN**R645-301-521 GENERAL**

WEST RIDGE Resources, Inc. holds federal coal leases SL-068754 and UTU-75862, state lease ML 47711 and ML 49287 and the Penta Creek fee lease, totaling 6361.43 acres in the West Ridge area of eastern Carbon County. WEST RIDGE Resources, Inc. has signed an option agreement with the State of Utah (School and Institutional Trust Lands Administration) for rights to mine coal on Section 16, T. 14 S. R. 13 E. These areas cannot be mined until the leases are granted and permits issued. Refer to Map 5-4B, Mining Projections - Extended Reserves.

The mine, as proposed, will consist of one longwall and two continuous miner sections. The mining sequence for the first five year term is shown on Map 5-4A, Mining Projections. Initial mine production will come from reserves located in the southeastern portion of the existing lease area. If WEST RIDGE Resources, Inc. acquires the state reserves, a permit modification will be submitted to incorporate the new lease area(s) into the existing permit. WEST RIDGE Resources, Inc. will propose to extend the longwall panels onto this new lease area. Panels will be developed to the north and south of the mains, progressing in an eastward direction. With the existing lease, the projected life of the West Ridge Mine is 10 years. However, acquisition of additional state coal reserves in the West Ridge area would extend the life of the mine to nearly 15 years. After the economically recoverable reserves within the permit area have been depleted, the portals would be sealed and reclamation of the surface facility area would begin unless additional leases were acquired.

Surface facilities will be located in C Canyon, where the left and right forks converge, in a previously disturbed area. The extent of the previous disturbance includes access roads, outcrop excavations and exploration drill holes. Previous disturbance at this site is estimated to be approximately 1.62 acres. The total proposed surface disturbed area, as delineated by the tan line on the maps, amounts to approximately 29 acres. Actual anticipated disturbance for surface facilities and topsoil stockpiles (within the disturbance area) is estimated at 26.02 acres. This includes approximately 0.79 acres of Carbon County road which has been included in the disturbed area down to the C Canyon gate, and 0.23 acres for the pumphouse area located below the minesite.

An alternate (substitute) topsoil borrow area would be located about 1 ½ miles to the west of the proposed mine site on a ten acre parcel of State School Trust land. This area would not be included unless needed for final reclamation. No surface disturbance would take place at this location until the time of final reclamation. No additional acreage should be required for the project as proposed in this permit application.

521.130 Landownership And Right Of Entry Maps

Ownership boundaries and the names of the present owners of record for surface lands as well as underground are depicted on Maps 5-2, Surface Ownership and 5-3, Subsurface Ownership.

Map 5-4B delineates the federal coal lease SL-068754 and UTU-78562, state lease ML 47711 and ML49287 and the Penta Creek fee lease, totaling 6, 361.43 acres held by WEST RIDGE Resources, Inc., which is the area for which WEST RIDGE Resources, Inc. Resources has the legal right to enter and begin coal mining and reclamation operations.

Included in Appendix 5-2 is a letter from Carbon County granting WEST RIDGE Resources, Inc. permission to conduct mining operations within 100 feet of the Carbon County road. This would basically be that segment of road where the road enters the mine facility area.

Also included in Appendix 5-2 is an approval letter from Carbon County, allowing for the periodic closure of approximately 960' of the "C" Canyon Road from the gate to the original mine permit area. The permit area has been extended to the gate, as shown on Plate 4-1.

A public notice has been published providing for request for a public hearing as provided in R645-103-234. A copy of this notice is also included in Appendix 5-2.

521.140 Mine Maps And Permit Area Maps

The permit area proposed to be affected by the coal mining and reclamation operation is shown on Map 5-3. ~~WEST RIDGE Resources, Inc. is presently pursuing acquisition of lease rights to mine on adjacent state reserves.~~ Permit renewals will be reapplied for on five year intervals.

521.141 The mining operation has been divided into five year mining blocks in an attempt to show future areas that will be mined under the permit renewals. The mining blocks are shown on Map 5-4B. All projections and timing are preliminary and general in nature and may change in the future depending on mining, marketing, environmental conditions and/or acquisition of additional state and federal reserves.

Surface support facilities in C Canyon will be utilized for the life of mine operations. The proposed mine surface facility area is depicted on Map 5-5, Surface Facility Map. Reclamation of the facilities will be performed following completion of mining activities and sealing of the portals.

521.142 The surface above mined out longwall panels may be subject to conditions associated with subsidence. Subsidence may occur under the mined out area.

