FEDERAL
December 20, 1996

STATE OF UTAH
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING
1594 West North Temple
Box 145801
Salt Lake City, Utah 84114-5801
(801) 538-5289

This permit, ACT/041/002, is issued for the state of Utah by the Utah Division of Oil, Gas and Mining (DOGM) to:

Canyon Fuel Company, LLC
555 Seventeenth Street
Denver, Colorado 80202
(303) 293-7576

for the Convulsion Canyon Mine. Canyon Fuel Company,LLC is the lessee of federal, state and fee-owned property. A performance bond is filed with the DOGM in the amount of $3,988,000.00, payable to the state of Utah, Division of Oil, Gas and Mining and the Office of Surface Mining Reclamation and Enforcement (OSMRE). DOGM must receive a copy of this permit signed and dated by the permittee.

Sec. 1 STATUTES AND REGULATIONS - This permit is issued pursuant to the Utah Coal Mining and Reclamation Act of 1979, Utah Code Annotated (UCA) 40-10-1 et seq, hereafter referred to as the Act.

Sec. 2 PERMIT AREA - The permittee is authorized to underground conduct coal mining and reclamation activities on the following described lands within the permit area at the Convulsion Canyon Mine situated in the state of Utah, Carbon County, and located:

<u>Township 21 South, Range 4 East, SLBM</u>

Section 12: E1/2 SE1/4;
Section 13: E1/2 NE1/4, S1/2;
Section 14: E1/2 SW1/4, SE1/4;
Section 23: E1/2, E1/2 W1/2;
Section 24: All;
Section 25: All; and
Section 36: All.

Township 21 South, Range 5 East, SLBM

Section 15: W1/2;
Section 16
thru 21: All;
Section 22: W1/2;
Section 26: W1/2 NW1/4 SW1/4, SW1/4 SW1/4;
Section 27
thru 34: All; and
Section 35: Lots 1, 2, W1/2 NW1/4, N1/2 SW1/4.

Township 22 South, Range 4 East, SLBM

Section 1: All;
Section 12: N1/2, N1/2SE1/4, portion of NE1/4SW1/4; and
Section 18: NW1/4NE1/4.

Township 22 South, Range 5 East, SLBM

Section 3: Lots 1-4, S1/2 N1/2, NE1/4 SW1/4, S1/2 SW1/4, N1/2 SE1/4, SW1/4 SE1/4;
Section 4: Lots 1, 2, S1/2 NE1/4, SE1/4 SE1/4, W1/2W1/2;
Section 5: All;
Section 6: All;
Section 7: All;
Section 8: All;
Section 9: NE1/4NE1/4;
Section 10: W1/2 NE1/4, NW1/4, N1/2SW1/4;
Section 17: NE1/4,N1/2NW1/4; and
Section 18: N1/2.

This legal description is for the permit area of the Convulsion Canyon Mine included in the mining and reclamation plan on file at the Division. The permittee is authorized to conduct underground coal mining activities connected with a preparation plant on the foregoing described property subject to the conditions of the leases, including all conditions and all other applicable conditions, laws and regulations.

Sec. 3 COMPLIANCE - The permittee will comply with the terms and conditions of the permit, all applicable performance standards and requirements of the State Program.

Sec. 4 PERMIT TERM - This permit becomes effective on December 20, 1996 and expires on May 19, 1997.

Sec. 5 ASSIGNMENT OF PERMIT RIGHTS - The permit rights may not be transferred, assigned or sold without the approval of the Director, DOGM. Transfer, assignment or sale of permit rights must be done in accordance with applicable regulations, including but not limited to 30 CFR 740.13(e) and R645-303.

