Wolf Run Mining Co.
Form S-4
September 18, 2006
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As filed with the Securities and Exchange Commission on September 18, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

INTERNATIONAL COAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**1222**	**20-2641185**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

300 Corporate Centre Drive

Scott Depot, West Virginia 25560

(304) 760-2400

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

William D. Campbell

Vice President, Treasurer and Assistant Secretary

International Coal Group, Inc.

300 Corporate Centre Drive

Scott Depot, West Virginia 25560

(304) 760-2400

(Name, address, including zip code, and telephone number, including area code of agent for service)

Copies to:

Randi L. Strudler, Esq.

Jones Day

222 East 41st Street

New York, New York 10017

(212) 326-3939

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
10.25% Senior Notes	$ 175,000,000	100%	$ 175,000,000	$ 18,725
Guarantees of 10.25% Senior Notes (2)				(3)
Total Registration Fee	$ 175,000,000	100%	$ 175,000,000	$ 18,725

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(g).
(2) See inside facing page for additional registrant guarantors.
(3) Pursuant to Rule 457(h), no additional fee is required with respect to the guarantees.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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TABLE OF ADDITIONAL REGISTRANTS

Exact Name of Registrant as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	Primary Standard Industrial Classification Code Number	IRS Employer Identification Number	Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices
ICG, Inc.	Delaware	1222	20-1796718	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG, LLC	Delaware	1222	20-1660224	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG Natural Resources, LLC	Delaware	1222	20-1619866	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG ADDCAR Systems, LLC	Delaware	1222	20-1619621	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG Hazard, LLC	Delaware	1222	20-1619758	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG Tygart Valley, LLC	Delaware	1222	20-2977524	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG Beckley, LLC	Delaware	1222	20-4048542	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG Eastern Land, LLC	Delaware	1222	20-1679711	300 Corporate Centre Drive Scott Depot, WV 25560

				(304) 760-2400
ICG Hazard Land, LLC	Delaware	1222	20-1679661	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG Knott County, LLC.	Delaware	1222	20-1620070	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG East Kentucky, LLC	Delaware	1222	20-1619961	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG Illinois, LLC	Delaware	1222	20-1620272	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
ICG Eastern, LLC	Delaware	1222	20-1620152	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400

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CoalQuest Development LLC	Delaware	1222	20-0445769	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Anker Coal Group, Inc.	Delaware	1222	52-1990183	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Anker Group, Inc.	Delaware	1222	13-2961732	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Simba Group, Inc.	Delaware	1222	55-0753900	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Hunter Ridge Coal Company	Delaware	1222	51-0217205	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Marine Coal Sales Company	Delaware	1222	13-3307813	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Upshur Property, Inc.	Delaware	1222	95-4484172	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Vantrans, Inc.	Delaware	1222	22-2093700	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Heather Glen Resources, Inc.	West Virginia	1222	55-0746946	300 Corporate Centre Drive Scott Depot, WV 25560

				(304) 760-2400
King Knob Coal Co., Inc.	West Virginia	1222	55-0488823	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Melrose Coal Company, Inc.	West Virginia	1222	55-0746947	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Patriot Mining Company, Inc.	West Virginia	1222	55-0550184	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
New Allegheny Land Holding Company, Inc.	West Virginia	1222	31-1568515	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Wolf Run Mining Company	West Virginia	1222	55-0699931	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400

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Juliana Mining Company, Inc.	West Virginia	1222	55-0568083	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Hawthorne Coal Company, Inc.	West Virginia	1222	55-0742562	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Vindex Energy Corporation	West Virginia	1222	55-0753903	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Anker Power Services, Inc.	West Virginia	1222	55-0700346	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
Bronco Mining Company, Inc.	West Virginia	1222	22-2094405	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400
White Wolf Energy, Inc.	Virginia	1222	54-1867395	300 Corporate Centre Drive Scott Depot, WV 25560 (304) 760-2400

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The information in this prospectus is not complete. We may not sell or offer these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 18, 2006

PRELIMINARY PROSPECTUS

International Coal Group, Inc.

Offer to Exchange

All Outstanding 10.25% Senior Notes due 2014

for

Newly Issued 10.25% Senior Notes due 2014

The Exchange Offer

We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes which are registered under the Securities Act.

The exchange offer expires at 5:00 p.m. New York City Time, on , 2006, unless extended.

You may withdraw tenders of outstanding notes at any time prior to the expiration of the exchange offer.

We will not receive any cash proceeds from the exchange offer.

We do not intend to list the exchange notes on any securities exchange or to seek approval through any automated quotation system and no active market for the exchange notes is anticipated.

The Exchange Notes

The terms of the exchange notes to be issued are substantially identical to the outstanding notes that we issued on June 23, 2006, except for transfer restrictions, registration rights and special interest rate provisions relating to the outstanding notes that will not apply to the exchange notes.

Our obligations under the exchange notes will be jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by each of our current and future wholly-owned domestic subsidiaries that is a material subsidiary or that guarantees indebtedness under our amended and restated credit facility.

The exchange notes will be our senior unsecured obligations, will rank *pari passu* in right of payment with all of our existing and future unsecured senior indebtedness, and senior to any of our future subordinated indebtedness. The exchange notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness.

The guarantees will be the guarantors senior unsecured obligations and will rank *pari passu* in right of payment with their respective existing and future unsecured senior indebtedness, and senior to any of their respective future subordinated indebtedness. The guarantees will be effectively subordinated to their respective existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness.

Each broker-dealer that receives exchange notes for its own account pursuant to the registered exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, for a period of 90 days after the expiration date (as defined herein), we will make this prospectus available to any broker-dealer for use in connection with these resales. See Plan of Distribution.

Please consider carefully the Risk Factors beginning on page 12 of this prospectus before deciding to participate in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2006

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We have not authorized anyone to provide you with information that is different than that contained in this prospectus. This prospectus may only be used where it is legal to make the exchange offer and by a broker-dealer for resales of exchange notes acquired in the exchange offer where it is legal to do so. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front cover of this prospectus.

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MARKET AND OTHER DATA

In this prospectus, we rely on and refer to information regarding the coal industry in the United States from the U.S. Department of Energy, or DOE, the U.S. Energy Information Administration, or EIA, the National Energy Technology Laboratory, or NETL, and Bloomberg L.P. These organizations are not affiliated with us. They are not aware of and have not consented to being named in this prospectus. We believe that this information is reliable. In addition, in many cases we have made statements in this prospectus regarding our industry and our position in the industry based on our experience in the industry and our own investigation of market conditions. We have made determinations based on publicly available information of production by competitors and our internal estimates of competitors production based on discussions with industry participants.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in more detail in this prospectus. This summary does not contain all of the information that you should consider before participating in the exchange offer. You should read this entire prospectus carefully before participating in the exchange offer.

Unless otherwise indicated or the context otherwise requires, as used in this prospectus, the terms ICG, we, our and us refer to International Coal Group, Inc. and its consolidated subsidiaries. The term Horizon refers to Horizon NR, LLC (the entity holding the operating subsidiaries of Horizon Natural Resources Company) and its consolidated subsidiaries, the term Anker refers to Anker Coal Group, Inc. and its consolidated subsidiaries, and the term CoalQuest refers to CoalQuest Development LLC. References to the Anker and CoalQuest acquisitions refer to our acquisition, respectively, of each of Anker and CoalQuest which occurred on November 18, 2005. For purposes of all financial disclosure contained in this prospectus, Horizon (together with its predecessor AEI Resources Holding, Inc. and its consolidated subsidiaries) is the predecessor to ICG.

The term coal reserves, as used in this prospectus, means proven and probable reserves that are the part of a mineral deposit that can be economically and legally extracted or produced at the time of the reserve determination and the term non-reserve coal deposits, as used in this prospectus, means a coal bearing body that has been sufficiently sampled and analyzed to assume continuity between sample points but do not qualify as a commercially viable coal reserve as prescribed by Securities and Exchange Commission, or SEC, rules until a final comprehensive SEC prescribed evaluation is performed. The coal reserve and non-reserve coal deposit data in this prospectus is presented as of March 31, 2006.

Our Company

We are a leading producer of coal in Northern and Central Appalachia with a broad range of mid to high Btu, low to medium sulfur steam and metallurgical coal. We also have a complementary mining complex producing high sulfur steam coal strategically located in the Illinois Basin. We currently own and operate eleven active mining complexes, ten of which are dispersed between Central Appalachia and Northern Appalachia, with the one remaining complex in the Illinois Basin. Our strategic locations give us a prominent position in three of the four largest coal producing regions in the United States, including the Appalachian region, which is the largest coal producing region by revenues in the country. As of March 31, 2006, we control approximately 1.1 billion tons of proven and probable coal reserves. Based on 2005 production rates, this reserve base gives us a reserve life of approximately 72 years, which we believe is more than any other public coal producer in the United States. Additionally, we also own and control approximately 563 million tons of non-reserve coal deposits. For the year ended December 31, 2005, we sold 14.8 million tons of coal, of which approximately 14.7 million tons were steam coal and approximately 0.1 million tons were metallurgical coal.

We currently market our coal to a diverse customer base of largely investment grade electric utilities, as well as domestic industrial and steel customers. Coupling our primarily high Btu, low sulfur steam and metallurgical quality coal, with the availability of multiple transportation options throughout the Appalachian region, enables us to participate in both the domestic and international coal markets. For the year ended December 31, 2005 and the six months ended June 30, 2006, we generated total revenues of $647.7 million and $435.5 million, respectively. We are committed to maintaining a reliable and stable revenue base. As of June 30, 2006, we had contracted sales commitments in place for approximately 93% of planned shipments for 2006 and 55% to 60% for 2007.

Our Industry

Coal is one of the most abundant, efficient and affordable natural resources, and is primarily used to generate electricity and produce coke for the manufacturing of steel. The United States is the world s second

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largest producer of coal and is the largest holder of recoverable coal reserves in the world, with approximately 250 years of supply based on 2005 production rates. In 2005, total U.S. coal production as estimated by the EIA was 1.1 billion tons. We believe that the use of coal to generate electricity will grow as the demand for power increases and that Central Appalachian coal will be instrumental in filling that demand. We also believe that the expected growth in global steel production will contribute to increased demand for U.S. metallurgical coal production.

Steam coal is primarily consumed by large electric utilities and industrial customers as fuel for electricity generation. Demand for low sulfur steam coal has grown significantly since the enactment of certain emission limitations under the Clean Air Act and the decline in coal production in the eastern half of the United States. Metallurgical coal is primarily used to produce coke, a key raw material used in the steel making process. Generally, metallurgical coal sells at a premium to steam coal because of its higher quality and its importance and value in the steel making process.

According to traded coal indices and reference prices, U.S. and international coal demand is relatively strong compared to historical levels, and coal pricing has increased year-over-year in each of our coal production markets. We believe that the current strong fundamentals in the U.S. coal industry result primarily from: stronger industrial demand following a recovery in the U.S. manufacturing sector; relatively low customer stockpiles; declining coal production in Central Appalachia; capacity constraints of U.S. nuclear-powered electricity generators; historically high current and forward prices for natural gas and oil; and increased international demand for U.S. coal for steelmaking. We expect near-term volume growth in U.S. coal consumption to be driven by greater utilization at existing coal-fired electricity generating plants and long-term volume growth to be driven by the construction of new coal-fired plants. Finally, alternative uses for coal gasification and coal to liquids are gaining momentum with the rapid increase in oil prices.

Our History

The Horizon Acquisition

ICG was formed by WL Ross & Co. LLC, or WLR, and other investors in May 2004 to acquire and operate competitive coal mining facilities from Horizon. The Horizon assets were sold through a bankruptcy auction on August 17, 2004 for $285.0 million in cash plus the assumption of up to $5.0 million of certain liabilities. ICG also contributed a credit bid of second lien Horizon bonds, and A.T. Massey agreed to pay $5.0 million in cash to acquire a separate group of assets associated with two Horizon subsidiaries ICG did not acquire. The credit bid included the cancellation of $482.0 million of certain Horizon bonds in return for shares of ICG common stock issued to those creditors who participated in an ICG rights offering. The bankruptcy court confirmed the sale on September 16, 2004 as part of the completion of the Horizon bankruptcy proceedings. At closing, ICG increased the purchase price by $6.25 million, primarily to satisfy increased administrative expenses, and the sale was completed as of September 30, 2004. The acquisition was financed through equity investments and borrowings under a senior secured credit facility which we entered into at the closing of the Horizon acquisition.

The Anker and CoalQuest Acquisitions

On November 18, 2005, we acquired Anker and CoalQuest through stock-for-stock mergers. The stockholders and members of Anker and CoalQuest received 14,840,909 and 9,250,000 shares of our common stock, respectively.

Our Reorganization and Public Offering

On November 18, 2005, we also completed a corporate reorganization. Prior to this reorganization, the top-tier parent holding company for our operations was ICG, Inc. Upon completion of this reorganization, we

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became the new top-tier parent holding company. In the corporate reorganization, the stockholders of ICG, Inc. received one share of our common stock for each share of ICG, Inc. common stock. On November 21, 2005, our common stock commenced trading on the New York Stock Exchange.

On December 12, 2005, we completed a public offering of 21 million shares of common stock. Net proceeds from the public offering were approximately $210.5 million. We used the proceeds to retire $188.7 million of our term loan debt and repay $21.2 million of borrowings under our current credit facility.

Mine Accidents

On January 2, 2006, an explosion occurred at our Sago mine in Tallmansville, West Virginia, operated by our subsidiary, Wolf Run Mining Company. The explosion tragically resulted in twelve fatalities and the critical injury of another miner. On March 14, 2006, we announced our initial findings from the investigation, including that the explosion was ignited by lightning and fueled by methane that naturally accumulated in an abandoned area of the mine that had been recently sealed. On July 19, 2006, J. Davitt McAteer, special advisor to West Virginia Governor Joe Manchin III, released a preliminary report relating to the accident that came to a similar conclusion. Final results of the regulators investigations will not be known until federal and state safety officials conclude their investigations and issue their reports. We are fully cooperating with the state and federal investigations into the cause of the explosion and will continue to review and test to verify our findings. We resumed operations at the Sago mine on March 15, 2006, a week after federal and state safety officials provided approval. In the first quarter of 2006, we incurred increased operating and administrative expenses of approximately $11.7 million as a result of the accident and temporary mine closure. In addition, on May 24, 2006, an underground scoop operator at Wolf Run s Sycamore No. 2 mine in Harrison County, West Virginia was fatally injured when he was struck by a wooden board that entered the operator s compartment accidentally as he was operating the equipment. We are also cooperating with safety officials on the investigation into that accident.

Recent developments

We issued a press release on September 12, 2006 announcing that we expect operating performance for full fiscal 2006 will be below our expectations as a result of a combination of operating setbacks that have had a negative impact on our outlook. These setbacks include the idling of Wolf Run s Sycamore No. 2 mine due to adverse geologic conditions, as well as the implementation of substantial production setbacks in response to cost pressures at certain other operations and the relative softening in recent coal prices. See Management s discussion and analysis of financial conditions and results of operations.

Our Sponsor

WLR together with other investors, formed ICG in May 2004 to acquire key assets of Horizon through a bankruptcy auction. WLR currently owns approximately 16.05% of our common stock. Additionally, Wilbur L. Ross, the principal of WLR, is our Chairman of the Board. We also pay WLR a management fee. See Certain Relationships and Related Party Transactions.

WLR was organized on April 1, 2000 by Wilbur L. Ross, Jr. and other members of the Restructuring Group of Rothschild Inc. This team had restructured more than $200 billion of liabilities in North America and other parts of the world. The firm maintains offices in New York City and has become the sponsor of more than $4.0 billion of alternative investment partnerships on behalf of major U.S., European and Japanese institutional investors. Selected current and recent portfolio companies include International Steel Group, the largest integrated steel producer in North America, and International Textile Group, a combination of Burlington Industries and Cone Mills.

Our principal executive office is located at 300 Corporate Centre Drive, Scott Depot, West Virginia 25560 and our telephone number is (304) 760-2400. We also maintain a website at *www.intlcoal.com*. However, the information on our website is not a part of this prospectus and you should rely only on the information contained in this prospectus when making a decision to participate in the exchange offer.

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THE EXCHANGE OFFER

Notes	We are offering to exchange up to $175,000,000 aggregate principal amount of our outstanding 10.25% Senior Notes due 2014 for an equal amount of our newly issued 10.25% Senior Notes due 2014. The terms of the exchange notes are identical in all material respects to those of the outstanding notes, except for transfer restrictions, registration rights and special interest rate provisions relating to the outstanding notes that will not apply to the exchange notes.
Purpose of the Exchange Offer	The exchange notes are being offered to satisfy our obligations under a registration rights agreement entered into at the time we issued and sold the outstanding notes.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2006, or on a later date and time to which we extend it.
Failure to Exchange Your Outstanding Notes	If you do not exchange your outstanding notes for exchange notes in the exchange offer, your outstanding notes will continue to be subject to the restrictions on transfer provided in the outstanding notes and the indenture governing the notes. In general, the outstanding notes, unless registered under the Securities Act, may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not plan to register the outstanding notes under the Securities Act after completion of the exchange offer.
Procedures for Tendering Outstanding Notes	Each holder of outstanding notes wishing to participate in the exchange offer must complete, sign and date the letter of transmittal, or its facsimile, in accordance with its instructions, and mail or otherwise deliver it, or its facsimile, together with the outstanding notes and any other required documentation to the exchange agent at the address in the letter of transmittal. Outstanding notes may be physically delivered, but physical delivery is not required if a confirmation of a book-entry transfer of the outstanding notes to the exchange agent s account at Depository Trust Company, or DTC, is delivered in a timely fashion. See The Exchange Offer Procedures for Tendering Outstanding Notes.
Conditions to the Exchange Offer	The exchange offer is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered for exchange. The exchange offer is subject to certain customary conditions, which may be waived by us. We currently expect that each of the conditions will be satisfied and that no waivers will be necessary. See The Exchange Offer Conditions to the Exchange Offer.
Withdrawal of Tender	Any outstanding notes tendered in the exchange offer may be withdrawn at any time prior to the expiration date. Any outstanding

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	notes not accepted for exchange for any reason will be returned without expense to the tendering holder as promptly as practicable after the expiration or termination of the exchange offer.
Exchange Agent	The Bank of New York Trust Company, N.A.
Material United States Federal Income Tax Considerations	A holder s exchange of an outstanding note for an exchange note will not constitute a taxable exchange for United States federal income tax purposes. As a result, a holder exchanging outstanding notes for exchange notes generally (1) will not recognize taxable income, gain or loss on the exchange, (2) will have a holding period in respect of the exchange notes that includes the holding period of the outstanding notes exchanged therefor and (3) will have an adjusted tax basis in the exchange notes immediately following the exchange equal to such holder s adjusted tax basis in the outstanding notes exchanged therefor immediately prior to the exchange. The United States federal income tax consequences associated with owning the outstanding notes will continue to apply in respect of the exchange notes. See Material United States Federal Income Tax Considerations.

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THE EXCHANGE NOTES

The following summary describes material terms of the exchange notes, but it is not intended to be complete. For a more detailed description of the exchange notes, see Description of Notes.

The terms of the exchange notes are identical in all material respects to those of the outstanding notes, except for transfer restrictions and registration rights provisions relating to the outstanding notes that will not apply to the exchange notes.

Issuer	International Coal Group, Inc.
Exchange Notes	$175.0 million aggregate principal amount of 10.25% Senior Notes due 2014.
Interest	The notes will accrue interest from the date of their issuance at the rate of 10.25% per year. Interest on the notes will be payable semi-annually in arrears on each July 15 and January 15, commencing on January 15, 2007.
Maturity Date	July 15, 2014.
Guarantees	All of our existing and future domestic subsidiaries that are material subsidiaries or that guarantee our amended and restated credit facility will guarantee the notes on a senior basis. See Description of Notes Brief Description of the Notes and the Note Guarantees.
Ranking	The notes will be our senior unsecured obligations and will rank equally in right of payment with all our existing and future senior unsecured debt. The notes will rank senior to all of our future subordinated debt. Each guarantor s guarantees with respect to the notes will be the general, unsecured senior obligation of such guarantor and will rank equally in right of payment with all of such guarantor s existing and future senior debt. However, the notes and the guarantees will be effectively subordinated to our and our guarantors existing and future secured debt to the extent of the value of the assets securing such debt. Substantially all of our and our guarantors personal property and other material assets will be pledged to secure our obligations to our secured creditors, including our obligations under our amended and restated credit facility. As of June 30, 2006, we and the subsidiary guarantors had $197.7 million of senior debt outstanding with an additional borrowing capacity of $265.1 million (with a letter of credit sublimit of up to $125.0 million) under our amended and restated credit facility.
Optional Redemption	We may redeem some or all of the notes at any time and from time to time on or after July 15, 2010 at the redemption prices listed under Description of Notes Optional Redemption.
	At any time prior to July 15, 2009, we may use the proceeds of certain equity offerings to redeem up to 35% of the aggregate principal amount of notes at a redemption price equal to 110.25% of

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	the principal amount thereof, plus accrued and unpaid interest, if any. We may make the redemption only if, after the redemption, at least 65% of the aggregate principal amount of notes issued remains outstanding.
	At any time prior to July 15, 2010, we may also redeem all or a part of the notes at the make-whole price set forth under Description of Notes Optional Redemption.
	For more information, see Description of Notes Optional Redemption.
Change of Control	If we experience certain types of changes of control, we will be required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to, but excluding, the date of redemption. See Description of Notes Repurchase at the Option of Holders Change of Control. We might not be able to pay you the required price for notes you present us at the time of a change of control because the terms of our amended and restated credit facility or other indebtedness may prohibit payment or we might not have enough funds at that time.
Certain Covenants	The indenture governing the notes contains covenants that limit our ability and the ability of our restricted subsidiaries to, among other things:

- incur additional indebtedness or issue preferred stock;
- pay dividends or make other distributions on our capital stock or repurchase, repay or redeem our capital stock or subordinated indebtedness;
- make certain investments;
- sell assets and issue capital stock of restricted subsidiaries;
- incur liens;
- enter into agreements restricting our subsidiaries ability to pay dividends or other payments to us;
- enter into certain transactions with affiliates; and
- consolidate, merge or sell all or substantially all of our assets.

These covenants are subject to important exceptions and qualifications, which are described under the heading Description of Notes Certain Covenants in this offering memorandum.

Registration Rights	Under a registration rights agreement, we and the guarantors agreed to:
	file a registration statement within 210 days after the issue date of the notes enabling holders to exchange the notes for publicly registered notes with identical terms;

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	use our commercially reasonable efforts to cause the exchange offer registration statement to be declared effective by the SEC on or prior to 270 days after the closing of the offering on June 23, 2006; and
	file a shelf registration statement for the resale of the notes if we cannot consummate the exchange offer and in certain other circumstances.
	We intend for the registration statement of which this prospectus is a part to satisfy these obligations. If we do not comply with these obligations, we will be required to pay additional interest to the holders of the notes. See Description of Notes.
Absence of a Public Market	The outstanding notes were a new issue of securities and there is currently no established market for them. Upon issuance, the exchange notes will generally be freely transferable, but will be a new issue of securities for which there will not initially be a market. Accordingly, a market for the outstanding notes or the exchange notes may not develop or, if one does develop, it may not provide adequate liquidity.
Use of Proceeds	We will not receive any cash proceeds from the issuance of the exchange notes. See Use of Proceeds.
Risk Factors	See Risk Factors beginning on page 12 for a discussion of factors you should carefully consider before deciding to participate in the exchange offer.

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SUMMARY HISTORICAL AND PRO FORMA CONSOLIDATED FINANCIAL DATA OF ICG

International Coal Group, Inc. was formed in March 2005 as a wholly-owned subsidiary of ICG, Inc. in order to effect a corporate reorganization. On November 18, 2005, we completed the reorganization. Prior to this reorganization, ICG, Inc. was the top-tier holding company. Upon completion of the reorganization, International Coal Group, Inc. became the new top-tier parent holding company. International Coal Group, Inc. is a holding company which does not have any independent external operations other than through its operating subsidiaries. Prior to the acquisition of certain assets of Horizon as of September 30, 2004, ICG, Inc. did not have any material assets, liabilities or results of operations. The summary historical consolidated financial data as of and for the year ended December 31, 2005 and as of and for the period from May 13, 2004 (inception) to December 31, 2004 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary historical condensed consolidated financial data as of and for the six months ended June 30, 2006 and 2005 have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. The summary historical consolidated financial data as of and for the period ending September 30, 2004 and December 31, 2003 have been derived from the audited consolidated financial statements of Horizon, our predecessor, which are included in this prospectus. In the opinion of management, the financial data reflect all adjustments, consisting of all normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or for any future period. The financial statements for the predecessor periods have been prepared on a carve-out basis to include the assets, liabilities and results of operations of ICG, Inc. that were previously included on the consolidated financial statements of Horizon. The financial statements for the predecessor periods include allocations of certain expenses, taxation charges, interest and cash balances relating to the predecessor based on management s estimates. The predecessor financial information is not necessarily indicative of our consolidated financial position, results of operations and cash flows if we had operated during the predecessor periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

The following summary unaudited pro forma condensed consolidated financial data of International Coal Group, Inc. and its subsidiaries for the year ended December 31, 2005 has been prepared to give pro forma effect to our acquisitions of Anker and CoalQuest, as if they had occurred on January 1, 2005. The pro forma adjustments used in preparing the pro forma financial data reflect our preliminary estimates of the purchase price allocation of Anker and CoalQuest to certain assets and liabilities. The pro forma financial data are for informational purposes only and should not be considered indicative of actual results that would have been achieved had the acquisitions actually been consummated on the dates indicated and do not purport to indicate balance sheet data or results of operations as of any future date or for any future period.

You should read the following data in conjunction with Management s Discussion and Analysis of Financial Conditions and Results of Operations and with the financial information included elsewhere in this prospectus including the consolidated financial statements and related notes of each of International Coal Group, Inc., Horizon (and its predecessor), Anker and CoalQuest.

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	Horizon (Predecessor to International Coal Group, Inc.)		International Coal Group, Inc.				
	Year ended December 31, 2003[3]	Period January 1, 2004 to September 30, 2004[3]	Period May 13, 2004 to December 31, 2004	Year ended December 31, 2005	Pro forma Year ended December 31, 2005[5]	Six months ended June 30, 2005	Six months ended June 30, 2006
	(in thousands, except per share and per ton data)						
Statement of Operations Data:							
Revenues:							
Coal sales revenues	$ 441,291	$ 346,981	$ 130,463	$ 619,038	$ 736,627	$ 289,763	$ 415,500
Freight and handling revenues	8,008	3,700	880	8,601	18,745	4,384	9,193
Other revenues	31,771	22,702	4,766	20,074	24,449	13,117	10,815
Total revenues	481,070	373,383	136,109	647,713	779,821	307,264	435,508
Cost and expenses:							
Freight and handling costs	8,008	3,700	880	8,601	18,745	4,384	9,193
Cost of coal sales and other revenues (exclusive of depreciation, depletion and amortization shown separately below)	400,652	306,429	113,707	510,834	641,314	234,261	382,343
Depreciation, depletion and amortization	52,254	27,547	7,943	43,195	44,036	18,307	33,692
Selling, general and administrative (exclusive of depreciation, depletion and amortization shown separately above)	23,350	8,477	4,194	28,785	34,046	13,941	17,964
(Gain)/loss on sale of assets	(4,320)	(226)	(10)	(502)	(698)	43	(929)
Writedowns and special items	9,100	10,018					
Total costs and expenses	**489,044**	**355,945**	**126,714**	**590,913**	**737,443**	**270,936**	**442,263**
Income (loss) from operations	(7,974)	17,438	9,395	56,800	42,378	36,328	(6,755)
Other income (expense):							
Interest expense	(145,892)	(114,211)	(3,453)	(14,394)	(18,663)	(6,610)	(6,383)
Reorganization items	(23,064)	(12,471)					
Other, net	187	1,581	898	6,080	11,472	1,451	3,926
Total interest and other income (expense)	**(168,769)**	**(125,101)**	**(2,555)**	**(8,314)**	**(7,191)**	**(5,159)**	**(2,457)**
Income (loss) before income taxes and minority interest	(176,743)	(107,663)	6,840	48,486	35,187	31,169	(9,212)
Income tax (expense) benefit			(2,591)	(16,676)	(12,102)	(11,220)	2,509
Minority interest				15	15		(87)

Net income (loss)	**$ (176,743)**	**$ (107,663)**	**$ 4,249**	**$ 31,825**	**$ 23,100**	**$ 19,949**	**$ (6,790)**
Statement of cash flows data:							
Net cash provided by (used in):							
Operating activities	$ 20,030	$ 28,085	$ 30,264	$ 77,319	N/A	$ 35,070	$ 18,769
Investing activities	$ (3,826)	$ 3,437	$ (329,168)	$ (104,713)	N/A	$ (42,300)	$ (79,256)
Financing activities	$ (15,459)	$ (32,381)	$ 322,871	$ 12,614	N/A	$ (4,045)	$ 117,092
Capital expenditures	$ 16,937	$ 6,624	$ 5,583	$ 108,231	N/A	$ 40,266	$ 85,262
Other financial data:							
Net debt (at period end)(1)	$ 62,154	$ 30,632	$ 155,501	$ 40,388	$ 40,388	$ 162,851	$ 131,888
Operating data(2)							
Tons sold	16,655	10,421	3,582	14,755	19,021	7,028	9,564
Tons produced	12,041	8,812	2,959	12,425	14,875	6,078	8,093
Average coal sales realization (per ton)	$ 26.50(4)	$ 33.30(4)	$ 36.42(4)	$ 41.95(4)	$ 38.73(4)	$ 41.23(4)	$ 43.44(4)

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(1) Net debt is defined as total debt less cash and cash equivalents as of the date presented. Although net debt is not a measure of performance calculated in accordance with GAAP, management believes that it is useful to an investor in evaluating us because it provides a comparative analysis of our debt position after application of proceeds from the offering of the outstanding notes. Net debt does not purport to represent actual debt obligations owed to third parties and should not be considered in isolation or as a substitute for measures of obligations in accordance with GAAP. In addition, because all companies do not calculate net debt or calculate it in the same manner, the presentation here may not be comparable to other similarly titled measures of other companies. The table below reconciles the GAAP measure of total debt to net debt.

	Horizon (Predecessor to International Coal Group, Inc.)		International Coal Group, Inc.				
	December 31, 2003(3)	September 30, 2004(3)	December 31, 2004	December 31, 2005	Pro forma December 31, 2005(5)	June 30, 2005	June 30, 2006
	(in thousands)						
Long-term debt	$ 315	$ 29	$ 173,446	$ 43,816	$ 43,816	$ 172,376	$ 177,532
Plus: Short-term debt and current portion of long-term debt	62,698	30,603	6,022	5,759	5,759	3,167	20,148
Total debt	63,013	30,632	179,468	49,575	49,575	175,543	197,680
Less: Cash and cash equivalents	859		23,967	9,187	9,187	12,692	65,792
Net debt	$ 62,154	$ 30,632	$ 155,501	$ 40,388	$ 40,388	$ 162,851	$ 131,888

(2) Amounts were not derived from the audited financial statements included elsewhere in this prospectus.
(3) As restated. See Note 12 to the combined financial statements of Horizon included elsewhere in this prospectus.
(4) Excludes freight and handling revenue.
(5) The summary unaudited pro forma condensed data for the year ended December 31, 2005 has been prepared to give pro forma effect to the acquisitions of Anker and CoalQuest, as if they had occurred on January 1, 2005.

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RISK FACTORS

Our business, operations and financial conditions are subject to various risks. Our material risks that are currently known to management are described below and you should take these risks into account before participating in the exchange offer, in evaluating us or any investment decision involving us. This section may not describe all risks associated with us, our industry or our business, and it is intended only as a summary of the material risk factors.

Risks Relating To Our Business

Because of our limited operating history, historical information regarding our company prior to October 1, 2004 is of little relevance in understanding our business as currently conducted.

We are subject to the risks, uncertainties, expenses and problems encountered by companies in the early stages of operations. We were incorporated in March 2005 as a holding company and ICG, Inc., which was incorporated in May 2004 for the sole purpose of acquiring certain assets of Horizon. Until the completion of the Horizon asset acquisition, we had substantially no operations. As a result, historical information regarding our company prior to October 1, 2004, which does not include the historical financial information for Anker and CoalQuest, is of limited relevance in understanding our business as currently conducted. The financial statements for the Horizon predecessor periods have been prepared from the books and records of Horizon as if we had existed as a separate legal entity under common management for all periods presented (that is, on a carve-out basis). The financial statements for the Horizon predecessor periods include allocations of certain expenses, taxation charges, interest and cash balances relating to the predecessor based on management s estimates. In light of these allocations and estimates, the Horizon predecessor financial information is not necessarily indicative of our consolidated financial position, results of operations and cash flows if we had operated during the Horizon predecessor period presented. See Selected Historical Condensed Consolidated Financial Information of International Coal Group, Inc. and Management s Discussion and Analysis of Financial Conditions and Results of Operations.

A decline in coal prices could reduce our revenues and the value of our coal reserves.

Our results of operations are dependent upon the prices we charge for our coal as well as our ability to improve productivity and control costs. Any decreased demand would cause spot prices to decline and require us to increase productivity and decrease costs in order to maintain our margins. Declines in the prices we receive for our coal could adversely affect our operating results and our ability to generate the cash flows we require to improve our productivity and invest in our operations. The prices we receive for coal depend upon factors beyond our control, including:

- the supply of and demand for domestic and foreign coal;
- the demand for electricity;
- domestic and foreign demand for steel and the continued financial viability of the domestic and/or foreign steel industry;
- the proximity to, capacity of and cost of transportation facilities;
- domestic and foreign governmental regulations and taxes;
- air emission standards for coal-fired power plants;
- regulatory, administrative and judicial decisions;

the price and availability of alternative fuels, including the effects of technological developments; and

the effect of worldwide energy conservation measures.

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Our coal mining operations are subject to operating risks that could result in decreased coal production which could reduce our revenues.

Our revenues depend on our level of coal mining production. The level of our production is subject to operating conditions and events beyond our control that could disrupt operations and affect production at particular mines for varying lengths of time. These conditions and events include:

- the unavailability of qualified labor;
- our inability to acquire, maintain or renew necessary permits or mining or surface rights in a timely manner, if at all;
- unfavorable geologic conditions, such as the thickness of the coal deposits and the amount of rock embedded in or overlying the coal deposits;
- failure of reserve estimates to prove correct;
- changes in governmental regulation of the coal industry, including the imposition of additional taxes, fees or actions to suspend or revoke our permits or changes in the manner of enforcement of existing regulations;
- mining and processing equipment failures and unexpected maintenance problems;
- adverse weather and natural disasters, such as heavy rains and flooding;
- increased water entering mining areas and increased or accidental mine water discharges;
- increased or unexpected reclamation costs;
- interruptions due to transportation delays;
- the unavailability of required equipment of the type and size needed to meet production expectations; and
- unexpected mine safety accidents, including fires and explosions from methane.

These conditions and events may increase our cost of mining and delay or halt production at particular mines either permanently or for varying lengths of time.

Reduced coal consumption by North American electric power generators could result in lower prices for our coal, which could reduce our revenues and adversely impact our earnings and the value of our coal reserves.

Steam coal accounted for nearly all of our coal sales volume in 2005 and the majority of our sales of steam coal in 2005 were to electric power generators. Domestic electric power generation accounted for approximately 92% of all U.S. coal consumption in 2005, according to the EIA. The amount of coal consumed for U.S. electric power generation is affected primarily by the overall demand for electricity, the location, availability, quality and price of competing fuels for power such as natural gas, nuclear, fuel oil and alternative energy sources such as hydroelectric power, technological developments, and environmental and other governmental regulations.

Although we expect that many new power plants will be built to produce electricity during peak periods of demand, we also expect that many of these new power plants will be fired by natural gas because gas-fired plants are cheaper to construct than coal-fired plants and because natural gas is a cleaner burning fuel. Gas-fired generation from existing and newly constructed gas-fired facilities has the potential to displace coal-fired generation, particularly from older, less efficient coal-powered generators. In addition, the increasingly stringent requirements of the Clean Air Act may result in more electric power generators shifting from coal to natural gas-fired plants. Any reduction in the amount of coal consumed by North American electric power generators could reduce the price of steam coal that we mine and sell, thereby reducing our revenues and adversely impacting our earnings and the value of our coal reserves.

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Weather patterns also can greatly affect electricity generation. Extreme temperatures, both hot and cold, cause increased power usage and, therefore, increased generating requirements from all sources. Mild temperatures, on the other hand, result in lower electrical demand, which allows generators to choose the lowest-cost sources of power generation when deciding which generation sources to dispatch. Accordingly, significant changes in weather patterns could reduce the demand for our coal.

Overall economic activity and the associated demands for power by industrial users can have significant effects on overall electricity demand. Robust economic activity can cause much heavier demands for power, particularly if such activity results in increased utilization of industrial assets during evening and nighttime periods. The economic slowdown experienced during the last several years significantly slowed the growth of electrical demand and, in some locations, resulted in contraction of demand. Any downward pressure on coal prices, whether due to increased use of alternative energy sources, changes in weather patterns, decreases in overall demand or otherwise, would likely cause our profitability to decline.

The capability and profitability of our operations may be adversely affected by the status of our long-term coal supply agreements, changes in purchasing patterns in the coal industry and the loss of certain brokered coal contracts set to expire at the end of 2006.

