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Alliance Resource Partners, L.P.
1999 Annual Report

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A new coal company with a long history of steady growth.

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Message from the President and Chief Executive Officer

Dear Fellow Unitholders:

It is my genuine pleasure to welcome you to Alliance Resource Partners, L.P., the coal industry's only publicly-traded master limited partnership (MLP). Although this is the inaugural annual report for Alliance Resource Partners, our organization has a long history of success. We began our mining operations as MAPCO Coal Inc. in 1971 and have since grown through acquisitions and internal development to become one of the largest coal producers in the eastern United States.

Thanks to your vote of confidence demonstrated by your ownership of common units, Alliance Resource Partners became a publicly-traded MLP in August 1999 trading on the Nasdaq National Market under the ticker symbol "ARLP". The MLP structure was chosen because it focuses on cash flow – the same performance measurement that our management team has always emphasized. The quality of our assets and the predictability of our operating performance fit well within the MLP structure which passes the operating results of the business directly to the unitholders. The elimination of double taxation of a traditional corporate structure allows for increased cash distributions to unitholders making the MLP attractive to yield-oriented investors.

Since our initial public offering, our operating and financial results have shown strong year over year improvement. Our predictable and stable cash flow has also met expectations, allowing us to comfortably distribute the targeted minimum quarterly distribution that, in each quarter since we became publicly-traded, equates to \$2.00 per unit on an annualized basis.

During the year 1999, we significantly grew our reserve base, began construction of a new mining complex and continued to set production records at our operations. The accomplishments of the past year were achieved despite a fiercely competitive marketplace. Dedication and teamwork among our employees was the primary reason.

Our employees are one of our major assets with an average of 18 years experience with the company. Today, we are better than ever – more motivated, more focused, and more dedicated to giving our customers premium service and rewarding our unitholders for the faith you have shown in us.

Our goal is to grow the assets and sustainable cash flow of the MLP. Our strategy is to grow through acquisitions, alliances and development of internal projects. To compete successfully we know we must continue to make productivity improvements in order to be a low cost, reliable supplier to our electric utility customers. We believe that we are well positioned to implement our strategy and achieve our goal.

Alliance Resource Partners is a proven operator with a long history of steady growth. In our quest to be the most dependable provider of high-quality energy, we are supported by strategically located operations, an experienced and committed workforce, abundant long-lived reserves, and geographic diversity that provide opportunities for growth. These competitive strengths should bode well for our future success and cash distribution potential.



A handwritten signature in black ink, appearing to read "Joe Craft".

Joseph W. Craft III
President and Chief Executive Officer

Alliance Resource Partners, L.P. Operations Overview

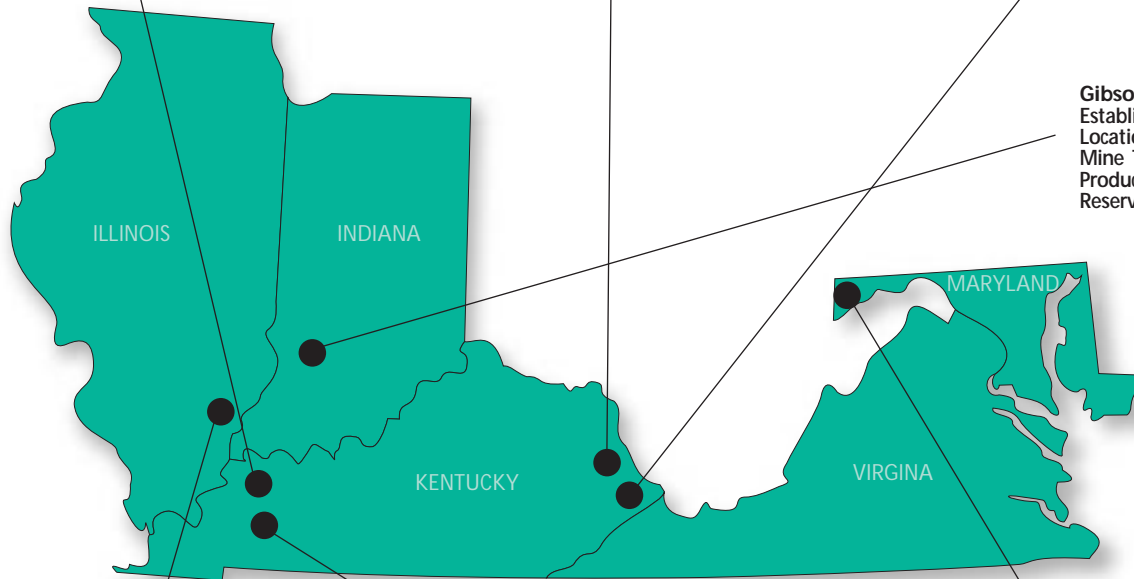
Dotiki
 Established: 1971
 Location: Webster County, KY
 Mine Type: Underground
 Production: 3.6 mm tons
 Reserves: 73.2 mm tons



Pontiki/Excel
 Established: 1977
 Location: Martin County, KY
 Mine Type: Underground
 Production: 1.8 mm tons
 Reserves: 21.7 mm tons



MC Mining
 Established: 1996
 Location: Pike County, KY
 Mine Type: Underground
 Production: 1.0 mm tons
 Reserves: 23.7 mm tons



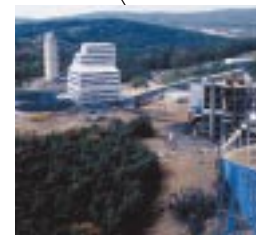
Gibson County Coal
 Established: Expected late 2000
 Location: Gibson County, IN
 Mine Type: Underground
 Production: Under development
 Reserves: 37.8 mm tons



Pattiki
 Established: 1980
 Location: White County, IL
 Mine Type: Underground
 Production: 2.3 mm tons
 Reserves: 82.4 mm tons



Hopkins County Coal
 Established: 1998
 Location: Hopkins County, KY
 Mine Type: Surface/Underground
 Production: 2.6 mm tons
 Reserves: 37.2 mm tons



Mettiki
 Established: 1977
 Location: Garrett County, MD
 Mine Type: Underground
 Production: 2.8 mm tons
 Reserves: 38.6 mm tons

Note: All data based on 1999 actual results

To the Unitholders of Alliance Resource Partners, L.P.

The year 1999 was a notable one for all of us at Alliance Resource Partners, L.P. Not only did the Partnership enter the public domain effective with its initial public offering in August 1999, but we also achieved outstanding financial results given the poor market conditions that we faced.

Financial Highlights

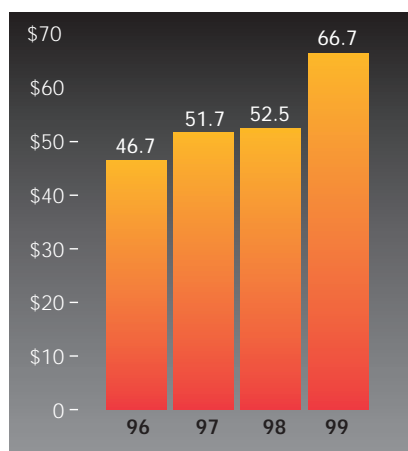
Our financial results for 1999 show strong year over year improvements as a result of our growth and cost savings initiatives during the past two years. Our six mining complexes produced 14.1 million tons in 1999 representing a 5% increase from the previous year. Four mining complexes (Dotiki, Pattiki, Hopkins County Coal, MC Mining) enjoyed production records. Dotiki set its eighth consecutive and Pattiki set its third consecutive record year for production. Excel and MC Mining, our compliance coal operations, enjoyed a 12% increase in annual production from the previous year.

Our sales tonnage and revenues declined slightly from 1998 levels due to our planned reduced participation in coal export brokerage markets. Because coal export brokerage operations generate lower margins than our direct coal sales, changes in our levels of brokerage activity have a greater impact on revenues than on margins. The brokerage business is not expected to be a material part of our business in the future.

The reduced sales revenue was more than offset by cost reductions resulting from increased productivity. Company-wide productivity, as measured in tons per man hour, increased by 4.4% during 1999. Productivity improvements were generated not only by improved processes, but also by two major cost reduction programs. In January 1998, we acquired the assets that comprise our Hopkins County Coal operations. As part of our acquisition plan, we

rebuilt older equipment and purchased new or refurbished equipment. With the higher efficiencies resulting from these capital investments, we began to realize improved productivity beginning in the third quarter of 1998 and have continued to realize the full impact of the new mining equipment during 1999. Secondly, in September 1998, we suspended operations at our Pontiki mine due to adverse market conditions. In late 1998, we were able to obtain a new long-term coal supply agreement through 2006 that justified reopening of the mine. As a result, the Pontiki mine was restructured with a new mine plan, operating structure, and workforce hired by Excel Mining, LLC, an affiliate of Pontiki Coal, LLC. During late 1998 and early 1999, Excel's expenses were adversely impacted by the restructuring costs as well as reduced production as the mine slowly returned to full operational status. Excel has achieved substantial productivity improvements generating an excellent return on the restructuring investment.

