

## Summary of Blue Mountain Energy Coal Lease Application

**Background/Introduction:** Coal is a federal asset, subject to leasing to meet the objectives of the Bureau of Land Management (BLM) – Energy and Non-Energy Mineral Policy, dated April 21, 2006. Blue Mountain Energy (BME) has submitted a Lease-by-Application for approximately 2,592 acres of federal coal reserves located in Rio Blanco County, Colorado for the Deserado Mine. This lease by application involves leasing underground federal coal reserves beneath federal lands at the following location:

Township 2 North, Range 101 West, Sixth Principal Meridian  
Section 20; NE, N $\frac{1}{2}$ NWNW, N $\frac{1}{2}$ NENW  
Section 21; W $\frac{1}{2}$ NE, SENE, NW, N $\frac{1}{2}$ SE  
Section 22; S $\frac{1}{2}$ NW, N $\frac{1}{2}$ SW, SESW, SE  
Section 23; S $\frac{1}{2}$ SE, S $\frac{1}{2}$ SW  
Section 26; N $\frac{1}{2}$ , SW, N $\frac{1}{2}$ SE, SWSE  
Section 27; E $\frac{1}{2}$ , E $\frac{1}{2}$ W $\frac{1}{2}$ , SWSW  
Section 34; N $\frac{1}{2}$ NE, NW  
Section 35; NWNE, N $\frac{1}{2}$ NW  
(2,592 acres)

BME is the holder of seven federal coal leases and operates the underground longwall Deserado Mine that supplies coal to the Bonanza Power Plant near Bonanza, Utah. The mine is located in Rio Blanco County, Colorado approximately seven miles northeast of Rangely, Colorado. Deserado was permitted in 1981 and has been producing coal since 1983. A high capacity longwall was installed in December 1986. Deserado Mine is considered a captive mine since all coal produced is sold and shipped to its sole customer, the Bonanza Power Plant. The coal is transported 37 miles from the mine to the power plant via electric train. There are two mineable coal seams in the currently leased mine area, the D-seam and the B-seam. The upper seam is the D-seam with an inter-burden that varies from 5 feet to 70 feet between the D and B-seams. Production of the D-seam in the eastern portion of the mine ceased in November 1999 and the longwall moved into the B-seam located in the western half of the permitted mine area. Mining of the B-seam continues and is progressing towards the northwest. Depositional geology of the B-Seam is complex with multiple splits and varying mineable coal thickness. The Deserado Mine currently employs approximately 167 people and produces approximately 2.5 to 3.0 million raw tons per year and delivers about 2.0 million clean tons annually to the Bonanza Power Plant. Blue Mountain Energy holds an exploration licenses, COC-72922, which overlies the Red Wash Tract. Exploration drilling was conducted during the fall of 2010. Based on current mine plans, mine development into the Red Wash Tract is scheduled in 2012. The B-Seam and D-Seam leased coal resources have been mined out to the south of the lease tract near the coal outcrop. These coal seams have no outcrop within the Red Wash Tract and access to the coal reserves is best attained from the existing Deserado Mine workings. Federal coal lease COC74813 would be issued after a competitive bidding process at a lease sale.

**Proposed Action:** BME has submitted a lease-by application for issuance of a federal coal lease identifying approximately 2,592 acres of previously un-leased federal coal. This tract is identified as the Red Wash Tract and is located at the northern border of the current Deserado Mine coal lease boundaries (see attached map). Development of the tract would be dictated by the approved Deserado Mine Plan.