We sell a significant portion of our coal under long-term coal supply agreements, which we define as contracts with a term greater than 12 months. For the period ending June 30, 2006, approximately 78% of our revenues were derived from coal sales that were made under long-term coal supply agreements. As of that date, we had 33 long-term sales agreements with a volume-weighted average term of approximately 4.5 years. The prices for coal shipped under these agreements are typically fixed for at least the initial year of the contract, subject to certain adjustments in later years, and thus may be below the current market price for similar type coal at any given time, depending on the timeframe of contract execution or initiation. As a consequence of the substantial volume of our sales that are subject to these long-term agreements, we have less coal available with which to capitalize on higher coal prices, if and when they arise. In addition, in some cases, our ability to realize the higher prices that may be available in the spot market may be restricted when customers elect to purchase higher volumes allowable under some contracts.

When our current contracts with customers expire or are otherwise renegotiated, our customers may decide not to extend or enter into new long-term contracts or, in the absence of long-term contracts, our customers may decide to purchase fewer tons of coal than in the past or on different terms, including under different pricing terms. In addition, we have brokered coal contracts that will expire at the end of 2006. These contracts were signed during a period of oversupply in the coal industry and contain pricing that, while acceptable to the sellers at that time, is significantly below today s market levels and, management believes, will not be able to be renegotiated or replaced in today s market. Assuming today s market conditions continue, we believe the loss of these contracts will have a significant impact on our earnings after 2006. For the year ended December 31, 2005 and the six months ended June 30, 2006, these contracts provided $33.5 million and $19.3 million, respectively, in pre-tax net income. For additional information relating to these contracts, see Business Customers and Coal Contracts Long-Term Coal Supply Agreements.

Furthermore, as electric utilities seek to adjust to requirements of the Clean Air Act, particularly the Acid Rain regulations, the Clean Air Mercury Rule and the Clean Air Interstate Rule, although these two rules are subject to judicial challenge and the possible deregulation of their industry, they could become increasingly less willing to enter into long-term coal supply agreements and instead may purchase higher percentages of coal under short-term supply agreements. To the extent the electric utility industry shifts away from long-term supply agreements, it could adversely affect us and the level of our revenues. For example, fewer electric utilities will have a contractual obligation to purchase coal from us, thereby increasing the risk that we will not have a market for our production. Furthermore, spot market prices tend to be more volatile than contractual prices, which could result in decreased revenues.

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Certain provisions in our long-term supply agreements may provide limited protection during adverse economic conditions or may result in economic penalties upon a failure to meet specifications.

Price adjustment, price re-opener and other similar provisions in long-term supply agreements may reduce the protection from short-term coal price volatility traditionally provided by such contracts. Most of our coal supply agreements contain provisions that allow for the purchase price to be renegotiated at periodic intervals. These price re-opener provisions may automatically set a new price based on the prevailing market price or, in some instances, require the parties to agree on a new price, sometimes between a specified range of prices. In some circumstances, failure of the parties to agree on a price under a price re-opener provision can lead to termination of the contract. Any adjustment or renegotiations leading to a significantly lower contract price would result in decreased revenues. Accordingly, supply contracts with terms of one year or more may provide only limited protection during adverse market conditions.

Coal supply agreements also typically contain force majeure provisions allowing temporary suspension of performance by us or our customers during the duration of specified events beyond the control of the affected party. Additionally, most of our coal supply agreements contain provisions requiring us to deliver coal meeting quality thresholds for certain characteristics such as Btu, sulfur content, ash content, hardness and ash fusion temperature. Failure to meet these specifications could result in economic penalties, including price adjustments, the rejection of deliveries or, in the extreme, termination of the contracts.

Consequently, due to the risks mentioned above, we may not achieve the revenue or profit we expect to achieve from our long-term supply agreements. In addition, we may not be able to successfully convert these sales commitments into long-term supply agreements.

A decline in demand for metallurgical coal would limit our ability to sell our high quality steam coal as higher-priced metallurgical coal.

Portions of our coal reserves possess quality characteristics that enable us to mine, process and market them as either metallurgical coal or high quality steam coal, depending on the prevailing conditions in the metallurgical and steam coal markets. A decline in the metallurgical market relative to the steam market could cause us to shift coal from the metallurgical market to the steam market, thereby reducing our revenues and profitability. However, some of our mines operate profitably only if all or a portion of their production is sold as metallurgical coal to the steel market. If demand for metallurgical coal declined to the point where we could earn a more attractive return marketing the coal as steam coal, these mines may not be economically viable and may be subject to closure. Such closures would lead to accelerated reclamation costs, as well as reduced revenue and profitability.

Inaccuracies in our estimates of economically recoverable coal reserves could result in lower than expected revenues, higher than expected costs or decreased profitability.

We base our reserves information on engineering, economic and geological data assembled and analyzed by our staff, which includes various engineers and geologists, and which is periodically reviewed by outside firms. The reserves estimates as to both quantity and quality are annually updated to reflect production of coal from the reserves and new drilling or other data received. There are numerous uncertainties inherent in estimating quantities and qualities of and costs to mine recoverable reserves, including many factors beyond our control. Estimates of economically recoverable coal reserves and net cash flows necessarily depend upon a number of variable factors and assumptions, all of which may vary considerably from actual results such as:

- geological and mining conditions which may not be fully identified by available exploration data or which may differ from experience in current operations;

- historical production from the area compared with production from other similar producing areas; and

- the assumed effects of regulation and taxes by governmental agencies and assumptions concerning coal prices, operating costs, mining technology improvements, severance and excise tax, development costs and reclamation costs.

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For these reasons, estimates of the economically recoverable quantities and qualities attributable to any particular group of properties, classifications of reserves based on risk of recovery and estimates of net cash flows expected from particular reserves prepared by different engineers or by the same engineers at different times may vary substantially. Actual coal tonnage recovered from identified reserve areas or properties and revenues and expenditures with respect to our reserves may vary materially from estimates. These estimates, thus, may not accurately reflect our actual reserves. Any inaccuracy in our estimates related to our reserves could result in lower than expected revenues, higher than expected costs or decreased profitability.

We depend heavily on a small number of large customers, the loss of any of which would adversely affect our operating results.

Our three largest customers for the period ended June 30, 2006 were Georgia Power Company, Carolina Power & Light Company and Duke Energy and we derived approximately 61% of our coal revenues from sales to our five largest customers. At June 30, 2006, we had coal supply agreements with these customers that expire at various times from 2006 to 2010. We typically discuss extension of existing agreements or entering into long-term agreements with our customers, however these negotiations may not be successful and these customers may not continue to purchase coal from us pursuant to long-term coal supply agreements. If a number of these customers were to significantly reduce their purchases of coal from us, or if we were unable to sell coal to them on terms as favorable to us as the terms under our current agreements, our financial condition and results of operations could suffer materially.

Disruptions in transportation services could limit our ability to deliver coal to our customers, which could cause revenues to decline.

We depend primarily upon railroads, trucks and barges to deliver coal to our customers. Disruption of railroad service due to weather-related problems, strikes, lockouts and other events could temporarily impair our ability to supply coal to our customers, resulting in decreased shipments. Decreased performance levels over longer periods of time could cause our customers to look elsewhere for their fuel needs, negatively affecting our revenues and profitability.

During 2005, we experienced brief periods of poor rail service, especially during the first half of the year. The service related issues resulted in missed shipments and adversely affected revenue. During the second half of 2005 and the first half of 2006, rail service steadily improved and did not significantly affect our shipment volumes. However, a return to the service related issues experienced in 2004 and early 2005 would affect our future operating results.

The states of West Virginia and Kentucky have recently increased enforcement of weight limits on coal trucks on its public roads. Additionally, West Virginia legislation, which raised coal truck weight limits in West Virginia, includes provisions supporting enhanced enforcement. The legislation went into effect on October 1, 2003 and implementation began on January 1, 2004. It is possible that other states in which our coal is transported by truck could conduct similar campaigns to increase enforcement of weight limits. Such stricter enforcement actions could result in shipment delays and increased costs. An increase in transportation costs could have an adverse effect on our ability to increase or to maintain production and could adversely affect revenues.

Several of our mines depend on a single transportation carrier or a single mode of transportation. Disruption of any of these transportation services due to weather-related problems, mechanical difficulties, strikes, lockouts, bottlenecks and other events could temporarily impair our ability to supply coal to our customers. Our transportation providers may face difficulties in the future that may impair our ability to supply coal to our customers, resulting in decreased revenues.

If there are disruptions of the transportation services provided by our primary rail carriers that transport our produced coal and we are unable to find alternative transportation providers to ship our coal, our business could be adversely affected.

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Fluctuations in transportation costs could impair our ability to supply coal to our customers.

Transportation costs represent a significant portion of the total cost of coal for our customers and, as a result, the cost of transportation is a critical factor in a customer s purchasing decision. Increases in transportation costs could make coal a less competitive source of energy or could make our coal production less competitive than coal produced from other sources.

On the other hand, significant decreases in transportation costs could result in increased competition from coal producers in other parts of the country. For instance, coordination of the many eastern loading facilities, the large number of small shipments, the steeper average grades of the terrain and a more unionized workforce are all issues that combine to make shipments originating in the eastern United States inherently more expensive on a per-mile basis than shipments originating in the western United States. The increased competition could have a material adverse effect on our business, financial condition and results of operations.

Disruption in supplies of coal produced by third parties could temporarily impair our ability to fill our customers orders or increase our costs.

In addition to marketing coal that is produced from our controlled reserves, we purchase and resell coal produced by third parties from their controlled reserves to meet customer specifications. Disruption in our supply of third-party coal could temporarily impair our ability to fill our customers orders or require us to pay higher prices in order to obtain the required coal from other sources. Any increase in the prices we pay for third-party coal could increase our costs and therefore lower our earnings.

The unavailability of an adequate supply of coal reserves that can be mined at competitive costs could cause our profitability to decline.

Our profitability depends substantially on our ability to mine coal reserves that have the geological characteristics that enable them to be mined at competitive costs and to meet the quality needed by our customers. Because our reserves decline as we mine our coal, our future success and growth depend, in part, upon our ability to acquire additional coal reserves that are economically recoverable. Replacement reserves may not be available when required or, if available, may not be capable of being mined at costs comparable to those characteristic of the depleting mines. We may not be able to accurately assess the geological characteristics of any reserves that we acquire, which may adversely affect our profitability and financial condition. Exhaustion of reserves at particular mines also may have an adverse effect on our operating results that is disproportionate to the percentage of overall production represented by such mines. Our ability to obtain other reserves in the future could be limited by restrictions under our existing or future debt agreements, competition from other coal companies for attractive properties, the lack of suitable acquisition candidates or the inability to acquire coal properties on commercially reasonable terms.

Unexpected increases in raw material costs could significantly impair our operating profitability.

Our coal mining operations use significant amounts of steel, rubber, petroleum products and other raw materials in various pieces of mining equipment, supplies and materials, including the roof bolts required by the room-and-pillar method of mining described below. Scrap steel prices have risen significantly in recent months, and historically, the prices of scrap steel and petroleum have fluctuated. Recently we have been adversely impacted by margin compressions due to cost increases for various commodities and services such as diesel fuel, explosives (ANFO) and coal trucking, influenced by the recent price acceleration of crude oil and natural gas a trend that was greatly exacerbated by the Gulf hurricanes. There may be other acts of nature, terrorist attacks or threats or other conditions that could also increase the costs of raw materials. If the price of steel, rubber, petroleum products or other of these materials increase, our operational expenses will increase, which could have a significant negative impact on our profitability.

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The accident at the Sago mine could negatively impact our business.

On January 2, 2006, an explosion occurred at our Sago mine in West Virginia. The explosion tragically resulted in the deaths of twelve miners and the critical injury of another miner. We are conducting our own investigation as well as fully cooperating with the ongoing state and federal investigations into the cause of the explosion. As a result of the accident, the federal and state investigations and related matters, our business may be negatively impacted by various factors including the diversion of management s attention from our day-to-day business, further negative media attention relating to us, any negative perceptions about our safety record affecting our ability to attract skilled labor, the impact of litigation commenced against us, any increased premiums for insurance, any claims that may be asserted against us that are not covered, in whole or in part, by our insurance policies and the outcome of the investigations into the cause of the explosion. We expect that there will be increased regulation of the mining industry as a whole, which may result in higher operating costs, which would, in turn, adversely affect our operating results. See Business Legal Proceedings.

A shortage of skilled labor in the mining industry could pose a risk to achieving optimal labor productivity and competitive costs, which could adversely affect our profitability.

Efficient coal mining using modern techniques and equipment requires skilled laborers, preferably with at least a year of experience and proficiency in multiple mining tasks. In order to support our planned expansion opportunities, we intend to sponsor both in-house and vocational coal mining programs at the local level in order to train additional skilled laborers. In the event the shortage of experienced labor continues or worsens or we are unable to train the necessary amount of skilled laborers, there could be an adverse impact on our labor productivity and costs and our ability to expand production and therefore have a material adverse effect on our earnings.

We have a new management team, and if they are unable to work effectively together, our business may be harmed.

Most of our management team was hired in 2005, and the group has only been working together for a short period of time. Moreover, several other key employees were hired in 2005 and our chief financial officer was hired in September 2006. Because many of our executive officers and key employees are new, there is a risk that our management team will not be able to work together effectively. If our management team is unable to work together, our operations could be disrupted and our business harmed.

Our ability to operate our company effectively could be impaired if we fail to attract and retain key personnel.

Our senior management team averages 25 years of experience in the coal industry, which includes developing innovative, low-cost mining operations, maintaining strong customer relationships and making strategic, opportunistic acquisitions. The loss of any of our senior executives could have a material adverse effect on our business. There may be a limited number of persons with the requisite experience and skills to serve in our senior management positions. We may not be able to locate or employ qualified executives on acceptable terms. In addition, as our business develops and expands, we believe that our future success will depend greatly on our continued ability to attract and retain highly skilled personnel with coal industry experience. Competition for these persons in the coal industry is intense and we may not be able to successfully recruit, train or retain qualified personnel. We may not be able to continue to employ key personnel or attract and retain qualified personnel in the future. Our failure to retain or attract key personnel could have a material adverse effect on our ability to effectively operate our business.

Acquisitions that we may undertake involve a number of inherent risks, any of which could cause us not to realize the anticipated benefits.

We continually seek to expand our operations and coal reserves through selective acquisitions. If we are unable to successfully integrate the companies, businesses or properties we acquire, our profitability may decline

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and we could experience a material adverse effect on our business, financial condition, or results of operations. Acquisition transactions involve various inherent risks, including:

- uncertainties in assessing the value, strengths, and potential profitability of, and identifying the extent of all weaknesses, risks, contingent and other liabilities (including environmental or mine safety liabilities) of, acquisition candidates;
- the potential loss of key customers, management and employees of an acquired business;
- the ability to achieve identified operating and financial synergies anticipated to result from an acquisition;
- discrepancies between the estimated and actual reserves of the acquired business;
- problems that could arise from the integration of the acquired business; and
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying our rationale for pursuing the acquisition.

Any one or more of these factors could cause us not to realize the benefits anticipated to result from an acquisition. Any acquisition opportunities we pursue could materially affect our liquidity and capital resources and may require us to incur indebtedness, seek equity capital or both. In addition, future acquisitions could result in our assuming more long-term liabilities relative to the value of the acquired assets than we have assumed in our previous acquisitions.

We may not be able to continue to effectively integrate Anker and CoalQuest into our operations or realize the expected benefits of those acquisitions.

Our future success will depend largely on our ability to continue to consolidate and effectively integrate Anker s and CoalQuest s operations into our operations. We may not be able to do so successfully without substantial costs, delays or other difficulties. We face significant challenges in consolidating functions and integrating procedures, information technology systems, personnel and operating philosophies in a timely and efficient manner. The integration process is complex and time consuming and may pose a number of obstacles, such as:

- the loss of key employees or customers;
- the challenge of maintaining the quality of customer service;
- the need to coordinate geographically diverse operations;
- retooling and reprogramming of equipment and information technology systems;
- the resulting diversion of management s attention from our day-to-day business; and

the need to hire and integrate additional management personnel to manage our expanded operations.

If we are not successful in completing the integration of Anker and CoalQuest into our operations, if the integration takes longer or is more complex or expensive than anticipated, if we cannot operate the Anker and CoalQuest businesses as effectively as we anticipate, whether as a result of deficiency of the acquired business or otherwise, or if the integrated businesses fail to achieve market acceptance, our operating performance, margins, sales and reputation could be materially adversely affected.

Furthermore, we may not be able to realize the expected benefits of these acquisitions. For example, as a result of infrastructure weaknesses and geologic issues at some of the existing Anker operations, the transition period for implementation of various operational improvements has taken longer than originally anticipated. In addition, in September 2006, we idled our Sycamore No. 2 mine as a result of some of these geological issues. This extended transition resulted in, decreased coal production and increased production costs in the third and fourth quarters of 2005 and in 2006 to date.

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If the value of our goodwill becomes impaired, it could materially reduce the value of our assets and reduce our net income for the year in which the write-off occurs.

When we acquire a business, we record an asset called goodwill if the amount we pay for the business, including liabilities assumed, is in excess of the fair value of the assets of the business we acquire. As of June 30, 2006, we have recorded $344.0 million of goodwill on a preliminary basis in connection with the acquisitions of Horizon, Anker and CoalQuest. The Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, requires that goodwill be tested at least annually (absent any impairment indicators). The testing includes comparing the fair value of each reporting unit with its carrying value. Fair value is determined using discounted cash flows, market multiples and market capitalization. Impairment adjustments, if any, are required to be recognized as operating expenses. We may have future impairment adjustments to our recorded goodwill. We will perform an impairment test of the assets acquired from Horizon, Anker and CoalQuest as of October 31, 2006, although in certain circumstances we may need to perform either test sooner. Any finding that the value of our goodwill has been impaired would require us to write-off the impaired portion, which could materially reduce the value of our assets and reduce our net income for the year in which the write-off occurs.

Failure to obtain or renew surety bonds in a timely manner and on acceptable terms could affect our ability to secure reclamation and coal lease obligations, which could adversely affect our ability to mine or lease coal.

Federal and state laws require us to obtain surety bonds to secure payment of certain long-term obligations, such as mine closure or reclamation costs, federal and state workers compensation costs, coal leases and other obligations. These bonds are typically renewable annually. Surety bond issuers and holders may not continue to renew the bonds or may demand additional collateral or other less favorable terms upon those renewals. The ability of surety bond issuers and holders to demand additional collateral or other less favorable terms has increased as the number of companies willing to issue these bonds has decreased over time. Our failure to maintain, or our inability to acquire, surety bonds that are required by state and federal law would affect our ability to secure reclamation and coal lease obligations, which could adversely affect our ability to mine or lease coal. That failure could result from a variety of factors including, without limitation:

- lack of availability, higher expense or unfavorable market terms of new bonds;
- restrictions on availability of collateral for current and future third-party surety bond issuers under the terms of our amended and restated credit facility; and
- the exercise by third-party surety bond issuers of their right to refuse to renew the surety.

Failure to maintain capacity for required letters of credit could limit our ability to obtain or renew surety bonds.

At June 30, 2006, we had $59.9 million of letters of credit in place, of which $50.0 million serve as collateral for reclamation surety bonds and $9.9 million secure miscellaneous obligations. Our amended and restated credit facility provides for a revolving credit facility of $325.0 million, of which up to $125.0 million may be used for letters of credit. If we do not maintain sufficient borrowing capacity under our amended and restated credit facility for additional letters of credit, we may be unable to obtain or renew surety bonds required for our mining operations.

Our business requires substantial capital investment and maintenance expenditures, which we may be unable to provide.

Our business strategy will require additional substantial capital investment. We require capital for, among other purposes, managing acquired assets, acquiring new equipment, maintaining the condition of our existing equipment and maintaining compliance with environmental laws and regulations. To the extent that cash generated internally and cash available under our credit facilities are not sufficient to fund capital requirements, we will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be on satisfactory terms. Future debt financings, if available, may result in increased interest and amortization expense, increased leverage and decreased income available to fund further acquisitions and expansion. In addition, future debt financings may limit our ability to withstand competitive pressures and render us more vulnerable to economic downturns. If we fail to generate sufficient earnings or to obtain sufficient additional capital in the future or fail to manage our capital investments effectively, we could be forced to reduce or delay capital expenditures, sell assets or restructure or refinance our indebtedness.

Increased consolidation and competition in the U.S. coal industry may adversely affect our ability to retain or attract customers and may reduce domestic coal prices.

During the last several years, the U.S. coal industry has experienced increased consolidation, which has contributed to the industry becoming more competitive. According to the EIA, in 1995, the top ten coal producers accounted for approximately 50% of total domestic coal production. By 2004, however, the top ten coal producers share had increased to approximately 65% of total domestic coal production. Consequently, many of our competitors in the domestic coal industry are major coal producers who have significantly greater financial resources than us. The intense competition among coal producers may impact our ability to retain or attract customers and may therefore adversely affect our future revenues and profitability.

The demand for U.S. coal exports is dependent upon a number of factors outside of our control, including the overall demand for electricity in foreign markets, currency exchange rates, ocean freight rates, the demand for foreign- produced steel both in foreign markets and in the U.S. market (which is dependent in part on tariff rates on steel), general economic conditions in foreign countries, technological developments and environmental and other governmental regulations. If foreign demand for U.S. coal were to decline, this decline could cause competition among coal producers in the United States to intensify, potentially resulting in additional downward pressure on domestic coal prices.

Our ability to collect payments from our customers could be impaired if their creditworthiness deteriorates.

Our ability to receive payment for coal sold and delivered depends on the continued creditworthiness of our customers. Our customer base is changing with deregulation as utilities sell their power plants to their non-regulated affiliates or third parties that may be less creditworthy, thereby increasing the risk we bear on payment default. These new power plant owners may have credit ratings that are below investment grade. In addition, competition with other coal suppliers could force us to extend credit to customers and on terms that could increase the risk we bear on payment default.

We have contracts to supply coal to energy trading and brokering companies under which those companies sell coal to end users. During 2004 and 2005, the creditworthiness of the energy trading and brokering companies with which we do business declined, increasing the risk that we may not be able to collect payment for all coal sold and delivered to or on behalf of these energy trading and brokering companies.

Defects in title or loss of any leasehold interests in our properties could limit our ability to conduct mining operations on these properties or result in significant unanticipated costs.

We conduct a significant part of our mining operations on properties that we lease. A title defect or the loss of any lease upon expiration of its term, upon a default or otherwise, could adversely affect our ability to mine the associated reserves and/or process the coal that we mine. Title to most of our owned or leased properties and mineral rights is not usually verified until we make a commitment to develop a property, which may not occur until after we have obtained necessary permits and completed exploration of the property. In some cases, we rely on title information or representations and warranties provided by our lessors or grantors. Our right to mine some

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of our reserves has in the past been, and may again in the future be, adversely affected if defects in title or boundaries exist or if a lease expires. Any challenge to our title or leasehold interests could delay the exploration and development of the property and could ultimately result in the loss of some or all of our interest in the property. Mining operations from time to time may rely on an expired lease that we are unable to renew. From time to time we also may be in default with respect to leases for properties on which we have mining operations. In such events, we may have to close down or significantly alter the sequence of such mining operations which may adversely affect our future coal production and future revenues. If we mine on property that we do not own or lease, we could incur liability for such mining. Also, in any such case, the investigation and resolution of title issues would divert management s time from our business and our results of operations could be adversely affected. Additionally, if we lose any leasehold interests relating to any of our preparation plants, we may need to find an alternative location to process our coal and load it for delivery to customers, which could result in significant unanticipated costs.

In order to obtain leases or mining contracts to conduct our mining operations on property where these defects exist, we may in the future have to incur unanticipated costs. In addition, we may not be able to successfully negotiate new leases or mining contracts for properties containing additional reserves, or maintain our leasehold interests in properties where we have not commenced mining operations during the term of the lease. Some leases have minimum production requirements. Failure to meet those requirements could result in losses of prepaid royalties and, in some rare cases, could result in a loss of the lease itself.

Our work force could become unionized in the future, which could adversely affect the stability of our production and reduce our profitability.

All of our coal production is from mines operated by union-free employees. However, our subsidiaries employees have the right at any time under the National Labor Relations Act to form or affiliate with a union. If the terms of a union collective bargaining agreement are significantly different from our current compensation arrangements with our employees, any unionization of our subsidiaries employees could adversely affect the stability of our production and reduce our profitability.

Risks Relating To Government Regulation

Extensive government regulations impose significant costs on our mining operations, and future regulations could increase those costs or limit our ability to produce and sell coal.

The coal mining industry is subject to increasingly strict regulation by federal, state and local authorities with respect to matters such as:

- limitations on land use;
- employee health and safety;
- mandated benefits for retired coal miners;
- mine permitting and licensing requirements;
- reclamation and restoration of mining properties after mining is completed;
- air quality standards;
- water pollution;

protection of human health, plantlife and wildlife;

the discharge of materials into the environment;

surface subsidence from underground mining; and

the effects of mining on groundwater quality and availability.

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In particular, federal and state statutes require us to restore mine property in accordance with specific standards and an approved reclamation plan, and require that we obtain and periodically renew permits for mining operations. If we do not make adequate provisions for all expected reclamation and other costs associated with mine closures, it could harm our future operating results. In addition, state and federal regulations impose strict standards for particulate matter emissions which may restrict our ability to develop new mines or could require us to modify our existing operations and increase our costs of doing business.

Federal and state safety and health regulation in the coal mining industry may be the most comprehensive and pervasive system for protection of employee safety and health affecting any segment of the U.S. industry. It is costly and time-consuming to comply with these requirements and new regulations or orders may materially adversely affect our mining operations or cost structure, any of which could harm our future results.

Under federal law, each coal mine operator must secure payment of federal black lung benefits to claimants who are current and former employees and contribute to a trust fund for the payment of benefits and medical expenses to claimants who last worked in the coal industry before July 1973. The trust fund is funded by an excise tax on coal production. If this tax increases, or if we could no longer pass it on to the purchaser of our coal under many of our long-term sales contracts, it could increase our operating costs and harm our results. New regulations that took effect in 2001 could significantly increase our costs related to contesting and paying black lung claims. If new laws or regulations increase the number and award size of claims, it could substantially harm our business.

The costs, liabilities and requirements associated with these and other regulations may be costly and time-consuming and may delay commencement or continuation of exploration or production operations. Failure to comply with these regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from our operations. We may also incur costs and liabilities resulting from claims for damages to property or injury to persons arising from our operations. We must compensate employees for work-related injuries. If we do not make adequate provisions for our workers compensation liabilities, it could harm our future operating results. If we are pursued for these sanctions, costs and liabilities, our mining operations and, as a result, our profitability could be adversely affected. See Environmental and Other Regulatory Matters.

The possibility exists that new legislation and/or regulations and orders may be adopted that may materially adversely affect our mining operations, our cost structure and/or our customers ability to use coal. New legislation or administrative regulations (or new judicial interpretations or administrative enforcement of existing laws and regulations), including proposals related to the protection of the environment that would further regulate and tax the coal industry, may also require us or our customers to change operations significantly or incur increased costs. These regulations, if proposed and enacted in the future, could have a material adverse effect on our financial condition and results of operations.

New government regulations are expected as a result of recent mining accidents which could increase our costs.

Both the federal and state governments impose stringent health and safety standards on the mining industry. Regulations are comprehensive and affect nearly every aspect of mining operations, including training of mine personnel, mining procedures, blasting, the equipment used in mining operations and other matters. As a result of recent mining accidents, including at our Sago mine, we expect that new federal and state health and safety regulations will be adopted that would increase operating costs and affect our mining operations. State and federal legislation has already been adopted that, among other things, requires additional oxygen supplies and communication and tracking devices. The legislation also raised the maximum civil penalty for certain violations of federal mine safety regulations to $220,000 from $60,000. We also announced our intention to pursue new

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technology for worker safety. We expect that new regulations or stricter enforcement of existing regulations will increase our costs related to worker health and safety. Additionally, we could be subject to civil penalties and other penalties if we violate mining regulations.

Mining in Northern and Central Appalachia is more complex and involves more regulatory constraints than mining in the other areas, which could affect the mining operations and cost structures of these areas.

The geological characteristics of Northern and Central Appalachian coal reserves, such as depth of overburden and coal seam thickness, make them complex and costly to mine. As mines become depleted, replacement reserves may not be available when required or, if available, may not be capable of being mined at costs comparable to those characteristic of the depleting mines. In addition, as compared to mines in the Powder River Basin in northeastern Wyoming and southeastern Montana, permitting, licensing and other environmental and regulatory requirements are more costly and time-consuming to satisfy. These factors could materially adversely affect the mining operations and cost structures of, and customers ability to use coal produced by, our mines in Northern and Central Appalachia.

Judicial rulings that restrict disposal of mining spoil material could significantly increase our operating costs, discourage customers from purchasing our coal and materially harm our financial condition and operating results.

In our surface mining operations, we use mountaintop removal mining wherever feasible because it allows us to recover more tons of coal per acre and facilitates the permitting of larger projects, which allows mining to continue over a longer period of time than would be the case using other mining methods. To dispose of mining spoil material (including excess rock and overburden) generated by mountaintop removal operations, as well as other mining operations, we obtain permits to construct and operate valley fills and surface impoundments. Some of these permits are nationwide permits (as opposed to individual permits) issued by the Army Corps of Engineers, or ACOE, for dredging and filling in streams and wetlands. Lawsuits challenging the ACOE s authority to issue Nationwide Permit 21 have been instituted by environmental groups. The Fourth Circuit Court of Appeals recently rejected one such suit that was originally filed in West Virginia, concluding that the ACOE complied with the Clean Water Act in promulgating Nationwide Permit 21. A similar lawsuit filed in federal court in Kentucky is still pending. We cannot predict the final outcome of the legal challenges to Nationwide Permit 21 and other mountaintop mining permits. If mining methods at issue are limited or prohibited, it could significantly increase our operational costs, make it more difficult to economically recover a significant portion of our reserves and lead to a material adverse effect on our financial condition and results of operation. We may not be able to increase the price we charge for coal to cover higher production costs without reducing customer demand for our coal.

We may be unable to obtain and renew permits necessary for our operations, which would reduce our production, cash flow and profitability.

Mining companies must obtain numerous permits that impose strict regulations on various environmental and safety matters in connection with coal mining. These include permits issued by various federal and state agencies and regulatory bodies. The permitting rules are complex and may change over time, making our ability to comply with the applicable requirements more difficult or even impossible, thereby precluding continuing or future mining operations. Private individuals and the public have certain rights to comment upon and otherwise engage in the permitting process, including through court intervention. Accordingly, the permits we need may not be issued, maintained or renewed, or may not be issued or renewed in a timely fashion, or may involve requirements that restrict our ability to conduct our mining operations. An inability to conduct our mining operations pursuant to applicable permits would reduce our production, cash flow, and profitability.

If the assumptions underlying our reclamation and mine closure obligations are materially inaccurate, we could be required to expend greater amounts than anticipated.

The Surface Mining Control and Reclamation Act of 1977, or SMCRA, establishes operational, reclamation and closure standards for all aspects of surface mining as well as most aspects of deep mining. Estimates of our total

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reclamation and mine-closing liabilities are based upon permit requirements, independent third party engineering consultants and our engineering expertise related to these requirements. The estimate of ultimate reclamation liability is reviewed periodically by our management and engineers. The estimated liability can change significantly if actual costs vary from assumptions or if governmental regulations change significantly. We adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003. SFAS No. 143 requires that retirement obligations be recorded as a liability based on fair value, which is calculated as the present value of the estimated future cash flows. In estimating future cash flows, we considered the estimated current cost of reclamation and applied inflation rates and a third-party profit, as necessary. The third-party profit is an estimate of the approximate markup that would be charged by contractors for work performed on behalf of us. The resulting estimated reclamation and mine closure obligations could change significantly if actual amounts change significantly from our assumptions.

Our operations may substantially impact the environment or cause exposure to hazardous materials, and our properties may have significant environmental contamination, any of which could result in material liabilities to us.

We use, and in the past have used, hazardous materials and generate, and in the past have generated, hazardous wastes. In addition, many of the locations that we own or operate were used for coal mining and/or involved hazardous materials usage either before or after we were involved with those locations. We may be subject to claims under federal and state statutes, and/or common law doctrines, for toxic torts, natural resource damages, and other damages as well as the investigation and clean up of soil, surface water, groundwater, and other media. Such claims may arise, for example, out of current or former activities at sites that we own or operate currently, as well as at sites that we or predecessor entities owned or operated in the past, and at contaminated sites that have always been owned or operated by third parties. Our liability for such claims may be joint and several, so that we may be held responsible for more than our share of the remediation costs or other damages, or even for the entire share. We have from time to time been subject to claims arising out of contamination at our own and other facilities and may incur such liabilities in the future.

Mining operations can also impact flows and water quality in surface water bodies and remedial measures may be required, such as lining of stream beds, to prevent or minimize such impacts. We are currently involved with state environmental authorities concerning impacts or alleged impacts of our mining operations on water flows in several surface streams. We are studying, or addressing, those impacts and we have not finally resolved those matters. Many of our mining operations take place in the vicinity of streams, and similar impacts could be asserted or identified at other streams in the future. The costs of our efforts at the streams we are currently addressing, and at any other streams that may be identified in the future, could be significant.

We maintain extensive coal slurry impoundments at a number of our mines. Such impoundments are subject to regulation. Slurry impoundments maintained by other coal mining operations have been known to fail, releasing large volumes of coal slurry. Structural failure of an impoundment can result in extensive damage to the environment and natural resources, such as bodies of water that the coal slurry reaches, as well as liability for related personal injuries and property damages, and injuries to wildlife. Some of our impoundments overlie mined out areas, which can pose a heightened risk of failure and of damages arising out of failure. We have commenced measures to modify our method of operation at one surface impoundment containing slurry wastes in order to reduce the risk of releases to the environment from it, a process that will take several years to complete. If one of our impoundments were to fail, we could be subject to substantial claims for the resulting environmental contamination and associated liability, as well as for fines and penalties.

These and other impacts that our operations may have on the environment, as well as exposures to hazardous substances or wastes associated with our operations and environmental conditions at our properties, could result in costs and liabilities that would materially and adversely affect us.

Extensive environmental regulations affect our customers and could reduce the demand for coal as a fuel source and cause our sales to decline.

The Clean Air Act and similar state and local laws extensively regulate the amount of sulfur dioxide, particulate matter, nitrogen oxides, and other compounds emitted into the air from coke ovens and electric power plants, which are the largest end-users of our coal. Such regulations will require significant emissions control expenditures for many coal-fired power plants to comply with applicable ambient air quality standards. As a result, these generators may switch to other fuels that generate less of these emissions, possibly reducing future demand for coal and the construction of coal-fired power plants.

The Federal Clean Air Act, including the Clean Air Act Amendments of 1990, and corresponding state laws that regulate emissions of materials into the air affect coal mining operations both directly and indirectly. Measures intended to improve air quality that reduce coal s share of the capacity for power generation could diminish our revenues and harm our business, financial condition and results of operations. The price of higher sulfur coal may decrease as more coal-fired utility power plants install additional pollution control equipment to comply with stricter sulfur dioxide emission limits, which may reduce our revenues and harm our results. In addition, regulatory initiatives including the nitrogen oxide rules, new ozone and particulate matter standards, regional haze regulations, new source review, regulation of mercury emissions, and legislation or regulations that establish restrictions on greenhouse gas emissions or provide for other multiple pollutant reductions could make coal a less attractive fuel to our utility customers and substantially reduce our sales.

Various new and proposed laws and regulations may require further reductions in emissions from coal-fired utilities. For example, under the Clean Air Interstate Rule issued in March 2005, the U.S. Environmental Protection Agency, or EPA, has further regulated sulfur dioxide and nitrogen oxides from coal-fired power plants. Among other things, in affected states, the rule mandates reductions in sulfur dioxide emissions by approximately 45% below 2003 levels by 2010, and by approximately 57% below 2003 levels by 2015. The stringency of this cap may require many coal-fired sources to install additional pollution control equipment, such as wet scrubbers. Installation of additional pollution control equipment required by this proposed rule could result in a decrease in the demand for low sulfur coal (because sulfur would be removed by the new equipment), potentially driving down prices for low sulfur coal. In March 2006, the EPA denied petitions to reconsider the Clean Air Interstate Rule and promulgated federal implementation plans for this rule, which are subject to judicial challenge. In March 2005, the EPA also adopted the Clean Air Mercury Rule to control mercury emissions from power plants, which could require coal-fired power plants to install new pollution controls or comply with a mandatory, declining cap on the total mercury emissions allowed from coal-fired power plants nationwide. The Clean Air Mercury Rule is subject to judicial challenge. Some states, including Georgia and North Carolina, are adopting or proposing to adopt more stringent restrictions on mercury emissions than those contained in the Clean Air Mercury Rule. These and other future standards could have the effect of making the operation of coal-fired plants less profitable, thereby decreasing demand for coal. The majority of our coal supply agreements contain provisions that allow a purchaser to terminate its contract if legislation is passed that either restricts the use or type of coal permissible at the purchaser s plant or results in specified increases in the cost of coal or its use.

There have been several recent proposals in Congress, including the Clear Skies Initiative, that are designed to further reduce emissions of sulfur dioxide, nitrogen oxides and mercury from power plants, and certain ones could regulate additional air pollutants. If such initiatives are enacted into law, power plant operators could choose fuel sources other than coal to meet their requirements, thereby reducing the demand for coal.

A regional haze program initiated by the EPA to protect and to improve visibility at and around national parks, national wilderness areas and international parks restricts the construction of new coal-fired power plants whose operation may impair visibility at and around federally protected areas, and may require some existing coal-fired power plants to install additional control measures designed to limit haze-causing emissions.