EBITDA \$ Millions



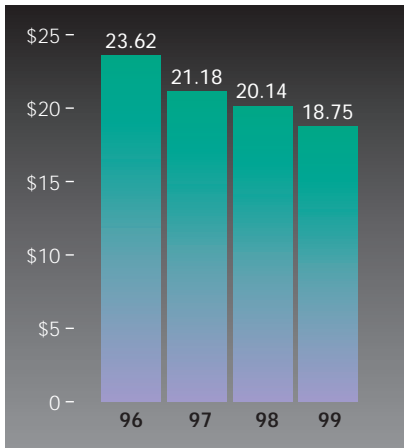
The increase in productivity resulting from the benefits of the restructured Pontiki/Excel mine and the capital investments at the Hopkins County Coal mining complex, allowed the Partnership to significantly improve its profitability. EBITDA (income before net interest expense, income taxes, depreciation, depletion and

amortization) increased 27% to \$66.7 million for 1999 compared with \$52.5 million for 1998. Continued growth and productivity improvements are key to our meeting our goal of increasing the Partnership's distributable cash flow. We will continue to make prudent capital investments in projects to achieve this objective. With the liquidity available from cash generated from operations, our revolving credit facility, and the 1999 year-end U.S. Treasury Notes balance of approximately \$42 million, the Partnership is well positioned to fund capital expenditures that generate incremental growth.

Long-Term Contracts

Our stability and profitability continue to be supported by long-term contracts. In 1999, approximately 75% of our sales tonnage, including approximately 84% of our medium- and high-sulfur coal sales tonnage, was sold under long-term contracts with maturities extending up to 2010. Major electric utilities are the primary source of our long-term contracts, consuming approximately 77% of our sales tonnage. Our long-term position as a major supplier to our largest customers has resulted in sales relationships with each for at least 15 years. Our total nominal commitment under significant long-term contracts is approximately 88 million tons at December 31, 1999. One of the major additions to our coal sales contract portfolio occurred in June 1999, when we entered into a long-term contract to provide 23 million tons of low-sulfur coal to PSI Energy, Inc., a subsidiary of Cinergy Corporation, through December 2012. The signing of this new long-term contract provided the financial support for the development of our new Gibson County Coal mining complex.

Cost Per Ton \$ per Ton



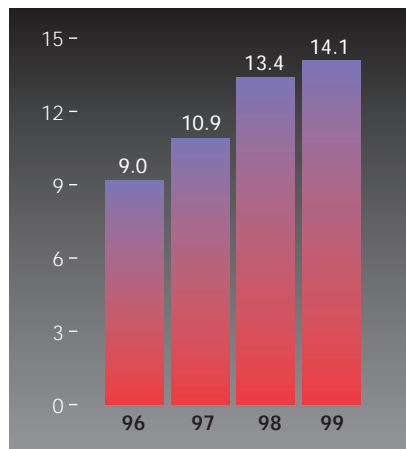
Reserve Growth

To ensure the long-term continuity of the Partnership, we are constantly acquiring coal reserve properties that are adjacent or otherwise complementary to our existing operations. In September 1999, we acquired approximately 21 million saleable tons of reserves in western Kentucky that are contiguous with our Dotiki mine. This acquisition allows for the immediate advancement of the Dotiki mine's existing operations into the newly acquired reserve area without the cost of additional development capital. In March 2000, the Partnership's Special General Partner exercised two separate options to acquire more than 60 million tons of reserves in western Kentucky. Upon closing of this reserve acquisition, the Partnership will have access to the additional reserves through either a lease or purchase agreement. Over the last year, we have increased our reserves from approximately 411 million tons of proven and probable reserves at December 31, 1998, to approximately 440 million tons of reserves at December 31, 1999. The reserves covered by the Special General Partner options are not included in the 440 million tons of reserves noted above.

Gibson County Coal

Gibson County Coal is our new low-sulfur mining complex under development in southern Indiana. With the signing of the new long-term sales contract in June 1999, Gibson County Coal has started construction of the new mining complex to supply PSI Energy Inc.'s Gibson Station with low-sulfur coal to its generating units. The slope construction commenced in the fall of 1999 and construction of the preparation plant began in January 2000. We expect the mine to commence production by the end of 2000. Once the initial start-up curve has been completed, Gibson County Coal should provide additional distributable cash flow to the Partnership.

Tons Produced Million Tons



Distributions to Unitholders

In November 1999, the Partnership made its first distribution to unitholders. For the 42-day period from the Partnership's commencement of operations (on August 20, 1999) through September 30, 1999, the Partnership paid a pro-rata quarterly distribution of \$0.23 per unit (\$2.00 on an annualized basis) on all of its outstanding Common and Subordinated Units. In February 2000, the Partnership paid its first full quarterly distribution, for the period from October 1, 1999 to December 31, 1999, of \$0.50 per unit on all of its outstanding Common and Subordinated Units.

Future Prospects

Coal continues to be the largest fuel source for generating electricity in the United States, capturing over 55% of market share. Though utility deregulation and new regulatory and legislative initiatives create a changing economic environment within our industry, we remain convinced that increased coal demand will be realized over the next decade. Coal's abundance and low cost have contributed to its lead role as the primary fuel source for utility baseload electricity generation. Because of coal's dominance in the utility industry, increased demand for electricity generally results in increased demand for coal. The federal Energy Information Administration is currently projecting coal demand for electric utility generation to increase by over one percent in 2000 and by over three percent in 2001. In a billion ton industry, every one percent of growth equates to incremental coal demand of 10 million tons.

Although coal demand has grown steadily, the coal industry continues to experience consolidation. To increase competitiveness, coal production has been shifting from smaller, high-cost operations to larger, low-cost operations. This emerging pattern has resulted in significant industry consolidation during the past ten years. The Partnership should be a beneficiary of this industry trend as it creates opportunities for incremental growth through acquisitions of operating companies and undeveloped reserves that can benefit from our economies of scale.

In the long run, only those coal companies that can adapt to changing industry trends will be successful. The Partnership management is well aware of the issues facing the industry and has positioned itself to stand the test of time. We believe our attitude to stay competitive, regardless of the economic environment, protects our future and allows us to be successful for the long-term, which best serves our employees, customers, and unitholders.

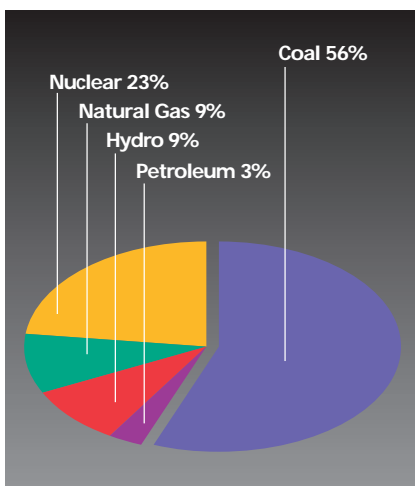
Coal and Electricity - A Direct Connection

Availability of reliable sources of electricity is something we may take for granted because 24 hours each day, the availability of electricity makes our lives more comfortable. Electricity is generated through use of many natural resources. Electric utility power plants in the United States are fueled by coal, oil, gas, nuclear power, and hydro. However, when it comes to utility electricity generation, coal is by far the predominant energy source.

Market Share

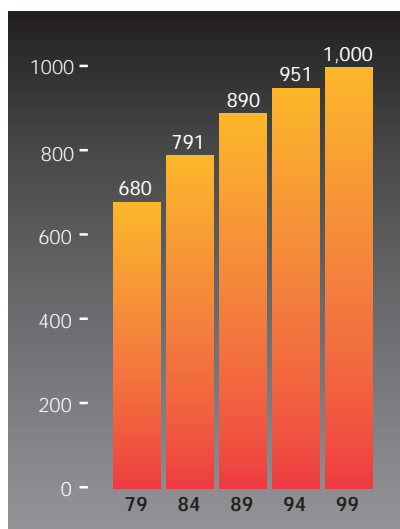
Simply stated, coal is the United States' major source of electricity. Electric utility companies in the United States have steadily increased their reliance upon coal as their primary source of fuel. Coal's share of the fuel market for electricity generation has risen from 48% in 1979 to 56% in 1999. Electric utilities have increased their reliance on coal as their principal energy source primarily for one reason - coal has consistently remained the most reliable and lowest cost fuel to generate inexpensive electricity. Because of its low-cost attributes, electric utilities rely on coal-fired electricity generation in most cases to supply their baseload electricity needs, the amount of power that is consistently required 24 hours per day.

U.S. Electric Utility Generation By Fuel Source



Data Source: Energy Information Administration

U.S. Coal Demand Million Tons



Data Source: Energy Information Administration

Coal Demand

With 86% of domestic coal production consumed by the electric utility industry, the continued growth in electricity demand has resulted in a simultaneous increase in the demand for more coal. Over the past 20 years, total coal consumption has increased from 680 million tons per year in 1979 to a record 1 billion tons in 1999. This demand level has made coal the largest source of overall domestic energy production since 1984. Coal, with 33% of the total United States energy production, outpaces both oil and natural gas as the primary domestic source of energy.

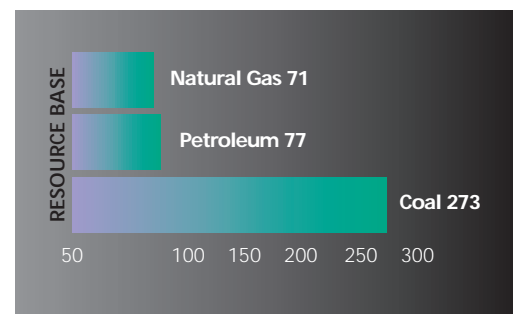
Coal Resources

Coal is the most abundant natural resource in the United States. The locations and quantities of the United States coal resources are generally well known and have been found in 38 states. Total United States coal resources are estimated at nearly 4 trillion tons making coal much more plentiful than domestic oil and natural gas reserves. The amount of coal

reserves considered recoverable with current technology is approximately 275 billion tons - enough to last nearly 300 years at current demand levels.

