



The Mississippi Lignite Mining Company's dragline at the new Red Hills Mine was assembled on site over a 12-month period. The dragline operates on 23,000 volts of electricity, weighs 8 million pounds and has a 325-foot boom.

About the Company

The North American Coal Corporation is the nation's largest miner of lignite. The company is known throughout the power generation industry for its mining expertise, professional experience and operational reliability. North American Coal currently operates six surface lignite mines for electric power providers in North Dakota, Texas, Louisiana and Mississippi and one dragline mining operation at a limerock quarry in Florida. Coal reserves total approximately 2.8 billion tons.

Long-Term Objectives

North American Coal provides customers with low-cost mining services under long-term contracts. The company's objective is to continue developing new mining operations with internal rates of return exceeding its cost of capital, both domestically and internationally, while increasing levels of steady cash flow and earnings from existing mining operations.

The North American Coal Corporation

Lignite sales increased in 2000

North American Coal's operating mines sold 31.6 million tons of lignite in 2000 compared to 31.3 million tons in 1999. North American Coal was the nation's eighth largest coal producer in 2000 based on total coal tons sold.

Reported net income for 2000 was \$12.6 million, including a write-off for its investment in the Konya Ilgin power plant and mine development project in Turkey and a parent company charge, compared to \$16.5 million in 1999, including the effect of an accounting change. North American Coal's reduced net income in 2000 primarily reflected increased costs at the San Miguel Lignite Mine in Texas and lower royalty income. On a comparable year-to-year basis, North American Coal's net income for 2000 was \$14.8 million, excluding the write-off for Konya Ilgin and the parent company charge, compared to \$17.7 million in 1999, excluding the accounting change.

The Phillips Coal acquisition

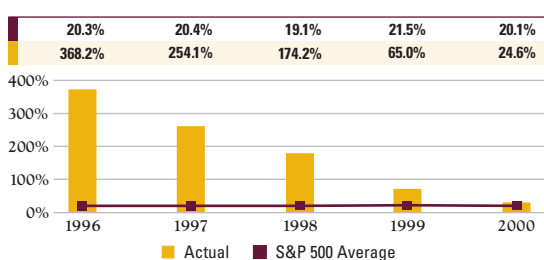
The most significant event during 2000 was the acquisition in October of Phillips Coal Company's interests in two joint venture lignite mines and its

undeveloped coal reserves. As a result of this transaction, North American Coal now owns 100 percent of the new Red Hills Mine in Mississippi, 100 percent of Red River's Oxbow Mine in Louisiana, the related reserves at these mines, and approximately 560 million tons of undeveloped coal reserves in Texas, Mississippi and Tennessee. Previously, the company had owned 25 percent of the Red Hills Mine and 50 percent of the Oxbow Mine.

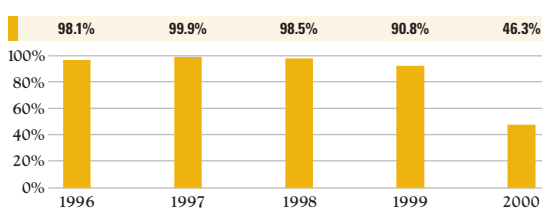
The acquisition cost of the Phillips Coal assets was \$129 million, which was financed entirely with debt. We expect that this transaction will represent a very significant enhancement to our future profit opportunities, given the lives of the Oxbow and Red Hills Mine contracts, which expire in 2010 and 2030, respectively.

Importantly, the Phillips Coal acquisition also added significantly to North American Coal's reserves, which now total approximately 2.8 billion tons. These reserves should position North American Coal well to provide lignite for new coal-based power plants in the current environment of increasing demand for power and rising natural gas prices in the United States.

Return on Equity in Properly Capitalized Tangible Assets



Return on Equity in Total Assets





Rainwater runoff at Red River's Oxbow Mine in Louisiana is channeled into a sedimentation pond, where it is held for environmental testing before being released.

The Coteau Properties Company (North Dakota)

Coteau's Freedom Mine is the nation's largest lignite mine. In 2000, the Freedom Mine sold 16.2 million tons of lignite compared to 16.4 million tons in 1999. This marked the third consecutive year that sales exceeded 16 million tons. The mine sold a quarterly record 4.4 million tons of lignite in the first quarter of 2000.

In keeping with North American Coal's policy of environmental responsibility, Coteau completed the construction of a small lake as part of a land reclamation project, which, along with some surrounding land, was donated to the North Dakota Game and Fish Department for public use.

The Falkirk Mining Company (North Dakota)

The Falkirk Mine sold a record 7.7 million tons of lignite in 2000 compared to 7.2 million tons in 1999. During 2000, Falkirk continued to work closely with its customer, the Coal Creek Power Generating Station, in a cooperative effort to make productive use of power plant byproducts. For example, representatives from Falkirk and Coal Creek are studying jointly the feasibility of using power plant waste heat to dry lignite and using fly ash material in the construction of mine haul roads.