One major by-product of burning coal is carbon dioxide, which is considered a greenhouse gas and is a major source of concern with respect to global warming. The Kyoto Protocol to the 1992 Framework Convention on Global Climate Change, which establishes a binding set of emission targets for greenhouse gases, became binding on ratifying countries on February 16, 2005. Four industrialized nations have refused to ratify the Kyoto Protocol Australia, Liechtenstein, Monaco and the United States. Although the targets vary from country to country, if the United States were to ratify the Kyoto Protocol, our nation would be required to reduce greenhouse gas emissions to 93% of 1990 levels in a series of phased reductions from 2008 to 2012.

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Future regulation of greenhouse gases in the United States could occur, for example, pursuant to future U.S. treaty obligations, or statutory or regulatory changes under the Clean Air Act. The Bush Administration has proposed a package of voluntary emission reductions for greenhouse gases which provide for certain incentives if targets are met. Some states, such as Massachusetts, have already issued regulations regulating greenhouse gas emissions from large power plants.

Seven northeastern U.S. states have entered into a Memorandum of Understanding, to create a regional initiative to establish a cap-and-trade greenhouse gas program for electric generators, referred to as Regional Greenhouse Gas Initiative (RGGI). The model rule caps carbon dioxide emissions from electric generators on January 1, 2009 at projected 2009 levels until 2015, and then requires a 10 percent reduction in greenhouse gas emissions between 2015 and 2019. There are still a number of uncertainties regarding this initiative. The model rule, which was issued August 15, 2006, requires each state to formally implement the requirements of the model rule either through legislation or through its regulatory process.

Risks Relating To The Notes

Our ability and the ability of some of our subsidiaries to engage in some business transactions or to pursue our business strategy may be limited by the terms of the notes and our other debt.

Our amended and restated credit facility contains a number of financial covenants requiring us to meet financial ratios and financial condition tests. The indenture governing the notes and our amended and restated credit facility also restrict our and our subsidiaries ability to:

- incur additional debt;
- pay dividends on, redeem or repurchase capital stock;
- allow our subsidiaries to issue new stock to any person other than us or any of our other subsidiaries;
- make investments;
- make acquisitions;
- incur, or permit to exist, liens;
- enter into transactions with affiliates;
- guarantee the debt of other entities, including joint ventures;
- merge or consolidate or otherwise combine with another company; and
- transfer or sell a material amount of our assets outside the ordinary course of business.

These covenants could adversely affect our ability to finance our future operations or capital needs or to execute preferred business strategies.

Our ability to borrow under our amended and restated credit facility depends upon our ability to comply with these covenants. Our ability to meet these covenants may be affected by events beyond our control and we may not meet these obligations. Our failure to comply with these covenants could result in an event of default under the indenture governing the notes that, if not cured or waived, could permit acceleration of the notes and cause an event of default under our amended and restated credit facility and permit foreclosure on any collateral granted as security under our amended and restated credit facility. If our indebtedness is accelerated, we may not be able to repay the notes or borrow sufficient funds to refinance the notes. Even if we were able to obtain new financing, it may not be on commercially reasonable terms, on terms that are acceptable to us, or at all. If our debt is in default for any reason, our business, financial condition and results of operations could be materially and adversely affected.

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We are also subject to limitations on capital expenditures under our amended and restated credit facility. Because of these limitations, we may not be able to pursue our business strategy to replace our aging equipment fleet, develop additional mines or pursue additional acquisitions without additional financing. See Management s Discussion and Analysis of Financial Conditions and Results of Operations Liquidity and Capital Resources and Note 8 to our audited consolidated financial statements for the year ended December 31, 2005 included elsewhere in this prospectus.

If our business does not generate sufficient cash for operations, we may not be able to repay our indebtedness.

As of June 30, 2006, we had cash of approximately $65.8 million, total consolidated indebtedness, including current maturities and capital lease obligations, of approximately $197.7 million and additional borrowing capacity of $265.1 million under the amended and restated credit facility. Subject to the limits contained in the indenture governing the notes and in our amended and restated credit facility, we may also incur additional debt in the future. If new debt is added to our and our subsidiaries current debt levels, the related risks that we and they now face could intensify. See Description of Other Indebtedness. In addition to the principal repayments on our outstanding debt, we have other demands on our cash resources, including, among others, capital expenditures and operating expenses.

Our ability to pay principal and interest on and to refinance our debt depends upon the operating performance of our subsidiaries, which will be affected by, among other things, general economic, financial, competitive, legislative, regulatory and other factors, some of which are beyond our control. In particular, economic conditions could cause the price of coal to fall, our revenue to decline, and hamper our ability to repay our indebtedness, including the notes.

Our business may not generate sufficient cash flow from operations and future borrowings may not be available to us under our amended and restated credit facility or otherwise in an amount sufficient to enable us to pay our indebtedness including anticipated interest on the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness on commercially reasonable terms, on terms acceptable to us or at all.

The notes and the guarantees are unsecured and therefore effectively subordinated to our and the guarantors secured debt.

Our obligations under the notes, and the obligations of the guarantors under their respective guarantees, are unsecured. As a result, the notes are effectively subordinated to all of our and the guarantors existing and future secured debt to the extent of the assets securing that debt. As of June 30, 2006, we and the guarantors had $22.7 million of secured debt outstanding and $265.1 million (which amount may be increased by $100.0 million), available for future borrowings under our amended and restated credit facility, subject to compliance with the facility s borrowing base. Our obligations under our amended and restated credit facility are secured by a first priority lien on substantially all of our and the guarantors assets. In the event that we are not able to repay amounts due under the notes and our amended and restated credit facility, the lenders under our amended and restated credit facility could proceed against the assets securing that indebtedness. In that event, any proceeds received upon a realization of the collateral would be applied first to amounts due under the amended and restated credit facility before any proceeds would be available to make payments on the notes. If there is a default, the value of this collateral may not be sufficient to repay both the lenders under the amended and restated credit facility and the holders of the notes.

We may not be able to repurchase the notes upon a change of control as required by the indenture.

Upon the occurrence of specific types of change of control events, we will be required to make an offer to purchase all of the notes at 101% of their principal amount, plus accrued and unpaid interest up to, but not

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including, the date of repurchase. The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of any change of control to make required repurchases of tendered notes. In addition, under the amended and restated credit facility, a change of control would be an event of default and we could be prohibited from repurchasing the notes. Any future credit agreement or other agreements relating to senior indebtedness to which we become a party may contain similar provisions. Our failure to repurchase tendered notes at a time when the repurchase is required by the indenture would constitute a default under the indenture. This default would, in turn, constitute an event of default under our amended and restated credit facility and may constitute an event of default under future senior secured indebtedness, any of which could cause repayment of the related debt to be accelerated after any applicable notice or grace periods. If debt repayment were to be accelerated, we may not have sufficient funds to repurchase the notes and repay the debt.

In addition, the definition of change of control for purposes of the indenture does not necessarily afford protection for the holders of the notes in the event of some types of highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings and the holders of the notes. The definition of change of control for purposes of the indenture also includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of our properties or assets taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the notes, and the ability of a holder of these notes to require us to repurchase its notes pursuant to the offer as a result of a highly leveraged transaction or a sale, lease, transfer, conveyance or other disposition of less than all of our assets taken as a whole may be uncertain.

The trading prices for the notes is directly affected by our credit rating.

Credit rating agencies continually revise their ratings for companies that they follow, including us. Any ratings downgrade could adversely affect the trading price of the notes or the trading market for the notes to the extent a trading market for the notes develops. The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future.

Federal and state statutes allow courts, under specific circumstances, to void guarantees and require note holders to return payments received from guarantors.

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee; and
- was insolvent or rendered insolvent by reason of such incurrence; or
- was engaged in a business or transaction for which the guarantor s remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets; or

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- if the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

- it could not pay its debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that each guarantor, after giving effect to its guarantee of the exchange notes, will not be insolvent, will not have unreasonably small capital for the business in which it is engaged and will not have incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

To the extent a court voids a guarantee as a fraudulent transfer, preference or conveyance or holds it unenforceable for any other reason, holders of notes would cease to have any direct claim against the guarantor which delivered that guarantee. If a court were to take this action, the guarantor s assets would be applied first to satisfy the guarantor s liabilities, including trade payables, and preferred stock claims, if any, before any payment in respect of the guarantee could be made. In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The interests of our major stockholders could conflict with your interests as a noteholder.

Funds sponsored by WLR currently own approximately 16.05% of our common stock. Circumstances may occur in which WLR or other major investors may have an interest in pursuing acquisitions, divestitures or other transactions, including among other things, taking advantage of certain corporate opportunities that, in their judgment, could enhance their investment in us or another company in which they invest. These transactions might involve risks to noteholders or adversely affect us or other investors.

We may from time to time engage in transactions with related parties and affiliates that include, among other things, business arrangements, lease arrangements for certain coal reserves and the payment of fees or commissions for the transfer of coal reserves by one operating company to another. These transactions, if any, may adversely affect our sales volumes, margins and earnings.

Risks Relating To The Exchange Offer

If you do not exchange your outstanding notes for exchange notes in the exchange offer, your outstanding notes will continue to be subject to significant restrictions on transfer, and may be subject to a limited trading market and a significant diminution in value.

If you do not exchange your outstanding notes for exchange notes in the exchange offer, you will continue to be subject to the restrictions on transfer described in the legend on the outstanding notes. In general, you may only offer or sell the outstanding notes if they are registered under the Securities Act and applicable state securities laws, or exempt from or not subject to registration. To the extent other outstanding notes are tendered and accepted in the exchange offer, the trading market, if any, for the remaining outstanding notes would be adversely affected and there could be a significant diminution in the value of the outstanding notes as compared to the value of the exchange notes.

An active public market may not develop for the exchange notes, which could adversely affect the market price and liquidity of the exchange notes.

The exchange notes constitute securities for which there is no established trading market. We do not intend to list the exchange notes on any securities exchange or to seek approval for quotation through any automated quotation system, and no active public market for the exchange notes is currently anticipated. If a market for the

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exchange notes should develop, the exchange notes could trade at a discount from their principal amount and they may be difficult to sell. Future trading prices of the exchange notes will depend on many factors, including prevailing interest rates, our operating results and the market for similar securities. As a result, we cannot assure you that you will be able to resell any exchange notes or, if you are able to resell, the price at which you will be able to do so.

If you participate in the exchange offer for the purpose of participating in a distribution of the exchange notes you could be deemed an underwriter under the Securities Act and be required to deliver a prospectus when you resell the exchange notes.

If you exchange your outstanding notes in the exchange offer for the purpose of participating in a distribution of the exchange notes, you may be deemed an underwriter under the Securities Act. If so, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes. If you are deemed to be an underwriter and do not comply with these prospectus delivery requirements, you may be subject to civil penalties.

Your outstanding notes will not be accepted for exchange if you fail to follow the exchange offer procedures and, as a result, your outstanding notes will continue to be subject to existing transfer restrictions, and you may not be able to sell your outstanding notes.

We will not accept your outstanding notes for exchange if you do not follow the exchange offer procedures. You will receive exchange notes in exchange for your outstanding notes only if, before the expiration date, you deliver all of the following to the exchange agent:

- certificates for the outstanding notes or a book-entry confirmation of a book-entry transfer of the outstanding notes into the exchange agent s account at the Depository Trust Company, or DTC;
- the letter of transmittal, properly completed and duly executed by you, together with any required signature guarantees; and
- any other documents required by the letter of transmittal.

You should allow sufficient time to ensure that the exchange agent receives all required documents before the exchange offer expires. Neither we nor the exchange agent has any duty to inform you of defects or irregularities with respect to the tender of your outstanding notes for exchange.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are not statements of historical fact and may involve a number of risks and uncertainties. We have used the words anticipate, believe, could, estimate, expect, intend, may, plan, predict, project and simi phrases, including references to assumptions, in this prospectus to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed in or implied by these forward-looking statements. The following factors are among those that may cause actual results to differ materially from our forward-looking statements:

- market demand for coal, electricity and steel;
- availability of qualified workers;
- future economic or capital market conditions;
- weather conditions or catastrophic weather-related damage;
- our production capabilities;
- the ongoing integration of Anker and CoalQuest into our business;
- the consummation of financing, acquisition or disposition transactions and the effect thereof on our business;
- our plans and objectives for future operations and expansion or consolidation;
- our relationships with, and other conditions affecting, our customers;
- the availability and costs of key supplies or commodities such as diesel fuel, steel, explosives and tires;
- prices of fuels which compete with or impact coal usage, such as oil and natural gas;
- timing of reductions or increases in customer coal inventories;
- long-term coal supply arrangements;
- risks in coal mining;

unexpected maintenance and equipment failure;

environmental, safety and other laws and regulations, including those directly affecting our coal mining and production, and those affecting our customers coal usage;

competition;

railroad, barge, trucking and other transportation availability, performance and costs;

employee benefits costs and labor relations issues;

replacement of our reserves;

our assumptions concerning economically recoverable coal reserve estimates;

availability and costs of credit, surety bonds and letters of credit;

title defects or loss of leasehold interests in our properties which could result in unanticipated costs or inability to mine these properties;

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- future legislation and changes in regulations or governmental policies or changes in interpretations thereof, including with respect to safety enhancements;

- the impairment of the value of our goodwill;

- the ongoing investigations into the Sago mine explosion;

- our liquidity, results of operations and financial condition;

- the adequacy and sufficiency of our internal controls; and

- legal and administrative proceedings, settlements, investigations and claims.

You should keep in mind that any forward-looking statement made by us in this prospectus speaks only as of the date on which we make it. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this prospectus after the date of this prospectus, except as may be required by law. In light of these risks and uncertainties, you should keep in mind that any forward-looking statement made in this prospectus might not occur.

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THE EXCHANGE OFFER

Purpose of the Exchange Offer

In connection with the offer and sale of the outstanding notes, we entered into a registration rights agreement with the initial purchasers of the outstanding notes. We are making the exchange offer to satisfy our obligations under the registration rights agreement.

Terms of the Exchange

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, exchange notes for an equal principal amount of outstanding notes. The terms of the exchange notes are identical in all material respects to those of the outstanding notes, except for transfer restrictions, registration rights and special interest rate provisions relating to the outstanding notes which will not apply to the exchange notes. The exchange notes will be entitled to the benefits of the indenture. See Description of Notes.

The exchange offer is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered or accepted for exchange. As of the date of this prospectus, $175.0 million aggregate principal amount of the outstanding 10.25% Senior Notes due 2014 were outstanding. Outstanding notes tendered in the exchange offer must be in denominations of a minimum principal amount of $2,000 or any integral multiples of $1,000.

Based on certain interpretive letters issued by the staff of the SEC to third parties in unrelated transactions, holders of outstanding notes, except any holder who is an affiliate of ours within the meaning of Rule 405 under the Securities Act, who exchange their outstanding notes for exchange notes pursuant to the exchange offer generally may offer the exchange notes for resale, resell the exchange notes and otherwise transfer the exchange notes without compliance with the registration and prospectus delivery provisions of the Securities Act, *provided* that the exchange notes are acquired in the ordinary course of the holders business and such holders are not participating in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where the outstanding notes were acquired by the broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes as described in Plan of Distribution. In addition, to comply with the securities laws of individual jurisdictions, if applicable, the exchange notes may not be offered or sold unless they have been registered or qualified for sale in the jurisdiction or an exemption from registration or qualification is available and complied with. We have agreed, pursuant to the registration rights agreement, to register or qualify the exchange notes for offer or sale under the securities or blue sky laws of the jurisdictions you request in writing. If you do not exchange your outstanding notes for exchange notes pursuant to the exchange offer, your outstanding notes will continue to be subject to the restrictions on transfer contained in the legend.

If any holder of the outstanding notes is an affiliate of ours, is engaged in or intends to engage in or has any arrangement or understanding with any person to participate in the distribution of the exchange notes to be acquired in the exchange offer, the holder would not be able to rely on the applicable interpretations of the SEC and would be required to comply with the registration requirements of the Securities Act, except for resales made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

Expiration Date; Extensions; Termination; Amendments

The exchange offer expires on the expiration date, which is 5:00 p.m., New York City time, on , 2006 unless we, in our sole discretion, extend the period during which the exchange offer is open.

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We reserve the right to extend the exchange offer at any time and from time to time prior to the expiration date by giving written notice to The Bank of New York Trust Company, N.A., the exchange agent, and by a press release or other public announcement communicated by no later than 9:00 a.m. on the next business day following the previously scheduled expiration date, unless otherwise required by applicable law or regulation. During any extension of the exchange offer, all outstanding notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us.

We expressly reserve the right to:

- terminate the exchange offer and not accept for exchange any outstanding notes for any reason, including if any of the events set forth below under Conditions to the Exchange Offer shall have occurred and shall not have been waived by us; and

- amend the terms of the exchange offer in any manner, whether before or after any tender of the outstanding notes.

If any termination or material amendment occurs, we will notify the exchange agent in writing and will either issue a press release or give written notice to the holders of the outstanding notes as promptly as practicable.

Unless we terminate the exchange offer prior to 5:00 p.m., New York City time, on the expiration date, we will exchange the exchange notes for the validly tendered and not withdrawn outstanding notes promptly after the expiration date. We refer to the date on which we issue the exchange notes as the exchange date in this prospectus. Any outstanding notes not accepted for exchange for any reason will be returned without expense to the tendering holder promptly after expiration or termination of the exchange offer. See Acceptance of Outstanding Notes for Exchange; Delivery of Exchange Notes.

This prospectus and the related letter of transmittal and other relevant materials will be mailed by us to record holders of outstanding notes and will be furnished to brokers, banks and similar persons whose names, or the names of whose nominees, appear on the lists of holders for subsequent transmittal to beneficial owners of outstanding notes.

Procedures for Tendering Outstanding Notes

The tender of outstanding notes by you pursuant to any one of the procedures set forth below will constitute an agreement between you and us in accordance with the terms and subject to the conditions set forth in this prospectus and in the letter of transmittal.

General Procedures. You may tender outstanding notes by:

- properly completing and signing the letter of transmittal or a facsimile and delivering the letter of transmittal together with:

  - the certificate or certificates representing the outstanding notes being tendered and any required signature guarantees, to the exchange agent at its address set forth in the letter of transmittal on or prior to the expiration date; or

  - a timely confirmation of a book-entry transfer of the outstanding notes being tendered, if the procedure is available, into the exchange agent s account at the DTC for that purpose pursuant to the procedure for book-entry transfer described below; or

- complying with the guaranteed delivery procedures described below.

If tendered outstanding notes are registered in the name of the signer of the letter of transmittal and the exchange notes to be issued in exchange for those outstanding notes are to be issued, or if a new note

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representing any untendered outstanding notes is to be issued, in the name of the registered holder, the signature of the signer need not be guaranteed. In any other case, the tendered outstanding notes must be endorsed or accompanied by written instruments of transfer in form satisfactory to us and duly executed by the registered holder and the signature on the endorsement or instrument of transfer must be guaranteed by a commercial bank or trust company located or having an office or correspondent in the United States or by a member firm of a national securities exchange or of the National Association of Securities Dealers, Inc. or by a member of a signature medallion program such as STAMP. If the exchange notes and/or outstanding notes not exchanged are to be delivered to an address other than that of the registered holder appearing on the note register for the outstanding notes, the signature on the letter of transmittal must be guaranteed by an eligible institution.

Any beneficial owner whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender outstanding notes should contact the holder promptly and instruct the holder to tender outstanding notes on the beneficial owner s behalf. If the beneficial owner wishes to tender the outstanding notes itself, the beneficial owner must, prior to completing and executing the letter of transmittal and delivering the outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in the beneficial owner s name or follow the procedures described in the immediately preceding paragraph. The transfer of record ownership may take considerable time.

A tender will be deemed to have been received as of the date when:

- the tendering holder s properly completed and duly signed letter of transmittal accompanied by the outstanding notes is received by the exchange agent;

- the tendering holder s properly completed and duly signed letter of transmittal accompanied by a book-entry confirmation is received by the exchange agent; or

- notice of guaranteed delivery or letter or facsimile transmission to similar effect from an eligible institution is received by the exchange agent.

Issuances of exchange notes in exchange for outstanding notes tendered pursuant to a notice of guaranteed delivery or letter or facsimile transmission to similar effect by an eligible institution will be made only against deposit of the letter of transmittal, the tendered outstanding notes, or book-entry confirmation, if applicable, and any other required documents.

All questions as to the validity, form, eligibility, including time of receipt, and acceptance for exchange of any tender of outstanding notes will be determined by us, and will be final and binding. We reserve the absolute right to reject any or all tenders not in proper form or the acceptances for exchange of which may, upon advice of our counsel, be unlawful. We also reserve the absolute right to waive any of the conditions of the exchange offer or any defects or irregularities in tenders of any particular holder whether or not similar defects or irregularities are waived in the case of other holders. Neither we, the exchange agent nor any other person will be under any duty to give notification of any defects or irregularities in tenders or will incur any liability for failure to give any such notification. Our interpretation of the terms and conditions of the exchange offer, including the letter of transmittal and its instructions, will be final and binding.

The method of delivery of outstanding notes and all other documents is at the election and risk of the tendering holders, and delivery will be deemed made only when actually received and confirmed by the exchange agent. If the delivery is by mail, it is recommended that registered mail properly insured with return receipt requested be used and that the mailing be made sufficiently in advance of the expiration date to permit delivery to the exchange agent prior to 5:00 p.m., New York City time, on the expiration date. As an alternative to delivery by mail, holders may wish to consider overnight or hand delivery service. In all cases, sufficient time should be allowed to assure delivery to the exchange agent prior to 5:00 p.m., New York City time, on the expiration date. No letter of transmittal or outstanding notes should be sent to us. Holders may request their respective brokers, dealers, commercial banks, trust companies or nominees to effect the above transactions for the holders.

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Book-Entry Transfer. The exchange agent will make a request to establish an account with respect to the outstanding notes at DTC for purposes of the exchange offer within two business days after the prospectus is mailed to holders, and any financial institution that is a participant in DTC may make book-entry delivery of outstanding notes by causing DTC to transfer the outstanding notes into the exchange agent s account at DTC in accordance with DTC s procedures for transfer.

Guaranteed Delivery Procedures. If you desire to tender outstanding notes pursuant to the exchange offer, but time will not permit a letter of transmittal, the outstanding notes or other required documents to reach the exchange agent on or before the expiration date, or if the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if the exchange agent has received at its office a letter or facsimile transmission from an eligible institution setting forth the name and address of the tendering holder, the names in which the outstanding notes are registered, the principal amount of the outstanding notes being tendered and, if possible, the certificate numbers of the outstanding notes to be tendered, and stating that the tender is being made thereby and guaranteeing that within three NYSE trading days after the expiration date, the outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a properly completed and duly executed letter of transmittal and any other required documents, will be delivered by the eligible institution to the exchange agent in accordance with the procedures outlined above. Unless outstanding notes being tendered by the above-described method are deposited with the exchange agent, including through a book-entry confirmation, within the time period set forth above and accompanied or preceded by a properly completed letter of transmittal and any other required documents, we may, at our option, reject the tender. Additional copies of a notice of guaranteed delivery which may be used by eligible institutions for the purposes described in this paragraph are available from the exchange agent.

Terms and Conditions of the Letter of Transmittal

The letter of transmittal contains, among other things, the following terms and conditions, which are part of the exchange offer.

The transferring party tendering outstanding notes for exchange will be deemed to have exchanged, assigned and transferred the outstanding notes to us and irrevocably constituted and appointed the exchange agent as the transferor s agent and attorney-in-fact to cause the outstanding notes to be assigned, transferred and exchanged. The transferor will be required to represent and warrant that it has full power and authority to tender, exchange, assign and transfer the outstanding notes and to acquire exchange notes issuable upon the exchange of the tendered outstanding notes and that, when the same are accepted for exchange, we will acquire good and unencumbered title to the tendered outstanding notes, free and clear of all liens, restrictions, charges and encumbrances, other than restrictions on transfer, and that the notes are not and will not be subject to any adverse claim. The transferor will be required to also agree that it will, upon request, execute and deliver any additional documents deemed by the exchange agent or us to be necessary or desirable to complete the exchange, assignment and transfer of tendered outstanding notes. The transferor will be required to agree that acceptance of any tendered outstanding notes by us and the issuance of exchange notes in exchange for tendered outstanding notes will constitute performance in full by us of our obligations under the registration rights agreement and that we will have no further obligations or liabilities under the registration rights agreement, except in certain limited circumstances. All authority conferred by the transferor will survive the death, bankruptcy or incapacity of the transferor and every obligation of the transferor will be binding upon the heirs, legal representatives, successors, assigns, executors, administrators and trustees in bankruptcy of the transferor.

By tendering outstanding notes and executing the letter of transmittal, the transferor certifies that:

- it is not an affiliate of ours or our subsidiaries or, if the transferor is an affiliate of ours or our subsidiaries, it will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable;

- the exchange notes are being acquired in the ordinary course of business of the person receiving the exchange notes, whether or not the person is the holder;

the transferor has not entered into an arrangement or understanding with any other person to participate in the distribution, within the meaning of the Securities Act, of the exchange notes;

the transferor is not a broker-dealer who purchased the outstanding notes for resale pursuant to an exemption under the Securities Act; and

the transferor will be able to trade the exchange notes acquired in the exchange offer without restriction under the Securities Act.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See Plan of Distribution.

Withdrawal Rights

Outstanding notes tendered pursuant to the exchange offer may be withdrawn at any time prior to the expiration date.

For a withdrawal to be effective, a written letter or facsimile transmission notice of withdrawal must be received by the exchange agent at its address set forth in the letter of transmittal not later than the close of business on the expiration date. Any notice of withdrawal must specify the person named in the letter of transmittal as having tendered outstanding notes to be withdrawn, the certificate number(s) and principal amount of outstanding notes to be withdrawn, that the holder is withdrawing its election to have such outstanding notes exchanged and the name of the registered holder of the outstanding notes, and must be signed by the holder in the same manner as the original signature on the letter of transmittal, including any required signature guarantees, or be accompanied by evidence satisfactory to us that the person withdrawing the tender has succeeded to the beneficial ownership of the outstanding notes being withdrawn. The exchange agent will return the properly withdrawn outstanding notes promptly following receipt of notice of withdrawal. Properly withdrawn outstanding notes may be retendered by following one of the procedures described under Procedures for Tendering Outstanding Notes above at any time on or prior to the expiration date. If outstanding notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of such facility. All questions as to the validity of notices of withdrawals, including time of receipt, will be determined by us, and will be final and binding on all parties.

Acceptance of Outstanding Notes for Exchange; Delivery of Exchange Notes

Upon the terms and subject to the conditions of the exchange offer, the acceptance for exchange of outstanding notes validly tendered and not withdrawn and the issuance of the exchange notes will be made on the exchange date. For purposes of the exchange offer, we will be deemed to have accepted for exchange validly tendered outstanding notes when, and if, we have given written notice to the exchange agent.

The exchange agent will act as agent for the tendering holders of outstanding notes for the purposes of receiving exchange notes from us and causing the outstanding notes to be assigned, transferred and exchanged. Upon the terms and subject to the conditions of the exchange offer, delivery of exchange notes to be issued in exchange for accepted outstanding notes will be made by the exchange agent on the exchange date. Any outstanding notes which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder without cost to the holder, or, in the case of outstanding notes tendered by book-entry transfer into the exchange agent s account at DTC pursuant to the book-entry procedures described above, the outstanding notes will be credited to an account maintained by the holder with DTC for the outstanding notes, promptly after withdrawal, rejection of tender or termination of the exchange offer.

Conditions to the Exchange Offer

Notwithstanding any other provision of the exchange offer, or any extension of the exchange offer, we will not be required to issue exchange notes in exchange for any properly tendered outstanding notes not previously

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accepted and may terminate the exchange offer, by oral or written notice to the exchange agent and by means of a press release or other public announcement, unless otherwise required by applicable law or regulation, or, at our option, modify or otherwise amend the exchange offer, if:

- there is threatened, instituted or pending any action or proceeding before, or any injunction, order or decree shall have been issued by, any court or governmental agency or other governmental regulatory or administrative agency or of the SEC:
  - seeking to restrain or prohibit the making or consummation of the exchange offer or any other transaction contemplated by the exchange offer,
  - assessing or seeking any damages as a result thereof, or
  - resulting in a material delay in our ability to accept for exchange or exchange some or all of the outstanding notes pursuant to the exchange offer; or
- the exchange offer violates any applicable law or any applicable interpretation of the staff of the SEC.

These conditions are for our sole benefit and may be asserted by us with respect to all or any portion of the exchange offer regardless of the circumstances, including any action or inaction by us, giving rise to the condition or may be waived by us in whole or in part at any time or from time to time in our sole discretion. The failure by us at any time to exercise any of the foregoing rights will not be deemed a waiver of any right, and each right will be deemed an ongoing right that may be asserted at any time or from time to time. In addition, we reserve the right, notwithstanding the satisfaction of these conditions, to terminate or amend the exchange offer.

Any determination by us concerning the fulfillment or non-fulfillment of any conditions will be final and binding upon all parties.

In addition, we will not accept for exchange any outstanding notes tendered, and no exchange notes will be issued in exchange for any outstanding notes, if at such time, any stop order has been issued, or is threatened with respect to the registration statement of which this prospectus is a part, or with respect to the qualification of the indenture under the Trust Indenture Act, as amended.

Exchange Agent

The Bank of New York Trust Company, N.A. has been appointed as the exchange agent for the exchange offer. Questions relating to the procedure for tendering, as well as requests for additional copies of this prospectus, the letter of transmittal or a notice of guaranteed delivery, should be directed to the exchange agent addressed as follows:

The Bank of New York Trust Company, N.A., as exchange agent

By registered or certified Mail:	*By regular or overnight mail:*	*By hand:*
The Bank of New York Corporate Trust Department	The Bank of New York Corporate Trust Department	The Bank of New York Corporate Trust Department
Reorganization Unit	Reorganization Unit	Reorganization Unit
101 Barclay Street - 7 East	101 Barclay Street - 7 East	101 Barclay Street - 7 East
New York, New York 10286	New York, New York 10286	New York, New York 10286

Attn: Mrs. Carolle Montreuil	Attn: Mrs. Carolle Montreuil	Attn: Mrs. Carolle Montreuil

Facsimile (eligible institutions only): (212) 298-1915

Telephone inquires: (212) 815-5920

Delivery of the letter of transmittal to an address other than as set forth above, or transmission of instructions via facsimile other than as set forth above, will not constitute a valid delivery.

The exchange agent also acts as trustee under the indenture.

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Solicitation of Tenders; Expenses

We have not retained any dealer-manager or similar agent in connection with the exchange offer and we will not make any payments to brokers, dealers or others for soliciting acceptances of the exchange offer. We will, however, pay the exchange agent reasonable and customary fees for its services and will reimburse it for reasonable out-of-pocket expenses. The expenses to be incurred in connection with the exchange offer, including the fees and expenses of the exchange agent and printing, accounting and legal fees, will be paid by us and are estimated at approximately $0.7 million. They include:

- SEC registration fees;
- fees and expenses of the exchange agent and trustee;
- accounting and legal fees and printing costs; and
- related fees and expenses.

No person has been authorized to give any information or to make any representations in connection with the exchange offer other than those contained in this prospectus. If given or made, the information or representations should not be relied upon as having been authorized by us. Neither the delivery of this prospectus nor any exchange made in the exchange offer, will, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or any earlier date as of which information is given in this prospectus. The exchange offer is not being made to, nor will tenders be accepted from or on behalf of, holders of outstanding notes in any jurisdiction in which the making of the exchange offer or the acceptance would not be in compliance with the laws of the jurisdiction. However, we may, at our discretion, take any action as we may deem necessary to make the exchange offer in any jurisdiction. In any jurisdiction where its securities laws or blue sky laws require the exchange offer to be made by a licensed broker or dealer, the exchange offer is being made on our behalf by one or more registered brokers or dealers licensed under the laws of the jurisdiction.

Appraisal Rights

You will not have dissenters rights or appraisal rights in connection with the exchange offer.

Accounting Treatment

The exchange notes will be recorded at the carrying value of the outstanding notes as reflected on our accounting records on the date of the exchange. Accordingly, no gain or loss for accounting purposes will be recognized by us upon the exchange of exchange notes for outstanding notes. Expenses incurred in connection with the issuance of the exchange notes will be amortized over the term of the exchange notes.

Transfer Taxes

If you tender your outstanding notes, you will not be obligated to pay any transfer taxes in connection with the exchange offer unless you instruct us to register exchange notes in the name of, or request outstanding notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered holder, in which case you will be responsible for the payment of any applicable transfer tax.

Income Tax Considerations

We advise you to consult your own tax advisers as to your particular circumstances and the effects of any state, local or foreign tax laws to which you may be subject. For a discussion of the material United States federal income tax considerations relating to the exchange offer to persons who exchange their outstanding notes for exchange notes pursuant to the exchange offer and to the ownership and disposition of exchange notes by the holders of such notes, see Material United States Federal Income Tax Considerations.

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Consequences of Failure to Exchange

As consequence of the offer and sale of the outstanding notes pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws, holders of outstanding notes who do not exchange outstanding notes for exchange notes in the exchange offer will continue to be subject to the restrictions on transfer of the outstanding notes. In general, the outstanding notes may not be offered or sold unless such offers and sales are registered under the Securities Act, or exempt from, or not subject to, the Securities Act and applicable state securities laws.

Upon completion of the exchange offer, due to the restrictions on transfer of the outstanding notes and the absence of similar restrictions applicable to the exchange notes, it is likely that the market, if any, for outstanding notes will be relatively less liquid than the market for exchange notes. Consequently, holders of outstanding notes who do not participate in the exchange offer could experience significant diminution in the value of their outstanding notes, compared to the value of the exchange notes.

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USE OF PROCEEDS

We will not receive any proceeds from the issuance of the exchange notes. The proceeds from sale of the outstanding notes, net of discounts and expenses related to that offering, were $171.5 million. We used the net proceeds to repay all amounts outstanding under our then existing revolving credit facility and retire our then existing term loan facility, and will use the excess to fund future capital expenditures and for general corporate purposes.

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CAPITALIZATION

The following table sets forth our actual cash and cash equivalents and capitalization as of June 30, 2006. You should read this table in conjunction with Management s Discussion and Analysis of Financial Conditions and Results of Operations, Selected Historical Condensed Consolidated Financial Information of International Coal Group, Inc., and the audited and unaudited condensed consolidated financial statements and the accompanying notes included elsewhere in this prospectus.

	As of June 30, 2006
	Actual (in thousands)
Cash and cash equivalents	$ 65,792
Short-term debt	18,966
Long-term debt, including current portion:	
10.25% Senior Notes due 2014	175,000
Amended and restated credit facility	
Equipment notes	3,714
Total debt	197,680
Stockholders equity	
Common stock, par value $0.01 per share, 2,000,000,000 shares authorized, 152,706,148 shares issued and outstanding	1,527
Preferred stock, par value $0.01 per share, 200,000,000 shares authorized, no shares issued and outstanding	
Additional paid-in-capital	631,264
Retained earnings	28,646(1)
Total stockholders equity	661,437
Total capitalization	$ 859,117

(1) Includes $1.0 million in finance costs, after tax, relating to the prior credit agreement that were written-off in connection with the negotiation of our new amended and restated credit facility. The remaining finance costs pertaining to our prior credit agreement of $4.5 million will continue to be amortized over the life of the amended and restated credit facility.

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UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma condensed consolidated financial data is based on the information derived from our consolidated financial statements and the financial statements of Anker and CoalQuest, each appearing elsewhere in this prospectus.

The unaudited pro forma condensed statement of operations for the year ended December 31, 2005 gives effect to the Anker and CoalQuest acquisitions, as if they had occurred on January 1, 2005 and carried forward through December 31, 2005.

The unaudited pro forma condensed consolidated statement of operations does not include any adjustments for future cost savings or operating improvements as a result of the Anker and CoalQuest acquisitions or for any other reason. See Risk Factors, Special Note Regarding Forward-Looking Statements, and Business for a discussion of factors that may impact consolidated future operating results.

The unaudited pro forma condensed consolidated financial data should be read in conjunction with our consolidated financial statements, the financial statements of Anker and CoalQuest and the other financial information appearing elsewhere in this prospectus, including Management s Discussion and Analysis of Financial Conditions and Results of Operations.

The pro forma adjustments reflect our preliminary estimates of the purchase price allocation of certain assets and liabilities in the Anker and CoalQuest acquisitions. An allocation to inventory would impact cost of coal sales subsequent to the acquisition date. An allocation to coal reserves, property, plant and equipment, coal supply agreements or other intangible assets would result in additional depreciation, depletion and amortization expense which may be significant. We have not yet finalized the purchase price allocation associated with the Anker and CoalQuest acquisitions. Therefore, we expect adjustments, which could be material, to our purchase price allocation between tangible and intangible assets, including goodwill.

The unaudited pro forma condensed consolidated financial data is for informational purposes only and is not intended to represent or be indicative of the consolidated results of operations or financial position that would have been reported had the transactions been completed as of the date presented, and should not be taken as representative of future consolidated results of operations or financial position.