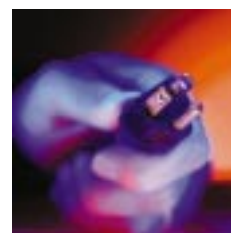
Affordable electricity is essential to the economic development, growth and technological progress of the United States. Producing coal is a sophisticated, high tech, 21st century enterprise in which an essential energy resource is extracted from its natural surroundings in an efficient and environmentally compatible manner. Given the importance of coal in the generation of low-priced electricity, as the United States economy continues to grow, coal will be there as the primary fuel source for electric utilities to provide the nation with the vital electricity it needs.

U.S. Natural Resources Reserve Lives in Years



Data Source: Energy Information Administration

When you use electricity, think about coal. There is a direct connection.





**ALLIANCE RESOURCE
PARTNERS, L.P.**

1999 Financial Summary

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The statements contained in this 1999 Financial Summary that are not historical in nature are forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions about us, including competition within the coal industry, the impact of environmental regulations on our customers, our ability to retain and extend long-term contracts and our levels of indebtedness. We undertake no obligation to update or revise any forward-looking statements and can give no assurance that the events projected in our forward-looking statements will occur.

BUSINESS

We are a diversified producer and marketer of coal to major United States utilities and industrial users. We began mining operations in 1971 and, since then, have grown through acquisitions and internal development to become the eighth largest coal producer in the eastern United States. At December 31, 1999, we had approximately 440 million tons of reserves in Illinois, Indiana, Kentucky, Maryland and West Virginia. In 1999, we produced 14.1 million tons of coal and sold 15.0 million tons of coal. The coal we produced in 1999 was 19.9% low-sulfur coal, 19.9% medium-sulfur coal and 60.2% high-sulfur coal. In 1999, approximately 85% of our medium- and high-sulfur coal was sold to utility plants with installed pollution control devices, also known as "scrubbers," to remove sulfur dioxide.

We currently operate six mining complexes in Illinois, Kentucky and Maryland and have one complex under development in Indiana. Five of our active mines are underground and one has both surface and underground mines. Our mining activities are organized into three operating regions: (a) the Illinois Basin operations, (b) the East Kentucky operations and (c) the Maryland operations.

Illinois Basin Operations

Our Illinois Basin mining operations are currently located in western Kentucky and southern Illinois. We have approximately 770 employees in the Illinois Basin and currently operate three mining complexes. We also have a mine under development in southern Indiana.

Webster County Coal, LLC. Webster County Coal operates the Dotiki mine which is an underground mining operation located in Webster County, Kentucky. The mine was opened in 1966, and we purchased the mine in 1971. Our primary customers for coal produced at Dotiki are Seminole Electric Cooperative, Inc., Tennessee Valley Authority and Western Kentucky Energy Corp., which purchase our coal pursuant to long-term contracts for use in their scrubbed generating units.

White County Coal, LLC. White County Coal operates the Pattiki mine which is an underground mining operation located in White County, Illinois. We began construction of the mine in 1980 and have operated it since its inception. Our primary customers for coal produced at Pattiki are Seminole Electric Cooperative, Inc. and Tennessee Valley Authority, which purchase our coal pursuant to long-term contracts for use in their scrubbed generating units.

Hopkins County Coal, LLC. Hopkins County Coal is a mining complex located in Hopkins County, Kentucky. The operation has three surface mines, one of which is currently idle, and one underground mine. We acquired Hopkins County Coal in January 1998. Our primary customers for coal produced at the Hopkins County Coal complex include Louisville Gas & Electric, Tennessee Valley Authority and Western Kentucky Energy Corp.

Gibson County Coal, LLC. We control 37.8 million tons of low-sulfur coal reserves located in Gibson County, Indiana, situated in the southwestern part of the state. We refer to these reserves as the Gibson County Coal "north" reserves. In 1997, we acquired an additional 104.2 million tons of reserves in Gibson County, Indiana. We refer to these reserves as the Gibson County Coal "south" reserves. Approximately 10.9 million tons of our Gibson County Coal south reserves are low-sulfur coal. We recently entered into a long-term contract with PSI Energy, Inc., a subsidiary of Cinergy Corporation, for production from our Gibson County Coal north reserves. We began construction of a new mining complex to supply this contract with commencement of slope construction in the fall of 1999 and construction of the preparation plant and ancillary facilities in January of 2000. We have contractual commitments for an aggregate of 23 million tons of production from this mine through 2012.

East Kentucky Operations

Our East Kentucky mining operations are located in the central Appalachia coal fields. Our East Kentucky mines are currently our principal source for low-sulfur coal. We have approximately 245 employees and operate two mining complexes in East Kentucky.

Pontiki Coal, LLC/Excel Mining, LLC. Pontiki/Excel is an underground mining complex located in Martin County, Kentucky. In 1977, we constructed the mine and operated it continuously until September 1998, when we suspended operations and terminated substantially all of our workforce due to adverse market conditions. While we had intended originally to idle the mine for an indefinite period, we were able to procure a new long-term supply agreement that justified the re-opening of the mine beginning in late 1998. As a result, this operation was restructured with a new mine plan, operating structure, and workforce hired by Excel, an affiliate of Pontiki. Pontiki owns the mining complex and reserves and Excel is responsible for conducting all mining operations. All of the coal produced at Pontiki/Excel meets or exceeds the compliance requirements of Phase II of the Clean Air Act Amendments. Our primary customers for coal produced at Pontiki are James River Cogeneration Company, successor to Cogentrix of Virginia, Inc., and A.E.I. Coal Sales, Inc.

MC Mining, LLC. MC Mining is an underground mining facility located in Pike County, Kentucky, acquired in 1989. The underground mine operations are operated by a contract mining company. The preparation plant is operated by employees of MC Mining. MC Mining sells its production primarily to industrial customers.

Maryland Operations

Our Maryland mining operations are located in the northern Appalachia coal fields. We have approximately 245 employees and operate one mining complex in Maryland.

Mettiki Coal, LLC. Mettiki is an underground longwall mining operation located in Garrett County, Maryland. We constructed Mettiki in 1977 and have operated it since its inception. Our primary customer for coal produced at Mettiki is Virginia Electric and Power Company, which purchases the coal pursuant to a long-term contract for use in the generating units at its Mt. Storm, West Virginia power plant located less than 20 miles away. We also process coal at Mettiki for Anker Energy Corporation and one of its affiliates.

Mettiki Coal (WV), LLC. Mettiki (WV) has approximately 20.1 million tons of undeveloped recoverable reserves in Grant and Tucker Counties, West Virginia. We currently conduct no mining operations at Mettiki (WV).

COAL RESERVES

We are constantly evaluating strategic acquisition of coal reserve properties that are adjacent or otherwise complementary to our existing operations. Over the last year, we have increased our reserves from approximately 411 million tons of proven and probable reserves at December 31, 1998, to approximately 440 million tons of proven and probable reserves at December 31, 1999. Recent significant acquisitions and option exercises include:

- *Acquisition of reserves in western Kentucky.* In September 1999, we acquired approximately 21 million saleable tons of reserves in western Kentucky that are contiguous with our Dotiki mine. This acquisition allows for the immediate advancement of the Dotiki mine's existing operations into the newly acquired reserve area without the cost of additional development capital.
- *Exercise of options to acquire two tracts of reserves in western Kentucky.* In March 2000, our special general partner, Alliance Resource GP, LLC (the "Special GP") exercised two separate options to acquire substantial tracts of reserves in western Kentucky. One tract is contiguous with our Dotiki mine, and the other borders our Hopkins County Coal facilities. Upon closing of the acquisition, the Special GP, in its discretion, may choose to lease the tracts to us or assign the properties to us in return for payment for all amounts it expended in connection with the reserve acquisition, plus a market rate of interest. Although the Special GP expects to close the acquisition by the end of September 2000, the Special GP can make no assurances that it will be able to do so. The reserves covered by these two options are not included in the 440 million tons of proven and probable reserves noted above.

The following table sets forth production data and reserve information, as of December 31, 1999, about each of our mining complexes.

Operations	Location	Mine Type	1999 Production (Million of tons)	Heat Content (Btus per pound)	Sulfur (%)	Ash (%)	Proven and Probable Reserves			Total
							Low Sulfur (1)	Medium Sulfur (1)	High Sulfur (1)	
<i>Illinois Basin Operations</i>										
Dotiki	Webster County, KY	Underground	3.6	12,500	2.9	8.1			73.2	73.2
Pattiki	White County, IL	Underground	2.3	11,700	3.0	7.9			82.4	82.4
Hopkins County Coal	Hopkins County, KY	Surface/ Underground	2.6	11,300	3.2	12.4			37.2	37.2
Gibson County Coal (North)	Gibson County, IN	Underground	-	11,600	1.0	7.0	37.8			37.8
Gibson County Coal (South)	Gibson County, IN	Underground	-	11,600	2.1	NA	10.9	44.1	49.2	104.2
Region Total			<u>8.5</u>				<u>48.7</u>	<u>44.1</u>	<u>242.0</u>	<u>334.8</u>
<i>East Kentucky Operations</i>										
Pontiki/Excel	Martin County, KY	Underground	1.8	12,800	0.7	6.7	21.7			21.7
MC Mining	Pike County, KY	Underground	1.0	12,800	0.7	7.2	23.7			23.7
Other	Martin County, KY	Underground	-	12,400	0.9	9.0	1.3			1.3
Region Total			<u>2.8</u>				<u>46.7</u>	<u>-</u>	<u>-</u>	<u>46.7</u>
<i>Maryland Operations</i>										
Mettiki	Garrett County, MD	Underground	2.8	13,000	1.6	10.0		38.6		38.6
Mettiki (WV)	Grant and Tucker County, WY	Underground		13,000	1.6	10.0		20.1		20.1
			<u>2.8</u>				<u>0</u>	<u>58.7</u>	<u>0</u>	<u>58.7</u>
Total			<u>14.1</u>				<u>95.4</u>	<u>102.8</u>	<u>242.0</u>	<u>440.2</u>
% of Total							21.7%	23.3%	55.0%	100.0%

- (1) We classify low-sulfur coal as coal with a sulfur content of less than 1%, medium-sulfur coal as coal with a sulfur content between 1% and 2% and high-sulfur coal as coal with a sulfur content of greater than 2%.