The Sabine Mining Company (Texas)

Sabine delivered 3.5 million tons of lignite in 2000, compared with 3.6 million tons in 1999.

Deliveries fell short of 1999 levels due primarily to lower customer requirements resulting from start-up problems at the customer's power plant after its scheduled spring outage. A major milestone was celebrated last summer when the Sabine Mine delivered its 50 millionth ton of coal since beginning mining operations in 1984. Also last summer, Sabine's 8 million-pound dragline was moved 12 miles to a new mining area, culminating 16 months of planning.

San Miguel Lignite Mine (Texas)

San Miguel delivered 3.4 million tons of lignite in 2000 and 1999. After several years of engineering and environmental preparation, mining operations began on a new 5,800-acre tract that is expected to yield more than 10 million tons of lignite between 2001 and 2007. The San Miguel Lignite Mine's commitment to innovation was recognized by *Coal Age* magazine in a cover article on the mine's use of global positioning satellite receivers on its bulldozer fleet to assist in land reclamation.

Red River Mining Company (Louisiana)

Lignite sales from Red River's Oxbow Mine increased to 770,000 tons in 2000 from 716,000 tons in 1999 despite the challenges of mining in a flood plain area. Reflecting Red River's commitment to safety, Red River employees continued their record of no lost-time accidents since the mine

began operations in May 1988. In 2000, the mine received a Certificate of Achievement from the Federal Mine Safety and Health Administration for no lost-time accidents.

Mississippi Lignite Mining Company

North American Coal’s newest mine, the Red Hills Mine in Mississippi, was formally dedicated last November, in a ceremony attended by U.S. Senate Majority Leader Trent Lott (R-Mississippi). The mine’s facilities were dedicated to Otes Bennett, Jr., retired chairman, president and chief executive officer of North American Coal. Development of this mine continued on schedule throughout 2000. More than 11 million cubic yards of earth were removed from the first mining area, and 900,000 tons of lignite were stockpiled for the Red Hills Power Plant, which is under construction. The power plant is expected to become fully operational in mid-2001. Annual production is expected to reach approximately 3.5 million tons.

Florida dragline operations

Limerock production at the Florida dragline operation declined to 7.9 million cubic yards in 2000, compared to 8.4 million cubic yards in 1999, as a result of a work stoppage by Miami-area truck drivers. In September, the dragline operation celebrated production of its 50 millionth cubic yard of limerock. In addition, the mine has operated for more than five years without a lost-time or reportable accident.

International update

Over the last several years, North American Coal has been actively involved in potential combined coal mine/power plant projects in Turkey and India.

We have approached these projects with caution, as they involve complex economic and political issues. Given the current unfavorable economic environment in Turkey, we decided in 2000 to withdraw from the two projects there for which we had been selected as the coal partner. We are focusing our international efforts on the potential Jayamkondam coal mine/power plant project in India, which we are pursuing with our partner, Reliance Industries.

Outlook

With demand for power increasing faster than supply, with high power plant utilization rates, and with natural gas in short supply as reflected by rising natural gas prices, we anticipate a more favorable environment for new coal-burning power plants in the United States. North American Coal’s existing 2.8 billion tons of coal reserves should position the company well to provide lignite under long-term contracts for new coal-fired power plants located in our reserve areas.

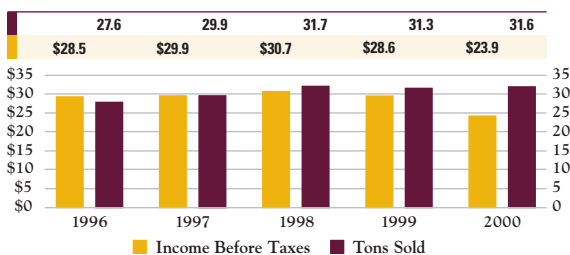
In India, we are optimistic about the prospects for the potential joint venture Jayamkondam coal mine/power plant project.

On the operational side, North American Coal is expecting a record production year in 2001 as the Red Hills Mine begins its first year of deliveries.



These are exciting times for North American Coal. A more favorable environment for coal-burning power plant projects in the United States, the Phillips Coal acquisition and the potential of moving forward on the Jayamkondam coal mine/power plant project give the company excellent prospects for future growth. In the meantime, we will continue to work with our current customers to provide them with an outstanding level of professional mining services.

Income Before Taxes and Lignite Tons Sold by Operating Mines (in millions)



Clifford R. Miercort
 President and Chief Executive Officer
 The North American Coal Corporation