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Unaudited pro forma statement of operations data for the year ended December 31, 2005:

	International Coal Group, Inc. historical	Anker historical	CoalQuest historical	Anker acquisition adjustments	CoalQuest acquisition adjustments	Pro forma
	(in thousands, except share and per share data)					
Revenues:						
Coal sales revenues	$ 619,038	$ 123,169	$	$ (5,580)(1)	$	$ 736,627
Freight and handling revenues	8,601	10,144				18,745
Other revenues	20,074	4,375				24,449
Total revenues	647,713	137,688		(5,580)		779,821
Costs and expenses:						
Freight and handling costs	8,601	10,144				18,745
Cost of coal sales and other revenues (exclusive of depreciation, depletion and amortization shown separately below)	510,834	135,756	362	(5,638)(1)(3)(5)		641,314
Depreciation, depletion and amortization	43,195	11,383	45	(11,053)(2)(4)	466(2)	44,036
Selling, general and administrative (exclusive of depreciation, depletion and amortization shown separately above)	28,785	5,261				34,046
Gain on sale of assets	(502)	(196)				(698)
Total costs and expenses	590,913	162,348	407	(16,691)	466	737,443
Income (loss) from operations	56,800	(24,660)	(407)	11,111	(466)	42,378
Interest and other income (expense):						
Interest expense	(14,394)	(3,359)	(480)	(430)(6)		(18,663)
Other, net	6,080	5,392	1,032		(1,032)(3)	11,472
Total interest and other income (expense)	(8,314)	2,033	552	(430)	(1,032)	(7,191)
Income (loss) before income taxes and minority interest	48,486	(22,627)	145	10,681	(1,498)	35,187
Income tax (expense) benefit	(16,676)			4,109(7)	465(7)	(12,102)
Minority interest	15					15
Net income (loss)	$ 31,825	$ (22,627)	$ 145	$ 14,790	$ (1,033)	$ 23,100
Basic earnings per share:						
Net income (loss)	$ 31,825					$ 23,100
Average shares of common stock outstanding	111,120,211					132,307,011
Basic earnings per share	$ 0.29					$ 0.17
Diluted earnings per share:						
Net income (loss)	$ 31,825					$ 23,100
	111,161,287					132,348,087

Average shares of common stock outstanding		
Diluted earnings per share	$ 0.29	$ 0.17

(1) To eliminate intercompany coal sales and expense of $5.58 million between International Coal Group, Inc. and Anker Coal Group, Inc.
(2) To record additional depletion expense of $0.8 million on the purchase price allocation to coal reserves of $8.3 million to Anker and $268.3 million to CoalQuest.
(3) To eliminate intercompany royalty revenue and expense of $1.0 million between CoalQuest and Anker.
(4) To record net amortization income on the purchase price allocation to above and below market coal supply agreements of $11.4 million.
(5) To record additional accretion expense of $1.0 million based on revised mineral reserve studies in conjunction with the Anker and CoalQuest acquisition.
(6) To record additional interest expense of $0.43 million related to employee benefits based on revised actuarial studies in conjunction with the Anker and CoalQuest acquisition.
(7) To reflect the federal and state tax effects on the combined historical net income and pro forma adjustments assuming an estimated effective tax rate at December 31, 2005 of 34.4%.

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SELECTED HISTORICAL CONDENSED CONSOLIDATED

FINANCIAL INFORMATION OF INTERNATIONAL COAL GROUP, INC.

International Coal Group, Inc. was formed in March 2005 as a wholly-owned subsidiary of ICG, Inc. in order to effect a corporate reorganization that was completed on November 18, 2005. Prior to this reorganization, ICG, Inc. was the top-tier holding company. Upon completion of the reorganization, International Coal Group, Inc. became the new top-tier parent holding company. International Coal Group, Inc. is a holding company which does not have any independent external operations other than through its operating subsidiaries. Prior to the acquisition of certain assets of Horizon as of September 30, 2004, ICG, Inc. did not have any material assets, liabilities or results of operations. The selected historical condensed consolidated financial data is derived from International Coal Group, Inc. s audited consolidated financial statements as of and for the year ended December 31, 2005 and as of and for the period from May 13, 2004 (inception) to December 31, 2004, which are included elsewhere in this prospectus. The selected historical condensed consolidated financial data as of the six months ended June 30, 2006 and June 30, 2005 is derived from the unaudited condensed consolidated financial data of International Coal Group, Inc., which has been included elsewhere in this prospectus. The selected historical consolidated financial data for the period ended September 30, 2004 and as of and for the year ended December 31, 2003 have been derived from the audited consolidated financial statements of Horizon, our predecessor, which are included in this prospectus. The selected historical financial data as of and for the period ended May 10, 2002 to December 31, 2002 were derived from the audited consolidated financial statements of Horizon and are not included in this prospectus. The selected historical consolidated financial data as of and for the period January 1, 2002 to May 9, 2002 and as of and for the year ended December 31, 2001 were derived from the audited consolidated financial statements of AEI Resources, the predecessor to Horizon and are not included in this prospectus. In the opinion of management, the financial data reflect all adjustments, consisting of all normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or for any future period. The financial statements for the predecessor periods have been prepared on a carve-out basis to include our assets, liabilities and results of operations that were previously included in financial statements of Horizon. The financial statements for the predecessor periods include allocations of certain expenses, taxation charges, interest and cash balances relating to the predecessor based on management s estimates. The predecessor financial information is not necessarily indicative of our consolidated financial position, results of operations and cash flows if we had operated during the predecessor periods presented.

You should read the following data in conjunction with Management s Discussion and Analysis of Financial Conditions and Results of Operations and with the financial information included elsewhere in this prospectus, including the consolidated financial statements of International Coal Group, Inc. and Horizon (and its predecessor) and the related notes thereto.

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	AEI Resources (Predecessor to Horizon)		Horizon (Predecessor to International Coal Group, Inc.)			International Coal Group, Inc.			
	Year ended December 31, 2001	Period from January 1, 2002 to May 9, 2002	Period from May 10, 2002 to December 31, 2002	Year ended December 31, 2003	Period January 1, 2004 to September 30, 2004	Period May 13, 2004 to December 31, 2004	Year ended December 31, 2005	Six months ended June 30, 2005	Six months ended June 30, 2006
	(in thousands, except per share data)								
Statement of Operations Data:									
Revenues:									
Coal sales revenues	$ 500,829	$ 136,040	$ 264,235	$ 441,291	$ 346,981	$ 130,463	$ 619,038	$ 289,763	$ 415,500
Freight and handling revenues	14,728	2,947	6,032	8,008	3,700	880	8,601	4,384	9,193
Other revenues	34,835	21,183	27,397	31,771	22,702	4,766	20,074	13,117	10,815
Total revenues	550,392	160,170	297,664	481,070	373,383	136,109	647,713	307,264	435,508
Cost and expenses:									
Freight and handling costs	14,728	2,947	6,032	8,008	3,700	880	8,601	4,384	9,193
Cost of coal sales and other revenues (exclusive of depreciation, depletion and amortization shown separately below)	379,333	114,767	251,361	400,652	306,429	113,707	510,834	234,261	382,343
Depreciation, depletion and amortization	92,602	32,316	40,033	52,254	27,547	7,943	43,195	18,307	33,692
Selling, general and administrative (exclusive of depreciation, depletion and amortization shown separately above)	19,324	9,677	16,695	23,350	8,477	4,194	28,785	13,941	17,964
(Gain)/loss on sale of assets	189	(93)	(39)	(4,320)	(226)	(10)	(502)	43	(929)
Writedowns and special items	20,218	8,323	729,953	9,100	10,018				
Total costs and expenses	526,394	167,937	1,044,035	489,044	355,945	126,714	590,913	270,936	442,263
Income (loss) from operations	23,998	(7,767)	(746,371)	(7,974)	17,438	9,395	56,800	36,328	(6,755)
Other income (expense)									
Interest expense	(138,655)	(36,666)	(80,405)	(145,892)	(114,211)	(3,453)	(14,394)	(6,610)	(6,383)
Reorganization items		787,900	(4,075)	(23,064)	(12,471)				
Other, net	(2,941)	499	1,256	187	1,581	898	6,080	1,451	3,926
Total interest and other income (expense)	(141,596)	751,733	(83,224)	(168,769)	(125,101)	(2,555)	(8,314)	(5,159)	(2,457)

Income (loss) before income taxes and minority interest	(117,598)	743,966	(829,595)	(176,743)	(107,663)	6,840	48,486	31,169	(9,212)
Income tax (expense) benefit	(4,155)					(2,591)	(16,676)	(11,220)	2,509
Minority interest							15		(87)
Net income (loss)	$ (121,753)	$ 743,966	$ (829,595)	$ (176,743)	$ (107,663)	$ 4,249	$ 31,825	$ 19,949	$ (6,790)

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	AEI Resources (Predecessor to Horizon)		Horizon (Predecessor to International Coal Group, Inc.)			International Coal Group, Inc.			
	Year ended December 31, 2001	Period from January 1, 2002 to May 9, 2002	Period from May 10, 2002 to December 31, 2002	Year ended December 31, 2003	Period January 1, 2004 to September 30, 2004	Period May 13, 2004 to December 31, 2004	Year ended December 31, 2005	Six months ended June 30, 2005	Six months ended June 30, 2006
	(in thousands, except per share data)								
Earnings (loss) per share[1]:									
Basic	$	$	$	$	$	$ 0.04	$ 0.29	$ 0.19	$ (0.04)
Diluted	$	$	$	$	$	$ 0.04	$ 0.29	$ 0.19	$ (0.04)
Weighted-average common shares outstanding[1]:									
Basic						106,605,999	111,120,211	106,669,880	151,936,375
Diluted						106,605,999	111,161,287	106,684,475	151,936,375
Balance sheet data (at period end):									
Cash and cash equivalents	$ 64,592	$ 87,278	$ 114	$ 859	$	$ 23,967	$ 9,187	$ 12,692	$ 65,792
Total assets	$ 881,924	$ 1,521,318	$ 623,800	$ 576,372	$ 539,606	$ 459,975	$ 1,056,163	$ 489,759	$ 1,208,270
Long-term debt and capital leases		$ 933,106	$ 1,157	$ 315	$ 29	$ 175,681[2]	$ 45,462[2]	$ 172,376	$ 177,532
Total liabilities and minority interest	$ 1,581,346	$ 1,286,318	$ 1,222,219	$ 1,351,393	$ 1,422,290	$ 305,575	$ 390,291	$ 312,756	$ 546,833
Total stockholders equity (members deficit)	(699,422)	235,000	(598,419)	(775,021)	(882,684)	154,400	665,872	177,003	661,437
Total liabilities and stockholders equity (members deficit)	$ 881,924	$ 1,521,318	$ 623,800	$ 576,372	$ 539,606	$ 459,975	$ 1,056,163	$ 489,759	$ 1,208,270
Statement of cash flows data:									
Net cash provided by (used in):									
Operating activities	$ 106,060	$ (353,592)	$ 76,378	$ 20,030	$ 28,085	$ 30,264	$ 77,319	$ 35,070	$ 18,769
Investing activities	$ (88,434)	$ 44,555	$ (12,805)	$ (3,826)	$ 3,437	$ (329,168)	$ (104,713)	$ (42,300)	$ (79,256)
Financing activities	$ (8,547)	$ 259,011	$ (78,025)	$ (15,459)	$ (32,381)	$ 322,871	$ 12,614	$ (4,045)	$ 117,092
Capital expenditures	$ 34,254	$ 10,963	$ 13,435	$ 16,937	$ 6,624	$ 5,583	$ 108,231	$ 43,244	$ 108,659
Other financial data:									
Ratio of earnings to fixed charges[3]	[4]	21.08x	[4]	[4]	[4]	2.77x	3.98x	5.22x	[4]

(1) Earnings per share data and average shares outstanding are not presented for the period from January 1, 2002 to May 9, 2002, the period from May 10, 2002 to December 31, 2002, the year ended December 31, 2003 and the period from January 1, 2004 to September 30, 2004 because they were prepared on a carve-out basis. The financial statements prepared for predecessor periods are carve-out financial statements reflecting the operations and financial condition of the Horizon assets acquired by ICG as of September 30, 2004 (collectively, the combined companies). The predecessor financial statements were prepared from the separate accounts and records maintained by the combined companies. In addition, certain assets and expense items represent allocations from Horizon. The accounts allocated include vendor advances, reclamation deposits and selling, general and administrative expenses.

(2) Includes the current portion of long-term debt.

(3) For the purposes of calculating the ratio of earnings to fixed charges, earnings represents income from continuing operations before income taxes and minority interests, plus fixed charges. Fixed charges consist of interest expense, including amortization of debt issuance costs and that portion of rental expense considered to be a reasonable approximation of interest. After giving effect to the sale of the outstanding notes, the use of the net proceeds thereof and a commitment fee relating to the amended and restated $325.0 million credit facility as if each transaction had occurred on January 1, 2005, our ratio of earnings to fixed charges for the year ended December 31, 2005 would have been 2.63x. Our earnings would have been insufficient to cover fixed charges for the six-months ended June 30, 2006 by approximately $26.5 million.

(4) Our earnings were insufficient to cover fixed charges for the year ended December 31, 2001, for the period from May 10, 2002 to December 31, 2002, the year ended December 31, 2003, the period from January 1, 2004 to September 30, 2004, and the six months ended June 30, 2006 by approximately $257.2 million, $910.8 million, $324.1 million, $223.1 million, and $16.8 million, respectively.

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SELECTED HISTORICAL CONDENSED CONSOLIDATED

FINANCIAL DATA OF ANKER AND COALQUEST

The following table presents the selected historical consolidated financial data for Anker and CoalQuest. The selected historical condensed consolidated financial data as of and for the year ended December 31, 2004 have been derived from the audited consolidated financial statements of Anker and CoalQuest, respectively, each of which have been audited and are included elsewhere in this prospectus. The selected historical consolidated financial data as of and for the nine months ended September 30, 2005 have been derived from Anker s and CoalQuest s unaudited condensed consolidated financial statements and are also included elsewhere in this prospectus. In the opinion of management, the financial data reflect all adjustments, consisting of all normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or for any future period.

You should read the following data in conjunction with Management s Discussion and Analysis of Financial Conditions and Results of Operations and with the financial information included elsewhere in this prospectus, including the audited consolidated financial statements of Anker and CoalQuest and related notes thereto.

	Anker		CoalQuest	
	Year ended December 31, 2004	Nine months ended September 30, 2005	Year ended December 31, 2004	Nine months ended September 30, 2005
Statement of operations data:				
Net income (loss)	$ (3,196,973)	$ (14,499,954)	$ 925,553	$ 137,023
Balance sheet data (at period end):				
Cash and cash equivalents	$ 1,165,559	$ 694,782	$ 1,818,883	$ 1,944,691
Total assets	83,370,701	95,497,168	21,993,658	22,102,302
Total liabilities	81,973,367	108,599,788	18,370,242	18,453,997
Total stockholders equity (members deficit)	$ 1,397,334	$ (13,102,620)	$ 3,623,416	$ 3,648,305
Total liabilities and stockholders equity/members deficit	$ 83,370,701	$ 95,497,168	$ 21,993,658	$ 22,102,302
Statement of cash flows data:				
Net cash provided by (used in)				
Operating activities	$ 9,972,694	$ 1,921,761	$ 1,318,103	$ 237,942
Investing activities	$ (26,121,875)	$ (23,298,789)	$	$
Financing activities	$ 14,137,990	$ 20,906,251	$	$ (112,134)
Capital expenditures	$ 27,238,311	$ 23,044,221	$	$

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

ICG was formed by WLR and other investors in May 2004 to acquire and operate competitive coal mining facilities. International Coal Group, Inc. was formed in March 2005 and became the parent holding company pursuant to a reorganization on November 18, 2005. Through the acquisition of key assets from the Horizon bankruptcy estate, the WLR investor group was able to target properties strategically located in Appalachia and the Illinois Basin with high quality reserves that are union free, have limited reclamation liabilities and are substantially free of legacy liabilities. Due to our initial capitalization, we were able to complete the acquisition without significantly increasing our level of indebtedness. With the proceeds of our recently completed public offering, we retired substantially all of our debt. Consistent with the WLR investor group s strategy to acquire attractive coal assets, the Anker and CoalQuest acquisitions further diversified our reserves.

We extract, process and market steam and metallurgical coal from eleven regional mining complexes, which, as of June 30, 2006 were supported by 13 active underground mines, 15 active surface mines and seven preparation plants located throughout West Virginia, Kentucky and Illinois. We have three reportable business segments, which are based on the coal regions in which we operate: (i) Central Appalachian, comprised of both surface and underground mines, (ii) Northern Appalachian, also comprised of both surface and underground mines and (iii) Illinois Basin, representing one underground mine. For more information about our reportable business segments, please see our audited consolidated financial statements and the notes and the audited consolidated financial statements and notes of Horizon and its predecessors, each appearing elsewhere in this prospectus. We also broker coal produced by others; the majority of which is shipped directly from the third party producer to the ultimate customer. Our sales are made to large utilities and industrial customers in the Eastern region of the United States. In addition, we generate other revenues from the manufacture and operation of highwall mining systems, parts sales and shop services relating to those systems and coal handling and processing fees.

Our primary expenses are wages and benefits, repair and maintenance expenditures, diesel fuel purchases, blasting supplies, coal transportation costs, cost of purchased coal, royalties, freight and handling costs and taxes incurred in selling our coal.

CERTAIN TRENDS AND ECONOMIC FACTORS AFFECTING THE COAL INDUSTRY

Our revenues depend on the price at which we are able to sell our coal. The current pricing environment for U.S. coal is relatively strong compared to historical levels. Any decrease in coal prices due to, among other reasons, the supply of domestic and foreign coal, the demand for electricity and the price and availability of alternative fuels for electricity generation could adversely affect our revenues and our ability to generate cash flows. In addition, our results of operations depend on the cost of coal production. We are experiencing increased operating costs for fuel and explosives, steel products, health care and contract labor. We expect to experience higher costs for surety bonds and letters of credit. In addition, historically low interest rates have had a negative impact on expenses related to our actuarially determined employee-related liabilities.

For additional information regarding the risks and uncertainties known to management that affect our business and the industry in which we operate, see Risk Factors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses as well as the disclosure of

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contingent assets and liabilities. Management evaluates its estimates on an on-going basis. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from the estimates used. Note 2 to our audited consolidated financial statements provides a description of all significant accounting policies. We believe that of these significant accounting policies, the following may involve a higher degree of judgment or complexity.

Revenue Recognition

Coal revenues result from sales contracts (long-term coal agreements or purchase orders) with electric utilities, industrial companies or other coal-related organizations, primarily in the eastern United States. Revenue is recognized and recorded at the time of shipment or delivery to the customer, at fixed or determinable prices, and the title has passed in accordance with the terms of the sales agreement. Under the typical terms of these agreements, risk of loss transfers to the customers at the mine or port, where coal is loaded to the rail, barge, truck or other transportation sources that deliver coal to its destination.

Freight and handling costs paid to third-party carriers and invoiced to coal customers are recorded as freight and handling costs and freight and handling revenues, respectively.

Other revenues consist of equipment and parts sales, equipment rebuild and maintenance services, coal handling and processing, royalties, commissions on coal trades, contract mining, rental income, and other forms of revenue generated from activities associated with our coal mining operations. With respect to other revenues recognized in situations unrelated to the shipment of coal, we carefully review the facts and circumstances of each transaction and apply the relevant accounting literature as appropriate, and do not recognize revenue until the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the seller s price to the buyer is fixed or determinable; and collectibility is reasonably assured. Advance payments received are deferred and recognized in revenue as coal is shipped or rental income is earned.

Reclamation

Our asset retirement obligations arise from the Federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes, which require that mine property be restored in accordance with specified standards and an approved reclamation plan. Significant reclamation activities include reclaiming refuse and slurry ponds, reclaiming the pit and support acreage at surface mines, and sealing portals at deep mines. We account for the costs of our reclamation activities in accordance with the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*. We determine the future cash flows necessary to satisfy our reclamation obligations on a mine-by-mine basis based upon current permit requirements and various estimates and assumptions, including estimates of disturbed acreage, cost estimates, and assumptions regarding productivity. Estimates of disturbed acreage are determined based on approved mining plans and related engineering data. Cost estimates are based upon third-party costs. Productivity assumptions are based on historical experience with the equipment that is expected to be utilized in the reclamation activities. In accordance with the provisions of SFAS No. 143, we determine the fair value of our asset retirement obligations. In order to determine fair value, we must also estimate a discount rate and third-party margin. Each is discussed further below:

Discount rate. SFAS No. 143 requires that asset retirement obligations be recorded at fair value. In accordance with the provisions of SFAS No. 143, we utilize discounted cash flow techniques to estimate the fair value of our obligations. We base our discount rate on the rates of treasury bonds with maturities similar to expected mine lives, adjusted for our credit standing.

Third-party margin. SFAS No. 143 requires the measurement of an obligation to be based upon the amount a third-party would demand to assume the obligation. Because we plan to perform a significant amount of the reclamation activities with internal resources, a third-party margin was added to the estimated costs of these activities. This margin was estimated based upon our historical experience with

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contractors performing certain types of reclamation activities. The inclusion of this margin will result in a recorded obligation that is greater than our estimates of our cost to perform the reclamation activities. If our cost estimates are accurate, the excess of the recorded obligation over the cost incurred to perform the work will be recorded as a gain at the time that reclamation work is completed.

On at least an annual basis, we review our entire reclamation liability and make necessary adjustments for permit changes as granted by state authorities, additional costs resulting from accelerated mine closures and revisions to cost estimates and productivity assumptions to reflect current experience. At June 30, 2006, we had recorded asset retirement obligation liabilities of $85.4 million, including amounts reported as current liabilities. While the precise amount of these future costs cannot be determined with certainty, as of December 31, 2005, we estimate that the aggregate undiscounted cost of final mine closure is approximately $131.8 million. If the discount rate decreased by 0.25%, our reclamation liability would be $1.0 million higher at December 31, 2005.

Depreciation, Depletion and Amortization

Property, plant and equipment, including coal lands and mine development costs, are recorded at cost, which includes construction overhead and interest, where applicable. Expenditures for major renewals and betterments are capitalized while expenditures for maintenance and repairs are expensed as incurred.

Coal land costs are depleted using the units-of-production method, based on estimated recoverable interest. Coal land fair values are established by either using third party mining engineering consultants or market values as established when coal lands are purchased on the open market. These values are then evaluated as to the number of recoverable tons contained in a particular mining area. Once the coal land values are established, and the number of recoverable tons contained in a particular coal land area is determined, a units of production depletion rate can be calculated. This rate is then utilized to calculate depletion expense for each period mining is conducted on a particular coal land area.

Any uncertainty surrounding the application of the depletion policy is directly related to the assumptions as to the number of recoverable tons contained in a particular coal land area. The amount of compensation paid for the coal land is a set amount; however the recoverable tons contained in the coal land area are based on third party engineering estimates which can and often do change as the tons are mined. Any change in the number of recoverable tons contained in a coal land area will result in a change in the depletion rate and corresponding depletion expense. For the year ended December 31, 2005, we recorded $0.4 million of depletion expense. Assuming that recoverable tons are reduced by 10%, this would result in a decrease in pre-tax income of $0.04 million. This calculation would also be applied in the case of a coal land area containing more recoverable tons than the original estimate. This would result in increased pre-tax income.

Mine development costs are amortized using the units-of-production method, based on estimated recoverable interest in the same manner described above.

Other property, plant and equipment are depreciated using the straight-line method based on estimated useful lives.

Asset Impairments

We follow SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which requires that projected future cash flows from use and disposition of assets be compared with the carrying amounts of those assets. When the sum of projected cash flows is less than the carrying amount, impairment losses are recognized. In determining such impairment losses, discounted cash flows are utilized to determine the fair value of the assets being evaluated. Also, in certain situations, expected mine lives are shortened because of changes to planned operations. When that occurs and it is determined that the mine s underlying costs are not recoverable in the future, reclamation and mine closing obligations are accelerated and the mine closing accrual is increased

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accordingly. To the extent it is determined asset carrying values will not be recoverable during a shorter mine life, a provision for such impairment is recognized. Our debt covenant ratios in the amended and restated credit facility will be based on adjusted EBITDA that excludes any non-cash items from the calculation, such as goodwill impairment. The minimum interest coverage ratio could be affected if the basis of goodwill (both book and tax) is impaired. A hypothetical impairment of $5.0 million to both the book and tax basis would result in additional annual federal taxes, over the amortization period of 15 years, of $0.1 million. We do not believe this would have a material impact on the ratio calculations.

Employee Benefit Obligations

Post-retirement medical benefits

Some of our subsidiaries have long and short-term liabilities for post-retirement benefit cost obligations. Detailed information related to these liabilities is included in the notes to our consolidated financial statements included elsewhere in this prospectus. Liabilities for post-retirement benefits are not funded. The liability is actuarially determined, and we use various actuarial assumptions, including the discount rate and future cost trends, to estimate the costs and obligations for post-retirement benefits. The discount rate assumption reflects the rates available on high quality fixed income debt instruments. The discount rate used to determine the net periodic benefit cost for post-retirement medical benefits was 5.50% for the year ended December 31, 2005. We make assumptions related to future trends for medical care costs in the estimates of retiree health care and work-related injury and illness obligations. The future health care cost trend rate represents the rate at which health care costs are expected to increase over the life of the plan. The health care cost trend rate assumptions are determined primarily based upon our historical rate of change in retiree health care costs. The post-retirement expense in the operating period ended December 31, 2005 was based on an assumed heath care inflationary rate of 10.0% in the operating period decreasing to 5.0% in 2015, which represents the ultimate health care cost trend rate for the remainder of the plan life. A one-percentage point increase in the assumed ultimate health care cost trend rate would increase the service and interest cost components of the post-retirement benefit expense for the year ended December 31, 2005 by $0.4 million and increase the accumulated post-retirement benefit obligation at December 31, 2005 by $1.6 million. A one-percentage point decrease in the assumed ultimate health care cost trend rate would decrease the service and interest cost components of the post-retirement benefit expense for the year ended December 31, 2005 by $0.3 million and decrease the accumulated post-retirement benefit obligation at December 31, 2005 by $1.2 million. If our assumptions do not materialize as expected, actual cash expenditures and costs that we incur could differ materially from our current estimates. Moreover, regulatory changes could increase our requirement to satisfy these or additional obligations.

Workers compensation

Workers compensation is a system by which individuals who sustain personal injuries due to job-related accidents are compensated for their disabilities, medical costs and on some occasions, for the costs of their rehabilitation, and by which the survivors of workers who suffer fatal injuries receive compensation for lost financial support. The workers compensation laws are administered by state agencies with each state having its own set of rules and regulations regarding compensation that is owed to an employee who is injured in the course of employment. Our operations are covered through insurance policies. Our estimates of these costs are adjusted based upon actuarial studies.

Coal workers pneumoconiosis

We are responsible under various federal statutes, and various states statutes, for the payment of medical and disability benefits to eligible employees resulting from occurrences of coal workers pneumoconiosis disease (commonly referred to as black lung). Our operations are covered through a combination of a self- insurance program, in which we are a participant in a state run program, and an insurance policy. We accrue for any self-insured liability by recognizing costs when it is probable that a covered liability has been incurred and the cost can be reasonably estimated. Our estimates of these costs are adjusted based upon actuarial studies. At

December 31, 2005, we have recorded an accrual of $16.8 million for black lung benefits. Individual losses in excess of $0.5 million at the state level and $0.5 million at the federal level are covered by our large deductible stop loss insurance. Actual losses may differ from these estimates, which could increase or decrease our costs.

Coal Industry Retiree Health Benefit Act of 1992

The Coal Industry Retiree Health Benefit Act of 1992 (the Coal Act) provides for the funding of health benefits for certain union retirees and their spouses or dependants. The Coal Act established the Combined Fund into which employers who are signatory operators and related persons are obligated to pay annual premiums for beneficiaries. The Coal Act also created a second benefit fund for miners who retired between July 21, 1992 and September 30, 1994 and whose former employers are no longer in business. Upon the consummation of the business combination with Anker, we assumed Anker s Coal Act liabilities, which were estimated to be $6.3 million at December 31, 2005. Prior to the business combination with Anker, we did not have any liability under the Coal Act.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires the recognition of deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. In evaluating the need for a valuation allowance, we take into account various factors including the expected level of future taxable income and available tax planning strategies. If future taxable income is lower than expected or if expected tax planning strategies are not available as anticipated, we may record a change to the valuation allowance through income tax expense in the period the determination is made.

With regard to goodwill, a hypothetical write-off in the goodwill basis (both book and tax) of $5.0 million would result in additional annual federal taxes, as we would lose the tax deduction as a result of the write-off. The reduction of this tax asset, to be recognized over 15 years straight line under Section 197 of the Internal Revenue Code, would result in a decrease in taxable deductions of $0.3 million each year. This would increase annual taxable income by $0.3 million therefore creating an increase in income tax expense by the marginal effective federal income tax rate of 35%, or $0.1 million.

Goodwill

In our consolidated balance sheet as of June 30, 2006, we had $344.0 million in goodwill which represents the excess of costs over the fair value of the net assets acquired from Horizon, Anker and CoalQuest. The purchase price allocation for Anker and CoalQuest is preliminary and will not be finalized until all determinations of fair value are made, including third party appraisals. We tested for impairment of the Horizon assets as of October 31, 2005 and determined that impairment review supported the carrying value of goodwill. We will perform the next impairment test of the Horizon assets and our first impairment test for the net assets acquired from Anker and CoalQuest as of October 31, 2006, although in certain circumstances we may need to perform either test sooner. If the upcoming impairment review results in the application of impairment adjustments, we will be required to recognize these adjustments as operating expenses. As a result, we would have to write-off the impaired portion which could significantly reduce the value of our assets and reduce our net income for the year in which the write-off occurs.

RESULTS OF OPERATIONS

Basis of Presentation

Certain assets of Horizon and its subsidiaries were acquired by ICG, Inc. as of September 30, 2004. The remaining Horizon assets and all of its liabilities were transferred to A.T. Massey Coal Company, Inc. and

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Lexington Coal Company, LLC. Due to the change in ownership, and the resultant application of purchase accounting, the historical financial statements of Horizon and ICG included in this prospectus have been prepared on different bases for the periods presented and are not comparable. In May 2002, Horizon, formerly operating as AEI Resources, was reorganized.

The following provides a description of the basis of presentation during all periods presented:

Successor We were formed on March 31, 2005 as a wholly-owned subsidiary of ICG, Inc. in order to effect the corporate reorganization and the Anker and CoalQuest acquisitions all of which were consummated on November 18, 2005. Financial presentation represents the unaudited condensed consolidated financial position of International Coal Group, Inc. as of June 30, 2006 and 2005 and the unaudited condensed consolidated results of operations and cash flows for the six months then ended, the audited consolidated financial position as of December 31, 2005 and the audited consolidated results of operations and cash flows for the period from November 19 through December 31, 2005 combined with the audited consolidated results of operations and cash flows of ICG, Inc. for the period from January 1 through November 18, 2005, and the audited consolidated financial position of ICG, Inc. as of December 31, 2004 and its audited consolidated results of operations and cash flows for the period from May 13 (inception) through December 31, 2004. ICG, Inc. had no material assets, liabilities or results of operations until the acquisition of certain assets from Horizon as of September 30, 2004. ICG, Inc. s audited consolidated financial position at December 31, 2004 and its audited consolidated results of operations for the period ended December 31, 2004 reflect the purchase price allocation partially based on appraisals prepared by independent valuation specialists and employee benefit valuations prepared by independent actuaries. The application of purchase accounting to the acquired assets of Horizon resulted in increases to coal inventories and the asset arising from recognition of asset retirement obligations. It also resulted in increases to plant and equipment, coal supply agreements and goodwill and a decrease in deferred taxes.

Predecessors Represents the audited consolidated financial position and results of operations and cash flows for Horizon for the year ended December 31, 2003 and for the period January 1 through September 30, 2004. The Horizon accounts receivable, advance royalties, accounts payable and accrued expenses, intangibles, goodwill and other assets and long-term liabilities were estimates of management. An independent valuation specialist prepared appraisals of the Horizon property, plant and equipment, coal lands and accrued reclamation obligations while employee benefit valuations were prepared by independent actuaries. Management allocated amounts of the purchase price to these assets and liabilities using these appraisals and valuations prepared by these specialists.

The financial statements for the predecessor periods of Horizon have been prepared on a carve-out basis to include our assets, liabilities and results of operations, that were previously included in the consolidated financial statements of Horizon. The financial statements for the Horizon predecessor periods include allocations of certain expenses, taxation charges, interest and cash balances relating to Horizon based on management s estimates. The Horizon predecessor financial information is not necessarily indicative of our consolidated financial position, results of operations and cash flows if we had operated during the predecessor period presented.

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Six Months Ended June 30, 2006 Compared to the Six Months Ended June 30, 2005

Revenues

The following table depicts revenues for the six months ended June 30, 2006 and 2005 for the indicated categories:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Actual Increase (Decrease) $ or tons	Actual Increase (Decrease) %
	(in thousands, except per ton data)			
Coal sales revenues	$ 415,500	$ 289,763	$ 125,737	43%
Freight and handling revenues	9,193	4,384	4,809	110%
Other revenues	10,815	13,117	(2,302)	(18)%
Total revenues	$ 435,508	$ 307,264	$ 128,244	42%
Tons sold	9,564	7,028	2,536	36%
Coal sales revenue per ton	$ 43.44	$ 41.23	$ 2.21	5%

Coal sales revenues. Coal sales revenues increased $125.7 million for the six months ended June 30, 2006, or 43%, compared to the same period in 2005. This increase was due to a $2.21 per ton increase in the average sales price of our coal and an increase in tons sold of 36% over the comparable period in 2005. The increase in the average sales price of our coal was due to a general increase in coal prices during the period. Tons sold in 2006 increased by 2.5 million, or 36%, to 9.6 million, primarily due to the effect of the Anker and CoalQuest acquisitions, which provided approximately 2.1 million additional tons over the comparable period in the prior year.

Freight and handling revenues. Freight and handling revenues increased $4.8 million to $9.2 million for the six months ended June 30, 2006 compared to the same period in 2005. The increase is due to an increase in shipments where we initially pay the freight and handling costs and are then reimbursed by the customer.

Other revenues. Other revenues decreased for the six months ended June 30, 2006 by $2.3 million, or 18%, to $10.8 million, as compared to the same period in 2005. The decrease was primarily due to lower other revenue of $4.3 million derived from our highwall mining activities and shop services both performed by our subsidiary, ICG ADDCAR. This decrease was partially offset by $0.9 million in other coal handling revenue in addition to a $1.1 million customer payment allowed as a result of the state of Maryland s Mined Coal Tax Credit provision.

Cost and Expenses

The following table reflects cost of operations for the six months ended June 30, 2006 and 2005:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Actual Increase (Decrease) $	Actual Increase (Decrease) %
	(in thousands, except percentages and per ton data)			
Cost of coal sales and other revenues (exclusive of depreciation, depletion and amortization)	$ 382,343	$ 234,261	$ 148,082	63%
Cost of coal sales and other revenues as % of revenues	88%	76%		
Freight and handling costs	9,193	4,384	4,809	110%
Freight and handling costs as a % of revenues	2%	1%		
Depreciation, depletion and amortization	33,692	18,307	15,385	84%
Depreciation, depletion and amortization as % of revenues	8%	6%		
	17,964	13,941	4,023	29%

Selling, general and administrative expenses (exclusive of depreciation and amortization)				
Selling, general and administrative expenses as % of revenues	4%	5%		
Gain on sale of assets	(929)	43	(972)	*
Total costs and expenses	$ 442,263	$ 270,936	$ 171,327	63%
Total costs and expenses as % of revenues	102%	88%		
Total costs and expenses per tons sold[1]	$ 46.24	$ 38.55	$ 7.69	20%

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* Not meaningful

(1) Included in total costs and expenses per tons sold were costs for ICG ADDCAR, highwall mining activities and shop services of $1.57 and $2.31 per ton for the six months ended June 30, 2006 and 2005, respectively.

Cost of coal sales and other revenues. For the six months ended June 30, 2006 our cost of coal sales increased $148.1 million, or 63%, to $382.3 million compared to $234.3 million for the six months ended June 30, 2005. The increase in cost of coal sales was primarily a result of our acquisitions of Anker and CoalQuest which resulted in an increase in cost of coal sales of approximately $99.7 million. The start-up of our Flint Ridge underground and Raven mine sites also increased cost of coal sales by $9.6 million and $3.4 million, respectively. Our performance was also adversely affected in the first half of 2006 by several unusual events and operating difficulties, including a fire at our Illinois mining complex, closure of Stony River deep mine, the bankruptcy of a key coal supplier for our Vindex operation, an extended construction outage at the Sentinel Mine, and the lingering effects of the Sago mine accident in January 2006. Other factors affecting cost of coal sales and other revenues were increased prices for steel-related mine supplies, increased costs for roof control supplies of $0.4 million, escalated diesel fuel and lube costs of $8.7 million, increased costs for tire expense of $1.5 million, increased costs for repairs and maintenance of $3.1 million, increased blasting supplies costs of $2.3 million, increased contract labor costs of $1.2 million and increased purchase coal costs of $4.8 million. Variable sales-related costs such as royalties and severance taxes increased $5.4 million due to increased sales tonnage and sales realization. Trucking costs increased $4.2 million due to increased mine production and escalated diesel fuel costs. In addition, salary and hourly payroll expense increased $7.4 million due to a highly competitive labor market, increased man power, and the necessity to maintain a competitive compensation program. These increases were partially offset by decreases in equipment rental expense of $2.4 million due to the decision to purchase rather than lease to meet our equipment needs and an increase of cost of goods sold remaining in ending inventory of $3.0 million.

Costs of coal sales in the first half of 2006 also include out-of-pocket expenses incurred during the first six months of 2006 relating to the Sago mine accident, including reserves established for legal and other future costs. We expect to incur approximately $15 million of increased expenses for the year 2006, $11.7 million of which were incurred in the first quarter of 2006.

Freight and handling costs. Freight and handling costs increased $4.8 million to $9.2 million for the six months ended June 30, 2006 compared to the same period in 2005. The increase was due to an increase in shipments where we initially pay the freight and handling costs and are then reimbursed by the customer.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense increased $15.4 million to $33.7 million for the six months ended June 30, 2006 as compared to $18.3 million in the same period in 2005. Depreciation, depletion and amortization per ton increased from $2.60 per ton sold in the six months ended June 30, 2005 to $3.52 per ton sold in the same period in 2006. The principal component of the increase was an increase in depreciation expense of $18.9 million for the six months ended June 30, 2006, $9.3 million of which was related to the acquisition of Anker and CoalQuest. The increase was also due to an increase in capital expenditures as well as shortened depreciable asset lives of the equipment we purchased from Horizon in September 2004. The cost increase was offset by amortization income on below market coal supply agreements of $4.4 million.