We estimate that approximately 68 million tons of our reserves, or approximately 71% of our low-sulfur reserves and 15% of our total reserves at December 31, 1999, meet compliance standards for Phase II of the Clean Air Act Amendments. Compliance coal consists of coal that emits less than 1.2 pounds of SO₂ per million Btu.

MARKET FOR COMMON UNITS AND RELATED UNITHOLDER MATTERS

The Common Units representing limited partners' interest are listed on the Nasdaq National Market under the symbol "ARLP." The Common Units began trading on August 20, 1999, when the market price for the IPO of the Common Units was \$19.00 per unit. On March 23, 2000 the closing market price for the Common Units was \$12.88 per unit. There were approximately 6,700 record holders and beneficial owners at December 31, 1999 (held in street name) of the Partnership's Common Units.

The following table sets forth, the range of high and low sales price per Common Unit and the amount of cash distribution declared with respect to the Units, for each quarterly period since commencement of operations on August 20, 1999.

	High	Low	Distributions Per Unit
3rd Quarter 1999 (from August 20, 1999)	\$ 19.06	\$ 13.50	\$0.23 (paid November 12, 1999 for the period from August 20, 1999, through September 30, 1999)
4th Quarter 1999	\$ 14.75	\$ 12.00	\$0.50 (paid February 14, 2000)

The Partnership has also issued 6,422,531 Subordinated Units, all of which are held by the Special GP, for which there is no established public trading market.

The Partnership will distribute to its partners (including holders of Subordinated Units), on a quarterly basis, all of its Available Cash. Available Cash generally means, with respect to any quarter of the Partnership, all cash on hand at the end of each quarter less reserves in the amount of cash reserves necessary or appropriate in the reasonable discretion of the Managing GP to (a) provide for the proper conduct of the Partnership's business, (b) comply with applicable law of any debt instrument or other agreement of the Partnership or any of its affiliates, or (c) provide funds for distributions to unitholders and the General Partners for any one or more of the next four quarters. Available Cash is defined in the Partnership Agreement listed as an exhibit of the annual report on Form 10-K. The Partnership Agreement defines minimum quarterly distributions as \$0.50 for each full fiscal quarter. Distributions of Available Cash to the holder of the Subordinated Units are subject to the prior rights of the holders of the Common Units to receive minimum quarterly distributions for each quarter during the subordination period, and to receive any arrearages in the distribution of the minimum quarterly distributions on the Common Units for prior quarters during the subordination period. The subordination period will generally not end before September 30, 2004. Under certain circumstances, up to half of the Subordinated Units may convert into Common Units before the end of the subordination period, which will generally not occur before September 30, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We are a diversified producer and marketer of coal to major United States utilities and industrial users. In 1999, our total production was 14.1 million tons and our total sales were 15.0 million tons. The coal we produced in 1999 was approximately 19.9% low-sulfur coal, 19.9% medium-sulfur coal and 60.2% high-sulfur coal.

At December 31, 1999, we had approximately 440 million tons of proven and probable coal reserves in Illinois, Indiana, Kentucky, Maryland and West Virginia. We believe we control adequate reserves to implement our currently contemplated mining plans. In addition, there are substantial unleased reserves on adjacent properties that we intend to acquire or lease as our mining operations approach these areas.

In 1999 approximately 77% of our sales tonnage was consumed by electric utilities with the balance consumed by cogeneration plants and industrial users. Our largest customers in 1999 were Seminole Electric Cooperative, Inc., Tennessee Valley Authority, and Virginia Electric and Power Company. We have had relationships with each of these customers for at least 15 years. In 1999, approximately 75% of our sales tonnage, including approximately 84% of our medium- and high-sulfur coal sales tonnage, was sold under long-term contracts. The balance of our sales were made on the spot market. In June 1999, we entered into a long-term contract to provide 23 million tons of low-sulfur coal to PSI Energy, Inc., a subsidiary of Cinergy Corporation, through December 2012. Our long-term contracts contribute to our stability and profitability by providing greater predictability of sales volumes and sales prices. In 1999, approximately 85% of our medium- and high-sulfur coal was sold to utility plants with installed pollution control devices, also known as scrubbers, to remove sulfur dioxide.

In 1998 and 1999, our financial performance was impacted by the following:

- In January 1998, we acquired the assets that comprise our Hopkins County Coal operations. In accordance with our acquisition plan, we invested capital to rebuild older equipment and purchase new or refurbished equipment. We began to realize higher productivity as a result of these capital investments beginning in the third quarter of 1998 and have continued to realize the full impact of these efficiencies during 1999.
- In September 1998, we suspended operations at our Pontiki mine and terminated our workforce due to adverse market conditions. While we had originally intended to idle the mine for an indefinite period, we were able to procure a new long-term coal supply agreement with A.E.I. Coal Sales, Inc., justifying re-opening the mine in late 1998. As a result, this operation was restructured with a new mine plan, operating structure, and workforce hired by Excel Mining, LLC, an affiliate of Pontiki Coal, LLC. While idled, the mine incurred a net loss of approximately \$5.2 million, consisting of workers' compensation accruals, severance payments, and the costs associated with maintaining an idled mine. During late 1998 and early 1999, Pontiki/Excel's cost per ton was adversely impacted by reduced production as the new mine plan was implemented and the mine moved toward its current higher production level.

- We conduct a coal brokerage business, which markets both steam and metallurgical coals. Since 1996, we have experienced a steady decline in brokerage sales, most of which are for export. These declining volumes are largely attributable to competition from lower cost foreign production. The brokerage business is not expected to be a material part of our business in the future.

RESULTS OF OPERATIONS

In comparing 1999 to 1998, the 1999 periods for the Partnership and the coal production and marketing assets acquired from Alliance Resource Holdings, Inc. (the "Predecessor") have been combined. Since the Partnership maintained the historical basis of the Predecessor's net assets, management believes that the combined Partnership and Predecessor results for 1999 are comparable with 1998. The interest expense associated with the debt incurred concurrent with the closing of the IPO is applicable only to the Partnership period.

1999 Compared with 1998

Coal sales. Coal sales for 1999 declined 3.2% to \$345.9 million from \$357.4 million for 1998. The decrease of \$11.5 million is primarily attributable to lower coal export brokerage volumes partially offset by improved results from the Partnership's restructured Pontiki/Excel operation and full-year benefits from the capital invested at the Hopkins County Coal operation. The lower brokerage volumes are largely attributable to reduced participation in coal export brokerage markets. The brokerage business is not expected to be material in the future. Because the coal brokerage operations generate lower margins than direct coal sales, changes in the levels of brokerage activity have a greater impact on revenues and outside purchases than on margins. Tons sold decreased less than 1.0% to 15.0 million tons for 1999 from 15.1 million tons for 1998. Tons produced increased 5.1% to 14.1 million tons for 1999 from 13.4 million tons for 1998.

Other sales and operating revenues. Other sales and operating revenues declined 79.0% to \$0.9 million for 1999 from \$4.5 million from 1998. The decrease of \$3.6 million was primarily due to lower volumes at the Mt. Vernon facility due to the dispute with Seminole Electric Cooperative, Inc.

Operating expenses. Operating expenses were comparable for 1999 and 1998 at \$242.0 million and \$237.6 million, an increase of 1.9%.

Outside purchases. Outside purchases declined 52.8% to \$24.2 million for 1999 from \$51.2 million for 1998. The decrease of \$27.0 million was the result of lower coal export brokerage volumes. See coal sales above concerning the decrease in coal export brokerage volumes.

General and administrative. General and administrative expenses were comparable for 1999 and 1998 at \$15.2 million and \$15.3 million, a decrease of less than 1.0%.

Depreciation, depletion and amortization. Depreciation, depletion and amortization expense were comparable for 1999 and 1998 at \$39.7 million and \$39.8 million, a decrease of less than 1.0%.

Unusual item. In response to market conditions, the Pontiki mine ceased operations and terminated substantially all of its workforce in September 1998. During the idle status period, which ended in November 1998, Pontiki incurred a net loss of approximately \$5.2 million consisting of estimated amounts for increased workers' compensation claims of \$1.2 million and severance payments consistent with the WARN Act of \$1.2 million as well as the costs associated with maintaining an idled mine of \$2.8 million.

