DESERADO MINE
BLUE MOUNTAIN ENERGY
3607 County Rd. 65
Rangely, CO 81648
(970)675-4300
fax (970)675-4399

October 27, 2016

Mr. Clayton Wein
Division of Reclamation, Mining and Safety
1313 Sherman Street, Room 215
Denver, CO 80203

RE: Sediment Pond Inspection Report for 3rd Quarter 2016.
County Road 65 Subsidence Monitoring Report
Blue Mountain Energy, Inc., Deserado Mine (Permit C-1981-018).

Dear Clayton:

Enclosed is the Sediment Pond Inspection Report for the 3rd quarter 2016 for the Deserado Mine. The only discharges that occurred during the quarter was from the Raw Water Lagoon and the SDH-3 Ponds. Outflows within the 'B-seam' dewatering pond system did not result in a discharge out the regulated outfall from the Last Chance Pond (BD-LC) but will in the 4th quarter.

COUNTY ROAD 65 SUBSIDENCE REPORT

Longwall mining under County Road 65 did not occur this quarter. Only superficial cracking was previously observed with no damage significant enough to warrant repair or to effect traffic.

If you have any questions, please call me at (970)675-4322.

Sincerely,

Scott Wanstedt
Environmental Engineer

enc.:

Blue Mountain Energy, Inc. - Deserado Mine
Quarterly Sediment Pond Inspection Report
Third Quarter 2016

Inspector: Scott Wanstedt - Environmental Engineer

Operational Status

#	Type of Ponds	Name	Description	Date	Approx H_2O Level %	Sediment Level %	Outflow		H_2O Samp.		Comments
							Yes	No	Yes	No	
1	Sed Ponds	DP-1	D-Portal	9/28	65	25		X	X		Sampled earlier this quarter
2	"	RP-1	Refuse Area 1	9/28	0	10		X		X	
3	"	RP-2/3	Refuse Area 2/3	9/28	2	10		X		X	East cell cleaned
4	"	RP-4	Refuse Area 4	9/28	1	30		X		X	
5	"	RP-5	Refuse Area 5A	9/28	0	25		X		X	
6	"	RR-1	Railroad Fill Slope Pond 1	9/28	0	5		X		X	
7	"	RRS	Railroad Loadout Washdown Sump	9/28	0	5		X		X	
8	"	SS-1	Slot Storage Building Access Road Pond	9/28	0	15		X		X	
9	"	SS-2	Slot Storage Blding Emerg. Coal Storage Area Pond	9/28	0	6		X		X	
10	"	HSL-1	Halandras Sanitary Land Fill Pond	9/28	0	5		X		X	
11	"	SDH-2U	Down Hole Sump Upper Influent Pond	inactive	inactive	5		X		X	Shut off 2/96 due to mine sealing
12	"	SDH-2L	Down Hole Sump Lower Effluent Pond	inactive	inactive	5		X		X	Shut off 2/96 due to mine sealing
13	"	SDH-3L	Down Hole Sump Discharge 2 - Lower	9/28	70	10		X	X		Pumping initiated 7/1/2015
14	"	SDH-3M	Down Hole Sump Discharge 2 - Middle	9/28	1	0		X		X	New 10/2015
15	"	SDH-3U	Down Hole Sump Discharge 2 - Upper	9/28	1	0		X		X	New 10/2015
16	"	TS-1	Transfer Building 1	9/28	0	20		X		X	
17	"	TS-2	Transfer Building 2	9/28	0	20		X		X	
18	"	TS-2a	Temp Coal Storage by Transfer 2	9/28	0	5		X		X	
19	"	BD-1	B-Dewatering Pond #1	9/27	100	2	X			X	Outflow weekly, sediment removed
20	"	BD-2	B-Dewatering Pond #2	9/27	100	20	X			X	Outflow weekly
21	"	BD-3	B-Dewatering Pond #3	9/27	100	0	X			X	Outflow weekly
22	"	BD-4	B-Dewatering Pond #4	9/27	100	0	X			X	Outflow weekly
23	"	BD-5	B-Dewatering Pond #5	9/27	100	0	X			X	Outflow weekly
24	"	BD-6	B-Dewatering Pond #6	9/27	100	0	X			X	Outflow weekly
25	"	BD-7	B-Dewatering Pond #7	9/27	100	0	X			X	Outflow weekly
26	"	BD-LC	B-Dewatering Last Chance Pond	9/27	99	0		X		X	No outflow since construction
27	Proc Pond	PP-1	Prep Plant Process Pond	9/28	30	20		X		X	
26	"	PP-2	Prep Plant Process Pond	9/28	45	50		X		X	
27	"	RW-1	Raw Water Lagoon @ White River	9/28	100	25		X		X	Freshwater storage pumped from river