Selling, general and administrative expenses. Selling, general and administrative expenses for six months ended June 30, 2006 were $18.0 million compared to $13.9 million for the same period in 2005. The increase of $4.0 million was attributable to gifts of $2.0 million made to the families of the thirteen miners involved in the Sago mine accident, increases in salary and bonus expense of $0.9 million and professional and consulting fees of $1.1 million.

(Gain)/Loss on sale of assets. Asset sales resulted in a gain of $0.9 million for the six months ended June 30, 2006, primarily from the sale of River Point dock, compared to a loss of $0.04 million on miscellaneous asset sales for the comparable period in 2005.

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Total costs as percentage of revenues. Total costs and expenses as a percentage of total revenues increased to 102% for the six months ended on June 30, 2006 from 88% for the comparable period in 2005.

See Liquidity and Capital Resources for additional information regarding the impact of certain of the costs on our liquidity and how management is addressing mitigating the recurring factors.

Twelve Months Ended December 31, 2005 Compared to the Twelve Months Ended December 31, 2004 of International Coal Group, Inc. and Predecessor (Combined)

This discussion of the results of operations for the twelve months ended December 31, 2004 represents an addition of Horizon s actual results for the nine months ended September 30, 2004 together with International Coal Group, Inc. s actual results of operations for the three months ended December 31, 2004 (Combined).

Revenues

The following table reflects our revenues for the year ended December 31, 2005 and depicts our combined revenues for the year ended December 31, 2004 for the indicated categories:

	Year Ended December 31,		Actual Increase (Decrease)	
		Combined		
	2005	2004	$ or tons	%
	(in thousands, except percentages and per ton data)			
Coal sales revenues	$ 619,038	$ 477,444	$ 141,594	30%
Freight and handling revenues	8,601	4,580	4,021	88%
Other revenues	20,074	27,468	(7,394)	(27)%
Total revenues	$ 647,713	$ 509,492	$ 138,221	27%
Tons sold	14,755	14,003	752	5%
Coal sales revenue per ton	$ 41.95	$ 34.09	$ 7.86	23%

Coal sales revenues. Our coal sales revenue increased $141.6 million for the year ended December 31, 2005, or 30%, as compared to combined coal revenues for 2004. This increase was due to a $7.86 per ton increase in the average sales price of our coal and an increase in tons sold of 5% over the prior year. The increase in the average sales price of our coal was due to a general increase in coal prices during the year as well as a favorable renegotiation of coal sales contracts as a result of Horizon s Chapter 11 bankruptcy. Our tons sold in 2005 increased by 0.8 million, or 5%, to 14.8 million, primarily due to the effect of our acquisitions of Anker and CoalQuest, which provided approximately 0.5 million additional tons compared to the prior year.

Freight and handling revenues. Freight and handling revenues increased $4.0 million to $8.6 million for year ended December 31, 2005 compared to 2004. The increase is due to an increase in shipments where we initially pay the freight and handling costs and are then reimbursed by the customer.

Other revenues. Other revenue decreased in 2005 by $7.4 million, or 27%, to $20.1 million, as compared to 2004. This decrease was due in a large part to our election to reclassify miscellaneous other revenue (such as royalty income, farming revenue, etc.) from the revenue section of the income statement to miscellaneous other income and expense for the period beginning October 1, 2004. Management believes that this reclassification improves the reporting of revenue by separating revenue pertaining primarily to mining activities from non-mining activities. The decrease was partially offset by other revenue derived from our highwall mining activities and shop services both performed by our subsidiary, ICG ADDCAR. Highwall mining and shop services increased to $20.1 million in 2005 compared to $19.8 million in 2004. In addition to these, other revenue for 2004 included $7.5 million that related primarily to non-mining activities.

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Costs and Expenses

The following table reflects our cost of operations for the year ended December 31, 2005 and depicts our combined cost of operations for the year ended December 31, 2004:

	Year Ended December 31, 2005	Combined 2004	Actual Increase (Decrease) $	%
	(in thousands, except percentages and per ton data)			
Cost of coal sales and other revenues (exclusive of depreciation, depletion and amortization)	$ 510,834	$ 420,136	$ 90,698	22%
Cost of coal sales and other revenues as % of revenues	79%	82%		
Freight and handling costs	8,601	4,580	4,021	88%
Freight and handling costs as % of revenues	1%	1%		
Depreciation, depletion and amortization	43,195	35,490	7,705	22%
Depreciation, depletion and amortization as % of revenues	7%	7%		
Selling, general and administrative expenses (exclusive of depreciation, depletion and amortization)	28,785	12,671	16,114	127%
Selling, general and administrative expenses as % of revenues	4%	3%		
Gain on sale of assets	(502)	(236)	(266)	*
Writedowns and other items		10,018	(10,018)	*
Total costs and expenses	$ 590,913	$ 482,659	$ 108,254	22%
Total costs and expenses as % of revenues	91%	95%		
Total costs and expenses per ton sold[(1)]	$ 40.05	$ 34.47	$ 5.58	16%

* Not meaningful

(1) Included in total costs and expenses per ton sold were costs for ICG ADDCAR, highwall mining activities and shop services of $2.08 and $1.74 in 2005 and 2004, respectively.

Cost of coal sales and other revenues. In 2005, our cost of coal sales increased $90.7 million, or 22.0%, to $510.8 million compared to $420.1 million in the prior year. The increase in cost of coal sales is primarily a result of increases in prices for steel-related mine supplies, increasing costs for roof control supplies of $1.7 million, increasing costs for conveyor belts and structure of $2.8 million, escalating diesel fuel costs, which were further heightened by Hurricane Katrina s devastation in Mississippi and Louisiana of $12.0 million, increasing costs for repairs and maintenance of $6.3 million, increasing site preparation and maintenance of $1.1 million and increasing purchase coal costs of $5.6 million. Variable sales-related costs such as royalties and severance taxes increased $11.7 million due to increased sales realizations. Trucking costs increased $11.0 million due to both escalating diesel fuel costs and increased driver compensation costs. In addition, salary and hourly payroll expense increased $14.1 million due to a highly competitive labor market and the necessity to maintain a competitive compensation program. Approximately $22.3 million of the increase in the cost of coal sales was due to our acquisitions of Anker and CoalQuest. These increases were partially offset by decreases in equipment rental expense of $8.0 million due to the decision to purchase rather than lease to fulfill our equipment needs. The total costs and expenses per ton sold increased 16% from $34.47 per ton in 2004 to $40.05 per ton in 2005.

Total costs as percentage of revenues. Total costs and expenses as a percentage of coal revenues decreased to 91% in 2005 from 95% in 2004.

Freight and handling costs. Freight and handling costs increased $4.0 million to $8.6 million for the year ended December 31, 2005 compared to 2004. The increase is due to an increase in shipments where we initially pay the freight and handling costs and are then reimbursed by the customer.

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Depreciation, depletion and amortization. Depreciation, depletion and amortization expense increased $7.7 million to $43.2 million in the 2005 compared to $35.5 million in 2004. Depreciation, depletion and amortization per ton increased from $2.53 per ton sold in 2004 to $2.93 per ton sold in 2005. The principal component of the increase was an increase in depreciation expense of $14.9 million in 2005 due to an increase in capital expenditures as well as shortened depreciable asset lives of the Horizon equipment purchased by ICG, Inc. in September 2004. The cost increase was offset by a decrease in depletion of $3.1 million as a result of a revaluation of mineral reserves in connection with the purchase of Horizon s assets and amortization income on below market coal supply agreements of $1.0 million. Effective January 1, 2004, Horizon discontinued the accounting practice of capitalization of major repair costs in excess of $25,000 per occurrence. The decrease in amortization relating to this practice was $3.9 million.

Selling, general and administrative expenses. Selling, general and administrative expenses for 2005 were $28.8 million compared to $12.7 million for 2004. The increase of $16.1 million is primarily attributable to increases in stock compensation expense and related payroll taxes of $10.4 million, administrative fees of $1.6 million, miscellaneous bonuses of $1.3 million, and other costs of $2.8 million.

Gain on sale of assets. Gain on sale of assets increased $0.3 million from a gain of $0.2 million in 2004 to a gain of $0.5 million in 2005.

Writedowns and other items. The 2004 writedowns and other items were attributable to a loss of $13.3 million on the sale of coal lands, a gain of $7.7 million on a lease buyout, a loss on the retirement of highwall mining system of $6.2 million and other gains of $1.8 million. We did not record any writedowns in 2005.

Twelve Months Ended December 31, 2004 of International Coal Group, Inc. and Predecessor (Combined) Compared to the Twelve Months Ended December 31, 2003 of Horizon

This discussion of the results of operations for the twelve months ended December 31, 2004 represents an addition of Horizon s actual results for the nine months ended September 30, 2004 together with International Coal Group, Inc. s actual results of operations for the three months ended December 31, 2004.

Revenues

The following table depicts International Coal Group, Inc. s combined revenue for the twelve months ended December 31, 2004 and Horizon s revenue for the twelve months ended December 31, 2003 for the indicated categories:

	International Coal Group, Inc. (Combined)	Horizon	Actual Increase (Decrease)	
	Twelve Months Ended December 31,			
	2004	2003	$ or tons	%
	(in thousands, except percentages and per ton data)			
Coal sales revenues	$ 477,444	$ 441,291	$ 36,153	8%
Freight and handling revenues	4,580	8,008	(3,428)	(43)%
Other revenues	27,468	31,771	(4,303)	(14)%
Total revenues	$ 509,492	$ 481,070	$ 28,422	6%
Tons sold	14,003	16,656	(2,653)	(16)%
Coal sales revenue per ton	$ 34.09	$ 26.49	$ 7.60	29%

Coal sales revenues. International Coal Group, Inc. s combined coal sales revenue increased $36.2 million for the year ended 2004, or 8%, to $477.4 million, as compared to Horizon s for the same period in 2003. This

increase was due to a $7.60 per ton (29%) increase in the average sales price, offset by a decrease in tons sold of 16% over the comparable period in the prior year. The increase in the average sales price of our coal was due to the general increase in coal prices during the period as well as the favorable renegotiations of coal sales contracts as a result of Horizon s Chapter 11 bankruptcy.

Freight and handling revenues. International Coal Group, Inc. s combined freight and handling revenues decreased $3.4 million for the twelve months ended December 31, 2004 compared to Horizon s for the same period in 2003. The decrease is due to a decrease in shipments where we pay the freight and handling costs and are then reimbursed by the customer.

Other revenues. International Coal Group, Inc. s combined other revenue decreased $4.3 million for the twelve months ended December 31, 2004 compared to Horizon s for the same period in 2003. The decrease in other revenues was primarily a result of decreased participation in the Synfuel sales market in 2004. In addition, for the period beginning October 1, 2004, International Coal Group, Inc. elected to reclassify miscellaneous other revenue (such as royalty income, farming revenue, etc.) from the revenue section of the income statement to miscellaneous other income and expense. Management believes that this reclassification improves the reporting of revenue by separating revenue pertaining primarily to mining activities from non-mining activities. Other revenue for the last three months of 2004 included $0.5 million that related primarily to non-mining activities.

Costs and Expenses

The following table depicts International Coal Group, Inc. s combined cost of operations for the twelve months ended December 31, 2004 and Horizon s cost of operations for the twelve months ended December 31, 2003 for the indicated categories:

	International Coal Group, Inc. (Combined)	Horizon	Actual	
	Twelve Months Ended December 31,		Increase (Decrease)	
	2004	2003	$	%
	(in thousands, except percentages and per ton data)			
Cost of coal sales and other revenues (exclusive of depreciation, depletion and amortization)	$ 420,136	$ 400,652	$ 19,484	5%
Cost of coal sales and other revenues as % of revenues	82%	83%		
Freight and handling costs	4,580	8,008	(3,428)	(43)%
Freight and handling costs as % of revenues	1%	2%		
Depreciation, depletion and amortization	35,490	52,254	(16,764)	(32)%
Depreciation, depletion and amortization as % of revenues	7%	11%		
Selling, general and administrative expenses (exclusive of depreciation, depletion and amortization)	12,671	23,350	(10,679)	(46)%
Selling, general and administrative expenses as % of revenues	3%	5%		
Gain on sale of assets	(236)	(4,320)	(4,084)	(95)%
Writedowns and other items	10,018	9,100	918	*
Total costs and expenses	$ 482,659	$ 489,044	$ (6,385)	(1)%
Total costs and expenses as % of revenues	95%	102%		
Total costs and expenses per ton sold	$ 34.47	$ 29.36	$ 5.11	17%

* Not meaningful

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Cost of coal sales and other revenues. In the twelve month period ended December 31, 2004, International Coal Group, Inc. s combined cost of coal sales increased $19.5 million, or 5% to $420.1 million compared to Horizon s twelve month period ended December 31, 2003. The increase in cost of coal sales is primarily a result of increases in prices for steel-related mine supplies, increasing costs for roof control supplies of $4.3 million, escalating diesel fuel costs of $8.3 million, increasing costs for repairs and maintenance of $13.8 million. A portion of the increase ($7.6 million) in repair and maintenance expense results from a change in accounting practice adopted by Horizon on January 1, 2004. This change resulted in the elimination of capitalization of major repair items with a cost of $25,000 or more, the impact of this change equates to an increase in annual repair and maintenance cost. Variable sales-related costs such as royalties and severance taxes increased $6.8 million due to increased sales realizations. Trucking costs increased $5.6 million due to both escalating diesel fuel costs and increased driver compensation costs. In addition, salary and hourly payroll expense increased $8.0 million due to a highly competitive labor market and the necessity to maintain a competitive compensation program. Payroll taxes and other employee benefits increased $6.0 million due primarily to increases in workers compensation premiums, payroll taxes, employer 401(k) expense, and group insurance expense. These increases were partially offset by reduced pension fund costs. Purchased coal cost decreased $32.8 million between 2003 and 2004 due to reduced purchased coal volume. The total costs and expenses per ton sold increased 17% from $29.36 per ton for the twelve months ended December 31, 2003 to $34.47 per ton in the same period in 2004 (combined).

Total cost as percentage of revenues. Total costs and expenses as a percentage of coal revenues decreased to 95% for the twelve months ended December 31, 2004 compared to 102% in 2003.

Freight and handling costs. International Coal Group, Inc. s combined freight and handling costs decreased $3.4 million for the year ended December 31, 2004 compared to Horizon s for the same period in 2003. The decrease is due to a decrease in shipments where we pay the freight and handling costs and are then reimbursed by the customer.

Depreciation, depletion and amortization. International Coal Group, Inc. s combined depreciation, depletion and amortization expense decreased $16.7 million to $35.5 million for the twelve months ended December 31, 2004 compared to Horizon s for the same period in 2003. Depreciation, depletion and amortization decreased $0.61 per ton to $2.53 per ton for the twelve months ended December 31, 2004 as compared to the same period in 2003. The principal components of the decrease were a $9.6 million decrease in amortization related to an above market contract that expired at the end of 2003, a $2.2 million decrease in depletion due to lower depletion rates in the fourth quarter 2004 and higher production subject to depletion in 2003. Effective January 1, 2004, Horizon discontinued the accounting practice of capitalization of major repair costs in excess of $25,000 per occurrence. The amortization relating to this practice was $3.9 million for the twelve months ended December 31, 2004 as compared to $6.9 million for the same period in 2003. The remaining decrease for the combined twelve months ended December 31, 2004 as compared to the same period in 2003 was due primarily to assets being fully depreciated as well as reduced amortization of mine development costs.

Selling, general and administrative expenses. International Coal Group, Inc. s combined selling, general and administrative expenses decreased $10.7 million to $12.7 for the twelve months ended December 31, 2004 compared to Horizon s for the same period of 2003. The decrease of $10.7 million is primarily attributable to decreases in labor costs of $4.5 million, group insurance of $1.6 million, professional and consulting fees of $1.0 million, officers life insurance of $0.8 million, office rent of $0.7 million, taxes and licenses of $0.7 million and other insurance of $0.6 million.

Gain on sale of assets. International Coal Group, Inc. s combined gain on sale of assets decreased $4.1 million, to $0.2 million for the twelve months ended December 31, 2004 compared to Horizon s for the same period in 2003. The Horizon gain on sale of assets was due primarily to the sales of Cyrus Dock, Hannah Land and Blue Springs.

Writedowns and other items. International Coal Group, Inc. s combined writedowns and other items increased $0.9 million, to $10.0 million in 2004 compared to Horizon s for the same period in 2003. The 2004

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writedowns and other items were attributable to a loss of $13.3 million on the sale of coal lands, a gain of $7.7 million on a lease buyout, a loss on the retirement of highwall mining system of $6.2 million and other gains of $1.8 million. The 2003 writedowns and other items were attributable to a writedown of assets of $6.4 million relating primarily to a closed operation (Blue Springs) and a writedown of parts inventory of $2.7 million.

LIQUIDITY AND CAPITAL RESOURCES

Our business is capital intensive and requires substantial capital expenditures for, among other things, purchasing, upgrading and maintaining equipment used in developing and mining our coal lands, as well as remaining in compliance with environmental laws and regulations. Our principal liquidity requirement is to finance our coal production, fund capital expenditures and to service our debt and reclamation obligations. We may also engage in acquisitions from time to time. Our primary sources of liquidity to meet these needs are cash flow from sales of our coal, other income and borrowings under our amended and restated credit facility.

We believe the principal indicators of our liquidity are our cash position and remaining availability under our credit facility. As of June 30, 2006, our available liquidity was $330.9 million, including cash of $65.8 million and $265.1 million available under our amended and restated credit facility. Total debt represented 23.0% of our total capitalization at June 30, 2006. Our total capitalization represents our current short- and long-term debt combined with our total stockholders equity.

We believe that a significant portion of our equipment needs to be upgraded in the near-term. Cash paid for capital expenditures was approximately $85.3 million for the first six months of 2006 and we currently expect our capital expenditures will be approximately $214.0 million in the aggregate in 2006, primarily for investments in new equipment and for mining development operations. We expect to fund these capital expenditures from our internal operations, proceeds from the outstanding notes and borrowings under our amended and restated credit facility. We believe that our amended and restated credit facility will be sufficient to fund our expected capital expenditures through the peak spending years of 2006 and 2007. We have also entered into a $50.0 million equipment revolving credit facility with Caterpillar Financial Services Corporation to be used to finance new Caterpillar equipment at various mining complexes, see Description of Other Indebtedness Caterpillar Equipment Revolving Credit Facility.

As a result of recent accidents in the mining industry, new laws and regulations will require additional capital expenditures to meet enhanced safety standards. We have included approximately $8.0 million for these increased amounts in our capital expenditure budget for 2006. As we take advantage of planned expansion opportunities from 2007 through 2009 principally as a result of the Anker and CoalQuest acquisitions, we had planned to spend approximately $854.5 million on capital expenditures which may require some additional external financing. However, we are currently reviewing our capital expenditures plans and they may be different than currently anticipated depending upon changes to our operating plans, the size and nature of new business opportunities and actual cash flows generated by our operations.

We and the industry continue to be affected by increased costs for mine supplies, services, repair parts, tires, fuel and labor. The second quarter and six month results were adversely impacted by the continued rising prices of crude oil and natural gas, as well as increased labor costs. We are exploring a range of options to try to address those issues. In addition, as a result of infrastructure weaknesses and continuing geologic issues at Anker, the transition period for implementation of various operational improvements has taken longer than originally anticipated.

On April 8, 2006, we suffered a fire at our Viper Mine near Elkhart, Illinois that idled the mine and forced replacement of its high angle conveyor belt. Repairs have been completed and we resumed production on May 8, 2006. Force Majeure notices were issued to affected customers, but coal continued to be shipped from existing inventory through May 2, 2006. No one was injured in the incident. The pre-tax financial impact of this event for the second quarter of 2006 was approximately $3.0 million.

During 2006 we have experienced additional operating issues that have had a negative impact on our outlook. The closure of Vindex Energy s Stony River mine has become permanent after a major roof fall in early February prevented access to the remaining coal reserves. Mining activity at Wolf Run s Sycamore No. 2 mine

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suffered adverse geological conditions which resulted in high production costs and reduced tonnage and delayed the startup of the Number 2 section. As a result, we idled the Sycamore No. 2 mine in September 2006. We expect to reconfigure the mine and resume operations as a small-scale production unit late in the fourth quarter of 2006 or early in 2007. Production at the Sentinel mine in our Philippi complex will be delayed until December while we extend the mine shafts and slope access to encounter more favorable mining conditions in the recently acquired Clarion seam reserves. Our performance in the first half of 2006 was also adversely affected by the bankruptcy of a key coal supplier for our Vindex operations and the ongoing effects of the Sago mine accident. We expect to incur increased operating and administrative expenses of approximately $15.2 million as a result of the accident and temporary mine closure that will negatively impact 2006 earnings, approximately $11.7 million of which were incurred in the first quarter of 2006.

In addition, in response to cost pressures at certain other operations, coupled with the relative softening in recent coal prices, we have also implemented substantial production cutbacks. We intend to idle approximately 1.7 million tons of high-cost production, comprised of approximately 700,000 annual tons in our Northern Appalachian operations and approximately 1.0 million tons in our Central Appalachian operations.

In our consolidated balance sheet as of June 30, 2006, we recorded $344.0 million in goodwill which represents the excess of costs over the fair value of the net assets acquired from Horizon, Anker and CoalQuest. The purchase price allocation for Anker and CoalQuest is preliminary and will not be finalized until all determinations of fair value are made, including third party appraisals. We tested for impairment of the Horizon assets as of October 31, 2005 and determined that impairment review supported the carrying value of goodwill. We will perform the next impairment test of the Horizon assets and for the net assets acquired from Anker and CoalQuest as of October 31, 2006, although in certain circumstances we may need to perform either test sooner. If the upcoming impairment review results in the application of impairment adjustments, we will be required to recognize these adjustments as operating expenses. As a result, we would have to write-off the impaired portion which could significantly reduce the value of our assets and reduce our net income for the year in which the write-off occurs. Our debt covenant ratios are based on adjusted EBITDA that excludes any non-cash items from the calculation, such as a goodwill write-off. The minimum interest coverage ratio could be affected if the basis of goodwill (both book and tax) is written off. A hypothetical write-off of $5.0 million to both the book and tax basis would result in additional annual federal taxes (as we would lose the tax deduction as a result of the write-off), over the amortization period of 15 years, of $0.1 million. This would not have a material impact on the ratio calculations. However, if there was a material negative impact on the ratio calculations, we may be in default under the amended and restated credit facility and therefore unable to borrow additional amounts under such facility unless the default was waived.

Profitability in the third and fourth quarters of 2005 was negatively impacted by several factors, including non-cash costs associated with restricted stock issued to senior management, short term quality issues at the Knott County operations, a tight labor market in the Hazard area and permit delays related to the Hazard operations. ICG was adversely impacted by margin compressions due to cost increases for various commodities and services influenced by the recent price acceleration of crude oil and natural gas a trend that was greatly exacerbated by the Gulf hurricanes. Costs of diesel fuel, explosives (ANFO), tires and coal trucking have all escalated as a direct result of supply chain problems related to the Gulf hurricanes.

In addition, we have brokered coal contracts that will expire at the end of 2006. These contracts were signed during a period of oversupply in the coal industry and contain pricing that, while acceptable to the sellers at that time, is significantly below today s market levels and, management believes, will not be able to be renegotiated or replaced in today s market. The loss of these contracts will have a significant impact on our earnings after 2006. For the year ended December 31, 2005 and the six months ended June 30, 2006, these contracts provided $33.5 million and $19.3 million, respectively, in pre-tax net income. However, the loss of this revenue is expected to be mitigated somewhat as additional owned and controlled mining complexes are brought into production in 2007.

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Cash Flows

Net cash provided by operating activities was $18.8 million for the six months ended June 30, 2006, a decrease of $16.3 million from the same period in 2005. This decrease is attributable to a decrease in net income of $18.5 million after adjustment for non-cash charges. These decreases were partially offset by the effects of a decrease in net operating assets and liabilities of $2.2 million.

Net income decreased in the first six months of 2006 compared to the same period in 2005 primarily as a result of higher operating costs, most notably diesel fuel, trucking costs due to increased diesel costs, blasting supplies, roof bolts and plates, the ongoing effects of the Sago mine accident, the effects of the Viper mine fire, labor costs due to the highly competitive labor market, and other operating issues noted in Liquidity and Capital Resources. Also impacting the comparability of net income for the six months of 2006 compared with 2005 was the acquisition of Anker and CoalQuest.

For the six months ended June 30, 2006, net cash used in investing activities was $79.3 million compared to cash used in investing activities of $42.3 million for the six months ended June 30, 2005. For the first six months of 2006, $85.3 million of cash was used to replace our aged mining equipment fleet compared to $40.3 million in the same period 2005. Cash was returned from deposits of collateral for reclamation and royalty bonds of $0.2 million in the first six months of 2006 compared to cash deposited of $2.0 million in the same period of 2005. Also positively affecting investing activities for the first six months of 2006 were proceeds of asset sales of $3.2 million and proceeds received in connection with a sale-leaseback transaction of $5.4 million. Investing activities also include cash paid (net of cash acquired) of $2.9 million relating to the acquisitions of Anker and CoalQuest and the former Horizon companies.

Net cash provided by financing activities of $117.1 million for the six months ended June 30, 2006 was primarily due to proceeds of $175.0 million related to our senior notes offering which closed on June 23, 2006. The proceeds were used to repay all amounts outstanding under the then existing revolving credit facility of $91.3 million, including $70.0 million of which was borrowed in the first six months of 2006, and retire the then outstanding term loan facility of $19.5 million. Simultaneous with the senior notes offering, our credit facility was amended and restated resulting in an increased credit facility of up to $325.0 million. The senior notes offering and the amended and restated credit facility resulted in issuance fees of approximately $8.5 million. Cash was used in financing activities to repay short-term debt of $7.4 million in the first six months of 2006. In the six months ended June 30, 2005, cash was used in financing activities to repay short-term debt of $2.7 million and long-term debt and capital leases of $1.3 million. Also impacting financing activities for the six months ended June 30, 2005 was financing costs of $0.1 million.

Net cash provided by operating activities was $77.3 million for the year ended December 31, 2005, an increase of $19.0 million from the same period in 2004. This increase is attributable to an increase in net income of $151.4 million after adjustment for non-cash charges. These increases were partially offset by the effects of a decrease in net operating assets and liabilities of $122.4 million and writedowns of $17.7 million. The $122.4 million decrease in net operating assets and liabilities was attributable, in part, to an increase in accounts receivable of $20.9 million, a decrease in accounts payable of $10.4 million and a decrease in accrued expenses of $88.8 million. In the same period in 2004, there was a gain on a lease buyout option of $7.7 million related to our predecessor s bankruptcy filing.

Net income increased in 2005 primarily as a result of higher coal sales realization due to the strengthening of the coal market during the period. The increase in realization was partially offset by higher operating costs most notably diesel fuel, trucking costs due to increased diesel costs and increased driver compensation and labor costs due to the highly competitive labor market. Higher interest expense for the predecessor company also impacted net income in 2004.

For the year ended December 31, 2005, net cash was used in investing activities of $104.7 million compared to cash used in investing activities of $325.7 million for the twelve months ended December 31, 2004. Cash used in investing activities for 2005 was $108.2 million in order to begin replacement of our aged mining equipment fleet compared to $12.2 million in 2004. Cash was returned from deposits of restricted cash used for collateral for reclamation and royalty bonds of $3.4 million in 2005 compared to cash deposited of $1.8 million in the same period of 2004. Proceeds of equipment sales were $0.6 million in 2005 compared to $4.1 million in the same period of 2004 and proceeds from lease buyouts of $7.7 million in 2004 had a positive impact on investing in 2004. Investment activities also includes cash paid (net of cash acquired) of $0.5 million related to the acquisition of Anker and CoalQuest in 2005 through the issuance of 24,090,909 shares of common stock. In 2004, Horizon s assets were purchased for $323.6 million.

Net cash provided by financing activities of $12.6 million for the year ended December 31, 2005 was primarily due to $210.5 million of net proceeds from the issuance and sale of 21 million shares of common stock in our public offering in December 2005. The net proceeds of the public offering were used to retire $188.7 million of term loan debt and repay $21.2 million of borrowings under our existing credit facility. Prior to the public offering, we made term loan payments of $1.7 million and borrowed an additional $35.0 million to consummate the mergers with Anker and CoalQuest. Also impacting our financing activities was financing costs of $0.4 million, capital lease payments of $0.5 million and proceeds of $0.2 million related to issuance of common stock to employees. In addition, we borrowed $42.5 million on our existing credit facility to satisfy short-term operational needs and made net repayments of $55.5 million and $7.5 million on our long-term and short-term debt, respectively. In 2004, cash provided in financing activities of $290.5 million primarily due to $150.2 million in capital provided by the original investors as well as borrowings under a $175.0 million term loan. We also incurred capital lease repayments of $0.8 million in 2004. Other changes in financing activities in 2004 resulted in a use of funds of $35.6 million primarily related to the repayment of Horizon s DIP facility.

Net cash provided by operating activities was $58.3 million for the combined twelve months ended December 31, 2004, an increase of $38.3 million from the same period in 2003. This increase is attributable to an increase of $73.3 million in net income primarily due to a strengthening coal market during the period. This increase was offset by a decrease in accrued expenses of $66.2 million primarily related to accrued interest charges in 2003. Other changes in operating activities resulted in a source of $31.2 million.

For the combined twelve months ended December 31, 2004 net cash used in investing activities was $325.7 million compared to a use of cash of $3.9 million for the same period in 2003. Cash used in 2004 was primarily related to the acquisition of the assets of Horizon.

Net cash provided by financing activities was $290.5 million for the combined twelve months ended December 31, 2004 as compared to a use of $15.5 million for the comparable period in 2003. The increase in cash provided by financing activities in 2004 was primarily due to $150.2 million in capital provided by the original investors, as well as the funding of a $175 million term loan. Other changes in financing activities resulted in a use of funds of $19.2 million primarily related to the repayment of Horizon s DIP facility.

Credit Facility and Long-Term Debt Obligations

As of June 30, 2006, our total long-term indebtedness, including capital lease obligations, consisted of the following:

		As of June 30, 2006 (in thousands)
10.25% Senior Notes, due 2014	$	175,000
Equipment notes		3,714
Total long-term debt	$	178,714
Less current portion		(1,182)
Long-term debt, net of current portion	$	177,532

Amended and restated credit facility

Concurrently with the closing of the offering of the outstanding notes, we entered into a second amended and restated credit facility, which replaced our then existing revolving credit facility. The amended and restated

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credit facility consists of a revolving credit facility of $325.0 million, of which up to a maximum of $125.0 million may be used for letters of credit. This facility may be increased by up to an additional $100.0 million. As of June 30, 2006, we had letters of credit totaling $59.9 million outstanding leaving $265.1 million available for future borrowing capacity. Interest on the borrowings under the credit facility is payable, at our option, at either the base rate plus an applicable margin based on our leverage ratio of 0.75% to 1.25% or LIBOR plus an applicable margin based on our leverage ratio of 1.75% to 2.25%. We must pay an unused commitment fee based on our leverage ratio of 0.375% or 0.50%. We must also pay a letter of credit participation fee with respect to outstanding letters of credit in an amount equal to the interest rate margin applicable to LIBOR borrowings under the revolving credit facility and letter of credit fronting fee of 0.20% per annum.

The amended and restated credit facility imposes certain restrictions on us, including restrictions on our ability to: incur debt, grant liens, enter into agreements with negative pledge clauses, provide guarantees in respect of obligations of any other person, pay dividends and make other distributions, make loans, investments, advances and acquisitions, sell our assets, make redemptions and repurchases of capital stock, make capital expenditures, prepay, redeem or repurchase debt, liquidate or dissolve; engage in mergers or consolidations, engage in affiliate transactions, change our business, change our fiscal year, amend certain debt and other material agreements, issue and sell capital stock of subsidiaries, engage in sale and leaseback transactions, and restrict distributions from subsidiaries. The credit facility also requires us to meet certain financial tests, including a maximum leverage ratio, a minimum interest coverage ratio, and a limit on capital expenditures. As of June 30, 2006, we were in compliance with the covenants under the credit facility. If an event of default occurs under the credit facility, the lenders under the agreement will be entitled to take various actions, including demanding payment for all amounts outstanding thereunder and foreclosing on any collateral.

As a result of amending and restating our prior credit agreement, we incurred a write-off of $1.4 million of deferred financing expenses related to the prior credit agreement.

In June 2006, we sold $175.0 million aggregate principal amount of the outstanding 10.25% senior notes due July 15, 2014 in a private placement pursuant to Rule 144A of the Securities Act and Regulation S of the Securities Act. Interest on the notes is payable semi-annually in arrears on July 15 and January 15 of each year, commencing on January 15, 2007. The notes are senior unsecured obligations and are guaranteed on a senior unsecured basis by all of our current and future domestic subsidiaries that are material or that guarantee our amended and restated credit facility. The notes and the guarantees rank equally with all of our and the guarantors existing and future senior unsecured indebtedness, but are effectively subordinated to all of our and the guarantors existing and future senior secured indebtedness to the extent of the value of the assets securing that indebtedness and to all liabilities of our subsidiaries that are not guarantors. We have the option to redeem all or a portion of the notes at 100% of the aggregate principal amount at maturity at any time on or after July 15, 2010. At any time prior to July 15, 2010, we may also redeem all or a portion of the notes at a redemption price equal to 100% of the aggregate principal amount of the notes plus an applicable premium as of, and accrued and unpaid interest and additional interest, if any, to, but not including the date of redemption. At any time before July 15, 2009, we may also redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 110.25% of the principal amount, plus accrued and unpaid interest, if any, to the date of redemption, with the proceeds of certain equity offerings. Upon the happening of a change of control, we may be required to offer to purchase the notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest. See Description of Notes for details.

The indenture governing the notes contains various restrictive covenants and events of default applicable to us and our restricted subsidiaries similar to those contained in our amended and restated credit facility. Our ability to incur debt in based on a ratio of consolidated cash flows to fixed charges. These limitations however are subject to a number of exceptions and qualifications. As of June 30, 2006, we were in compliance with all of the covenants under the indenture.

As a regular part of our business, we review opportunities for, and engage in discussions and negotiations concerning, the acquisition of coal mining assets and interests in coal mining companies, and acquisitions of, or combinations with, coal mining companies. When we believe that these opportunities are consistent with our growth plans and our acquisition criteria, we will make bids or proposals and/or enter into letters of intent and other similar agreements, which may be binding or nonbinding, that are customarily subject to a variety of conditions and usually permit us to terminate the discussions and any related agreement if, among other things, we are not satisfied with the results of our due diligence investigation. Any acquisition opportunities we pursue could materially affect our liquidity and capital resources and may require us to incur indebtedness, seek equity capital or both. There can be no assurance that additional financing will be available on terms acceptable to us, or at all.

Additionally, we have other long-term liabilities, including, but not limited to, mine reclamation and mine closure costs, below market coal supply agreements, and black lung costs, and some of our operating and management-services subsidiaries have long-term liabilities relating to retiree health and other employee benefits.

Our ability to meet our long-term debt obligations will depend upon our future performance, which in turn, will depend upon general economic, financial and business conditions, along with competition, legislation and regulation factors that are largely beyond our control. Based upon our current operations, the historical results of our predecessors, as well as those of Anker and CoalQuest, we believe that cash flow from operations, together with other available sources of funds, including additional borrowings under our amended and restated credit facility, will be adequate for at least the next 12 months for making required payments of principal and interest on our indebtedness and for funding anticipated capital expenditures and working capital requirements. However, we cannot assure you that our operating results, cash flow and capital resources will be sufficient for repayment of our debt obligations in the future.

CONTRACTUAL OBLIGATIONS

The following is a summary of our significant future contractual obligations by year as of December 31, 2005:

	Payments due by period				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
			(in thousands)		
Long-term debt obligations[1]	$ 4,201	$ 7,924	$ 45,222	$	$ 57,347
Operating leases	8,983	3,112			12,095
Coal purchase obligation[2]	116,623	61,518	37,685		215,826
Advisory Services agreement[3]	2,000	4,000	4,000	1,500	11,500
Minimum royalties	3,891	10,564	10,329	23,842	48,626
Total[4][5]	$ 135,698	$ 87,118	$ 97,236	$ 25,342	$ 345,394

(1) Amounts shown do not reflect obligations following the sale of the outstanding notes, the use of net proceeds thereof, nor the amended and restated credit facility. Amounts are inclusive of interest assuming interest rates of 8.0% for the term loan, 7.32% for the revolving credit facility and 5.8% for the equipment notes.
(2) Reflects estimates of obligations.
(3) See Certain Relationships and Related Party Transactions.
(4) We are also a party to an employment agreement with each of our President and Chief Executive Officer and our Senior Vice President, General Counsel and Secretary.
(5) After giving effect to the sale of the outstanding notes, the use of the net proceeds thereof, and the amended and restated credit facility, the Total Total contractual obligations and the Total More than 5 years contractual obligations are expected to be $610.4 million and $272.1 million, respectively, including interest on the notes.

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OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we are a party to certain off-balance sheet arrangements. These arrangements include guarantees and financial instruments with off-balance sheet risk, such as bank letters of credit and performance or surety bonds. No liabilities related to these arrangements are reflected in our consolidated balance sheets, and we do not expect any material adverse effects on our financial condition, results of operations or cash flows to result from these off-balance sheet arrangements.