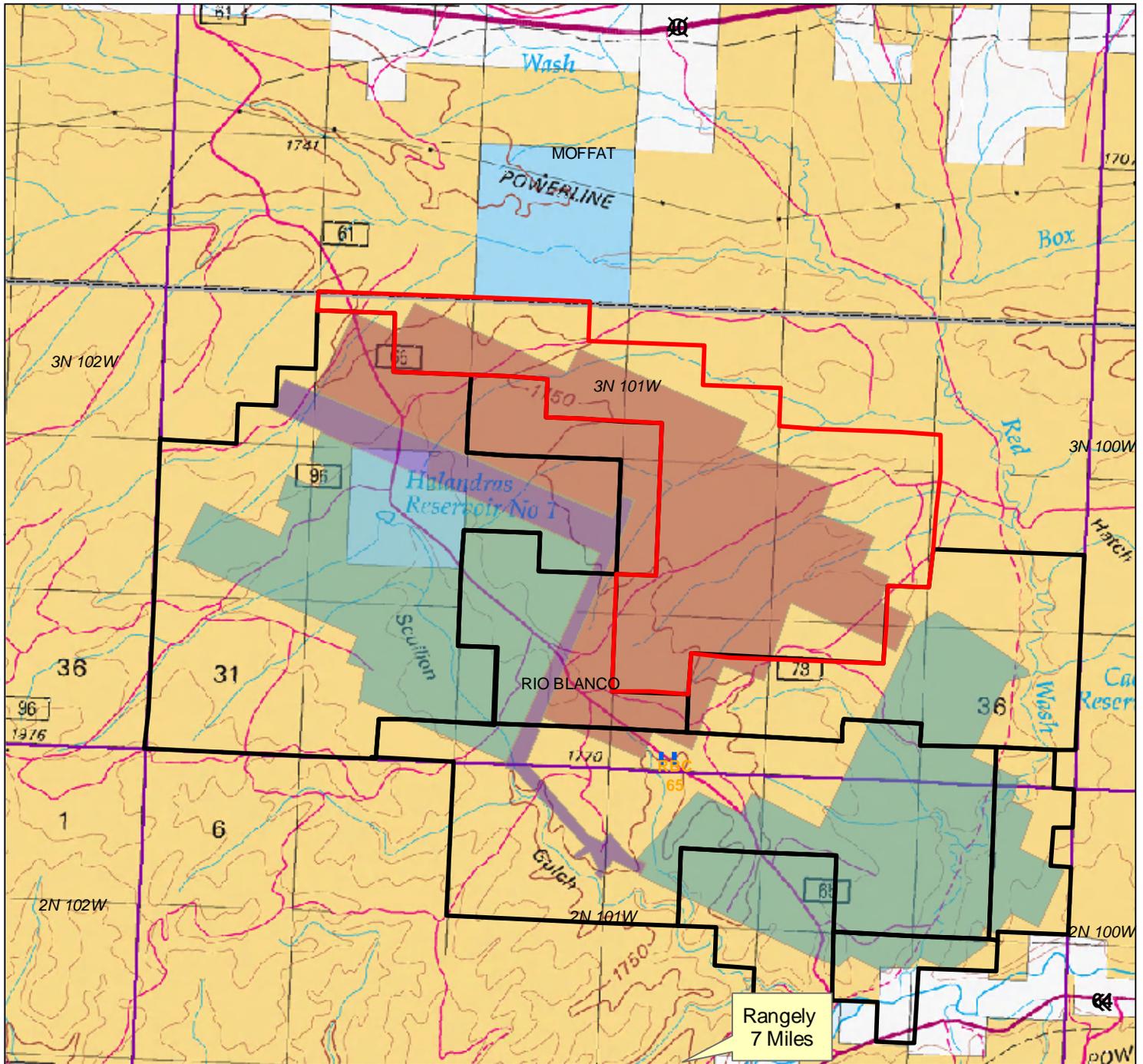
Portions of the Deserado Mine overland conveyor, coal storage, train load out, rail line, haul road, and waste rock stockpiles occur on the Red Wash Tract and are authorized through federal Rights-of-Way (ROW). Additional new surface disturbances for facilities would be needed to support mining within the Red Wash Tract. Such sites would typically be related to the surface drilling of boreholes for gas monitoring, nitrogen injection, mine ventilation shafts, and degasification. Each site would be sized to allow sufficient space for all necessary drilling equipment and is typically less than 100 ft x 150 ft in size.

Based on current projected coal demands of the Bonanza Station, development would proceed into the Red Wash Tract in late 2014. The Red Wash reserves might be accessed sooner, if previously planned reserves prove unminable and timing is accelerated. Based upon the mine plan, an estimated 14.2 million raw tons are projected to be recoverable from the Red Wash Tract. An additional 10.1 million raw tons may also prove recoverable from peripheral areas with coal resource delineation from additional exploration drilling. The total potential clean delivered tons to the Bonanza Station from both areas is estimated to be around 19 million tons. At the production rate of 2.5 million tons per year, the Red Wash reserve would be developed and exhausted within approximately 9 years.

Red Wash Tract lease configuration is governed by the existing leases and the geology of the area. The southern, western, and eastern tract boundaries adjoin existing coal leases of the Deserado Mine. In the northwest and northeast the tract may be bounded by where the coal seam splits and rock parting thickness increases greatly. The northern tract boundary roughly coincides with the structural mining limit of the B-Seam deposit, where the coal seam and encompassing rocks turn upwards very steeply along the northern flank of the Red Wash Syncline. Coal seam splitting and thinning may also occur in this area. Due to the current lack of definition for coal and parting thickness, the length and mining extent of the eastern longwall panels are uncertain. Additional exploration drilling in future years could delineate the coal and parting thickness in this area and subsequently, the lengths of the eastern longwall panels.

Development of the coal resources in the Red Wash tract would occur in the same manner as current federal coal resource recovery is occurring in the adjacent leases under the provision of the approved Blue Mountain Energy Inc., Deserado Mine Mining Permit.

# Blue Mountain Energy Inc. Coal Lease By Application

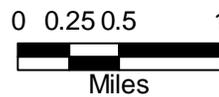


12/06/2011

-  Blue Mountain Energy Lease Application
-  Existing Coal Leases

## Deserado Mine

-  Active
-  Mined
-  Projected



Sources:  
BLM, USGS, CDOW, etc.

Disclaimer:  
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