Inspection Categories

Third Quarter 2016

Erosional

#	Name	Date	Rills & Gullies on Embankment		Adequate Vegetation		Channel Erosion		Embankment Burrows		Other		Comments/ Maintenance Required
			Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	
1	DP-1	9/28		X	X			X		X		X	
2	RP-1	9/28		X	X			X		X		X	
3	RP-2/3	9/28		X	X			X		X		X	
4	RP-4	9/28		X	X			X		X		X	
5	RP-5	9/28		X	X			X		X		X	
6	RR-1	9/28		X	X			X		X		X	
7	RRS	9/28		X	X			X	X			X	Burrows filled in
8	SS-1	9/28		X	X			X		X		X	
9	SS-2	9/28		X	X			X		X		X	
10	HSL-1	9/28		X	X			X		X		X	
11	SDH-2U	inactive		X	X			X		X		X	Shut off 2/96 due to mine sealing
12	SDH-2L	inactive		X	X			X		X		X	Shut off 2/96 due to mine sealing
13	SDH-3L	9/28		X	X			X		X		X	Pumping initiated 7/1/2015
14	SDH-3M	9/28		X	X			X		X		X	
15	SDH-3U	9/28		X	X			X		X		X	
16	TS-1	9/28		X	X			X		X		X	
17	TS-2	9/28		X	X			X		X		X	
18	TS-2a	9/28		X	X			X		X		X	
19	BD-1	9/27		X	X			X		X		X	Seeded Fall 2012
20	BD-2	9/27		X	X			X		X		X	Seeded Fall 2012
21	BD-3	9/27		X	X			X		X		X	Seeded Spring 2014
22	BD-4	9/27		X	X			X		X		X	Seeded Fall 2012
23	BD-5	9/27		X	X			X		X		X	Seeded Fall 2012
24	BD-6	9/27		X	X			X		X		X	Seeded Fall 2012
25	BD-7	9/27		X	X			X		X		X	Seeded Fall 2014
26	BD-LC	9/27		X	X			X		X		X	Seeded Fall 2014
27	PP-1	9/28		X	X			X		X		X	
26	PP-2	9/28		X	X			X		X		X	
27	RW-1	9/28		X	X			X		X		X	

Structural

#	Name	Date	Differential Settling		Cracks or Slides		Seepage		Other		Comments/Maintenance Required
			Yes	No	Yes	No	Yes	No	Yes	No	
1	DP-1	9/28		X		X		X		X	Small vertical hole top of embankment repaired
2	RP-1	9/28		X		X		X		X	
3	RP-2/3	9/28		X		X		X		X	
4	RP-4	9/28		X		X		X		X	
5	RP-5	9/28		X		X		X		X	No cracks observed
6	RR-1	9/28		X		X		X		X	
7	RRS	9/28		X		X		X		X	
8	SS-1	9/28		X		X		X		X	
9	SS-2	9/28		X		X		X		X	
10	HSL-1	9/28		X		X		X		X	
11	SDH-2U	inactive		X		X		X		X	Shut off 2/96 due to mine sealing
12	SDH-2L	inactive		X		X		X		X	Shut off 2/96 due to mine sealing
13	SDH-3L	9/28		X		X		X		X	Pumping initiated 7/1/2015
14	SDH-3M	9/28		X		X	X			X	Seepage from pond being evaluated
15	SDH-3U	9/28		X		X	X			X	Seepage from pond being evaluated
16	TS-1	9/28		X		X		X		X	
17	TS-2	9/28		X		X		X		X	
18	TS-2a	9/28		X		X		X		X	
19	BD-1	9/27		X		X		X		X	Seeded Fall 2012
20	BD-2	9/27		X		X		X		X	Seeded Fall 2012
21	BD-3	9/27		X		X		X		X	Seeded Spring 2014
22	BD-4	9/27		X		X		X		X	Seeded Fall 2012
23	BD-5	9/27		X		X		X		X	Seeded Fall 2012
24	BD-6	9/27		X		X		X		X	Seeded Fall 2012
25	BD-7	9/27		X		X		X		X	Seeded Fall 2014
26	BD-LC	9/27		X		X		X		X	Seeded Fall 2014
27	PP-1	9/28		X		X		X		X	
26	PP-2	9/28		X		X		X		X	
27	RW-1	9/28		X		X		X		X	