Federal and state laws require us to secure payment of certain long-term obligations such as mine closure and reclamation costs, federal and state workers compensation, coal leases and other obligations. We typically secure these payment obligations by using surety bonds, an off-balance sheet instrument. The use of surety bonds is less expensive for us than the alternative of posting an all cash bond or a bank letter of credit, either of which would require a greater use of our credit facility. We then use bank letters of credit to secure our surety bonding obligations as a lower cost alternative than securing those bonds with cash. We currently have a $100.0 million committed bonding facility pursuant to which we are required to provide bank letters of credit in an amount up to 45% of the aggregate bond liability. To the extent that surety bonds become unavailable, we would seek to secure our reclamation obligations with letters of credit, cash deposits or other suitable forms of collateral.

As of December 31, 2005, we had outstanding surety bonds with third parties for post-mining reclamation totaling $90.3 million plus $2.0 million for miscellaneous purposes. We maintained letters of credit as of December 31, 2005 totaling $59.9 million to secure reclamation surety bonds and other obligations. These letters of credit are issued under our current $100.0 million bonding facility.

INFLATION

Inflation in the United States has been relatively low in recent years and did not have a material impact on results of operations for the twelve months ended December 31, 2005, 2004 and 2003.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainty in income taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN 48 to have a material impact on our financial position, results of operations or cash flows.

Effective January 1, 2006, we adopted The Emerging Issues Task Force (EITF) Issue 04-6, *Accounting for Stripping Costs in the Mining Industry* (EITF Issue 04-6). EITF Issue 04-6 applies to stripping costs incurred in the production phase of a mine for the removal of overburden or waste materials for the purpose of obtaining access to coal that will be extracted. Under the new EITF, stripping costs incurred during the production phase of the mine are variable production costs that are included in the cost of inventory produced during the period the stripping costs are incurred. The EITF further clarified that inventory produced is intended to mean inventory extracted. Historically, the coal industry has considered coal uncovered at a surface mining operation but not yet extracted to be coal inventory (pit inventory). As a result, the adoption of EITF Issue 04-6 caused a write-off of pit inventory which resulted in a decrease of $0.6 million in our retained earnings, net of tax, as of January 1, 2006.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 151, *Inventory Costs an amendment of ARB No. 43, Chapter 4*, (SFAS No. 151). This statement amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this statement requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. Adoption of this statement did not have a material impact on our consolidated financial position or results of operations.

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Effective January 1, 2006, we adopted SFAS No. 123(R), *Share Based Payments* (SFAS No. 123(R)), using the modified prospective application, to account for stock based awards issued under its equity and performance incentive plan. SFAS No. 123(R) revises SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and its related implementation guidance. This statement establishes standards of accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. The adoption of SFAS No. 123(R) did not require a cumulative effect adjustment. Prior to January 1, 2006, we applied the provisions of APB No. 25, to account for stock based awards issued under its equity and performance incentive plan. Adoption of SFAS No. 123(R) resulted in additional compensation expense related to stock option awards, which decreased net income before income taxes and minority interest by $1.0 million for the six months ended on June 30, 2006, and increased net loss by $0.7 million for the six months ended June 30, 2006. The adoption of this statement did not impact basic earnings per share for the six months ended June 30, 2006, however, diluted earnings per share for the six months ended June 30, 2006 decreased by $0.01. See Note 12 to our unaudited condensed consolidated financial statements located elsewhere in this prospectus.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

Commodity price risk. We manage our commodity price risk for coal sales through the use of long-term coal supply agreements rather than through the use of derivative instruments. As of December 31, 2005, we had sales commitments for 82% of our planned 2006 production. Some of the products used in our mining activities, such as diesel fuel, are subject to price volatility. Through our suppliers, we utilize forward contracts to manage the exposure related to this volatility. A hypothetical increase of $0.10 per gallon for diesel fuel would reduce pre-tax income for the year ended December 31, 2005 by $2.1 million. A hypothetical increase of 10% in steel prices would result in an increase in roof support costs. This would have reduced pre-tax income for the year ended December 31, 2005 by $1.2 million.

Interest rate risk. Historically, we have had exposure to changes in interest rates on a portion of our existing level of indebtedness. This exposure had been hedged at 50% of the original term debt for a two year period using pay-fixed, receive-variable interest rate cap. A hypothetical increase or decrease in interest rates by 1% would have changed quarterly interest expense on our term loan facility by $0.05 million for the year ended December 31, 2005.

In May 2006, we entered into an Interest Rate Collar Agreement, which becomes effective on March 31, 2007 and expires March 31, 2009, to hedge our interest risk on an initial $100.0 million (increasing to $200.0 million in March 2008) notional amount of revolving debt. The interest rate collar is designed as a cash flow hedge to offset the impact of changes in the LIBOR interest rate above 5.92% and below 4.8%. This agreement was entered into in conjunction with our renegotiated credit facility dated June 23, 2006 and did not have a material impact on the second quarter of 2006.

Market price risk. We are exposed to market price risk in the normal course of mining and selling coal. As of June 30, 2006, we had 93% of 2006 planned production committed for sale leaving approximately 7% uncommitted for sale. A hypothetical decrease of $1.00 per ton in the market price for coal would have reduced pre-tax income by $3.8 million for 2005.

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INDUSTRY

OVERVIEW

A major contributor to the world energy supply, coal represents over 39% of the world s primary energy consumption according to the World Coal Institute. The primary use for coal is to fuel electric power generation. In 2005, coal-fired plants generated 51% of the electricity produced in the United States, according to the EIA, a statistical agency of the DOE.

The United States is the second largest coal producer in the world, exceeded only by China. Other leading coal producers include India, Australia, South Africa, Columbia and Venezuela. The United States is the largest holder of recoverable coal reserves in the world, with over 250 years supply at current production rates. According to the EIA, the United States produces over one-fifth of the world s coal.

Demand for U.S. Coal Production

Coal produced in the United States is used primarily by utilities to generate electricity, by steel companies to produce coke for use in blast furnaces and by a variety of industrial users to heat and power foundries, cement plants, paper mills, chemical plants and other manufacturing and processing facilities. Significant quantities of coal are also exported from both east and west coast terminals. Coal produced in the United States is also exported, primarily from east coast terminals. The breakdown of 2005 U.S. coal consumption by sector, according to the EIA, is as follows:

End Use	Tons (millions)	% of Total
Electric Power	1,039	92.2%
Other Industrial Plants	61	5.4%
Coke Plants	23	2.0%
Residential & Commercial	5	0.4%
Total	1,128	100.0%

Source: EIA

Coal has long been favored as an electricity generating fuel by regulated utilities because of its basic economic advantage. The largest cost component in electricity generation is fuel. According to the National Mining Association, coal is by far the cheapest source of power fuel per million Btu, averaging less than half the price of petroleum and natural gas.

According to the EIA, for a new coal-fired plant built today, fuel costs would represent about one-half of total operating costs, whereas the share for a new natural-gas-fired plant would be almost 90%. Coal used as fuel to generate electricity is commonly referred to as steam coal.

There are factors other than fuel cost that influence each utility s choice of electricity generation mode, including facility construction cost, access to fuel transportation infrastructure, environmental restrictions and other factors. The breakdown of U.S. electricity generation by fuel source in 2004, as estimated by the EIA, is as follows:

Electricity Generation Source	% of Total Electricity Generation
Coal	50%
Nuclear	20%
Natural Gas	18%
Hydro	7%
Petroleum and Other	5%

Total	100%

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Source: EIA

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The EIA projects that generators of electricity will increase their demand for coal as demand for electricity increases. Because coal-fired generation is used in most cases to meet base load (the lowest level of power production) requirements, coal consumption has generally grown at the pace of electricity demand growth. Demand for electricity has historically grown in proportion to U.S. economic growth as measured by gross domestic product. According to the EIA, coal use for electricity generation is expected to increase on average by 1.6% per year from 2003 to 2030.

U.S. Electricity Generation Increasing 1970-2030 Forecasted

Source: EIA

The other major market for coal is the steel industry. The type of coal used in steel making is referred to as metallurgical coal and is distinguished by special quality characteristics that include high carbon content, low expansion pressure, low sulfur content, and various other chemical attributes. Metallurgical coal is also high in heat content (as measured in Btus), and therefore is desirable to utilities as fuel for electricity generation. Consequently, metallurgical coal producers have the ongoing opportunity to select the market that provides maximum revenue. The premium price offered by steel makers for the metallurgical quality attributes is typically higher than the price offered by utility coal buyers that value only the heat content.

U.S. COAL PRODUCTION AND DISTRIBUTION

In 2005, total coal production as estimated by the EIA was 1.1 billion tons. The primary producing regions were Appalachia (35%), Interior (13%) and Western (52%). Most of our coal production comes from the Central Appalachian region. In 2003, approximately 67% of U.S. coal was produced by surface mining methods. The remaining 33% was produced by underground mining methods that include room and pillar mining and longwall mining.

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U.S. Coal Production

	2001	2002	2003	2004	2005
	(tons in millions)				
Area:					
Appalachian	431.2	396.2	376.1	389.9	396.4
Interior (includes Illinois Basin)	146.9	146.6	146.0	146.0	149.2
Western	547.9	550.4	548.7	575.2	587.0
Refuse Recovery	1.8	1.0	1.0	1.0	0.7
Total	1,127.7	1,094.3	1,071.8	1,112.1	1,133.3

Source: EIA

Central Appalachia

Central Appalachia, including eastern Kentucky, Virginia and southern West Virginia, produced 20% of the total U.S. coal production in 2005. Coal mined from this region generally has a high heat content of between 12,000 and 14,000 Btus per pound and a low sulfur content ranging from 0.7% to 1.5%. From 2000 to 2005 according to the EIA, the Central Appalachian region experienced a decline in production from 258 million tons to 232 million tons, or a 10% decline, primarily as a result of the depletion of economically attractive reserves, permitting issues and increasing costs of production, which was partially offset by production increases in Southern West Virginia due to the expansion of more economically attractive surface mines.

The structural issues in Central Appalachia have led to exceedingly high barriers to entry. These barriers are likely to prevent large-scale development in the region in both the short and medium term. In addition, alternative fuel sources have limited benefits and eastern utilities are reluctant to invest heavily to switch to PRB coal. Thus, the increasing demand coupled with the supply constraints will likely result in price stabilization at higher levels in Central Appalachia.

INDUSTRY TRENDS

In recent years, the coal industry has experienced several significant trends including:

Significant gains in mining productivity. U.S. coal production more than doubled from 1968 to 1998 due largely to changes in work practices and the introduction of new technologies that have greatly increased mine productivity. According to the EIA, overall coal mine productivity, measured in tons produced per miner shift, has increased from 30.6 tons in 1990 to 55.6 tons in 2003.

Growth in coal consumption. According to EIA, from 1990 to 2005 coal consumption in the United States increased from 895 million tons to 1,128 million tons, or 26%. The largest driver of increased coal consumption during this period was increased demand for electricity. The EIA estimates that coal use for electricity generation is expected to increase on average by 1.6% per year from 2003 to 2025.

Increased utilization of existing capacity of coal-fired power plants. We believe that existing coal-fired plants will supply much of the projected increase in the demand for electricity because they possess excess capacity that can be utilized at low incremental costs. The NETL has identified 106 coal-fired plants, representing 65,000 megawatts of electric generation capacity, that have been proposed and are currently in various stages of development.

Restructuring of Electricity Industry

In October 1992, Congress enacted the Energy Policy Act of 1992, which gave wholesale electricity suppliers access to the transmission lines of U.S. utility companies. In May 1996, the Federal Energy Regulatory

Commission issued the first of a series of orders establishing rules to promote competition in wholesale electricity markets by providing wholesale electricity suppliers open access to electricity transmission systems. In 1999, the Federal Energy Regulatory Commission issued a rule to encourage the establishment of regional transmission organizations. Wholesale competition has resulted in a substantial increase in non-utility generating capacity in the United States.

Increasingly Stringent Air Quality Laws

The coal industry has witnessed a recent shift in demand to low sulfur coal production driven by regulatory restrictions on sulfur dioxide emissions from coal-fired power plants. In 1995, Phase I of the Clean Air Act Acid Rain program required high sulfur coal plants to reduce their emissions of sulfur dioxide to 2.5 pounds or less per million Btu, and in 2000, Phase II of the Clean Air Act tightened these sulfur dioxide restrictions further to 1.2 pounds of sulfur dioxide per million Btu. Currently, electric power generators operating coal-fired plants can comply with these requirements by:

- burning lower sulfur coal, either exclusively or mixed with higher sulfur coal;
- installing pollution control devices such as scrubbers, which reduce the emissions from high sulfur coal;
- reducing electricity generating levels; or
- purchasing or trading emission credits to allow them to comply with the sulfur dioxide emission compliance requirements.

However, as new laws and regulations, including the Clean Air Interstate Rule and the Clean Air Mercury Rule require further reductions in emissions, coal-fired utilities may need to install additional pollution control equipment, such as wet scrubbers, to comply. Installation of such additional pollution control equipment could potentially result in a decrease in the demand for low sulfur coal (because sulfur would be removed by the new equipment), potentially driving down prices for low sulfur coal.

RECENT COAL MARKET CONDITIONS

According to traded coal indices and reference prices, U.S. and international coal demand is currently at high levels, and coal pricing remains at high levels compared to historical trends. We believe that strong current fundamentals in the U.S. coal industry are supported primarily by:

- stronger industrial demand following a recovery in the U.S. manufacturing sector;
- production difficulties and reserve degradation experienced by some U.S. coal producers;
- capacity constraints of U.S. nuclear-powered electricity generators;
- high current and forward prices for natural gas and oil;
- transportation disruptions including constrained rail line capacity and increased costs faced by the trucking industry; and

increased international demand for U.S. coal for electricity generation and steelmaking, driven by global economic growth, high ocean freight rates and the weak U.S. dollar.

Coal prices are influenced by a number of factors and often vary dramatically by region. The following chart illustrates coal spot prices for Central Appalachia low sulfur compliance coal, Illinois Basin high sulfur coal and metallurgical coal.

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Coal Pricing Environment

Sources: Bloomberg L.P. for CAPP and IL prices; EIA for metallurgical coal prices

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BUSINESS

OVERVIEW

We are a leading producer of coal in Northern and Central Appalachia with a broad range of mid to high Btu, low to medium sulfur steam and metallurgical coal. We also have a complementary mining complex of mid to high sulfur steam coal strategically located in the Illinois Basin. We currently own and operate eleven active mining complexes, ten of which are dispersed between Central Appalachia and Northern Appalachia, with the one remaining complex in the Illinois Basin. Our strategic locations give us a prominent position in three of the four largest coal producing regions in the United States, including the Appalachian region, which is the largest coal producing region by revenues in the country. As of March 31, 2006, we control approximately 1.1 billion tons of proven and probable coal reserves. Based on 2005 production rates, this reserve base gives us a reserve life of approximately 72 years, which we believe is more than any other public coal producer in the United States. Additionally, we also own and control approximately 563 million tons of non-reserve coal deposits. For the year ended December 31, 2005, we sold 14.8 million tons of coal, of which approximately 14.7 million tons were steam coal and approximately 0.1 million tons were metallurgical.

We currently market our coal to a diverse customer base of largely investment grade electric utilities, as well as domestic industrial and steel customers. Coupling our primarily high Btu, low sulfur steam and metallurgical quality coal, with the availability of multiple transportation options throughout the Appalachian region, enables us to participate in both the domestic and international coal markets. We are committed to maintaining a reliable and stable revenue base. As of June 30, 2006, we had contracted sales commitments in place for approximately 93% of planned shipments for 2006 and 55% to 60% for 2007.

OUR HISTORY

The Horizon Acquisition

On February 28, 2002, Horizon (at that time operating as AEI Resources Holdings, Inc.) filed a voluntary petition for Chapter 11 and its plan of reorganization became effective on May 8, 2002. However, Horizon s profit margins and cash flows were negatively impacted in fiscal year 2002 by, among other things, the falling price of coal and continued increases in certain operating expenses. Due to capital and permit constraints, Horizon had to mine in areas which produced coal at greatly reduced profit margins thus severely reducing cash flow.

As a result of its continuing financial and operational difficulties, Horizon filed a second voluntary petition for relief under Chapter 11 on November 13, 2002. Horizon obtained a debtor-in-possession financing facility of up to $350.0 million and was effective in rationalizing its operations, selling non-core assets, paying down outstanding borrowings and generating substantial operating profit. With stabilized operations and a significantly improved coal market, Horizon filed a joint plan of reorganization and a joint plan of liquidation under Chapter 11.

ICG was formed by WLR and other investors in May 2004 to acquire and operate competitive coal mining facilities from Horizon. The Horizon assets were sold through a bankruptcy auction on August 17, 2004 for $285.0 million in cash plus the assumption of up to $5.0 million of certain liabilities. ICG also contributed a credit bid of second lien Horizon bonds, and A.T. Massey agreed to pay $5.0 million in cash to acquire a separate group of assets associated with two Horizon subsidiaries ICG did not acquire. The credit bid included the cancellation of $482.0 million of certain Horizon bonds in return for shares of ICG common stock for those creditors who participated in an ICG rights offering. The bankruptcy court confirmed the sale on September 16, 2004 as part of the completion of the Horizon bankruptcy proceedings. At closing, ICG increased the purchase price by $6.25 million, primarily to satisfy increased administrative expenses, and the sale was completed as of September 30, 2004.

The acquisition was financed through equity investments and borrowings under the senior secured credit facility, which we entered into at the closing of the Horizon acquisition.

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The Anker and CoalQuest Acquisitions

On November 18, 2005, we acquired Anker and CoalQuest through stock-for-stock mergers. The stockholders and members of Anker and CoalQuest received 14,840,909 and 9,250,000 shares of our common stock, respectively.

Our Reorganization and Public Offering

On November 18, 2005, we also completed a corporate reorganization. Prior to this reorganization, the top-tier parent holding company for our operations was ICG, Inc. Upon completion of this reorganization, we became the new top-tier parent holding company. In the corporate reorganization, the stockholders of ICG, Inc. received one share of our common stock for each share of ICG, Inc. common stock. On November 21, 2005, our common stock commenced trading on the New York Stock Exchange.

On December 12, 2005, we completed a public offering of 21 million shares of common stock. Net proceeds from the public offering were approximately $210.5 million. We used the proceeds to retire $188.7 million of our term loan debt and repay $21.2 million of borrowings under our current credit facility.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths will enable us to enhance our position as one of the premier coal producers in the United States:

Leading producer of high-quality steam coal with substantial metallurgical coal reserves. We are a leading producer of coal in Northern and Central Appalachia and also have operations and reserves in the Illinois Basin. Our customers are largely investment grade electric utilities, as well as domestic industrial and steel customers that demand a variety of coal products. Our ability to produce a comprehensive range of high Btu steam and metallurgical quality coal allows us to blend coal, which enables us to market differentiated coal products to a variety of customers with different coal quality demands and allows us to benefit from strong pricing dynamics in the current market relative to historical prices.

Diversity of production, reserves and non-reserve coal deposits. Our production, reserves and non-reserve coal deposits are located in three of the four major coal regions in the United States and provide important geographical diversity in terms of markets, transportation and labor. We believe the diversity of our operations and reserves provides us with a significant advantage over competitors with operations located primarily in a single coal producing region as it allows us to source coal from multiple operations to meet the needs of our customers and reduce transportation costs.

Strong base of owned reserves providing significant production flexibility and internal development opportunities. We have approximately 1.1 billion tons of coal reserves comprised of approximately 759 million tons of owned reserves and an additional approximate 301 million tons of controlled reserves through long-term leases. We own or control an additional 563 million tons of non-reserve coal deposits. We have not yet developed approximately 74% (784 million tons) of our owned and controlled reserves. We believe these owned and controlled but as yet undeveloped reserves and non-reserve coal deposits will give us the flexibility to grow without the need to make acquisitions. Further, we believe our high level of owned reserves provides a competitive cost advantage because production from owned reserves does not require a royalty payment to third parties. In addition, the development of our properties in West Virginia for coalbed methane is expected to provide us with additional growth opportunities in this complementary energy market. We began producing in July 2006 with four wells completed while drilling for 13 additional wells continue.

Ability to capitalize on strong coal market dynamics. Our marketing effort is focused on maintaining a balance of longer-term contracts and spot sales. We typically have approximately 50% of our annual production contracted by the early part of the previous year with another 35% contracted by the second

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half of the previous year with the remainder of our annual production used to take advantage of market dynamics and maximize value in the spot market. As of June 30, 2006, we had contracted sales commitments in place for approximately 93% of planned shipments for 2006 and 55% to 60% for 2007.

Minimal level of long-term legacy liabilities. Compared to other publicly traded U.S. coal producers, we have among the lowest long-term legacy liabilities, based on publicly filed information. As of June 30, 2006, we had total accrued workers compensation liabilities of $3.3 million, Coal Act liabilities of $5.7 million, post-retirement employee obligations of $10.4 million, black lung liabilities of $18.9 million and reclamation liabilities of $85.4 million. In addition, our entire workforce is union free, which minimizes employee-related liabilities commonly associated with union-represented mines.

Conservative capital structure provides financial flexibility. As of June 30, 2006, our total debt was $197.7 million and we had cash and cash equivalents of $65.8 million and unused borrowing capacity of $265.1 million, which we believe gives us the ability to execute our growth strategy. In addition, in connection with our amended and restated credit facility, we entered into an interest rate collar that will insulate us from fluctuations in London Interbank Offered Rate (LIBOR) rates from March 2007 until March 2009.

Highly skilled management team. The members of our senior management team have, on average, 25 years of industry work experience across a variety of mining methods, including longwall mining. We have substantial Appalachian mining experience in increasing productivity, reducing costs, enhancing work safety practices, and maintaining strong customer relationships. In addition, the majority of our senior management team has extensive mine development and expansion experience.

OUR BUSINESS STRATEGY

We believe that our strengths well-position us as a leading coal producer and that we can enhance this position by focusing on the following strategy:

Maximize profitability and cash flow generation through highly efficient and productive mining operations. We are continuing to evaluate and assess our current operations in order to maximize operating efficiency and returns on invested capital. We are focused on maintaining low-cost, highly productive operations by continuing to invest substantial capital in state-of-the-art equipment and advanced technologies. We expect to spend a total of approximately $214.0 million in capital expenditures in 2006. We are currently reviewing our future capital expenditure plans. Our capital expenditures will be funded with the proceeds from the sale of the outstanding notes, future operating cash flow and borrowings under our amended and restated credit facility.

Leverage owned and controlled reserves to generate substantial internal growth. Our Hillman property, a large undeveloped reserve in Northern Appalachia, contains approximately 194 million tons of high Btu, low to medium sulfur steam and metallurgical quality coal. We currently expect underground longwall mining operations at this reserve to commence within the next three years, which will increase our production level, providing highly valued premium quality coal in an increasingly tight supply market at competitively low costs. In addition, our Beckley and Big Creek properties, two substantial undeveloped reserves in Central Appalachia, contain approximately 29.0 million tons and 27.5 million tons, respectively, of premium metallurgical coal and are expected to be developed over the next two to three years. The substantial reserve position that we own in the Illinois Basin is expected to allow us to benefit from the expected increase in demand for high sulfur coal to generate electricity. We anticipate that the expected increase in installation and utilization of scrubbers over the next several years will further increase the demand for this type of coal. In addition, we have entered into an arrangement with CDX Gas, LLC pursuant to which we have begun to drill well sites for the recovery of coalbed methane from our large undeveloped reserve base in Northern Appalachia. Lastly, we intend to opportunistically acquire new coal reserves and/or coal companies to expand our coal market opportunities and increase shareholder value.

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Capitalize on our market knowledge and experience to continue to achieve increasing coal price realizations. U.S. coal market fundamentals are among the strongest in the last 20 years. We believe this generally favorable pricing environment will persist given systemic changes in market dynamics such as long-term supply constraints and increasing demand, particularly in Central Appalachia and for our metallurgical coal. Furthermore, because of the high quality of our coal, our access to a variety of alternative transportation methods, including truck, rail and barge, and our mix of long-term contract and spot market sales, we will be able to capitalize on the favorable industry dynamics to maximize our revenues and profits. We plan to extend the life of our longer-term contract arrangements in order to lock in margins and enhance our financial stability.

Continue to focus on improving workplace safety and environmental compliance. We strongly value the health and welfare of our employees and the environment and intend to continue to adhere to safety and environmental compliance standards. We continue to implement new safety measures and safety and environmental initiatives that are designed to promote safe operating practices and improved environmental stewardship among our employees. Our ability to maintain a good safety and environmental record improves our productivity and lowers our overall cost structure as well as bolsters employee morale.

COAL MINING METHODS

We produce coal using two mining methods: underground room-and-pillar mining using continuous mining equipment, and surface mining, which are explained as follows:

Underground Mining

Underground mines in the United States are typically operated using one of two different techniques: room-and-pillar mining or longwall mining. As of June 30, 2006, approximately 32% of our produced and processed coal volume came from underground mining operations generally using the room-and-pillar method with continuous mining equipment.

Room-and-pillar mining

In room-and-pillar mining, rooms are cut into the coalbed leaving a series of pillars, or columns of coal, to help support the mine roof and control the flow of air. Continuous mining equipment is used to cut the coal from the mining face. Generally, openings are driven 20 feet wide and the pillars are generally rectangular in shape measuring 35-50 feet wide by 35-80 feet long. As mining advances, a grid-like pattern of entries and pillars is formed. Shuttle cars are used to transport coal to the conveyor belt for transport to the surface. When mining advances to the end of a panel, retreat mining may begin. In retreat mining, as much coal as is feasible is mined from the pillars that were created in advancing the panel, allowing the roof to cave. When retreat mining is completed to the mouth of the panel, the mined panel is abandoned. The room-and-pillar method is often used to mine smaller coal blocks or thinner seams. It is also employed whenever subsidence is prohibited. Seam recovery ranges from 35% to 70%, with higher seam recovery rates applicable where retreat mining is combined with room-and-pillar mining. Productivity for continuous room-and-pillar mining in the United States averages 3.3 tons per employee per hour, according to the EIA.

Longwall mining

The other underground mining method commonly used in the United States is the longwall mining method. We do not currently have any longwall mining operations, but we expect to use this mining method in the development of two of our undeveloped mining properties in West Virginia. In longwall mining, a rotating drum is trammed mechanically across the face of coal and a hydraulic system supports the roof of the mine while it advances through the coal. Chain conveyors then move the loosened coal to an underground mine conveyor system for delivery to the surface.

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Surface Mining

Surface mining is used when coal is found close to the surface. As of June 30, 2006, approximately 68% of our produced and processed coal volume came from surface mines. This method involves the removal of overburden (earth and rock covering the coal) with heavy earth moving equipment and explosives, loading out the coal, replacing the overburden and topsoil after the coal has been excavated and reestablishing vegetation and plant life and frequently making other improvements that have local community and environmental benefit. Overburden is typically removed at our mines using large, rubber-tired diesel loaders. Seam recovery for surface mining is typically between 80% and 90%. Productivity depends on equipment, geological composition and mining ratios and averages 4.2 tons per employee per hour in eastern regions of the United States, according to the EIA.

We use the following three types of surface mining methods.

Truck-and-shovel/loader mining

Truck-and-shovel/loader mining is a surface mining method that uses large shovels or loaders to remove overburden which is used to backfill pits after coal removal. Shovels or loaders load coal into haul trucks for transportation to a preparation plant or unit train loadout facility. Seam recovery using the truck-and-shovel/loader mining method is typically 85% or more.

Dragline mining

Dragline mining is a surface mining method that uses large capacity draglines to remove overburden to expose the coal seams. Shovels or loaders load coal in haul trucks for transportation to a preparation plant or unit train loadout facility. Seam recovery using the dragline method is typically 85% or more and productivity levels are similar to those for truck-and-shovel/loader mining.

Highwall mining

Highwall mining is a surface mining method generally utilized in conjunction with truck-and-shovel/ loader surface mining. At the highwall exposed by the truck-and-shovel/loader operation a modified continuous miner with an attached beltline system cuts horizontal passages from the highwall into a seam. These passages can penetrate to a depth of up to 1,600 feet. This method typically can recover up to 65% of the reserve block penetrated.

Coal Preparation and Blending

Depending on coal quality and customer requirements, raw coal may in some cases be shipped directly from the mine to the customer. Generally, raw coal from surface mines can be shipped in this manner. However, the quality of most underground raw coal does not allow it to be shipped directly to the customer without processing in a preparation plant. Preparation plants separate impurities from coal. This processing upgrades the quality and heating value of the coal by removing or reducing sulfur and ash-producing materials, but entails additional expense and results in some loss of coal. Coals of various sulfur and ash contents can be mixed or blended at a preparation plant or loading facility to meet the specific combustion and environmental needs of customers. Coal blending helps increase profitability by reducing the cost of meeting the quality requirements of specific customer contracts, thereby optimizing contract revenue.

COAL CHARACTERISTICS

In general, coal of all geological composition is characterized by end use as either steam coal or metallurgical coal. Heat value and sulfur content are the most important variables in the profitable marketing and transportation of steam coal, while ash, sulfur and various coking characteristics are important variables in the profitable marketing and transportation of metallurgical coal. We mine, process, market and transport bituminous steam and metallurgical coal, characteristics of which are described below.

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Heat Value

The heat value of coal is commonly measured in Btus per pound of coal. A Btu is the amount of heat needed to raise one pound of water one degree Fahrenheit. Coal found in the Eastern and Midwestern regions of the United States tends to have a heat content ranging from 10,000 to 14,000 Btus per pound, as received. As received Btus per pound includes the weight of moisture in the coal on an as sold basis. Most coal found in the Western United States ranges from 8,000 to 10,000 Btus per pound, as received.

Bituminous Coal

Bituminous coal is a relatively soft black coal with a heat content that ranges from 10,500 to 14,000 Btus per pound. This coal is located primarily in Appalachia, Arizona, Colorado, the Midwest and Utah, and is the type most commonly used for electricity generation in the United States. Bituminous coal is also used for industrial steam purposes by utility and industrial customers, and as metallurgical coal in steel production.

Sulfur Content

Sulfur content can vary from seam to seam and sometimes within each seam. When coal is burned, it produces sulfur dioxide, the amount of which varies depending on the chemical composition and the concentration of sulfur in the coal. Compliance coal is coal which, when burned, emits 1.2 pounds or less of sulfur dioxide per million Btus and complies with the requirements of the Clean Air Act Acid Rain program. Low sulfur coal is coal which, when burned, emits approximately 1.6 pounds or less of sulfur dioxide per million Btus. Mid-sulfur coal is generally characterized as coal which, when burned, emits greater than 1.6 pounds of sulfur dioxide per million Btus but less than 2.5 pounds of sulfur dioxide per million Btus. High sulfur coal is generally characterized as coal which, when burned, emits greater than 2.5 pounds per million Btus.

High sulfur coal can be burned in electric utility plants equipped with sulfur-reduction technology, such as scrubbers, which can reduce sulfur dioxide emissions by at least 90%. Plants without scrubbers can burn high sulfur coal by blending it with lower sulfur coal, or by purchasing emission allowances on the open market. Each emission allowance permits the user to emit a ton of sulfur dioxide. By 2000, 90,000 megawatts of electric generation capacity utilized scrubbing technologies. According to the EIA, by 2025, an additional 27,000 megawatts of electric generation capacity will have installed scrubbers. Additional scrubbing will provide new market opportunities for our medium to high sulfur coal. All new coal-fired electric utility generation plants built in the United States will use clean coal-burning technology.

Other Characteristics

Ash is the inorganic residue remaining after the combustion of coal. As with sulfur content, ash content varies from coal seam to coal seam. Ash content is an important characteristic of coal because it increases transportation costs and electric generating plants must handle and dispose of ash following combustion.

Moisture content of coal varies by the type of coal, the region where it is mined and the location of coal within a seam. In general, high moisture content decreases the heat value per pound of coal, thereby increasing the delivered cost per Btu. Moisture content in coal, as sold, can range from approximately 5% to 30% of the coal s weight.

COAL RESERVES

Reserves are defined by SEC Industry Guide 7 as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Proven (Measured) Reserves are defined by SEC Industry Guide 7 as reserves for which (1) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (2) the sites for inspection, sampling and measurement are spaced so closely and the

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geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable reserves are defined by SEC Industry Guide 7 as reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

We estimate that there are approximately 274 million tons of coal reserves that can be developed by our existing operations which will allow us to maintain current production levels for an extended period of time. ICG Natural Resources, LLC and CoalQuest own and lease all of our reserves that are not currently assigned to or associated with one of our mining operations. These reserves contain approximately 786 million tons of mid to high Btu, low and high sulfur coal located in Kentucky, West Virginia, Maryland, Illinois, Pennsylvania and Virginia. Our multi-region base and flexible product line allows us to adjust to changing market conditions and sustain high sales volume by supplying a wide range of customers.

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Our total coal reserves could support 2005 production rates for more than 72 years. The following table provides the location of our mining operations and the type of coal produced at those operations as of March 31, 2006:

Mining operations	Assigned or Unassigned[1]	Operating (O) or Development (D)	State	Mining method Surface (S) or Underground (UG)	Total proven and probable reserves[2] (in million tons)	Owned proven and probable reserves (in million tons)	Leased proven and probable reserves (in million tons)	Steam proven and probable reserves (in million tons)	Metallurgical[3][4] proven and probable reserves (in million tons)
Northern Appalachia									
Vindex Energy Corp.	Assigned	O	MD	S	13.10	3.50	9.60	10.60	2.50
	Unassigned	D	MD	S/UG	6.21	0.47	5.74	0.15	6.06
Total Vindex Energy Corp.					19.31	3.97	15.34	10.75	8.56
Patriot Mining Co.	Assigned	O	WV	S	0.14	0.14	0.00	0.14	0.00
Buckhannon/Spruce Division	Assigned	O	WV	UG	17.21	17.21	0.00	0.00	17.21
	Unassigned	D	WV	UG	30.56	28.76	1.80	1.30	29.26
Total Buckhannon/Spruce Division					47.77	45.97	1.80	1.30	46.47
Sycamore Group	Assigned	O	WV	UG	18.05	0.37	17.68	18.05	0.00
Philippi Development Division	Assigned	O	WV	UG	35.86	32.23	3.63	0.00	35.86
	Unassigned	D	WV	UG	4.94	4.94	0.00	0.00	4.94
Total Phillipi Development Division					40.80	37.17	3.63	0.00	40.80
CoalQuest Development LLC (Hillman)	Unassigned	D	WV	UG	194.30	194.30	0.00	32.71	161.59
Northern Appalachia Total					320.37	281.92	38.45	62.95	257.42
Central Appalachia									
ICG-Eastern	Assigned	O	WV	S	20.23	5.26	14.97	20.23	0.00
ICG-Hazard	Assigned	O	KY	S	14.68	0.00	14.68	14.68	0.00
	Unassigned	D	KY	S/UG	20.11	0.00	20.11	20.11	0.00
Total ICG-Hazard					34.79	5.26	34.79	34.79	0.00
Flint Ridge	Assigned	O	KY	S/UG	31.91	0.19	31.72	31.91	0.00
ICG-Knott County	Assigned	O	KY	UG	18.60	4.56	14.04	18.60	0.00
ICG-East Kentucky	Assigned	O	KY	S	0.86	0.00	0.86	0.86	0.00
ICG-Natural Resources (Tioga)	Unassigned	D	WV	S	30.00	0.00	30.00	30.00	0.00
ICG-Natural Resources (Mt. Sterling)	Unassigned	D	KY	S	5.91	4.36	1.55	5.91	0.00
ICG-Natural Resources (Jennie Creek)	Unassigned	D	WV	S/UG	44.90	2.20	42.70	44.90	0.00

ICG Beckley[3]	Unassigned (Bay Hill)	D	WV	UG	28.97	1.28	27.69	0.00	28.97
White Wolf Energy, Inc. (f/k/a Anker Virginia Mining Company, Inc.)[3]	Unassigned (Big Creek)	D	V	UG	27.50	0.00	27.50	0.00	27.50
Central Appalachia Total					243.67	17.85	225.82	187.20	56.47
Other									
ICG-Illinois	Assigned (Viper)	O	IL	UG	26.70	10.44	16.26	26.70	0.00
ICG-Natural Resources	Unassigned	D	IL	UG	469.26	449.11	20.15	469.26	0.00
Total Other					495.96	459.55	36.41	495.96	0.00
Total Proven and Probable Reserves					1,060.00	759.32	300.68	746.11	313.89

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(1) The proven and probable reserves indicated for each mine are Assigned. Unassigned proven and probable reserves for each mining complex are shown separately. Assigned reserves means coal which has been committed by the coal company to operating mine shafts, mining equipment, and plant facilities, and all coal which has been leased by ICG to others. Unassigned reserves represent coal which has not been committed, and which would require new mineshafts, mining equipment, or plant facilities before operations could begin in the property. The primary reason for this distinction is to inform investors, which coal reserves will require substantial capital investments before production can begin.

(2) The proven and probable reserves are reported as recoverable reserves, which is that part of a coal deposit which could be economically and legally extracted or produced at the time of the reserve determination, taking into account mining recovery and preparation plant yield.

(3) ICG Beckley and White Wolf Energy meet historical metallurgical coal quality specifications.

(4) Currently, we report selling coal with ash and sulfur contents as high as 10% and 1.5%, respectively into the current metallurgical market from the Vindex Energy, Buckhannon/Spruce and Phillipi Divisions. Similarly, we believe all production from Vindex Division and portions of Hillman could be sold on this metallurgical market when production begins.