R645-301-522 COAL RECOVERY

A Resource Recovery and Protection Plan (R2P2), has been approved by the BLM. The R2P2 will assure that coal mining and reclamation operations are conducted so as to maximize the utilization and conservation of the coal, while utilizing the best technology currently available to maintain environmental integrity, so that re-affecting the land in the future through coal mining and reclamation operations is minimized. Refer to Appendix 5-3 for the R2P2 which includes a discussion of coal resource utilization and conservation. **Appendix 5-3A is the mine plan approval letter from SITLA, including the expanded reserve area of State Lease ML-47711 and ML-49287.**

R645-301-523 MINING METHODS

Both longwall and continuous miner methods will be employed to recover the coal resource. Longwall will be the primary production method, while continuous miners will be used mainly for mine development to support the longwall. The longwall panels shown on Map 5-4B have been laid out to maximize recovery of the primary coal reserves. Continuous miners will be utilized to develop main entries, longwall gate entries, sumps and other similar development areas.

Initial mine production has come from reserves located in the southeastern portion of the existing lease area. ~~If West Ridge acquires these state reserves, a permit modification will be submitted to incorporate these new lease area(s) into the existing permit. West Ridge will propose to extend the longwall panels onto these new lease areas.~~ Panels will be developed to the north and south of the mains, progressing in an eastward direction. Longwall panel layout may change depending on conditions encountered in the underground workings. As longwall mining approaches Grass Trail Reservoir, existing ongoing subsidence monitoring information will be used to determine the angle of draws and subsidence ratio in this area. Based on this information the underground workings will be designed to ensure that the reservoir is not adversely affected by mining activity.

~~With the existing leases,~~ The projected life of the West Ridge Mine is 15 years. ~~However,~~ Acquisition of additional **federal** coal reserves in the West Ridge area would extend the life of the mine ~~to nearly~~ **beyond** 15 years. In the unlikely event that non federal reserves cannot be acquired then the mine plan projection will be altered to maximize the economic and recovery of federal coal in the irregular blocks not amenable to mining. After the economically recoverable reserves within the lease area have been depleted, the portals would be sealed and reclamation of the surface facility area would begin unless additional leases were acquired.

The West Ridge mine is being proposed as an average size underground longwall mine by Utah industry standards, producing at an average rate of about 3 million tons per year. Mine production is subject to normal fluctuations depending on operational variables such as

geologic mining conditions, marketing, equipment availability, and/or worker productivity. The mine is expected to produce about 42 million tons of coal from the existing federal leases. ~~An additional 11 million tons of recoverable coal are available on adjacent unleased state lands, for a total potential reserve of about 42 million tons. Acquisition of these additional reserves would result in a mine life of nearly 15 years.~~ The existing mine plan assumes that mining in the area northeast of Whitmore Canyon will be limited by heavy cover (plus 3000'). However, if conditions allow, mining activity will continue as far as possible in this direction on federal coal which would be leased in the future.

Full production could be reached by a gradual buildup during the first two years of mining. ~~See Map 5A for mine projections and timing information for the initial mining area. See Map 5B for mine projections and timing information for the future expanded mining area.~~

Major equipment for the mine will include:

Continuous Mining System:

- Drum-Type Continuous Mining Machine
- Shuttle Cars
- Roof Bolter
- Diesel Scoop Tractor
- Feeder Breaker
- Section Power Center
- Section Auxiliary Face Ventilation Fan

Longwall Mining System:

- Double Drum Shearing Machine
- Armored Face Conveyor
- Hydraulically Activated Shield Roof Support
- Armored Stage Loader and Crusher
- Longwall Power Center
- High Pressure Hydraulic Pumping System

No surface coal mining (strip mining) will be done.

APPENDIX 5-3A

SITLA MINE PLAN APPROVAL



WEST RIDGE
RESOURCES, INC.

P.O. BOX 1077
PRICE, UTAH 84501
PHONE: (435) 888-4000
FAX: (435) 888-4002

Tom Faddies
Assistant Director/Minerals
School and Institutional Trust Lands Administration
675 East 500 South, Suite 500
Salt Lake City, UT 84102

Dear Mr. Faddies:

Enclosed for your review and approval is the WEST RIDGE Mine plan for SITLA State Leases ML 47711 and ML 49287. This mine plan is portrayed on Plate #5 and is intended to replace Plate #5 of the Resource Evaluation Report (RER) submitted to your office on November 12, 2002.

This plan is being submitted to comply with the resource recovery requirements of Leases ML 47711 and ML 49287. It is the same plan submitted to the BLM for the R2P2 on the adjacent federal leases, and is the same plan submitted to UDOGM for SMCRA permit approval of the WEST RIDGE Mine.

Your approval of this plan is necessary before we can conduct any mining on these leases, and we would therefore appreciate your timely review.