Income before income taxes. Income before income taxes increased 67.3% to \$21.0 million for 1999 compared to \$12.5 million for 1998. The increase of \$8.5 million was primarily attributable to improved productivity, which includes the benefits of the restructured operation at Pontiki/Excel following the idle status period of the mine, which resulted in the \$5.2 million unusual item recorded in 1998 as discussed above, and the capital investments at

the Hopkins County Coal operation, partially offset by the losses incurred at Mt. Vernon due to the dispute with Seminole Electric Cooperative, Inc.

Income tax expense. The Partnership is a limited partnership. As a result, the Partnership's earnings or losses for federal income taxes purposes will be included in the tax returns of the individual partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements of the Partnership. The Predecessor is included in the consolidated federal income tax return of ARH. Federal and state income taxes are calculated as if the Predecessor had filed its return on a separate company basis utilizing an effective income tax rate of 31%.

EBITDA. EBITDA (income from operations before net interest expense, income taxes, depreciation, and depletion and amortization) increased 26.9% to \$66.7 million for 1999 compared with \$52.5 million for 1998. The \$14.2 increase is attributable to the same factors that contributed to the increase in income before income taxes.

1998 Compared With 1997

Coal sales. Coal sales increased 17.1% to \$357.4 million for 1998 from \$305.3 million for 1997. Total tons sold increased 21.8% to 15.1 million tons for 1998 from 12.4 million tons for 1997. The increase of \$52.1 million in coal sales is attributable primarily to:

- the acquisition of Hopkins County Coal in January 1998 which accounted for \$41.1 million of our increased sales;
- increased volumes at MC Mining which accounted for \$6.8 million of our increased sales; and
- increased shipments at Dotiki, Pattiki and Mettiki which accounted for \$16.1 million of our increased sales.

The increase in coal sales was partially offset by lower sales at Pontiki/Excel of \$16.7 million reflecting lower productivity during 1998 and the temporary suspension of operations in September 1998. Tons produced in 1998 increased 22.9% to 13.4 million tons from 10.9 million tons in 1997.

Other sales and operating revenues. Other sales and operating revenues decreased 47.7% to \$4.5 million for 1998 compared with \$8.6 million for 1997. In 1997, other sales included the sale of coke to a foreign steel producer. The decrease of \$4.1 million was primarily due to a reduction in these coke sales.

Operating expenses. Operating expenses increased 20.4% to \$237.6 million for 1998 from \$197.4 million in 1997. The increase of \$40.2 million in operating expenses is attributable primarily to:

- the acquisition of Hopkins County Coal in January 1998, which accounted for \$42.9 million of our increased operating expenses; and
- increased volumes at MC Mining, which accounted for \$6.8 million of our increased operating expenses.

The increase in operating expenses was partially offset by a reduction of operating expenses of \$10.9 million at Pontiki/Excel reflecting lower production during 1998 and the temporary suspension of operations in September 1998. Operating expense per ton sold decreased 4.9% to \$20.14 in 1998 from \$21.18 in 1997, primarily due to increased productivity at our Dotiki and Pattiki mines, offset by the higher cost per ton at our Pontiki mine.

Outside purchases. Outside purchases of coal and coke increased 2.8% to \$51.2 million in 1998 from \$49.8 million in 1997. The increase of \$1.4 million was the result of higher coal brokerage volumes offset by a reduction in coke sales.

General and administrative. General and administrative expenses were comparable for 1998 and 1997 at \$15.3 million and \$15.4 million, a decrease of less than 1.0%.

Depreciation, depletion and amortization. Depreciation, depletion and amortization increased 18.1% to \$39.8 million for 1998 compared with \$33.7 million for 1997. The increase of \$6.1 million was primarily due to the acquisition of the Hopkins County Coal operation.

Unusual item. Pontiki/Excel ceased operations from September to November 1998. While idled, the mine incurred a net loss of approximately \$5.2 million, consisting of workers' compensation accruals and severance payments consistent with the federal WARN Act, as well as the costs associated with maintaining an idled mine.

Income tax expense. Income tax expense was \$3.9 million for 1998 and \$4.3 million for 1997. The effective rate increased to 31% in 1998 compared with 24% in 1997. The increase in the effective rate is primarily attributable to an increase in the deferred tax asset valuation allowance partially offset by the additional benefit of excess of tax over book depletion.

EBITDA. EBITDA (income from operations before net interest expense, income taxes, depreciation, and depletion and amortization) was comparable for 1998 and 1997 at \$52.5 million and \$51.7 million, which represents an increase of 1.6%.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash provided by operating activities was \$18.2 million in 1999 compared to \$50.5 million in 1998. The decrease in cash flows provided by operating activities is principally attributable to the increase in trade receivables subsequent to the IPO and concurrent transactions that occurred on August 20, 1999. In conjunction with these transactions, the Special GP retained approximately \$37.9 million of trade receivables.

Net cash used in investing activities increased to \$64.7 million in 1999 compared to \$35.6 million in 1998. The increase in net cash used in investing activities is principally attributable to the purchase of U.S. Treasuries and the capital expenditures described below.

Net cash provided by financing activities was \$54.4 million for 1999 compared to net cash used in financing activities of \$14.9 million for 1998. The increase in cash provided by financing activities is principally attributable to the IPO and concurrent transactions that occurred on August 20, 1999.

Capital Expenditures

Capital expenditures increased to \$39.2 million in 1999 compared to \$27.7 million in 1998. The increase is primarily attributable to a major enhancement of the Dotiki preparation plant and a coal reserve acquisition contiguous to the Dotiki mine. The Partnership liquidated approximately \$8.4 million of U.S. Treasury Notes to fund various qualifying capital expenditures with the remaining expenditures funded through cash generated from operations. We currently expect that our average annual maintenance capital expenditures will be approximately \$21.0 million. We currently expect to fund our anticipated capital expenditures with cash generated from operations and the utilization of the revolving credit facility described below.

Notes Offering and Credit Facility

Concurrently with the closing of the IPO, the Special GP issued and our subsidiary, Alliance Resource Operating Partners, L.P. (the "Intermediate Partnership") assumed the obligations under \$180 million principal amount of 8.31% senior notes due August 20, 2014. The Special GP also entered into and the Intermediate Partnership assumed the obligations under a \$100 million credit facility. The credit facility consists of three tranches, including a \$50 million term loan facility, a \$25 million working capital facility and a \$25 million revolving credit facility. The Partnership has drawn \$50 million under the term loan facility but has not drawn any money under either the working capital facility or the revolving credit facility. The weighted average interest rate on the term loan facility at

December 31, 1999, was 7.07%. The credit facility agreement expires August 2004. The senior notes and credit facility are secured by a pledge of the stock of all our operating subsidiaries. The senior notes and credit facility contain various restrictive and affirmative covenants, including the amount of distributions by the Intermediate Partnership and the incurrence of other debt.

Accruals of Other Liabilities

We accrue for costs we will incur in the future to satisfy obligations. We have accrued for deferred credits and other liabilities, including current obligations totaling \$61.9 million and \$64.3 million at December 31, 1999 and 1998. These accruals are chiefly comprised of workers' compensation benefits, black lung benefits, and costs associated with reclamation and mine closing. These obligations are self-insured and are funded at the time the expense is incurred. The accruals of these items are based on estimates of future liabilities, planned legislation and other developments. Thus, from time to time, the Partnership's results of operations may be significantly affected by changes to these deferred credits and other liabilities. See Financial Statements and Supplementary Data. -- Note 11. Reclamation and Mine Closing Costs and Note 12. Pneumoconiosis ("Black Lung") Benefits."

We are required to pay black lung benefits to eligible and former employees under the Black Lung Benefits Act of 1969, the Black Lung Benefits Revenue Act of 1977 and the Black Lung Benefits Reform Act of 1977. We also are liable under various state statutes for similar claims. We provide self-insured accruals for present and future liabilities for these benefits. We have accrued liabilities of \$22.2 million and \$22.7 million for these benefits at December 31, 1999 and 1998.

We accrue for costs associated with reclamation and mine closing. We have estimated the costs and timing of future reclamation and mine closing costs and recorded those estimates on a present value basis. We have accrued liabilities of \$14.8 million and \$13.8 million at December 31, 1999 and 1998 for these costs.

We accrue for workers' compensation claims resulting from traumatic injuries based on actuarial valuations and periodically adjust these estimates based on the estimated costs of claims made. We have accrued liabilities of \$19.5 million and \$18.1 million at December 31, 1999 and 1998 for these costs.

INFLATION

Inflation in the United States has been relatively low in recent years and did not have a material impact on our results of operations for the years ended December 31, 1999, 1998 or 1997.

IMPACT OF YEAR 2000 ISSUE

The year 2000 issue was the result of computer programs being written using two digits rather than four to define the applicable year. Any software, hardware and equipment and embedded chip systems that are date-sensitive may recognize a date using "-00" as the year 1900 rather than the year 2000.

We completed our year 2000 readiness assessment to identify, remedy and test our year 2000 systems compliance, including but not limited to, financial systems applications, human resources and payroll systems applications, hardware and equipment, and third-party developed software. Our project was completed on schedule during the fourth quarter of 1999. Approximately \$0.5 million was incurred to modify, upgrade and/or replace non-compliant systems.

We have not experienced any significant impact on our systems or operations as a result of the year 2000 issue. We do not expect any significant problems in the future related to the year 2000 issue. However, we will continue to monitor our systems.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Partnership has not determined the impact on its financial statements that may result from adoption of SFAS 133, which is required to be implemented by the Partnership no later than January 1, 2001.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Almost all of the Predecessor's transactions were, and almost all of the Partnership's transactions are, denominated in U.S. dollars, and as a result, it does not have material exposure to currency exchange-rate risks.