The following table provides the quality (average moisture, ash, sulfur and Btu content, sulfur content and ash content per pound) of our coal reserves as of March 31, 2006:

		As received quality					Total reserves (in million tons)	
Mining operations	**Assigned or Unassigned(1)**	**% Moisture**	**% Ash**	**% Sulfur**	**Btu/lb.**	**Lbs. SO(2)/ million Btu s**	**<1.2 lbs. SO(2) Compliance**	**>1.2 lbs SO(2) non-compliance**
Northern Appalachia								
Vindex Energy Corp.	Assigned	6.00	14.15	1.77	12,380	2.86	0.00	13.10
	Unassigned	6.00	9.47	0.86	13,193	1.31	0.00	6.21
Total Vindex Energy Corp.		6.00	12.65	1.48	12,642	2.34	0.00	19.31
Patriot Mining Co.	Assigned	6.00	19.06	2.13	11,240	3.79	0.00	0.14
Buckhannon/Spruce Division	Assigned	6.00	9.54	1.38	13,879	1.99	0.00	17.21
	Unassigned	6.00	8.87	1.11	13,076	1.70	0.00	30.56
Total Buckhannon/Spruce Division		6.00	9.11	1.21	13,365	1.81	0.00	47.77
Sycamore Group	Assigned	6.00	7.20	3.05	13,099	4.66	0.00	18.05
Philippi Development Division	Assigned	6.00	8.17	1.32	13,299	1.98	0.00	35.86
	Unassigned	6.00	8.04	1.44	13,353	2.15	0.00	4.94
Total Phillipi Development Division		6.00	8.15	1.33	13,306	2.00	0.00	40.80
CoalQuest Development LLC	Unassigned (Hillman)	6.00	9.21	1.15	13,179	1.74	0.00	194.30
Northern Appalachia Total							**0.00**	**320.37**

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		As received quality					Total reserves	
Mining operations	**Assigned or Unassigned[1]**	**% Moisture**	**% Ash**	**% Sulfur**	**Btu/lb.**	**Lbs. SO[2]/ million Btu s**	**<1.2 lbs. SO[2] Compliance**	**>1.2 lbs SO[2] non-compliance**
							(in million tons)	
Central Appalachia								
ICG-Eastern	Assigned	6.00	14.42	1.24	11,964	2.07	0.00	20.23
ICG-Hazard	Assigned	6.00	11.25	1.54	11,835	2.60	0.00	14.68
	Unassigned	6.00	12.98	1.63	12,047	2.71	0.00	20.11
Total ICG-Hazard		6.00	12.25	1.59	11,958	2.66	0.00	34.79
Flint Ridge	Assigned	6.00	8.15	1.39	12,768	2.17	0.00	31.91
ICG-Knott County	Assigned	6.00	7.77	1.22	12,916	1.89	2.35	16.25
ICG-East Kentucky	Assigned	4.50	11.59	1.36	12,680	2.14	0.00	0.86
ICG-Natural Resources	Unassigned (Tioga)	6.00	14.42	1.24	11,964	2.07	0.00	30.00
ICG-Natural Resources	Unassigned (Mt. Sterling)	6.00	9.18	0.83	12,430	1.33	0.00	5.91
ICG-Natural Resources	Unassigned (Jennie Creek)	7.00	6.47	1.10	12,935	1.70	0.00	44.90
ICG Beckley[2]	Unassigned (Bay Hill)	6.00	4.87	0.70	13,913	1.01	28.97	0.00
White Wolf Energy, Inc. (f/k/a Anker Virginia Mining Company, Inc.)[2]	Unassigned (Big Creek)	6.00	4.00	0.65	14,073	0.92	27.50	0.00
Central Appalachia Total							**58.82**	**184.85**
Other								
ICG-Illinois	Assigned (Viper)	16.00	8.80	2.86	10,692	5.35	0.00	26.70
ICG-Natural Resources	Unassigned	10.00	8.99	2.88	11,138	5.17	0.00	469.26
Total Other		10.32	8.98	2.88	11,114	5.18	0.00	495.96
Total Proven and Probable Reserves							**58.82**	**1,001.18**

(1) The proven and probable reserves indicated for each mine are Assigned. Unassigned proven and probable reserves for each mining complex are shown separately. Assigned reserves means coal which has been committed by the coal company to operating mine shafts, mining equipment, and plant facilities, and all coal which has been leased by ICG to others. Unassigned reserves represent coal which has not been committed, and which would require new mine shafts, mining equipment, or plant facilities before operations could begin in the property. The primary reason for this distinction is to inform investors which coal reserves will require substantial capital investments

before production can begin.

(2) ICG Beckley and White Wolf Energy meet historical metallurgical coal quality specifications.

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Our reserve estimate is based on geological data assembled and analyzed by our staff of geologists and engineers. Reserve estimates are periodically updated to reflect past coal production, new drilling information and other geologic or mining data. Acquisitions or sales of coal properties will also change the reserves. Changes in mining methods may increase or decrease the recovery basis for a coal seam as will plant processing efficiency tests. We maintain reserve information in secure computerized databases, as well as in hard copy. The ability to update and/or modify the reserves is restricted to a few individuals and the modifications are documented.

Actual reserves may vary substantially from the estimates. Estimated minimum recoverable reserves are comprised of coal that is considered to be merchantable and economically recoverable by using mining practices and techniques prevalent in the coal industry at the time of the reserve study, based upon then-current prevailing market prices for coal. We use the mining method that we believe will be most profitable with respect to particular reserves. We believe the volume of our current reserves exceeds the volume of our contractual delivery requirements. Although the reserves shown in the table above include a variety of qualities of coal, we presently blend coal of different qualities to meet contract specifications. See Risk Factors Risks Relating To Our Business.

Periodically, we retain outside experts to independently verify our coal reserves. The most recent review was completed during the first quarter of 2005 and covered all of our reserves. The results verified our reserve estimates, with very minor adjustments, and included an in-depth review of our procedures and controls. As of March 31, 2006, based on an independent evaluation performed on January 1, 2005 and on management s current estimates, we controlled 1.06 billion tons.

We currently own approximately 72% of our coal reserves, with the remainder of our coal reserves subject to leases from third-party landowners. Generally, these leases convey mining rights to the coal producer in exchange for a percentage of gross sales in the form of a royalty payment to the lessor, subject to minimum payments. Leases generally last for the economic life of the reserves. For the period ended June 30, 2006, the average royalties paid by us for coal reserves from our producing properties was $2.00 per ton sold, representing approximately 4.59% (net of freight and handling) of our coal sales revenue. Consistent with industry practice, we conduct only limited investigations of title to our coal properties prior to leasing. Title to lands and reserves of the lessors or grantors and the boundaries of our leased priorities are not completely verified until we prepare to mine those reserves.

NON-RESERVE COAL DEPOSITS

Non-reserve coal deposits are coal-bearing bodies that have been sufficiently sampled and analyzed in trenches, outcrops, drilling, and underground workings to assume continuity between sample points, and therefore warrants further exploration stage work. However, this coal does not qualify as a commercially viable coal reserve as prescribed by SEC standards until a final comprehensive evaluation based on unit cost per ton, recoverability, and other material factors concludes legal and economic feasibility. Non-reserve coal deposits may be classified as such by either limited property control or geologic limitations, or both.

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The following table provides the location of our mining operations and the type and amount of non-reserve coal deposits at those complexes as of March 31, 2006:

Mining operations	**Assigned or Unassigned[(1)]**	**Operating (O) or Development (D)**	**State**	**Mining method Surface (S) or Underground (UG)**	**Total non-reserve coal deposits**	**Steam non-reserve coal deposits (in million tons)**	**Metallurgical[(2)] non-reserve coal deposits**
Northern Appalachia							
Patriot Mining Co.	Assigned	O	WV	S	0.13	0.13	0.00
	Unassigned	D	WV	S	1.77	1.77	0.00
Total Patriot Mining					1.90	1.90	0.00
Buckhannon/Spruce Division	Assigned	O	WV	UG	0.18	0.18	0.00
	Unassigned	D	WV	UG	2.24	2.24	0.00
Total Buckhannon/Spruce Division					2.42	2.42	0.00
Sycamore Group	Assigned	O	WV	UG	1.28	1.28	0.00
	Unassigned	D	WV	UG	0.00	0.00	0.00
Total Sycamore Group					1.28	1.28	0.00
Philippi Development Division	Assigned	O	WV	UG	1.64	1.64	0.00
	Unassigned	D	WV	UG	0.76	0.76	0.00
Total Phillipi Development Division					2.40	2.40	0.00
CoalQuest Development LLC	Unassigned (Hillman)	D	WV	UG	37.04	37.04	0.00
Upshur Property	Unassigned (Upshur)		WV	S	92.96	92.96	0.00
Northern Appalachia Total					**138.00**	**138.00**	**0.00**
Central Appalachia							
ICG-Eastern	Assigned	O	WV	S	0.02	0.02	0.00
ICG-Hazard	Assigned	O	KY	S	0.16	0.16	0.00
Flint Ridge	Assigned	O	KY	S/UG	2.84	2.84	0.00
ICG-Knott County	Assigned	O	KY	UG	0.00	0.00	0.00
ICG-East Kentucky	Assigned (Blackberry)	O	KY	S	0.00	0.00	0.00
ICG-Natural Resources	Unassigned		KY	S/UG	35.60	35.60	0.00

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Mining operations	Assigned or Unassigned[1]	Operating (O) or Development (D)	State	Mining method Surface (S) or Underground (UG)	Total non-reserve coal deposits	Steam non-reserve coal deposits (in million tons)	Metallurgical[2] non-reserve coal deposits
ICG-Natural Resources	Unassigned		WV	UG	18.74	18.74	0.00
Wolf Run Mining Company (f/k/a Anker West Virginia Mining Company, Inc.)	Unassigned (Juliana)	D	WV	S/UG	3.10	3.10	0.00
ICG Beckley[3]	Unassigned (Bay Hill)	D	WV	UG	1.88	0.00	1.88
White Wolf Energy, Inc. (f/k/a Anker Virginia Mining Company, Inc.)[3]	Unassigned (Big Creek)	D	V	UG	2.57	2.57	0.00
Central Appalachia Total					**64.91**	**63.03**	**1.88**
Other							
ICG-Illinois	Assigned (Viper)	O	IL	UG	38.47	38.47	0.00
ICG-Natural Resources	Unassigned (Illinois)		IL	UG	119.06	119.06	0.00
ICG-Natural Resources	Unassigned (Arkansas)		AR	S	39.15	39.15	0.00
	Unassigned (California)		CA	UG	10.00	10.00	0.00
	Unassigned (Ohio)		OH	UG	98.00	98.00	0.00
	Unassigned (Montana)		MT	S	12.00	12.00	0.00
	Unassigned (Washington)		WA	S	43.08	43.08	0.00
Total Other					**359.76**	**359.76**	**0.00**
Total Non-Reserve Coal Deposits					**562.67**	**560.79**	**1.88**

(1) Assigned non-reserve coal deposits mean coal which has been committed by ICG to operating mine shafts, mining equipment, and plant facilities, and all coal which has been leased by ICG to others. Unassigned non-reserve coal deposits represent coal which has not been

committed, and which would require new mine shafts, mining equipment, or plant facilities before operations could begin in the property.

(2) Currently, we report selling coal with ash and sulfur contents as high as 10% and 1.5%, respectively into the current metallurgical market from the Vindex Energy, Buckhannon/Spruce and Philippi Divisions. Similarly, we believe all production from Vindex Division and portions of Hillman can be sold on this metallurgical market.

(3) ICG Beckley and White Wolf Energy meet historical metallurgical coal quality specifications.

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The following table provides the quality (average moisture, ash, sulfur and Btu content per pound) of our non-reserve coal deposits as of March 31, 2006:

		As received quality				
Mining operations	**Assigned or Unassigned[1]**	**% Moisture**	**% Ash**	**% Sulfur**	**Btu/lb.**	**Lbs. SO[2]/ million Btu s**
Northern Appalachia						
Patriot Mining Co.	Assigned	N/A	N/A	N/A	N/A	N/A
	Unassigned	N/A	N/A	N/A	N/A	N/A
Buckhannon/Spruce Division	Assigned	6.00	9.00	1.20	13,000	1.85
	Unassigned	6.00	9.00	1.20	13,000	1.85
Sycamore Group	Assigned	6.00	7.21	3.05	13,097	4.66
	Unassigned	N/A	N/A	N/A	N/A	N/A
Philippi Development Division	Assigned	6.00	8.30	1.40	13,100	2.14
	Unassigned	6.00	8.30	1.40	13,100	2.14
Upshur Property	Unassigned (Upshur)	6.00	43.00	2.00	8,000	5.00
Central Appalachia						
ICG-Eastern	Assigned	6.00	12.20	1.20	12,400	1.94
ICG-Hazard	Assigned	6.00	8.26	1.41	12,732	2.22
Flint Ridge	Assigned	6.00	8.15	1.39	12,768	2.18
ICG-Knott County	Assigned	N/A	N/A	N/A	N/A	N/A
ICG-East Kentucky	Assigned (Blackberry)	N/A	N/A	N/A	N/A	N/A
ICG-Natural Resources	Unassigned	6.00	11.63	1.93	11,774	3.28
ICG-Natural Resources	Unassigned	6.00	12.50	1.10	12,000	1.83
Wolf Run Mining Company (f/k/a Anker West Virginia Mining Company, Inc.)	Unassigned (Juliana)	6.00	7.50	0.82	13,100	1.25
ICG Beckley[2]	Unassigned (Bay Hill)	6.00	4.80	0.70	13,800	1.01
White Wolf Energy, Inc. (f/k/a Anker Virginia Mining Company, Inc.)[2]	Unassigned (Big Creek)	6.00	7.40	0.60	13,500	0.89
Other						
ICG-Illinois	Assigned (Viper)	16.00	9.50	3.50	10,500	6.67
ICG-Natural Resources	Unassigned (Illinois)	13.00	9.00	3.00	11,000	5.45
ICG-Natural Resources	Unassigned (Arkansas)	N/A	8.00	0.40	5,650	1.42
	Unassigned (California)	6.00	13.00	3.50	11,700	5.98
	Unassigned (Ohio)	6.00	8.40	2.50	12,650	3.95
	Unassigned	N/A	8.00	0.30	8,900	0.67

	(Montana)					
	Unassigned	N/A	8.00	0.50	7,025	1.42
	(Washington)					

(1) Assigned non-reserve coal deposits mean coal which has been committed by ICG to operating mine shafts, mining equipment, and plant facilities, and all coal which has been leased by ICG to others. Unassigned non-reserve coal deposits represent coal which has not been committed, and which would require new mineshafts, mining equipment, or plant facilities before operations could begin in the property.

(2) ICG Beckley and White Wolf Energy meet historical metallurgical coal quality specifications.

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OPERATIONS

As of June 30, 2006, we operated a total of 15 surface and 13 underground coal mines located in Kentucky, Maryland, West Virginia and Illinois. Approximately 68% of our production has come from surface mines, and the remaining production has come from our underground mines. These mining facilities include seven preparations plants, each of which receive, blend, process and ship coal that is produced from one or more of our 28 active mines. Our underground mines generally consist of one or more single or dual continuous miner sections which are made up of the continuous miner, shuttle cars, roof bolters and various ancillary equipment. Our surface mines are a combination of mountain top removal, dragline, highwall contour and cross ridge operations using truck/loader equipment fleets along with large production tractors. Most of our preparation plants are modern heavy media plants that generally have both coarse and fine coal cleaning circuits. We currently own most of the equipment utilized in our mining operations. We employ preventive maintenance and rebuild programs to ensure that our equipment is modern and well maintained. The mobile equipment utilized at our mining operation is scheduled to be replaced on an on-going basis with new, more efficient units during the next five years. Each year we endeavor to replace the oldest units, thereby maintaining productivity while minimizing capital expenditures. The following table provides summary information regarding our principal active operations as of June 30, 2006. The following discussion on our mining operations includes coal reserve and non-reserve coal deposit data as of March 31, 2006.

			Number and type of mines					
Mining Complexes[1]	**Location**	**Preparation plant(s)**	**Under-ground**	**Surface**	**Total**	**Mining method[2]**	**Transportation**	**Tons produced in 2005 (in thousands)**
ICG Eastern, LLC	Cowen, WV	1	0	1	1	MTR-DL-TSL	Rail	2,766.4
ICG Hazard, LLC	Hazard, KY	0	0	6	6	R&P, HW, MTR, TSL	Rail, Truck	3,432.2
Flint Ridge	Hazard, KY	1	2	1	3	CTR, TSL, R&P, HW	Rail, Truck	906.2
ICG Knott County, LLC	Kite, KY	1	5[3]	0	5[3]	R&P	Rail	1,277.4
ICG East Kentucky, LLC	Pike Co., KY	0	0	1	1	MTR-TSL	Rail	1,441.2
ICG Illinois, LLC	Williamsville, IL	1	1	0	1	R&P	Truck	2,325.4
Vindex Energy Corporation*	Garrett Co., MD	1	0	4	4	CRM, CTR, R&P	Truck, Rail[4]	649.6
Patriot Mining Company*	Monongalia Co., WV	0	0	2	2	CTR	Barge, Rail, Truck	700.8[5]
Buckhannon/Spruce Division*	Upshur Co., WV	1	2	0	2	R&P	Rail, Truck	757.5
Philippi Development Division*	Barbour Co., WV	1[6]	1	0	1	R&P	Rail	122.3
Sycamore Group*	Harrison Co., WV	0	2	0	2	R&P	Truck	496.3[7][8]

* Operated by Anker from January 1, 2005 to November 18, 2005 and by us from November 19, 2005 to December 31, 2005. Tons produced reflects all tons in 2005 for both operators.

(1) Does not include two inactive mining complexes: ICG Beckley and Juliana.

(2) CRM = Cross ridge mining; CTR = Contour mining; R&P = Room-and-pillar; LW = Longwall; MTR = Mountain top removal; DL = Dragline; HW = Highwall; TSL = Truck and shovel/loader.

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(3) Includes initial Raven mining operations.
(4) Utilizing third-party loadout.
(5) Including waste-fuel.
(6) Currently utilizing one circuit.
(7) Mine permitted but undeveloped.
(8) Represents Wolf Run Mining Company s (f/k/a Anker West Virginia Mining Company, Inc.) 50% share in The Sycamore Group LLC plus the Sycamore No. 2 mine, which began production in April 2005.

The following table provides the last three years annual production for each of our mining complexes and our average prices received for our coal.

	2003		2004		2005	
Mining Complexes	**Tons Produced**	**Sales Realizations(1)**	**Tons Produced**	**Sales Realizations(1)**	**Tons Produced**	**Sales Realizations(1)**
ICG Eastern, LLC	2,657,537	$ 26.16	2,712,067	$ 34.12	2,766,365	$ 42.75
ICG Hazard, LLC	4,116,115	$ 26.46	3,978,038	$ 32.69	3,432,153	$ 44.49
Flint Ridge(2)					906,207	$ 46.17
ICG Knott County, LLC	1,333,603	$ 28.60	1,386,554	$ 39.44	1,277,438	$ 46.74
ICG East Kentucky, LLC	1,799,740	$ 28.99	1,576,345	$ 40.36	1,441,236	$ 52.15
ICG Illinois, LLC	2,134,096	$ 21.93	2,117,567	$ 22.44	2,325,370	$ 23.23
Vindex Energy Corporation(3)*	104,855	$ 22.63	170,745	$ 40.70	649,623	$ 45.00
Patriot Mining Company*	425,638(4)	$ 19.28	423,448(4)	$ 20.46	700,762	$ 24.26
Sycamore Group*	269,801	$ 24.12	259,270	$ 24.89	496,266	$ 27.48
Buckhannon/Spruce Division*	1,353,896	$ 30.98	1,213,851	$ 34.18	757,518	$ 37.05
Philippi Development Division*	299,167	$ 27.37	255,439	$ 45.36	122,343	$ 51.62
	14,494,448		14,093,324		14,875,281	

* Operated by Anker during 2003, 2004 and through November 18, 2005 and by us from November 19, 2005 to December 31, 2005.
(1) Excludes freight and handling revenue.
(2) Flint Ridge began production in 2005.
(3) Includes Vindex Division of Wolf Run (formerly referred to as the Mt. Storm Division).
(4) Does not include Patriot s waste fuel.

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MINING OPERATIONS

Northern and Central Appalachia mining operations

Below is a map showing the location and access to our coal properties in Northern and Central Appalachia:

Our Northern and Central Appalachian mining facilities and reserves are strategically located across West Virginia, Kentucky, Maryland, Pennsylvania and Virginia and are used to produce and ship coal to its customers located primarily in the eastern half of the United States. All of our Northern and Central Appalachia mining operations are union free.

Our mines in Central Appalachia produced 9.8 million tons of coal in 2005 and our mines in Northern Appalachia produced 0.3 million tons of coal in 2005. The coal produced in 2005 from our Northern and Central Appalachian mining operations was, on average, 12,087 Btu/lb, 1.2% sulfur and 13.2% ash by content. Shipments to electric utilities, accounted for approximately 80% of the coal shipped by these mines in 2005, compared to 73% of shipments in 2004. Within each mining complex, mines have been developed at strategic locations in proximity to our preparation plants and rail shipping facilities. The mines located in Central Appalachia ship the majority of their coal by the Norfolk Southern and CSX rail lines, although production may also be delivered by truck or barge, depending on the customer. ICG Natural Resources, LLC owns one river dock along the Kanawha River from which we could ship coal to our customers. We recently sold another idled river dock along the Kanawha River.

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As of June 30, 2006, these mines had 1,718 employees.

ICG Eastern, LLC

ICG Eastern, LLC operates the Birch River surface mine, located 60 miles east of Charleston, near Cowen in Webster County, West Virginia. Birch River started operations in 1990 under Shell Mining Company, was purchased by Zeigler Coal Holding Company, or Zeigler, in 1992, and was subsequently acquired by AEI Resources, Inc. from Zeigler in 1998.

Birch River is extracting coal from five distinct coalbeds: (i) Freeport; (ii) Upper Kittanning; (iii) Middle Kittanning; (iv) Upper Clarion; and (v) Lower Clarion. We estimate that Birch River controls 20.2 million tons of coal reserves.

Approximately 74% of the coal reserves are leased, while approximately 26% are owned in fee. Most of the leased reserves are held by four lessors. The leases are retained by annual minimum payments and by tonnage-based royalty payments. All leases can be renewed until all mineable and merchantable coal has been exhausted.

Overburden is removed by a dragline, shovel, front-end loaders, end dumps and bulldozers. Approximately one-third of the total coal sales are run-of-mine, while the other two-thirds are washed at Birch River s preparation plant. Coal is transported by conveyor belt from the preparation plant to Birch River s rail loadout, which is served by CSX.

ICG Hazard, LLC

ICG Hazard, LLC is currently operating six surface mines, a unit train loadout (Kentucky River Loading) and other support facilities in eastern Kentucky, near Hazard. The coal reserves and operations were acquired in late-1997 and 1998 by AEI Resources.

ICG Hazard s six surface mines include: (i) County Line; (ii) Vicco; (iii) Rowdy Gap; (iv) Tip Top; (v) Thunder Ridge; and (vi) East Mac and Nellie. The coal from these mines is being extracted from the Hazard 11, Hazard 10, Hazard 9, Hazard 8, Hazard 7 and Hazard 5A seams. Nearly all of the coal is marketed run-of-mine. We estimate that ICG Hazard controls 34.8 million tons of coal reserves, plus 0.2 million tons of coal that is classified as non-reserve coal deposits. Most of the property has been adequately explored, but additional core drilling will be conducted within specified locations to better define the reserves.

All of ICG Hazard s reserves are leased. Most of the leased reserves are held by five lessors. In several cases, ICG Hazard has multiple leases with each lessor. The leases are retained by annual minimum payments and by tonnage-based royalty payments. Most leases can be renewed until all mineable and merchantable coal has been exhausted.

Overburden is removed by front-end loaders, end dumps, bulldozers and blast casting. Coal is transported from the mines to the Kentucky River Loading rail loadout by on-highway trucks. The loadout is served by CSX. Most of the coal is transported by rail, but some coal is direct shipped to the customer by truck from the mine pits.

ICG Flint Ridge

Flint Ridge is currently operating two underground mine, one surface mine (including a highwall miner) and one preparation plant. We estimate that Flint Ridge controls 31.9 million tons of coal reserves, plus 2.8 million tons classified as non-reserve coal deposits. The Flint Ridge underground operation is a room-and-pillar mine utilizing continuous miners and shuttle cars. The Flint Ridge surface/highwall mine utilizes front-end loaders, end dumps, bulldozers and blast casting for the overburden removal. Once the contour is established and the coal is removed, the highwall miner will then complete the coal extraction from the exposed highwall. Coal from the underground mine and the highwall miner is trucked to the preparation plant, processed, and hauled to the Kentucky River Loading rail loadout by on-highway trucks or directly to the customer. Coal from the contour mining operation is hauled directly to the Kentucky River Loading rail loadout.

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Approximately 99.4% of Flint Ridge s reserves are leased, while 0.6% are owned in fee. The leases are retained by annual minimum payments and by tonnage-based royalty payments.

An existing preparation plant structure was extensively upgraded in June 2005. Since July 2005, it has been processing coal from ICG Hazard and Flint Ridge mining complexes.

ICG Knott County, LLC

ICG Knott County, LLC operates five underground mines (including initial Raven mining operations), the Supreme Energy preparation plant and rail loadout and other facilities necessary to support the mining operations in eastern Kentucky, near Kite. ICG Knott County was acquired by AEI Resources from Zeigler in 1998.

ICG Knott County is producing coal from the Hazard 4, the Elkhorn 3 and the Elkhorn 2 coalbeds. Three mines are operating in the Hazard 4 coalbed: Calvary, Clean Energy and Elk Hollow. The Classic mine is operating in the Elkhorn 3 coalbed. We estimate these properties contain 18.6 million tons of coal reserves including the Elkhorn 2 reserves for the Raven complex. Most of the property has been extensively explored, but additional core drilling will be conducted within specified locations to better define the reserves.

Approximately 25% of ICG Knott County s reserves are owned in fee, while approximately 75% are leased. The leases are retained by annual minimum payments and by tonnage-based royalty payments. The leases can be renewed until all mineable and merchantable coal has been exhausted.

ICG Knott County s four underground mines are room-and-pillar operations, utilizing continuous miners and shuttle cars. Nearly all of the run-of-mine coal is processed at the Supreme Energy preparation plant; some of the Hazard 4 run-of-mine coal is blended with the washed coal.

Nearly all of ICG Knott County s coal is transported by rail. The loadout is served by CSX.

ICG East Kentucky, LLC

ICG East Kentucky, LLC is a surface mining operation located in Pike County, Kentucky, near Phelps. ICG East Kentucky currently operates the Blackberry surface mine and the Phelps Loadout. ICG East Kentucky was acquired by AEI Resources in the second quarter of 1999.

Blackberry is an area surface mine that produces coal from four separate coalbeds: (i) Taylor; (ii) Fireclay; (iii) Lower Fireclay; and (iv) Hamlin. All of the coal is sold run-of-mine.

We estimate that the Blackberry mine controls 0.9 million tons of coal reserves; no additional exploration is required.

After Blackberry is depleted, ICG East Kentucky intends to begin mining the Mount Sterling property, which contains an additional 5.9 million tons of coal reserves. Mount Sterling is located in Martin and Pike Counties, Kentucky near the Tug Fork River. Although Mount Sterling is expected to be mined by ICG East Kentucky, the property is held by ICG Natural Resources, LLC. The leases are retained by annual minimum payments and by tonnage-based royalty payments. Most leases can be renewed until all mineable and merchantable coal has been exhausted.

Overburden at the Blackberry mine is removed by front end loaders, end dumps, bull dozers and blast casting. Coal from the pits is transported by truck to the Phelps Loadout.

Vindex Energy Corporation

Vindex Energy Corporation operates four surface mines, the Island mine, the Douglas mine, the Jackson Mountain mine and the Carlos mine. The Stony River mine was closed in the second quarter of 2006 pending the

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results of drill exploration. In the first quarter of 2006, we commenced operations at a new surface mine, the Carlos Mine, also located in the Potomac Basin in Garrett County, Maryland. The reserves at Vindex are leased primarily from one major landowner. The lease expires in 2010 and is renewable on a year-by-year basis with a minimum annual holding cost. Vindex Energy is a cross-ridge mining operation extracting coal from the Upper Freeport, Bakerstown, Middle Kittanning and Upper Kittanning seams. All surface mines operated by Vindex Energy are truck-and-shovel/loader mining operations utilizing dozers, hydraulic excavators, loaders and trucks. Our underground mine uses the room-and-pillar mining method.

Vindex has been operating its mines at full production since the first quarter 2005. Approximately 20% of the raw coal production is screened at the Island Mine for sales directly to the customers. The remainder of the coal is processed at our preparation plant located near Mount Storm, West Virginia, where the product is shipped to the customer by either truck or rail using a third-party rail loading facility.

In March 2006, Vindex expanded its production by purchasing the assets of Barton Mining Company and George s Creek Land Company, with a surface mining complex located near Frostburg, Maryland and a permitted reserve base of over 3.5 million tons. Vindex is now producing coal from those permitted properties to serve utility customers in close proximity to the mine.

Patriot Mining Company

Patriot Mining Company consists of two active surface mines near Morgantown, West Virginia: Crown No. 2 and New Hill East located in Monongalia County, West Virginia. The majority of the coal and surface is leased under renewable contracts with small annual minimum holding costs. Patriot s mines are extracting coal from the Waynesburg seam using contour mining methods with dozers, loaders and trucks. As mining progresses, reserves are being acquired and permitted for future operations. The coal is shipped to the customer by either rail, truck or barge using our barge loading facility.

Buckhannon/Spruce Division

The Buckhannon/Spruce Division currently consists of two active underground mines: The Sago mine and the Imperial mine located in Upshur County, West Virginia, near the town of Buckhannon. The Sago mine is extracting coal from the Middle Kittanning seam. Nearly all of the reserves in the Buckhannon/Spruce Division are owned by us. The Sago mine, which was originally opened in 1999 as a contract mine, closed in 2002, and then reopened as a captive operation in the first quarter of 2004. The Sago mine neared full production in the fourth quarter of 2005. All of the coal extracted from the Sago mine is processed through the nearby Sawmill Run preparation plant where coal is then primarily shipped by CSX rail with origination by the A&O railroad, a short-line operator, although some coal is trucked to local industrial customers. On January 2, 2006, an explosion occurred at the Sago mine resulting in the death of twelve miners and the critical injury of a thirteenth miner. As a result of the explosion, the Sago mine ceased active production during state and federal investigations into the cause of the explosion. The Sago mine resumed coal production on March 15, 2006.

Sycamore Group

Sycamore Group consists of The Sycamore Group LLC and the Harrison Division. The Sycamore Group LLC is a joint venture between ICG and Emily Gibson Coal Company. The joint venture, through an independent contract miner, operates one underground mine, the Sycamore No. 1 Mine (a/k/a the Fairfax No. 3 Mine), in Harrison County, West Virginia, approximately ten miles west of Clarksburg, where coal is extracted from the Pittsburgh seam by room-and-pillar mining method with continuous miners and shuttle cars for coal extraction.

The majority of the coal is leased with an annual minimum holding cost. It is anticipated that this reserve will be depleted and the mine closed during the first quarter of 2007. Operations are conducted utilizing the

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room-and-pillar mining method. Newly rebuilt mining equipment was recently installed to facilitate the complete extraction of the remaining reserves. All of The Sycamore Group LLC production is sold on a raw basis and shipped to Allegheny Power Service Corporation s Harrison Power Station by truck.

The Harrison Division consists of the Sycamore No. 2 Mine, which is located in Harrison County, West Virginia, approximately ten miles west of Clarksburg. The Sycamore No. 2 Mine began producing coal from the Pittsburgh seam by room-and-pillar mining method with continuous miners and shuttle cars in the second quarter of 2005. As a result of continuing adverse geologic conditions, we idled the Sycamore No. 2 mine in September 2006. We expect to reconfigure the mine and resume operations as a small-scale production unit late in the fourth quarter of 2006 or early in 2007. The reserve is primarily leased from one major landowner with an annual minimum holding cost and an automatic renewal based on an annual minimum production of 250,000 tons.

The coal produced from the Sycamore No. 2 Mine will be sold on a raw basis and shipped to Allegheny Power Service Corporation s Harrison Power Station by truck under a new life of mine, total production coal supply agreement.

Philippi Development Division

The Philippi Development Division operates the Sentinel mine, in Barbour County, West Virginia near the town of Philippi. The mine was acquired by Anker in 1990 and has been operating ever since. Historically, coal was extracted from the Lower Kittanning seam; however, mining is currently conducted in the Upper Kittanning seam by room-and-pillar mining method with a new low-seam continuous miner which was installed in the fourth quarter of 2004. The current operations are expected to be supplemented with a second continuous miner in the first quarter of 2007.

Coal is fed directly from the mine to our preparation plant and loadout facility served by the CSX railroad. The product can be shipped to steam or metallurgical markets.

New Appalachian Mine Developments

Hillman Property

The Hillman property, located in Northern Appalachia, includes approximately 194 million tons of deep coal reserves of both steam and metallurgical quality coal in the Lower Kittanning seam covering approximately 65,000-acres located predominantly in Taylor County, West Virginia, near Grafton. The reserve extends into parts of Barbour, Marion, and Harrison Counties as well. ICG owns the Hillman coal reserve in addition to nearly 4,000 acres of surface property to accommodate the development of two projected mining operations. In addition to the Lower Kittanning reserves, we also own significant non-reserve coal deposits in the Kittanning, Freeport, Clarion and Mercer seams on the Hillman property.

The Hillman reserves are expected to be permitted for the development of two longwall mining operations. Production from the first complex is projected to begin in 2008.

Big Creek Property

Our Big Creek reserve, located in Central Appalachia, covers 10,000 acres of leased coal lands located north of the town of Richlands in Tazewell County, Virginia. Total recoverable reserves are 27.5 million tons in the Jawbone, Greasy Creek and War Creek seams. The Big Creek reserve is all leased from Southern Regional Industrial Realty. Production from the permitted War Creek Mine is expected to begin in 2008 utilizing the room-and-pillar mining method with continuous haulage. The coalbed methane at Big Creek is currently leased to and being produced by Pocahontas Gas Partnership with an overriding royalty paid to us.

Beckley Property

The Beckley reserve (formerly referred to as the Bay Hill reserve), located in Central Appalachia, is a 29 million-ton deep reserve of high quality low-vol metallurgical coal in the Pocahontas No. 3 seam in Raleigh

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County west of Beckley, West Virginia. The southwest portion of the reserve underlies part of the recently closed BayBeck Mine in the Beckley seam. Most of the 16,800 acre Beckley reserve is leased from three land companies: Western Pocahontas Properties, Crab Orchard Coal Company and Beaver Coal Company. We have permitted a portion of the Beckley reserve for deep mine development and have begun development on shaft and slope facilities. Site preparation for the mine portals commenced in the first quarter of 2006. We plan to market the coal produced from the Beckley reserve for export and to domestic steel producers.

Juliana Complex

Mining on the Juliana property, located in Central Appalachia, in Webster County, West Virginia, began in 1979 and was stopped in December 1999. Contour and mountain top removal stripping methods were utilized to produce coal from the Kittanning and Upper Freeport seams. In addition, a substantial amount of deep-mined coal was produced from the Middle Kittanning seam. A 500 TPH preparation facility with 100,000 tons of raw and clean coal storage and a unit-train loadout was used to process and load coal on the CSX railroad.

Currently at Juliana, there are two Kittanning deep mine permits and one surface mine permit in place. Permitted deep and surface non-reserve coal deposits are 1.2 million tons and 1.9 million tons, respectively. The ratio for the surface reserve is 17.3 to 1 bulk cubic yard per clean ton.

Jennie Creek Property

The Jennie Creek reserve, located in Mingo County, West Virginia, is a 44.9 million ton reserve of surface and deep mineable steam coal. Permitting is now in progress for a surface mine and preparation plant complex that is planned for production in 2007 on this Central Appalachian property. The development of the Jennie Creek reserve is subject to the resolution of certain disputes with lessors arising out of the Horizon bankruptcy proceedings. These disputes are the subject of pending litigation in the bankruptcy court. This property is expected to contain 14.7 million tons of surface mineable, low sulfur coal reserves. The coal will be produced by contouring, highwall mining, and area mining. A deep reserve in the high Btu, mid-sulfur Alma seam constitutes the largest block of coal at 30.2 million tons.

Raven Complex

ICG Knott County acquired the Raven complex in 2005 and will include a new preparation plant and two underground mines when at full production. Coal at the Raven complex is produced from the Elkhorn 2 coalbed and its 5,600 acres complex are leased from Penn Virginia and contain approximately 13.0 million tons of reserves. This complex is a room-and-pillar operation, utilizing continuous miners and shuttle cars. The Raven complex intends to operate a new preparation plant to be constructed during 2006 in conjunction with Loadout, LLC, and affiliate of Penn Virginia Resources Partners, L.P. First production started in February 2006 and plant start-up is expected in September 2006. The complex currently has 23 employees.

Upshur Property

The Upshur Property, located in Northern Appalachia, contains approximately 93 million tons of non-reserve coal deposits owned or controlled by us in the Middle and Lower Kittanning seams. The non-reserve coal deposits are surface mineable at a ratio of slightly greater than 2 to 1. The low product heat content limits the distance over which the fuel can be transported and sold; however, the low mining cost makes Upshur an attractive location for an on-site power plant. Some preliminary research, including air quality monitoring, has been completed in association with the future construction of a circulating fluidized bed power plant at Upshur. We are working to identify a partner to establish a power plant at the site.