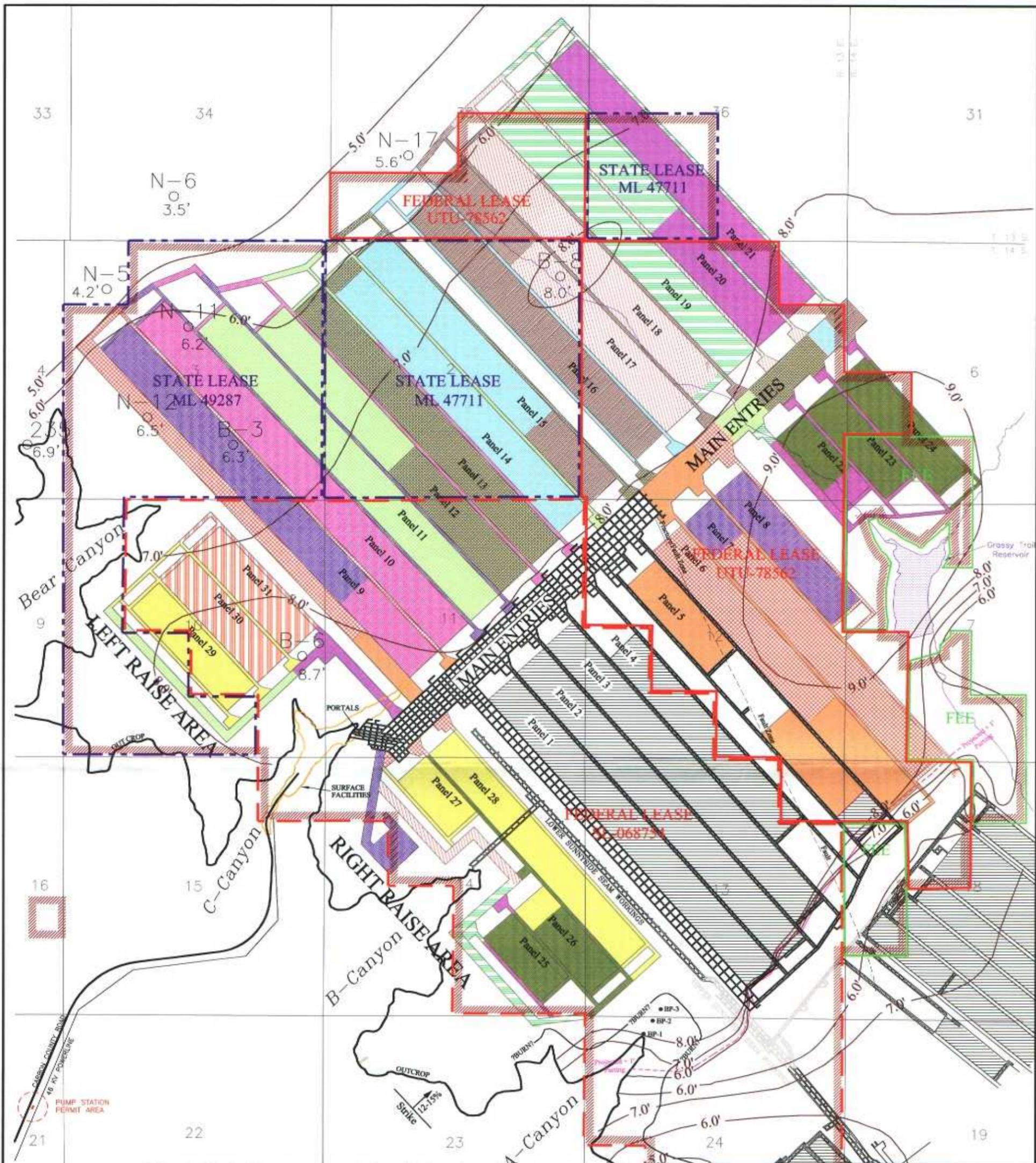
If you have any questions or comments please contact me at (435) 888-4016.

Sincerely

Dave Shaver

Manager of Technical Services

cc: Jim Kohler, BLM
Darron Haddock, UDOGM



Note: Mining in fringe areas beyond the projections shown is subject to future economic feasibility.

Note: Burn may be encountered down-dip from the outcrop in the Right & Left Raise areas which may require changes to the mine projections shown for those areas.

Note: Mine projections are subject to change depending on conditions encountered in the underground mine workings.

Note: Actual mine works shown are existing as of May 1, 2004.

Note: Mine projections are based on future reserve acquisitions and are subject to future federal, state and local permitting requirements.

MINE TIMING LEGEND:

Mining Projections in 2004	Mining Projections in 2011	Mining Projections in 2018
Mining Projections in 2005	Mining Projections in 2012	Mining Projections in 2019
Mining Projections in 2006	Mining Projections in 2013	Mining Projections in 2020
Mining Projections in 2007	Mining Projections in 2014	Mining Projections in 2021
Mining Projections in 2008	Mining Projections in 2015	Mining Projections in 2022
Mining Projections in 2009	Mining Projections in 2016	Mining Projections in 2023
Mining Projections in 2010	Mining Projections in 2017	Mining Projections in 2024

R2P2 PLATE #5B Mining Projections (Extended Reserve)

LEGEND:

Permit Boundary	
Federal Lease	
State Lease	
Penta Creek Fee	
Surface Facility Area	
Outcrop	
Coal Thickness Isopach	



SCALE: 500' 0' 1000' 2000'