

January 31, 2006

KFx's for show only scheme exposed.

We heard a series of excuses from KFx, Inc.'s (AMEX: KFX, \$20.41) supporters yesterday in response to the release of a video taped demonstration showing that K-Fuel stock piled at the Black Hills Corporation's (NYSE: BKH, \$35.32) Wyodak Energy Center ("WEC") was low in density (high per Btu transportation cost), fluffy, light, and extremely dusty.

We heard that the K-Fuel in the video was left-over after the pile was moved to another undisclosed location. We also heard that the K-Fuel in the demonstration was purposely ground down after it was delivered. Rubber wheeled bulldozers (rubber to avoid sparks) are constantly running over PRB stock piles. Compacting is a standard operating procedure to keep air out of highly combustible PRB coal. If it were true that the K-Fuel in the demonstration tape was compacted, then the concerns over the demonstration are even greater, not lesser than if it was untouched-as-produced K-Fuel.

KFx's stock is up over 65% in two months on news that KFx's plant had produced K-Fuel. Short sellers have never doubted that KFx's plant, like the many other PRB de-watering plants, would produce K-Fuel.

Investors believe that anticipation of KFx's initial test burn will take the stock still higher and that the announcement of the results will provide them with a selling opportunity. In fact, this scheme should be fully discounted. It is known that KFx is fully in control. KFx is doing the brief small test locally by itself at an industrial size (not utility size) boiler.

Given the success of KFx's for-show-not-for-go plant start-up, it is easy to understand yesterday's market action not as a validation of the aired excuses but as a natural over extension of prices by greater-fool traders.

De-watering PRB is an ages-old concept that has been tried and tried by far better financed and managed companies using more refined, better suited equipment.

In a nutshell, the KFx short thesis is that de-watering PRB without increasing its natural dust and self-combustion characteristics has been scientifically proven to be uneconomical. There is no theory or practical basis to believe that KFx's plant will ever economically produce a PRB-derived utility fuel product.

This analysis makes the certainty that KFx's stock is entirely worthless, absolute.

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