

September 22, 2006

KFx's Four Year Stock Promotion Turns To Dust.

On April 30, 2002 KFx, Inc. (AMEX: KFx \$9.96) announced that the proceeds of a private placement would be used to fund the building of its coal-drying plant. KFx originally claimed that its coal drying plant would cost \$20-25 million and take 9 to 12 months to build. KFx has spent over \$166.1 million on its plant. Last year it claimed that its plant had completed its first production run and commenced shipping and that it was "pleased with plant operations."

The controversy surrounding KFx is not simply whether its plant can be made to run. Investors can assume this is possible despite all the evidence that this plant can only run in brief, dusty spurts. The real issue is whether any dried-out PRB coal can be transported more cheaply than raw PRB coal, and be unloaded, handled, stored and milled safely at a power generation plant.

The source of PRB coal dust and self-combustion problems is commonly known. PRB coal has pores containing water. When PRB coal's moisture falls below its equilibrium level, it reabsorbs moisture from the atmosphere. The re-absorption process creates heat, which causes a chemical reaction that leads to spontaneous combustion. Also, only 1% to 1.5% of PRB coal's total moisture content is found on the surface. This surface moisture is the first element of PRB to dry. The removal of PRB coal's surface moisture makes it dustier. PRB coal dust causes fires and explosions.

PRB coal's problems are exacerbated when PRB coal is dried using a mechanical, pressure and heat process, which is exactly what KFx's process entails.

Many attempts have been made to address the dried PRB coal dust and re-absorption problems during the last 20 years, by far more credible entities than KFx. None have worked.

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