Sec. 6 RIGHT OF ENTRY - The permittee shall allow the authorized representative of the DOGM, including but not limited to inspectors, and representatives of OSMRE, without advance notice or a search warrant, upon presentation of appropriate credentials, and without delay to:

A. have the rights of entry provided for in 30 CFR 840.12, R645-400-110, 30 CFR 842.13 and R645-400-220; and,

B. be accompanied by private persons for the purpose of conducting an inspection in accordance with R645-400-100 and 30 CFR 842, when the inspection is in response to an alleged violation reported by the private person.

Sec. 7 SCOPE OF OPERATIONS - The permittee shall conduct underground coal mining activities only on those lands specifically designated as within the permit area on the maps submitted in the mining and reclamation plan and permit application and approved for the term of the permit and which are subject to the performance bond.

Sec. 8 ENVIRONMENTAL IMPACTS - The permittee shall minimize any adverse impact to the environment or public health and safety through but not limited to:

A. accelerated monitoring to determine the nature and extent of noncompliance and the results of the noncompliance;

B. immediate implementation of measures necessary to comply; and

C. warning, as soon as possible after learning of such noncompliance, any person whose health and safety is in imminent danger due to the noncompliance.

Sec. 9 DISPOSAL OF POLLUTANTS - The permittee shall dispose of solids, sludge, filter backwash or pollutants in the course of treatment or control of waters or emissions to the air in the manner required by the approved Utah State Program and the Federal Lands Program which prevents violation of any applicable state or federal law.

Sec. 10 CONDUCT OF OPERATIONS - The permittee shall conduct its operations:

A. in accordance with the terms of the permit to prevent significant, imminent environmental harm to the health and safety of the public; and

B. utilizing methods specified as conditions of the permit by DOGM in approving alternative methods of compliance with the performance standards of the Act, the approved Utah State Program and the Federal Lands Program.

Sec. 11 EXISTING STRUCTURES - As applicable, the permittee will comply with R645-301 and R645-302 for compliance, modification, or abandonment of existing structures.

Sec. 12 RECLAMATION FEE PAYMENT - The operator shall pay all reclamation fees required by 30 CFR part 870 for coal produced under the permit, for sale, transfer or use.

Sec. 13 AUTHORIZED AGENT - The permittee shall provide the names, addresses and telephone numbers of persons responsible for operations under the permit to whom notices and orders are to be delivered.

Sec. 14 COMPLIANCE WITH OTHER LAWS - The permittee shall comply with the provisions of the Water Pollution Control Act (33 USC 1151 et seq,) and the Clean Air Act (42 USC 7401 et seq), UCA 26-11-1 et seq, and UCA 26-13-1 et seq.

Sec. 15 PERMIT RENEWAL - Upon expiration, this permit may be renewed for areas within the boundaries of the existing permit in accordance with the Act, the approved Utah State Program and the Federal Lands Program.

Sec. 16 CULTURAL RESOURCES - If during the course of mining operations, previously unidentified cultural resources are discovered, the permittee shall ensure that the site(s) is not disturbed and shall notify DOGM. DOGM, after coordination with OSMRE, shall inform the permittee of necessary actions required. The permittee shall implement the mitigation measures required by DOGM within the time frame specified by DOGM.

Sec. 17 APPEALS - The permittee shall have the right to appeal as provided for under R645-300.

The above conditions (Secs. 1-17) are also imposed upon the permittee's agents and employees. The failure or refusal of any of these persons to comply with these conditions shall be deemed a failure of the permittee to comply with the terms of this permit and the lease. The permittee shall require his agents, contractors and subcontractors involved in activities concerning this permit to include these conditions in the contracts between and among them. These conditions may be revised or amended, in writing, by the mutual consent of DOGM and the permittee at any time to adjust to changed conditions or to correct an oversight. DOGM may amend these conditions at any time without the consent of the permittee in order to make them consistent with any new federal or state statutes and any new regulations.

THE STATE OF UTAH

By: _____

Date: December 20, 1996

I certify that I have read, understand and accept the requirements of this permit and any special conditions attached.

_____
Authorized Representative of the Permittee

Date: 1/7/97