The Predecessor did not, and the Partnership does not, engage in any interest rate, foreign currency exchange rate or commodity price-hedging transactions.

The Intermediate Partnership assumed obligations under a \$100 million credit facility. Borrowings under the credit facility are at variable rates and as a result the Partnership has interest rate exposure.

The table below provides information about the Partnership's market sensitive financial instruments and constitutes a "forward-looking statement." The fair values of long-term debt are estimated using discounted cash flow analyses, based upon the Partnership's current incremental borrowing rates for similar types of borrowing arrangements as of December 31, 1999. The carrying amounts and fair values of financial instruments are as follows (in thousands):

Expected Maturity Dates	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value December 31, 1999
Senior Notes-fixed rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180,000	\$ 180,000	\$ 165,000
Weighted Average interest rate						8.31%		
Term Loan-floating rate	\$ -	\$ 3,750	\$ 15,000	\$ 16,250	\$ 15,000	\$ -	\$ 50,000	\$ 50,000
Weighted Average interest rate		7.07%	7.07%	7.07%	7.07%			

Since the long-term debt as of December 31, 1998 was immaterial and the debt was retired during 1999, we did not include a table of long-term debt maturities as of December 31, 1998.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Independent Auditors' Report

To the Board of Directors of the Managing General Partner and the Partners of Alliance Resource Partners, L.P.:

We have audited the accompanying consolidated balance sheet of Alliance Resource Partners, L.P. and subsidiaries (the "Partnership") as of December 31, 1999 and the combined balance sheet of Alliance Resource Group (the "Predecessor") as of December 31, 1998, the related consolidated and combined statements of income and cash flows for the period from the Partnership's commencement of operations (on August 20, 1999) to December 31, 1999 and the Predecessor period from January 1, 1999 to August 19, 1999 and the years ended December 31, 1998 and 1997 and the statement of Partners' capital (deficit) for the period from the Partnership's commencement of operations (on August 20, 1999) to December 31, 1999. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated and combined financial statements present fairly, in all material respects, the financial position of the Partnership at December 31, 1999 and the Predecessor at December 31, 1998 and the results of their operations and their cash flows for the period from the Partnership's commencement of operations (on August 20, 1999) to December 31, 1999 and the Predecessor period from January 1, 1999 to August 19, 1999 and the years ended December 31, 1998 and 1997 in conformity with accounting principles generally accepted in the United States of America.

Pelotte + Touche LLP

Tulsa, Oklahoma
January 26, 2000, except for
Note 20 as to which the dates are
March 17, 2000 and March 23, 2000

ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED BALANCE SHEETS

DECEMBER 31, 1999 AND 1998

(In thousands, except unit data)

ASSETS	Partnership December 31, 1999	Predecessor December 31, 1998
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,000	\$ -
Trade receivables	33,056	31,268
Marketable securities (at cost, which approximates fair value)	42,339	-
Income tax receivable	-	503
Inventories	21,130	20,055
Advance royalties	1,557	2,501
Prepaid expenses and other assets	923	1,456
Total current assets	<u>107,005</u>	<u>55,783</u>
PROPERTY, PLANT AND EQUIPMENT AT COST	278,221	240,294
LESS ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION	<u>(102,709)</u>	<u>(69,158)</u>
	175,512	171,136
OTHER ASSETS:		
Advance royalties	8,306	8,880
Coal supply agreements, net	19,879	24,062
Other long-term assets	4,112	1,235
	<u>\$ 314,814</u>	<u>\$ 261,096</u>
LIABILITIES AND PARTNERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 19,377	\$ 24,527
Due to affiliates	806	-
Accrued taxes other than income taxes	4,574	4,526
Accrued payroll and related expenses	8,811	9,269
Accrued interest	5,491	-
Workers' compensation and pneumoconiosis benefits	4,317	4,707
Other current liabilities	2,937	5,302
Current maturities, long-term debt	-	350
Total current liabilities	<u>46,313</u>	<u>48,681</u>
LONG-TERM LIABILITIES:		
Long-term debt, excluding current maturities	230,000	1,687
Deferred income taxes	-	3,906
Accrued pneumoconiosis benefits	21,655	22,233
Workers' compensation	15,696	13,934
Reclamation and mine closing	13,407	12,824
Other liabilities	3,671	5,062
Total liabilities	<u>330,742</u>	<u>108,327</u>
COMMITMENTS AND CONTINGENCIES		
NET PARENT INVESTMENT	-	152,769
PARTNERS' CAPITAL (DEFICIT):		
Common Unitholders 8,982,780 units outstanding	158,705	-
Subordinated Unitholder 6,422,531 units outstanding	123,273	-
General Partners	<u>(297,906)</u>	-
Total Partners' capital (deficit)	<u>(15,928)</u>	-
	<u>\$ 314,814</u>	<u>\$ 261,096</u>

See notes to consolidated and combined financial statements.

ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF INCOME

FOR THE PERIOD FROM THE PARTNERSHIP'S COMMENCEMENT OF OPERATIONS (ON AUGUST 20, 1999)

TO DECEMBER 31, 1999 AND THE PREDECESSOR PERIOD FROM JANUARY 1, 1999 TO AUGUST 19, 1999, AND

THE YEARS ENDED DECEMBER 31, 1998 AND 1997

(In thousands, except unit and per unit data)

	Partnership	Predecessor		
	From Commencement of Operations (on August 20, 1999) to December 31, 1999	For the period from January 1, 1999 to August 19, 1999	Years Ended December 31,	
			1998	1997
SALES AND OPERATING REVENUES:				
Coal sales	\$ 128,860	\$217,033	\$357,440	\$305,270
Other sales and operating revenues	358	577	4,453	8,550
Total revenues	<u>129,218</u>	<u>217,610</u>	<u>361,893</u>	<u>313,820</u>
EXPENSES:				
Operating expenses	89,945	152,066	237,576	197,422
Outside purchases	6,429	17,738	51,151	49,800
General and administrative	6,245	8,912	15,301	15,417
Depreciation, depletion and amortization	15,081	24,622	39,838	33,667
Interest expense (net of interest income of \$999 for the partnership period)	5,887	100	169	29
Unusual item	-	-	5,211	-
Total operating expenses	<u>123,587</u>	<u>203,438</u>	<u>349,246</u>	<u>296,335</u>
INCOME FROM OPERATIONS	5,631	14,172	12,647	17,485
OTHER INCOME (EXPENSE)	641	531	(113)	520
INCOME BEFORE INCOME TAXES	6,272	14,703	12,534	18,005
INCOME TAX EXPENSE	-	4,498	3,866	4,288
NET INCOME	<u>\$ 6,272</u>	<u>\$ 10,205</u>	<u>\$ 8,668</u>	<u>\$ 13,717</u>
GENERAL PARTNERS' INTEREST IN NET INCOME	<u>\$ 125</u>			
LIMITED PARTNERS' INTEREST IN NET INCOME	<u>\$ 6,147</u>			
BASIC AND DILUTED NET INCOME PER LIMITED PARTNER UNIT	<u>\$ 0.40</u>			
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	<u>15,405,311</u>			

See notes to consolidated and combined financial statements.

ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOW

FOR THE PERIOD FROM THE PARTNERSHIP'S COMMENCEMENT OF OPERATIONS (ON AUGUST 20, 1999) TO DECEMBER 31, 1999 AND THE PREDECESSOR PERIOD FROM JANUARY 1, 1999 TO AUGUST 19, 1999, AND THE YEARS ENDED DECEMBER 31, 1998 AND 1997
(In thousands)

	Partnership	Predecessor		
	From Commencement of Operations (on August 20, 1999) to December 31, 1999	For the period from January 1, 1999 to August 19, 1999	Years Ended December 31, 1998 1997	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 6,272	\$ 10,205	\$ 8,668	\$ 13,717
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization	15,081	24,622	39,838	33,667
Deferred income taxes	-	639	(1,750)	(1,937)
Reclamation and mine closings	348	457	705	339
Coal inventory adjustment to market	729	-	1,743	547
Other	(605)	(114)	34	134
Changes in operating assets and liabilities, net of effects from 1998 purchase of coal business:				
Trade receivables	(33,048)	(6,521)	229	11,955
Income tax receivable/payable	-	651	2,482	(3,539)
Inventories	(1,433)	(371)	(6,563)	(4,229)
Advance royalties	366	1,153	579	1,856
Accounts payable	(7,410)	(129)	2,296	(6,216)
Due to affiliates	3,252	-	-	-
Accrued taxes other than income taxes	(630)	678	1,137	293
Accrued payroll and related benefits	844	(828)	491	1,666
Accrued pneumoconiosis benefits	(1,122)	544	839	209
Workers' compensation	2,222	(460)	817	903
Other	452	2,370	(1,048)	3,860
Total net adjustments	(20,954)	22,691	41,829	39,508
Net cash provided by (used in) operating activities	(14,682)	32,896	50,497	53,225
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payment for purchase of business	-	-	(7,310)	-
Direct acquisition costs	-	-	(821)	-
Purchase of property, plant and equipment	(17,173)	(21,984)	(27,669)	(22,436)
Proceeds from sale of property, plant and equipment	125	447	185	49
Purchase of marketable securities	(51,287)	-	-	-
Proceeds from sale of marketable securities	25,225	-	-	-
Net cash used in investing activities	(43,110)	(21,537)	(35,615)	(22,387)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from initial public offering (Note 1)	137,872	-	-	-
Cash contribution by General Partner	5,917	-	-	-
Distributions upon formation (Note 1)	(64,750)	-	-	-
Payment of formation costs	(4,140)	-	-	-
Deferred financing cost	(3,517)	-	-	-
Payments on long-term debt	(1,975)	-	(350)	-
Distribution to Partners	(3,615)	-	-	-
Dividend to Parent	-	-	(8,642)	(13,795)
Return of capital to Parent	-	(11,359)	(5,890)	(17,043)
Net cash provided by (used in) financing activities	65,792	(11,359)	(14,882)	(30,838)
NET CHANGE IN CASH AND CASH EQUIVALENTS AND BALANCE AT END OF PERIOD	\$ 8,000	\$ -	\$ -	\$ -

See notes to consolidated and combined financial statements.

ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL (DEFICIT)

FROM THE PARTNERSHIP'S COMMENCEMENT OF OPERATIONS (ON AUGUST 20, 1999) TO DECEMBER 31, 1999
(In thousands, except unit data)

	Number of Limited Partner Units		Common	Subordinated	General Partners	Minimum Pension Liability	Total Partners' Capital (Deficit)
	Common	Subordinated					
Balance at commencement of operations (on August 20, 1999)	-	-	\$ -	\$ 1	\$ -	\$ -	\$ 1
Issuance of units to public	7,750,000	-	133,732	-	-	-	133,732
Contribution of net assets of Predecessor	1,232,780	6,422,531	23,455	122,186	(24,612)	(459)	120,570
Managing General Partner contribution	-	-	-	-	5,917	-	5,917
Amount retained by Special General Partner from debt borrowings assumed by the Partnership	-	-	-	-	(214,514)	-	(214,514)
Distribution at time of formation	-	-	-	-	(64,750)	-	(64,750)
Distribution to Partners	-	-	(2,066)	(1,477)	(72)	-	(3,615)
Comprehensive income:							
Net income from commencement of operations (on August 20, 1999) to December 31, 1999	-	-	3,584	2,563	125	-	6,272
Minimum pension liability	-	-	-	-	-	459	459
Total comprehensive income	-	-	3,584	2,563	125	459	6,731
Balance at December 31, 1999	<u>8,982,780</u>	<u>6,422,531</u>	<u>\$158,705</u>	<u>\$123,273</u>	<u>\$(297,906)</u>	<u>\$ -</u>	<u>\$(15,928)</u>

See notes to consolidated and combined financial statements.

ALLIANCE RESOURCE PARTNERS, L.P. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
FOR THE PERIOD FROM THE PARTNERSHIP'S COMMENCEMENT OF
OPERATIONS (ON AUGUST 20, 1999) TO DECEMBER 31, 1999 AND
THE PREDECESSOR PERIOD FROM JANUARY 1, 1999 TO AUGUST 19, 1999,
AND THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

1. ORGANIZATION AND PRESENTATION

Alliance Resource Partners, L.P. is a Delaware limited partnership that was formed on May 17, 1999, to acquire, own and operate certain coal production and marketing assets of Alliance Resource Holdings, Inc., a Delaware corporation ("ARH" or "Parent") (formerly known as Alliance Coal Corporation) and substantially all of its operating subsidiaries (collectively, the "Partnership").

Prior to August 20, 1999, (a) MAPCO Coal Inc., a Delaware corporation and direct wholly-owned subsidiary of ARH merged with and into Alliance Coal, LLC, a Delaware limited liability company ("Alliance Coal"), which prior to August 20, 1999 was also a wholly-owned subsidiary of ARH, (b) several other indirect corporate subsidiaries of ARH were merged with and into corresponding limited liability companies, each of which is a wholly-owned subsidiary of Alliance Coal and (c) two indirect limited liability company subsidiaries of ARH became subsidiaries of Alliance Coal as a result of the merger described in clause (a) above. Collectively, the coal production and marketing assets and operating subsidiaries of ARH acquired by the Partnership are referred to as the Alliance Resource Group (the "Predecessor.") The Delaware limited partnerships and limited liability companies that comprise the Partnership are as follows: Alliance Resource Partners, L.P., Alliance Resource Operating Partners, L.P. (the "Intermediate Partnership"), Alliance Coal, LLC (the holding company for operations), Alliance Land, LLC, Alliance Properties, LLC, Backbone Mountain, LLC, Excel Mining, LLC, Gibson County Coal, LLC, Hopkins County Coal, LLC, MC Mining, LLC, Mettiki Coal, LLC, Mettiki Coal (WV), LLC, Mt. Vernon Transfer Terminal, LLC, Pontiki Coal, LLC, Toptiki Coal, LLC, Webster County Coal, LLC, and White County Coal, LLC.

The accompanying consolidated financial statements include the accounts and operations of the limited partnerships and limited liability companies disclosed above and present the financial position as of December 31, 1999 and the results of their operations, cash flows and changes in partners' capital (deficit) for the period from commencement of operations on August 20, 1999 to December 31, 1999. All material intercompany transactions and accounts have been eliminated. The accompanying combined financial statements include the accounts and operations of the Predecessor for the periods indicated. All significant intercompany transactions and accounts have been eliminated.

Initial Public Offering and Concurrent Transactions

On August 20, 1999, the Partnership completed its initial public offering (the "IPO") of 7,750,000 Common Units ("Common Units") representing limited partner interests in the Partnership at a price of \$19.00 per unit.

Concurrently with the closing of the IPO, the Partnership entered into a contribution and assumption agreement (the "Contribution Agreement"), dated August 20, 1999, among the Partnership and the other parties named therein, whereby, among other things, ARH contributed its 100% member interest in Alliance Coal, which is the sole member of fourteen subsidiary operating limited liability companies, to the Intermediate Partnership, and the Intermediate Partnership holds a 99.999% non-managing member interest in Alliance Coal. The Partnership and the Intermediate Partnership are managed by Alliance Resource Management GP, LLC, a Delaware limited liability company (the "Managing GP"), which, as a result of the consummation of the transactions under the Contribution Agreement, holds (a) a 0.99% and 1.0001% managing general partner interest in the Partnership and the Intermediate Partnership, respectively, and (b) a 0.001% managing member interest in Alliance Coal. Also, as a result of the consummation of the transactions completed under the Contribution Agreement, Alliance

Resource GP, LLC, a Delaware limited liability company and wholly-owned subsidiary of ARH (the "Special GP"), holds, (a) 1,232,780 Common Units, (b) 6,422,531 Subordinated Units ("Subordinated Units") convertible into Common Units in the future upon the occurrence of certain events and (c) a 0.01% special general partner interest in each of the Partnership and the Intermediate Partnership.

Concurrently with the closing of the IPO, the Special GP issued and the Intermediate Partnership assumed the obligations under a \$180 million principal amount of 8.31% senior notes due August 20, 2014. The Special GP also entered into and the Intermediate Partnership assumed the obligations under a \$100 million credit facility.

Consistent with guidance provided by the Emerging Issues Task Force in Issue No. 87-21 "Change of Accounting Basis in Master Limited Partnership Transactions", the Partnership maintained the historical cost of the \$121 million of net assets received under the Contribution Agreement.

Analysis of Pro Forma Results of Operations (Unaudited)

For the years ended December 31, 1999 and 1998, the pro forma total revenues would have been approximately \$346,828,000 and \$361,893,000, respectively. For the years ended December 31, 1999 and 1998, the pro forma net income (loss) would have been approximately \$7,567,000 and \$(6,740,000) and net income (loss) per limited partner unit would have been \$0.48 and \$(0.43), respectively. The pro forma results of operations for the years ended December 31, 1999 and 1998, are derived from the historical financial statements of the Partnership from the commencement of operations on August 20, 1999 through December 31, 1999 and the Predecessor for the period from January 1, 1999 through August 19, 1999, and January 1, 1998 through December 31, 1998. The pro forma results of operations reflect certain pro forma adjustments to the historical results of operations as if the Partnership had been formed on January 1, 1998. The pro forma adjustments include (i) pro forma interest on debt assumed by the Partnership and (ii) the elimination of income tax expense as income taxes will be borne by the partners and not the Partnership.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates - The preparation of consolidated and combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated and combined financial statements. Actual results could differ from those estimates.

Fair Value Of Financial Instruments - The carrying amount for accounts receivable, marketable securities and accounts payable approximates fair value because of the short maturity of those instruments. At December 31, 1999, the fair value of long-term debt was approximately \$215 million. The fair value of long-term debt is based on interest rates that are currently available to the Partnership for issuance of debt with similar terms and remaining maturities.

Cash Management - The Partnership maintains its cash management program independent from ARH. However, the Predecessor participated in the cash management program of ARH prior to August 20, 1999. At the end of each business day, the operating cash accounts for the Predecessor were swept to the related operating cash accounts maintained by the treasury function for ARH. The Partnership and Predecessor reclassified outstanding checks of \$3,844,000 and \$6,308,000 at December 31, 1999 and 1998, respectively, to accounts payable in the consolidated and combined balance sheets.

Marketable Securities - The Partnership has investments in six month U.S. Treasury notes which secure the term loan facility (Note 7). These investments are classified as available-for-sale debt securities and are restricted for the sole purpose of funding capital expenditures. At December 31, 1999, the cost of these investments approximates fair value and no effect of unrealized gains (losses) is reflected in Partners' capital (deficit).

Inventories - Coal inventories are stated at the lower of cost or market on a first-in, first-out basis. Supplies inventories are stated at the lower of cost or market on an average cost basis.

