

**HEADWATERS ENERGY SERVICES CREATES
CONSUMABLE CLEAN COAL PRODUCTS FROM
WASTE COAL PRODUCED IN THE UNITED STATES.**



In the United States today there are over 3 billion tons of waste coal produced from mining activities. This waste coal is stored in waste ponds and gob piles. Headwaters Energy Services is processing this waste coal, removing the impurities, and creating a consumable product through reclamation of waste. Our clean coal has lower sulfur and mercury than the parent feedstock, resulting in improved environmental combustion conditions when the coal is burned.



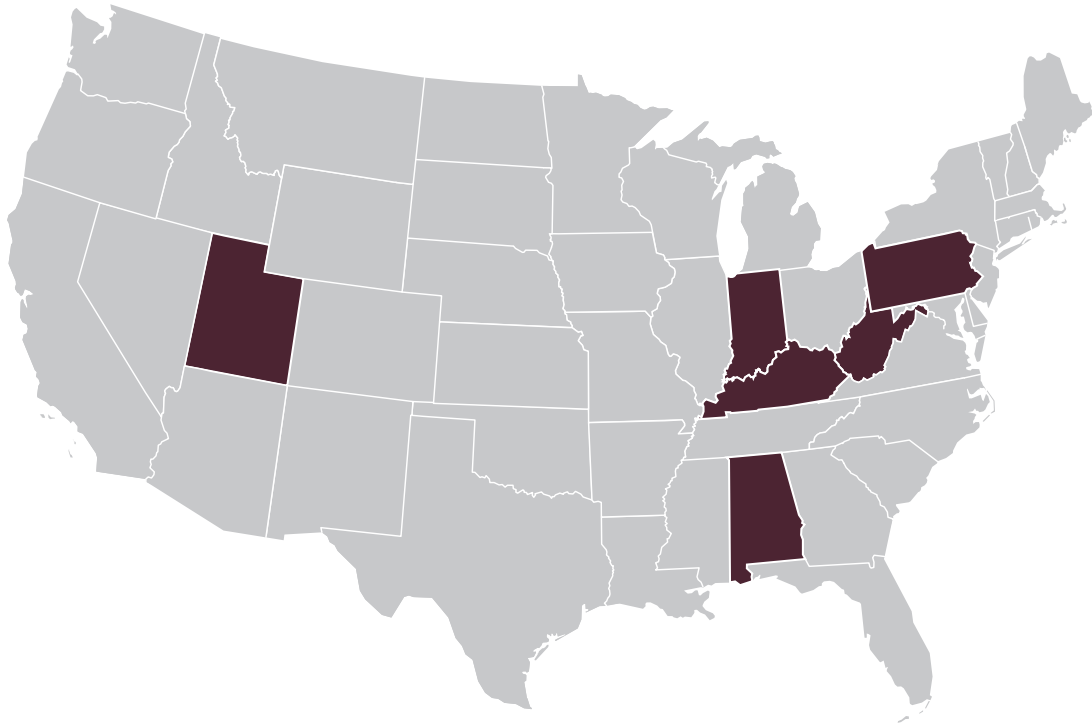
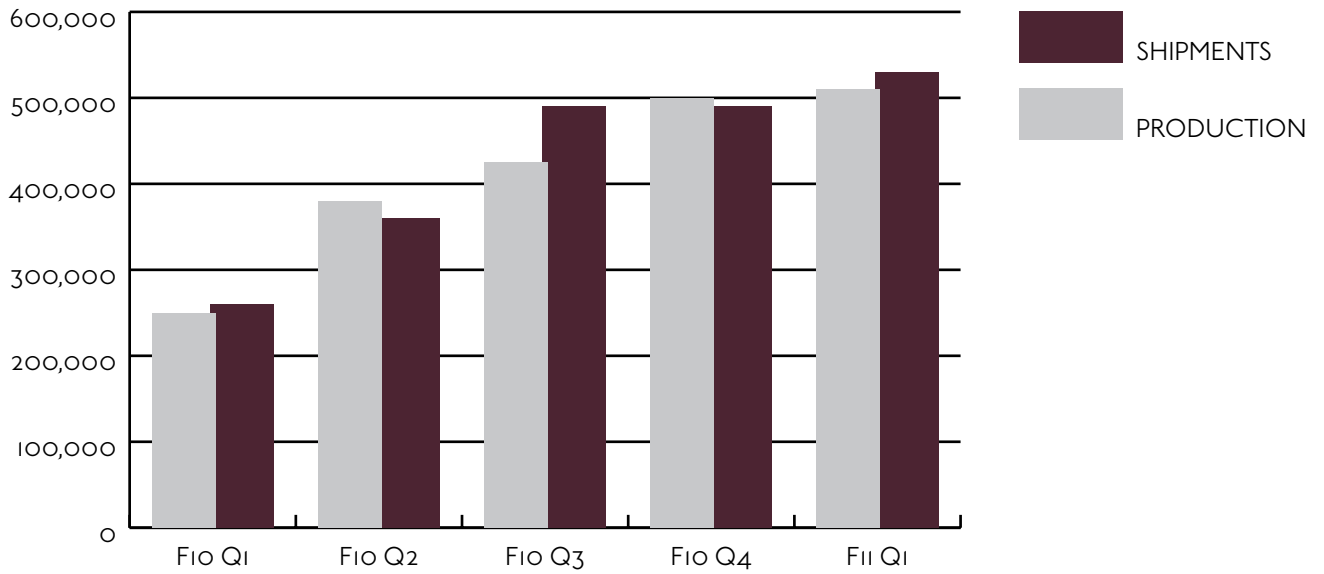
In January of 2006, Headwaters Energy Services constructed and placed in service a dry coal cleaning facility in central Utah. In May of 2006, we expanded our coal cleaning business, benefiting from its existing waste coal recovery business under Section 29 of the IRS code. Our company's Section 29 business sunsetted at the end of calendar 2007, and we were able to successfully transition to our current coal cleaning business.

The May 2006 expansion into coal cleaning included acquiring an operating waste coal fines recovery facility and access to approximately 150 million tons of waste gob and fines material. In April of 2007, Headwaters Energy Services announced the opening of its first refined self-constructed coal facility, and by the end of calendar 2008 we had 11 coal cleaning facilities constructed. These facilities were placed in service by December 31, 2008, which qualified the facilities for a

refined coal tax credit under Section 45 of the Internal Revenue Code. Through December 2010, our coal cleaning facilities have generated approximately \$18.1 million in refined coal tax credits that can be used to offset Headwaters' tax liability.

In response to soft coal market conditions in 2009, we temporarily idled some of our facilities to align production to sales, and to concentrate production in fewer facilities. These steps resulted in a 50% reduction in SG&A, and a 40% reduction in total fixed costs, substantially reducing the breakeven point for the coal cleaning business. These cost reductions, combined with a stronger coal market in 2010, allowed our coal cleaning business to post an adjusted EBITDA of \$1.2 million for fiscal 2010, improving from a negative \$7.2 million for fiscal 2009.

COAL CLEANING PRODUCTION & SALES



CEF UTAH
Wellington, UT

CHINOOK
Brazil, IN

GREENFUELS
Brookwood, AL
CEF 4, 5 AND 7
Brookwood, AL
CEF 3
Adger, AL

ROCK CRUSHER / MINUTEMAN
Greenville, KY
CROCKETT
Beverly, KY

PINNACLE
Pineville, WV

COVOL ENGINEERED FUELS
Lawrence, PA

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