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Illinois Basin Mining Operations

Below is a map showing the location and access to our coal operations in the Illinois Basin:

ICG Illinois, LLC operates one large underground coal mine, the Viper mine, in central Illinois. Viper commenced mining operations in 1982 as a union free operation for Shell Oil Company. Viper was acquired by Ziegler in 1992 and subsequently acquired by AEI Resources in 1998.

The Viper Mine is mining the Illinois No. 5 Seam, also referred to as the Springfield Seam, with all raw coal production washed at Viper s preparation plant. We estimate that Viper controls approximately 26.7 million tons of coal reserves, plus an additional 38.5 million tons of non-reserve coal deposits. On April 8, 2006, the Viper Mine suffered a fire in its production shaft that has idled the mine and necessitated the replacement of its high angle conveyor belt. No one was injured in the incident. Existing inventory at the time of the incident was sufficient to avoid any significant supply interruptions to customers. Repairs have been completed and the mine resumed full operation on May 8, 2006.

Approximately 61% of the coal reserves are leased, while 39% is owned in fee. The leases are retained by annual minimum payments and by tonnage-based royalty payments. The leases can be renewed until all mineable and merchantable coal has been exhausted.

The Viper mine is a room-and-pillar operation, utilizing continuous miners and shuttle cars. Management believes that ICG Illinois is one of the lowest cost and highest productivity mines in the Illinois Basin. All of the

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raw coal is processed at Viper s preparation plant. The clean coal is transported to the customers by on-highway trucks. A major rail line is located within a short distance from the plant, giving Viper the option of constructing a rail loadout, should economic valuations warrant.

ICG Illinois ships by independent trucking companies to utility and industrial customers located in North Central Illinois. Shipments to electric utilities account for approximately 70% of total coal shipments for the year ended December 31, 2005.

The underground equipment, infrastructure and preparation plant are well maintained. The majority of underground equipment will be replaced or rebuilt over the next five years.

OTHER OPERATIONS

Coal Sales

In addition to the coal we mine, from time to time we also opportunistically secure coal purchase agreements with other coal producers to take advantage of differences in market prices.

ICG ADDCAR Systems, LLC

In our highwall mining business, we have six systems available for operations or lease using our patented ADDCAR highwall mining system and intend to build additional ADDCAR systems as required. ADDCAR® is the registered trademark of ICG. The ADDCAR highwall mining system is an innovative and efficient mining system. The system is often deployed at reserves that cannot be economically mined by other methods.

In a typical ADDCAR highwall mining system, there is a launch vehicle, continuous miner, conveyor cars, a stacker conveyor, diesel generator, water tanker for cooling and dust suppression and a wheel loader with forklift attachment.

An eight person crew operates the entire ADDCAR highwall mining system with control of the continuous miner being performed remotely by one person from the climate-controlled cab located at the rear of the launch vehicle. Our system utilizes a navigational package to provide horizontal guidance, which helps to control rib width and thus roof stability. Also, the system provides vertical guidance for control out of seam dilutions. The ADDCAR highwall mining system is also equipped with high-quality video monitors to provide the operator with visual displays of the mining process from inside each entry being mined.

The mining cycle begins by aligning the ADDCAR highwall mining system onto the desired heading and starting the entry. As the remotely controlled continuous miner penetrates the coal seam, ADDCAR conveyor cars are added behind it, forming a continuous cascading conveyor train. This continues until the entry is at the planned full depths of up to approximately 1,200 to 1,600 feet. After retraction, the launch vehicle is moved to the next entry, leaving a support pillar of coal between entries. This process recovers as much as 65% of the reserves while keeping all personnel outside the coal seam in a safe working environment. A wide range of seam heights can be mined with high production in seams as low as 3 feet and as high as 15 feet in a single pass. If the seam height is greater than 15 feet, then multi lifts can be mined to create an unlimited entry height. The navigational features on the ADDCAR highwall mining system allow for multi lift mining while ensuring that the designed pillar width is maintained.

During the mining cycle, in addition to the tractive effort provided by the crawler drive of the continuous miner the ADDCAR highwall mining system bolsters the cutting capability of the machine through an additional pumping force provided by hydraulic cylinders which transmit thrust to the back of the miner through blocks mounted on the side of the conveyor cars. This additional energy allows the continuous miner to achieve maximum cutting and loading rates as it moves forward into the seam.

We currently have the exclusive North American distribution rights for the ADDCAR highwall mining system.

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Coalbed Methane

CoalQuest has entered into a joint operating agreement pursuant to which it will seek to produce coalbed methane, which is pipeline quality gas that resides in coal seams, from its properties in Barbour, Harrison and Taylor counties in West Virginia. We began producing in July 2006 with four wells completed while drilling for 13 additional wells continue. In the eastern United States, conventional natural gas fields are typically located in various sedimentary formations at depths ranging from 2,000 to 15,000 feet. Exploration companies often put capital at risk by searching for gas in commercially exploitable quantities at these depths. By contrast, the coal seams from which we anticipate recovering coalbed methane are typically less than 1,000 feet deep and are usually better defined than deeper formations. We believe that this contributes to lower exploration costs than those incurred by producers that operate in deeper, less defined formations. We believe this project will be part of the first application of proprietary horizontal drilling technology for coalbed methane in northern West Virginia coalfields. We have not filed reserve estimates with any federal agency.

CUSTOMERS AND COAL CONTRACTS

Customers

Our primary customers are primarily investment grade electric utility companies primarily in the eastern half of the United States. The majority of our customers purchase coal for terms of one year or longer, but we also supply coal on a spot basis for some of our customers. Our three largest customers for the year ended December 31, 2005 and the six months ended June 30, 2006 were Georgia Power Company, Carolina Power & Light Company and Duke Energy and we derived approximately 65% and 61%, respectively, of our coal revenues from sales to our five largest customers. Revenues from sales to Georgia Power Company, Duke Energy and Carolina Power & Light Company each accounted for more than 10% of coal revenues in 2005 and the six months ended June 30, 2006.

Long-Term Coal Supply Agreements

As is customary in the coal industry, we enter into long-term supply contracts (exceeding one year in duration) with many of our customers when market conditions are appropriate. These contracts allow customers to secure a supply for their future needs and provides us with greater predictability of sales volume and sales price. For the year ended December 31, 2005 and the six months ended June 30, 2006, approximately 77% and 78%, respectively, of our revenues were derived from long-term supply contracts. We sell the remainder of our coal through short-term contracts and on the spot market. We have also entered into certain brokered transactions to purchase certain amounts of coal to meet our sales commitments. These purchase coal contracts expire between 2006 and 2010 and are expected to provide us a minimum of approximately 7.2 million tons of coal through the remaining lives of the contracts.

As a result of the Horizon bankruptcy process, we were able to renegotiate certain contracts at significantly higher prices that reflected the current pricing environment and not purchase unfavorable contracts. However, we do have certain contracts which are set below current market rates because Anker entered into these contracts before the recent rise in the coal prices. As the net costs associated with producing coal have increased due to higher energy, transportation and steel prices, the price adjustment mechanisms within several of our long-term contracts do not reflect current market prices. This has resulted in certain counterparties to these contracts benefiting from below market prices for our coal.

The terms of our coal supply agreements result from competitive bidding and extensive negotiations with customers. Consequently, the terms of these contracts vary significantly by customer, including price adjustment features, price reopener terms, coal quality requirements, quantity adjustment mechanisms, permitted sources of supply, future regulatory changes, extension options, force majeure provisions and termination and assignment provisions.

Some of our long-term contracts provide for a pre-determined adjustment to the stipulated base price at times specified in the agreement or at other periodic intervals to account for changes due to inflation or deflation.

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In addition, most of our contracts contain provisions to adjust the base price due to new statutes, ordinances or regulations that impact our costs related to performance of the agreement. Also, some of our contracts contain provisions that allow for the recovery of costs impacted by modifications or changes in the interpretations or application of any applicable government statutes.

Price reopener provisions are present in many of our long-term contracts. These price reopener provisions may automatically set a new price based on prevailing market price or, in some instances, require the parties to agree on a new price, sometimes within a specified range of prices. In a limited number of agreements, failure of the parties to agree on a price under a price reopener provision can lead to termination of the contract. Under some of our contracts, we have the right to match lower prices offered to our customers by other suppliers. These price reopener provisions have enabled us to negotiate higher selling prices in several contracts over the last several months.

Quality and volumes for the coal are stipulated in coal supply agreements, and in some instances buyers have the option to vary annual or monthly volumes. Most of our coal supply agreements contain provisions requiring us to deliver coal within certain ranges for specific coal characteristics such as heat content, sulfur, ash, hardness and ash fusion temperature. Failure to meet these specifications can result in economic penalties, suspension or cancellation of shipments or termination of the contracts. Assuming steady or increasing coal prices over the near-term, we expect to renew many of our expiring sales contracts at significantly higher prices.

Transportation/Logistics

We ship coal to our customers by rail, truck or barge. We typically pay the transportation costs for our coal to be delivered to the barge or rail loadout facility, where the coal is then loaded for final delivery. Once the coal is loaded in the barge or railcar, our customer is typically responsible for the freight costs to the ultimate destination. Transportation costs vary greatly based on the customer s proximity to the mine and our proximity to the loadout facilities. We use a variety of independent companies for our transportation needs and typically enter into multiple non-contract agreements with trucking companies throughout the year.

In 2005, approximately 94% of our coal (both produced and purchased) from our Central Appalachian operations was delivered to our customers by rail on either the Norfolk Southern or CSX rail lines, with the remaining 6% delivered by truck or barge. For our Illinois Basin operations, all of our coal was delivered by truck to customers, generally within an 80 mile radius of our Illinois mine.

We believe we enjoy good relationships with rail carriers and barge companies due, in part, to our modern coal-loading facilities and the experience of our transportation and distribution employees.

SUPPLIERS

In 2005, we spent more than $221 million to procure goods and services in support of our business activities, excluding capital expenditures. Principal commodities include maintenance and repair parts and services, electricity, fuel, roof control and support items, explosives, tires, conveyance structure, ventilation supplies and lubricants. Our outside suppliers perform a significant portion of our equipment rebuilds and repairs both on- and off-site, as well as construction and reclamation activities.

Each of our regional mining operations has developed its own supplier base consistent with local needs. We have a centralized sourcing group for major supplier contract negotiation and administration, for the negotiation and purchase of major capital goods and to support the business units. The supplier base has been relatively stable for many years, but there has been some consolidation. We are not dependent on any one supplier in any region. We promote competition between suppliers and seek to develop relationships with those suppliers whose focus is on lowering our costs. We seek suppliers who identify and concentrate on implementing continuous improvement opportunities within their area of expertise.

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COMPETITION

The coal industry is intensely competitive. Our main competitors are Massey Energy Company and Alpha Natural Resources. As we develop additional reserves and expand our operations into Central and Northern West Virginia, we will face additional competition from Northern Appalachia coal producers, including Consol Energy and Foundation Coal Holdings. The most important factors on which we compete are coal price at the mine, coal quality and characteristics, transportation costs and the reliability of supply. Demand for coal and the prices that we will be able to obtain for our coal are closely linked to coal consumption patterns of the domestic electric generation industry, which has accounted for approximately 92% of domestic coal consumption in recent years. These coal consumption patterns are influenced by factors beyond our control, including the demand for electricity which is significantly dependent upon economic activity and summer and winter temperatures in the United States, government regulation, technological developments and the location, availability, quality and price of competing sources of coal, alternative fuels such as natural gas, oil and nuclear and alternative energy sources such as hydroelectric power.

EMPLOYEES

As of June 30, 2006, we had 2,218 employees of which 22% were salaried and 78% were hourly. We believe our relationship with our employees is good. Our entire workforce is union free.

RECLAMATION

Reclamation expenses are a significant part of any coal mining operation. Prior to commencing mining operations, a company is required to apply for numerous permits in the state where the mining is to occur. Before a state will approve and issue these permits, it typically requires the mine operator to present a reclamation plan which meets regulatory criteria and to secure a surety bond to guarantee performance of reclamation in an amount determined under state law. These bonding companies, in turn, require that we backstop the surety bonds with cash and/or letters of credit. While bonds are issued against reclamation liability for a particular permit at a particular site, collateral posted in support of the bond is not allocated to a specific bond, but instead is part of a collateral pool supporting all bonds issued by that particular insurer. Bonds are released in phases as reclamation is completed in a particular area.

LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings arising in the ordinary course of business. In the opinion of management we have recorded adequate reserves for these liabilities and there is no individual case or group of related cases pending that is likely to have a material adverse effect on our financial condition, results of operations or cash flows.

Sago Mine Litigation

On January 2, 2006, an explosion occurred at our Sago mine in Tallmansville, West Virginia. The Sago mine is operated by our subsidiary, Wolf Run Mining Company. The explosion tragically resulted in twelve fatalities and the critical injury of another miner. On March 14, 2006, we announced our initial findings from the investigation, including that the explosion was ignited by lightning and fueled by methane that naturally accumulated in an abandoned area of the mine that had been recently sealed. The precise route by which the lightning electrical charge traveled from a surface strike location to the sealed area remains under investigation, and the seals, constructed of Omega block under a plan approved by federal authorities and designed to withstand forces of 20 pounds per square inch, were essentially obliterated by the explosion. On July 19, 2006, J. Davitt McAteer, special advisor to West Virginia Governor Joe Manchin III, released a preliminary report relating to the accident that came to a similar conclusion. Final results of the investigations will not be known until federal and state safety officials conclude their investigations and issue their reports. We are fully cooperating with the state and federal investigations into the cause of the explosion and will continue to review and test to verify our findings. We resumed operations at the Sago mine on March 15, 2006, a week after federal and state safety officials provided approval.

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On August 23, 2006, three separate lawsuits were filed in the Circuit Court of Kanawha County, West Virginia, in connection with the Sago mine explosion. One of the lawsuits was filed by Randal McCloy, Jr., the surviving miner, and his family, and the other two lawsuits were filed by the surviving families of Alva Martin Bennett and James A. Bennett, respectively. The complaints allege that ICG and our subsidiary Wolf Run were negligent, provided unsafe working conditions, improperly constructed the seals that were destroyed in the explosion and violated various safety standards. The complaints filed by each of the Bennett families also assert claims for tort damages related to the alleged miscommunication in which the families believed erroneously for more than two hours that their family members were alive. Each of the lawsuits also named CSE Corporation (the manufacturer of self-contained self-rescuers), Burrell Mining Products, Inc. (the manufacturer of Omega block used in seal construction), Raleigh Mine and Industrial Supply, Inc. (the distributor of Omega block), and GMS Mine Repair and Maintenance, Inc. (a contractor whose workers helped construct the seals) as defendants. All three complaints seek an unspecified amount of compensatory and punitive damages and Mr. McCloy s complaint also alleges that Wolf Run should be liable for the damages beyond amounts receivable in respect of Mr. McCloy s claim for worker s compensation benefits. The two wrongful death lawsuits also seek an injunction requiring us and Wolf Run to implement all safety recommendations contained in the preliminary report on the explosion prepared by J. Davitt McAteer, special advisor to West Virginia Governor Joe Manchin III, whether or not these recommendations are enacted into law. While the outcome of this litigation is subject to uncertainties, based on our preliminary evaluation of the issues and the potential impact on us, we believe this matter will be resolved without a material adverse effect on our financial condition or results of operations or liquidity.

Massey Energy Litigation

On November 18, 2005, we sued Massey Coal Sales Company, Inc., d/b/a Massey Utility Sales Company, or MUS, a subsidiary of Massey Energy Company, or Massey, in the United States District Court for the Eastern District of Kentucky, seeking declaratory relief and compensatory and punitive damages due to MUS s failure to deliver coal and related matters. On January 9, 2006, Massey filed a motion to dismiss the complaint. On August 2, 2006, the federal court ruled that we may proceed with our breach of primary contract claims and dismissed three other claims that were ancillary to our primary claims. We believe that the dismissal of these three counts does not affect our position with respect to the remaining breach of contract claims. After receiving the court s order, on August 14, 2006, MUS filed an answer denying our claims and asserting a counterclaim seeking damages in excess of $50.0 million alleging that we breached the coal supply agreement, that the contract has been and should be declared to be terminated, and that Massey s continued performance has led to ICG becoming unjustly enriched. Massey also asserted that we breached our duty of good faith and fair dealing. We believe that we have valid defenses to Massey s counterclaim and intend to vigorously oppose the counterclaim.

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ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Federal, state and local authorities regulate the U.S. coal mining industry with respect to matters such as permitting and licensing requirements, employee health and safety, air quality standards, water pollution, plant and wildlife protection, the reclamation and restoration of mining properties after mining has been completed, the discharge of materials into the environment, surface subsidence from underground mining, and the effects of mining on groundwater quality and availability. These laws and regulations have had and will continue to have a significant effect on our costs of production and competitive position. Future legislation, regulations or orders may be adopted or become effective which may adversely affect our mining operations, cost structure or the ability of our customers to use coal. For instance, new legislation, regulations or orders, as well as future interpretations and more rigorous enforcement of existing laws, may require substantial increases in equipment and operating costs to us and delays, interruptions, or a termination of operations, the extent of which we cannot predict. Future legislation, regulations or orders may also cause coal to become a less attractive fuel source, resulting in a reduction in coal s share of the market for fuels used to generate electricity.

We endeavor to conduct our mining operations in compliance with all applicable federal, state and local laws and regulations. Failure to comply with these regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of cleanup and site restoration costs and liens, the issuance of injunctions to limit or cease operations and the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from our operations.

Future laws, regulations or orders, as well as new interpretations or more rigorous enforcement of existing laws, may require substantial increases in equipment and operating costs to us and delays, interruptions, or a termination of operations, the extent of which we cannot predict. Future laws, regulations or orders may also cause coal to become a less attractive fuel source, resulting in a reduction in coal s share of the market for fuels used to generate electricity.

MINING PERMITS AND APPROVALS

Numerous governmental permits or approvals are required for mining operations. In connection with obtaining these permits and approvals, we may be required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed production or processing of coal may have upon the environment. Among other things, we must submit a reclamation plan for restoring, upon the completion of mining operations, the mined property to the approved post-mining use. The requirements imposed by any of these authorities may be costly and time consuming and may delay commencement or continuation of mining operations. Regulations also provide that a mining permit or modification can be delayed, refused or revoked if an officer, director or a stockholder with a 10% or greater interest in the entity is affiliated with or is in a position to control another entity that has outstanding permit violations. Thus, past or ongoing violations of federal and state mining laws or regulations could provide a basis to revoke existing permits and to deny the issuance of additional permits.

In order to obtain mining permits and approvals from state regulatory authorities, mine operators must submit a reclamation plan for restoring, upon the completion of mining operations, the mined property to its prior condition, productive use or other permitted condition. Typically, we submit our necessary mining permit applications several months before we plan to begin mining a new area. In our experience, mining permit approvals generally require 12 to 18 months after initial submission.

SURFACE MINING CONTROL AND RECLAMATION ACT

The Surface Mining Control and Reclamation Act of 1977, or SMCRA, which is administered by the Office of Surface Mining Reclamation and Enforcement, or OSM, establishes mining, environmental protection and reclamation standards for all aspects of surface mining as well as many aspects of deep mining. Mine operators must obtain SMCRA permits and permit renewals from the OSM or the appropriate state regulatory agency for authorization of certain mining operations that result in a disturbance of the surface. If a state regulatory agency adopts federal mining programs under SMCRA, the state becomes the regulatory authority. States in which we have active mining operations have achieved primary control of enforcement through federal authorization.

SMCRA permit provisions include requirements for coal prospecting, mine plan development, topsoil removal, storage and replacement, selective handling of overburden materials, mine pit backfilling and grading, protection of the hydrologic balance, subsidence control for underground mines, surface drainage control, mine drainage and mine discharge control and treatment and revegetation.

These requirements seek to limit the adverse impacts of coal mining and more restrictive requirements may be adopted from time to time. An example is the proposed amendment to the Stream Buffer Rule issued by the OSM on January 7, 2004. This proposal seeks to further minimize the adverse environmental effects from construction of excess spoil fills and to clarify when excess spoil fills may be constructed within 100 feet of a perennial or intermittent stream. On June 16, 2005, the OSM asked for public comment on the preparation of an environmental impact statement with respect to this proposal.

The mining permit application process is initiated by collecting baseline data to adequately characterize the pre-mine environmental condition of the permit area. This work includes surveys of cultural resources, soils, vegetation, wildlife, assessment of surface and ground water hydrology, climatology and wetlands. In conducting this work, we collect geologic data to define and model the soil and rock structures and coal that it will mine. We develop mine and reclamation plans by utilizing this geologic data and incorporating elements of the environmental data. The mine and reclamation plan incorporates the provisions of SMCRA, the state programs and the complementary environmental programs that impact coal mining.

Also included in the permit application are documents defining ownership and agreements pertaining to coal, minerals, oil and gas, water rights, rights of way and surface land, and documents required by the OSM s Applicant Violator System, including the mining and compliance history of officers, directors and principal owners of the entity.

Once a permit application is prepared and submitted to the regulatory agency, it goes through a completeness review and technical review. Public notice and opportunity for public comment on a proposed permit is required before a permit can be issued. Some SMCRA mine permits take over a year to prepare, depending on the size and complexity of the mine and may take six months to two years or even longer to be issued. Regulatory authorities have considerable discretion in the timing of the permit issuance and the public has rights to comment on and otherwise engage in the permitting process including through intervention in the courts.

Before a SMCRA permit is issued, a mine operator must submit a bond or otherwise secure the performance of reclamation obligations. The Abandoned Mine Land Fund, which is part of SMCRA, requires a fee on all coal produced. The proceeds are used to reclaim mine lands closed or abandoned prior to 1977. This program is currently set to expire September 30, 2007, and Congress is considering various reauthorization proposals.

SMCRA stipulates compliance with many other major environmental statues, including: the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, or RCRA, and the Comprehensive Environmental Response, Compensation and Liability Act, or either CERCLA or Superfund.

SURETY BONDS

Federal and state laws require us to obtain surety bonds to secure payment of certain long-term obligations including mine closure or reclamation costs, federal and state workers compensation costs, coal leases and other miscellaneous obligations. Many of these bonds are renewable on a yearly basis.

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Surety bond costs have increased in recent years while the market terms of such bonds have generally become more unfavorable. In addition, the number of companies willing to issue surety bonds has decreased.

CLEAN AIR ACT

The federal Clean Air Act, and comparable state laws that regulate air emissions, directly affect coal mining operations, but have a far greater indirect affect. Direct impacts on coal mining and processing operations may occur through permitting requirements and/or emission control requirements relating to particulate matter, such as fugitive dust or fine particulate matter measuring 2.5 micrometers in diameter or smaller. The Clean Air Act indirectly affects coal mining operations by extensively regulating the air emissions of sulfur dioxide, nitrogen oxides, mercury and other compounds emitted by coal-fired electricity generating plants and coke ovens. The general effect of such extensive regulation of emissions from coal-fired power plants could be to reduce demand for coal.

Clean Air Act requirements that may directly or indirectly affect our operations include the following:

Acid Rain

Title IV of the Clean Air Act required a two-phase reduction of sulfur dioxide emissions by electric utilities. Phase II became effective in 2000 and extended the Title IV requirements to all coal-fired power plants with generating capacity greater than 25 Megawatts. The affected electricity generators have sought to meet these requirements by, among other compliance methods, switching to lower sulfur fuels, installing pollution control devices, reducing electricity generating levels or purchasing sulfur dioxide emission allowances. We cannot accurately predict the effect of these provisions of the Clean Air Act on us in future years. At this time, we believe that implementation of Phase II has resulted in an upward pressure on the price of lower sulfur coals, as coal-fired power plants continue to comply with the more stringent restrictions of Title IV.

Fine Particulate Matter

The Clean Air Act requires the EPA to set standards, referred to as National Ambient Air Quality Standards, or NAAQS, for certain pollutants. Areas that are not in compliance (referred to as nonattainment areas) with these standards must take steps to reduce emissions levels. There currently is a National Ambient Air Quality Standard for particulate matter with an aerodynamic diameter less than or equal to 10 microns, or PM10, and fine particulate matter with an aerodynamic diameter less than or equal to 2.5 microns, or PM2.5. The EPA designated all or part of 225 counties in 20 states, as well as the District of Columbia as nonattainment for PM2.5. Individual states must identify the sources of emissions and develop emission reduction plans for nonattainment areas. These plans may be state-specific or regional in scope. Under the Clean Air Act, individual states have up to twelve years from the date of designation to secure emissions reductions from sources contributing to the problem. Meeting the new PM2.5 standard may require reductions of nitrogen oxide and sulfur dioxide emissions. Future regulation and enforcement of the PM2.5 standards will affect many power plants, especially coal-fired plants and all plants in nonattainment areas. Meeting the new PM2.5 standard may require reductions of nitrogen oxide and sulfur dioxide emissions. Future regulation and enforcement of the PM2.5 standards will affect many power plants, especially coal-fired plants and all plants in nonattainment areas.

Ozone

Significant additional emissions control expenditures will be required at coal-fired power plants to meet the current National Ambient Air Quality Standard for ozone. Nitrogen oxides, which are a by-product of coal combustion, can lead to the creation of ozone. Accordingly, emissions control requirements for new and expanded coal-fired power plants and industrial boilers will continue to become more demanding in the years ahead. For example, the EPA is in the process of replacing the existing standards with more stringent ones. On April 15, 2004, the EPA announced that counties in 32 states fail to meet the new eight-hour standard for ozone.

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These states will have until June 2007 to develop plans for pollution control measures that allow them to come into compliance with the standards. The EPA s implementation of this rule has been challenged by an environmental group.

NOx SIP Call

The NOx SIP Call program was established by the EPA in October of 1998 to reduce the transport of ozone on prevailing winds from the Midwest and South to states in the Northeast, which said they could not meet federal air quality standards because of migrating pollution. Under Phase I of the program, the EPA is requiring 900,000 tons of nitrogen oxides reductions from power plants in 22 states east of the Mississippi River and the District of Columbia. Phase II of the rule requires a further reduction of about 100,000 tons of nitrogen oxides per year by May 1, 2007. Installation of additional control measures, such as selective catalytic reduction devices, required under the final rules will make it more costly to operate coal-fired electricity generating plants, thereby making coal a less attractive fuel.

Clear Skies Initiative

The Bush Administration has proposed new legislation, commonly referred to as the Clear Skies Initiative, that could require dramatic reductions in nitrous oxide, sulfur dioxide, and mercury emissions by power plants through cap-and-trade programs similar to the existing acid rain regulations and current NOx budget programs. Congress has also considered several competing bills. It is not possible to predict with certainty what, if any, impact these potential changes could have on coal-buying decisions in the future.

Interstate Air Quality Rule

The Clean Air Interstate Rule calls for power plants in 29 eastern states and the District of Columbia to reduce emission levels of sulfur dioxide and nitrous oxide. The rule regulates these pollutants under a cap and trade program similar to the system now in effect for acid deposition control and to that proposed by the Clear Skies Initiative. The stringency of the cap may require many coal-fired sources to install additional pollution control equipment, such as wet scrubbers. This increased sulfur emission removal capability caused by the rule could result in decreased demand for low sulfur coal, potentially driving down prices for low sulfur coal. Emissions would be permanently capped and could not increase. The rule seeks to cut sulfur dioxide emissions by 45% in 2010, and by 57% in 2015. The rule is subject to judicial challenge, which makes it difficult to determine its precise impact. In March 2006, the EPA denied petitions to reconsider the Clean Air Interstate Rule and promulgated federal implementation plans for this rule, which are subject to judicial challenge.

Clean Air Mercury Rule

On March 15, 2005, the EPA issued the Clean Air Mercury Rule to control mercury emissions from power plants. The rule sets a mandatory, declining cap on the total mercury emissions allowed from coal-fired power plants nationwide. This approach, which allows emissions trading, seeks to reduce mercury emissions by nearly 70 percent from current levels once facilities reach a final mercury cap which takes effect in 2018. The rule is subject to judicial challenge, which makes it difficult to determine its precise impact. Many of the challengers seek to impose more stringent rules. In addition, there have been efforts in Congress to legislatively disapprove the rule. Also subject to judicial challenge is the EPA s decision, which was announced concurrently with the rule, not to pursue regulation of mercury and other pollutants from coal-fired power plants under the Clean Air Act hazardous air pollutant program.

Some states, including Georgia and North Carolina, are adopting or proposing to adopt more stringent restrictions on mercury emissions than those contained in the Clean Air Mercury Rule.

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Regional Haze

The EPA has initiated a regional haze program designed to protect and to improve visibility at and around national parks, national wilderness areas and international parks. This program restricts the construction of new coal-fired power plants whose operation may impair visibility at and around federally protected areas. Moreover, this program may require certain existing coal-fired power plants to install additional control measures designed to limit haze-causing emissions, such as sulfur dioxide, nitrogen oxides, volatile organic chemicals and particulate matter. These limitations could affect the future market for coal. On July 6, 2005, the EPA issued regulations revising its regional haze program. On May 2, 2006, the EPA published for public comment a settlement to a judicial challenge to the regulations brought by electric utilities.

Legal Challenges to Existing regulations

The EPA s regulation of certain pollutants under the Clean Air Act, and its failure to regulate other pollutants, is being challenged by various lawsuits brought by both individual state attorney generals and environmental groups. If these lawsuits result in new or more stringent emission limits, it could reduce the amount of coal our customers purchase from us.

CLEAN WATER ACT

The federal Clean Water Act, or CWA, and corresponding state laws, affect coal mining operations by imposing restrictions of the discharge of certain pollutants into water and on dredging and filling wetlands. The CWA establishes in-stream water quality standards and treatment standards for wastewater discharge through the National Pollutant Discharge Elimination System, or NPDES. Regular monitoring, as well as compliance with reporting requirements and performance standards, are preconditions for the issuance and renewal of NPDES permits that govern the discharge of pollutants into water.

Permits under Section 404 of the CWA are required for coal companies to conduct dredging or filling activities in jurisdictional waters for the purpose of conducting any instream activities, including installing culverts, creating water impoundments, constructing refuse areas, placing valley fills or performing other mining activities. Jurisdictional waters typically include intermittent and perennial streams and may in certain instances include man-made conveyances that have a hydrologic connection to a stream or wetland.

In particular, permits under Section 404 of the Clean Water Act are required for coal companies to conduct dredging or filling activities in jurisdictional waters for the purpose of creating slurry ponds, water impoundments, refuse areas, or valley fills or other mining activities. The Army Corps of Engineers, or ACOE, is empowered to issue nationwide permits for specific categories of filling activity that are determined to have minimal environmental adverse effects in order to save the cost and time of issuing individual permits under Section 404. Nationwide Permit 21 authorizes the disposal of dredge-and-fill material from mining activities into the waters of the United States. Lawsuits challenging the ACOE s authority to issue Nationwide Permit 21 have been instituted by environmental groups. The Fourth Circuit Court of Appeals, rejected one such lawsuit, that was originally filed in West Virginia, concluding that the ACOE complied with the Clean Water Act in promulgating Nationwide Permit 21. A similar lawsuit filed in the United States Court for the Eastern District of Kentucky by a number of environmental groups is still pending. This suit also seeks, among other things, an injunction preventing ACOE from authorizing pursuant to Nationwide Permit 21, further discharges of mining rock, dirt or coal refuse into valley fills or surface impoundments associated with certain specific mining permits, including permits issued to some of our mines in Kentucky. Granting of such relief would interfere with the further operation of these mines.

Total Maximum Daily Load, or TMDL, regulations established a process by which states designate these stream segments considered to be impaired (i.e., not meeting present water quality standards). Industrial dischargers, including coal mines, will be required to meet new TMDL effluent standards for these stream segments.

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Under the Clean Water Act, states must conduct an anti-degradation review before approving permits for the discharge of pollutants to waters that have been designated as high quality beyond prescribed limits. A state s anti-degradation regulations prohibit the diminution of water quality in these streams. Several environmental groups and individuals recently challenged, and in part successfully, West Virginia s anti-degradation policy. In general, waters discharged from coal mines to high quality streams will be required to meet or exceed new high quality standards. This could cause increases in the costs, time and difficulty associated with obtaining and complying with NPDES permits, and could aversely affect our coal production.

MINE SAFETY AND HEALTH

Stringent health and safety standards have been in effect since Congress enacted the Coal Mine Health and Safety Act of 1969. The Federal Mine Safety and Health Act of 1977 significantly expanded the enforcement of safety and health standards and imposed safety and health standards on all aspects of mining operations. All of the states in which we operate have state programs for mine safety and health regulation and enforcement. In January 2006, West Virginia enacted a new law mandating additional safety precautions. Collectively, federal and state safety and health regulation in the coal mining industry is perhaps the most comprehensive and pervasive system for protection of employee health and safety affecting any segment of U.S. industry.

Penalties for violating health and safety standards can include significant civil penalties and closure of mines, as well as criminal charges. For instance, the Federal Mine Safety and Health Administration (MSHA), which monitors compliance with these federal laws and regulations, can impose civil penalties as well as closure of the mine. In June 2006, President Bush signed legislation raising the maximum civil penalty for certain violations of federal mine safety regulations to $220,000 from $60,000. This new legislation will also require, among other things, additional oxygen supplies and communication and tracking devices. In addition, the legislation directs MSHA to issue new standards relating to sealing off abandoned sections of mines. We are not certain of the impact these new and proposed changes will have on our operating costs. Although health and safety regulations have had, and we anticipate they will continue to have, a significant effect on our operating costs, our competitors are subject to the same degree of regulation.

Under the Black Lung Benefits Revenue Act of 1977 and the Black Lung Benefits Reform Act of 1977, as amended in 1981, each coal mine operator must secure payment of federal black lung benefits to claimants who are current and former employees and to a trust fund for the payment of benefits and medical expenses to claimants who last worked in the coal industry prior to July 1, 1973. The trust fund is funded by an excise tax on production of up to $1.10 per ton for underground coal and up to $0.55 per ton for surface-mined coal, neither amount to exceed 4.4% of the gross sales price. The excise tax does not apply to coal shipped outside the United States. In 2005, we recorded $8.5 million of expense related to this excise tax.

RESOURCE CONSERVATION AND RECOVERY ACT

RCRA affects coal mining operations by establishing requirements for the treatment, storage, and disposal of hazardous wastes. Certain coal mine wastes, such as overburden and coal cleaning wastes, are exempted from hazardous waste management.

Subtitle C of RCRA exempted fossil fuel combustion wastes from hazardous waste regulation until the EPA completed a report to Congress and, in 1993, made a determination on whether the wastes should be regulated as hazardous. In the 1993 regulatory determination, the EPA addressed some high volume-low toxicity coal combustion wastes generated at electric utility and independent power producing facilities, such as coal ash.

In May 2000, the EPA concluded that coal combustion wastes do not warrant regulation as hazardous under RCRA and that the hazardous waste exemption for these wastes. However, the EPA has determined that national non-hazardous waste regulations under RCRA Subtitle D are needed for coal combustion wastes disposed in surface impoundments and landfills and used as mine-fill. The agency also concluded beneficial uses of these

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wastes, other than for mine-filling, pose no significant risk and no additional national regulations are needed. As long as this exemption remains in effect, it is not anticipated that regulation of coal combustion waste will have any material effect on the amount of coal used by electricity generators. Most state hazardous waste laws also exempt coal combustion waste, and instead treat it as either a solid waste or a special waste. Any costs associated with handling or disposal of coal combustion wastes would increase our customers operating costs and potentially reduce their coal purchases. In addition, contamination caused by the past disposal of ash can lead to material liability.

Due to the hazardous waste exemption for coal combustion waste such as ash, much coal combustion waste is currently put to beneficial use. For example, in one Pennsylvania mine from which we have the right to receive coal, ICG has used some ash as mine fill. The ash used for this purpose is mixed with lime and serves to help alleviate the potential for acid mine drainage.

FEDERAL AND STATE SUPERFUND STATUTES

Superfund and similar state laws affect coal mining and hard rock operations by creating liability for investigation and remediation in response to releases of hazardous substances into the environment and for damages to natural resources caused by such releases. Under Superfund, joint and several liability may be imposed on waste generators, site owners or operators and others regardless of fault. In addition, mining operations may have reporting obligations under these laws.

CLIMATE CHANGE

One major by-product of burning coal is carbon dioxide, which is considered a greenhouse gas and is a major source of concern with respect to global warming. The Kyoto Protocol to the 1992 Framework Convention on Global Climate Change, which establishes a binding set of emission targets for greenhouse gases, became binding on ratifying countries on February 16, 2005. Four industrialized nations have refused to ratify the Kyoto Protocol Australia, Liechtenstein, Monaco and the United States. Although the targets vary from country to country, if the United States were to ratify the Kyoto Protocol, our nation would be required to reduce greenhouse gas emissions to 93% of 1990 levels in a series of phased reductions from 2008 to 2012.

Future regulation of greenhouse gases in the United States could occur pursuant to future U.S. treaty obligations, statutory or regulatory changes under the Clean Air Act, or otherwise. The Bush Administration has proposed a package of voluntary emission reductions for greenhouse gases reduction targets which provide for certain incentives if targets are met. Some states, such as Massachusetts, have already issued regulations regulating greenhouse gas emissions from large power plants.

Seven northeastern U.S. states have entered into a Memorandum of Understanding, to create a regional initiative to establish a cap-and-trade greenhouse gas program for electric generators, referred to as Regional Greenhouse Gas Initiative (RGGI). The model rule caps carbon dioxide emissions from electric generators on January 1, 2009 at projected 2009 levels until 2015, and then requires a 10 percent reduction in the greenhouse gas emissions between 2015 and 2019. There are still a number of uncertainties regarding this initiative. The model rule, which was issued August 15, 2006, requires each state to formally implement the requirements of the model rule either through legislation or through its regulatory process.

COAL INDUSTRY RETIREE HEALTH BENEFIT ACT OF 1992

Unlike many companies in the coal business,