

KFx and Arch Coal Reach Agreement to Pursue Development of K-Fuel Plus Plant

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DENVER, CO, January 23, 2003 -- KFx Inc. (AMEX: KFX) and Arch Coal, Inc. (NYSE:ACI) today announced that KFx and Arch Western Resources, LLC, a subsidiary of Arch Coal, have reached an agreement to pursue the development of a 700,000 ton-per-year K-Fuel Plus™ plant. As currently proposed, KFx or its affiliate will finance the plant and, together with Lurgi South Africa (Pty) Limited, construct and operate the plant at Arch's Black Thunder mine located near Gillette, Wyoming. Under the proposed plan, Black Thunder mine will provide the facility site, utilities, coal transportation, and equipment infrastructure, as well as the coal feedstock for the K-Fuel Plus™ plant. Arch Coal Sales would purchase the entire initial K-Fuel Plus™ product produced (up to the 700,000 tons per year) and have the ability to blend it with its run-of-mine coal to meet specific customer fuel requirements. The proposed plan is subject to final negotiation, approval, and license from K-Fuel, LLC, as well as ratification of definitive agreements by each company's respective board of directors.

Ted Venners, chairman of KFx, commented, "We are pleased to be in serious discussions with Arch, a leader in the coal industry. Finalizing an agreement will represent a very important step in the commercialization of our patented K-Fuel® technology. This technology has been shown to significantly enhance the BTU content of western coal while offering the industry a product that is low in SO₂, NO_x, and mercury emissions, and that may satisfy the requirements of President Bush's Clear Skies Initiative as currently proposed."

"We are enthusiastic about the potential of this new venture," said John W. Eaves, executive vice president and chief operating officer of Arch Coal. "The Powder River Basin coal reserve is one of America's greatest energy resources. The KFx technology holds promise for turning small volumes of PRB coal, including waste coal, into a higher Btu product. We are optimistic that such a product could add value for some of our customers through added flexibility and efficiency."

About KFx

KFx is a "clean energy" technology company with two principal business lines. The Company has developed a patented process, the K-Fuel® technology, that transforms low-grade high moisture content coal into high BTU low moisture coal. They also provide advanced software packages for utility boiler optimization through its majority-owned subsidiary, Pegasus Technologies, Inc. The KFx web site address is www.kfx.com and the Pegasus web site address is www.pegasustec.com.

About Arch Coal

Arch Coal is the nation's second largest coal producer, with subsidiary operations in West Virginia, Kentucky, Virginia, Wyoming, Colorado and Utah. Through these operations, Arch Coal provides the fuel for approximately 6% of the electricity generated in the United States.

Forward-Looking Statements: Statements in this press release which are not statements of historical fact are forward-looking statements within the "safe harbour" provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the information available to, and expectations and assumptions deemed reasonable by, the companies at the time the statements were made. Because these forward-looking statements are subject to various risks and uncertainties, actual results may differ materially from those projected in the statements. These expectations, assumptions and uncertainties include those which are described from time to time in the companies' periodic and other reports filed with the Securities and Exchange Commission.