Note: Seepage from channel out of SDH-3U is low enough to not jepardise the embankment. Minimal downcutting was observed and it remains stable. Plans are to continue watching this area and repair with chip bentonite if conditions worsen. Otherwise, repairs will occur in the Spring once the ground thaws.

Inspection Categories

Third Quarter 2016

Appurtenant Structures

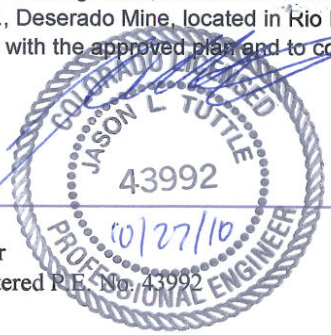
#	Name	Date	Defective Spillways		Dewatering Device Clogged		Faulty Gates, Baffles, Pumps		Other		Comments/Maintenance Required
			Yes	No	Yes	No	Yes	No	Yes	No	
1	DP-1	9/28		X		X		X		X	
2	RP-1	9/28		X		X		X		X	
3	RP-2/3	9/28		X		X		X		X	
4	RP-4	9/28		X		X		X		X	
5	RP-5	9/28		X		X		X		X	
6	RR-1	9/28		X		X		X		X	
7	RRS	9/28		X		X		X		X	
8	SS-1	9/28		X		X		X		X	
9	SS-2	9/28		X		X		X		X	
10	HSL-1	9/28		X		X		X		X	
11	SDH-2U	inactive		X		X		X		X	Shut off 2/96 due to mine sealing
12	SDH-2L	inactive		X		X		X		X	Shut off 2/96 due to mine sealing
13	SDH-3L	9/28		X		X		X		X	Pumping initiated 7/1/2015
14	SDH-3M	9/28		X		X		X		X	
15	SDH-3U	9/28		X		X		X		X	
16	TS-1	9/28		X		X		X		X	
17	TS-2	9/28		X		X		X		X	
18	TS-2a	9/28		X		X		X		X	
19	BD-1	9/27		X		X		X		X	Seeded Fall 2012
20	BD-2	9/27		X		X		X		X	Seeded Fall 2012
21	BD-3	9/27		X		X		X		X	Seeded Spring 2014
22	BD-4	9/27		X		X		X		X	Seeded Fall 2012
23	BD-5	9/27		X		X		X		X	Seeded Fall 2012
24	BD-6	9/27		X		X		X		X	Seeded Fall 2012
25	BD-7	9/27		X		X		X		X	Seeded Fall 2014
26	BD-LC	9/27		X		X		X		X	Seeded Fall 2014
27	PP-1	9/28		X		X		X		X	
26	PP-2	9/28		X		X		X		X	
27	RW-1	9/28		X		X		X		X	

Notes:

I am a professional engineer registered in the State of Colorado and my experience fulfills the requirements of the Colorado Surface Coal Mining Reclamation Act.

My certification fulfills the requirements for an annual inspection for impoundments required by Section 4.05.9(14) and quarterly inspections of such by Section 4.05.9(17) of the Rules and Regulations of the Colorado Mined Land Reclamation Board Pursuant to the Colorado Surface Coal Mining Reclamation Act.

I certify, based on my field observations and those observations of my qualified designates and professional investigations, as detailed above, that the each pond referenced above, at Blue Mountain Energy, Inc., Deserado Mine, located in Rio Blanco County, Colorado, was constructed and maintained in accordance with the approved plan and to comply with the requirements of Section 4.05.9.



Jason L. Tuttle
Project Engineer
Colorado Registered P.E. No. 43992