Property, Plant and Equipment - Additions and replacements constituting improvements are capitalized. Maintenance, repairs, and minor replacements are expensed as incurred. Depreciation and amortization is computed principally on the straight-line method based upon the estimated useful lives of the assets or the estimated life of each mine (9 to 15 years at revaluation date of August 1, 1996), whichever is less and for 5 years on certain assets related to the 1998 business acquisition. Depreciable lives for mining equipment and processing facilities range from 1 to 15 years. Depreciable lives for land and land improvements and depletable lives for mineral rights range from 5 to 15 years. Depreciable lives for buildings, office equipment and improvements range from 1 to 13 years. Gains or losses arising from retirements are included in current operations. Depletion of mineral rights is provided on the basis of tonnage mined in relation to estimated recoverable tonnage.

Long-Lived Assets - The Partnership reviews the carrying value of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based upon estimated undiscounted future cash flows. The amount of an impairment is measured by the difference between the carrying value and the fair value of the asset, which is based on cash flows from that asset, discounted at a rate commensurate with the risk involved.

Advance Royalties - Rights to coal mineral leases are often acquired through advance royalty payments. Management assesses the recoverability of royalty prepayments based on estimated future production and capitalizes these amounts accordingly. Royalty prepayments expected to be recouped within one year are classified as a current asset. As mining occurs on those leases, the royalty prepayments are included in the cost of mined coal. Royalty prepayments estimated to be nonrecoverable are expensed.

Coal Supply Agreements - The Predecessor purchased the coal operations of MAPCO Inc. effective August 1, 1996, in a business combination using the purchase method of accounting. A portion of the acquisition costs was allocated to coal supply agreements. This allocated cost is being amortized on the basis of coal shipped in relation to total coal to be supplied during the respective contract term. The amortization periods end on various dates from September 2002 to December 2005. Accumulated amortization for coal supply agreements was \$18,584,000 and \$14,401,000 at December 31, 1999 and 1998, respectively.

Reclamation and Mine Closing Costs - Estimates of the cost of future mine reclamation and closing procedures of currently active mines are recorded on a present value basis. Those costs relate to sealing portals at underground mines and to reclaiming the final pit and support acreage at surface mines. Other costs common to both types of mining are related to removing or covering refuse piles and settling ponds and dismantling preparation plants and other facilities and roadway infrastructure. Ongoing reclamation costs principally involve restoration of disturbed land and are expensed as incurred during the mining process.

Workers' Compensation and Pneumoconiosis ("Black Lung") Benefits - The Partnership is self-insured for workers' compensation benefits, including black lung benefits. The Partnership accrues a workers' compensation liability for the estimated present value of current and future workers' compensation benefits based on actuarial valuations.

Income Taxes - No provision for income taxes related to the operations of the Partnership is included in the accompanying consolidated financial statements because, as a Partnership, it is not subject to federal or state income tax and the tax effect of its activities accrues to the unitholders. Net income for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax bases and financial reporting bases of assets and liabilities and the taxable income allocation requirements under the Partnership agreement.

The Predecessor is included in the combined U.S. income tax returns of ARH. The Predecessor has provided for income taxes on its separate taxable income and other tax attributes. Deferred income taxes are computed based on recognition of future tax expense or benefits, measured by enacted tax rates, that are attributable to taxable or

deductible temporary differences between financial statement and income tax reporting bases of assets and liabilities.

Revenue Recognition - Revenues are recognized when coal is shipped from the mine. Revenues not arising from coal sales, which primarily consist of transloading fees, are included in operating revenues and are recognized as services are performed.

Net Income Per Unit - Basic and diluted net income per unit is determined by dividing net income, after deducting the General Partners' 2% interest, by the weighted average number of outstanding Common Units and Subordinated Units (a total of 15,405,311 units as of December 31, 1999).

Segment Reporting - The Partnership has no reportable segments due to its operations consisting solely of producing and marketing coal. The Partnership has disclosed major customer sales information (Note 15) and geographic areas of operation (Note 16).

New Accounting Standards - In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Partnership has not determined the impact on its financial statements that may result from adoption of SFAS 133, which is required no later than January 1, 2001.

Reclassifications - Certain reclassifications have been made to the 1998 and 1997 combined financial statements to conform to the classifications used in 1999.

3. BUSINESS ACQUISITION

Effective January 23, 1998, the Predecessor acquired substantially all of the assets and assumed certain liabilities, excluding working capital, of an unrelated coal company's west Kentucky coal operations, now Hopkins County Coal, LLC, for cash of approximately \$7,310,000 and direct acquisition costs of \$821,000. The acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values of \$25,320,000 and \$17,189,000, respectively. The results of operations are included in the Partnership's consolidated and combined financial statements from the acquisition date and are not considered significant.

4. UNUSUAL ITEM

In response to market conditions, one of the Predecessor's operating mines ceased operations and terminated all of its workforce in September 1998. Management planned to maintain the mine in an indefinite idle status pending improvement in market conditions. Shortly after the mine closure, the management executed a long term coal supply contract for the mine and the mine resumed production in late 1998. During the idle status period, the mine incurred a net loss of approximately \$5,211,000 consisting of estimated amounts for increased workers' compensation claims of \$1,200,000 and severance payments consistent with the federal Worker Adjustment and Returning Notification, or "WARN" Act, of \$1,200,000 as well as the costs associated with maintaining the idled mine of \$2,811,000.

5. INVENTORIES

Inventories consist of the following at December 31, (in thousands):

	<u>Partnership 1999</u>	<u>Predecessor 1998</u>
Coal	\$ 15,180	\$ 14,308
Supplies	<u>5,950</u>	<u>5,747</u>
	<u>\$ 21,130</u>	<u>\$ 20,055</u>

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at December 31, (in thousands):

	<u>Partnership 1999</u>	<u>Predecessor 1998</u>
Mining equipment and processing facilities	\$ 236,252	\$ 214,016
Land and mineral rights	17,282	7,387
Buildings, office equipment and improvements	17,780	16,130
Construction in progress	<u>6,907</u>	<u>2,761</u>
	278,221	240,294
Less accumulated depreciation, depletion and amortization	<u>(102,709)</u>	<u>(69,158)</u>
	<u>\$ 175,512</u>	<u>\$ 171,136</u>

7. LONG-TERM DEBT

Long-term debt consists of the following at December 31, (in thousands):

	<u>Partnership 1999</u>	<u>Predecessor 1998</u>
Senior notes	\$ 180,000	\$ -
Term loan	50,000	-
Promissory note, net of discount of \$764 at December 31, 1998	<u>-</u>	<u>2,037</u>
	230,000	2,037
Less current maturities	<u>-</u>	<u>(350)</u>
	<u>\$ 230,000</u>	<u>\$ 1,687</u>

The Special GP issued and the Intermediate Partnership assumed obligations under a \$180 million principal amount of senior notes pursuant to a Note Purchase Agreement with a group of institutional investors in a private placement offering. The senior notes are payable in ten annual installments of \$18 million beginning in August 2005 and bear interest at 8.31%, payable semi-annually.

The Special GP also entered into and the Intermediate Partnership assumed obligations under a \$100 million credit facility consisting of three tranches, including a \$50 million term loan facility, a \$25 million working capital facility, and a \$25 million revolving credit facility. In connection with the closing of the IPO, the Special GP borrowed \$50 million under the term loan facility and the Special GP and Intermediate Partnership purchased \$50 million of U.S. Treasury Notes, which secure the term loan. The U.S. Treasury Notes may be liquidated for the sole purpose of funding capital expenditures. As of December 31, 1999, the Partnership had liquidated approximately \$8.4 million of U.S. Treasury Notes to fund various qualifying capital expenditures.

The working capital facility can be used to provide working capital and, if necessary, to fund distributions to unitholders. The revolving credit facility can be used for general business purposes, including capital expenditures and acquisitions. The rate of interest charged is adjusted quarterly based on a pricing grid which is a function of the ratio of the Partnership's debt to cash flow. The credit facility provides the Partnership the option of borrowing at either (1) the London Interbank Offered Rate ("LIBOR") or (2) the "Base Rate" which is equal to the greater of (a) the Chase Prime Rate, or (b) the Federal Funds Rate plus 1/2 of 1%, plus, in either option, an applicable margin. The weighted average interest rate on the term loan facility at December 31, 1999 was 7.07%. In accordance with the pricing grid, a commitment fee ranging from 0.375% to 0.500% per annum is paid quarterly on the unused portion of the working capital and revolving credit facilities. There were no amounts outstanding under the Partnership's working capital facility or revolving credit facility as of December 31, 1999. The credit facility expires August 2004.

The senior notes and credit facility are secured by a pledge of the stock of all the subsidiaries of Alliance Coal. The senior notes and credit facility contains various restrictive and affirmative covenants, including the amount of distributions by the Intermediate Partnership and the incurrence of other debt. The Partnership was in compliance with the covenants of both the credit facility and senior notes at December 31, 1999.

The Partnership incurred debt issuance costs aggregating approximately \$3,517,000, which have been deferred and are being amortized as a component of interest expense over the term of the notes.

Aggregate maturities of long-term debt are as follows (in thousands):

Year Ending	
December 31,	
2000	\$ -
2001	3,750
2002	15,000
2003	16,250
2004	15,000
Thereafter	<u>180,000</u>
	<u>\$ 230,000</u>

8. DISTRIBUTIONS OF AVAILABLE CASH

The Partnership will distribute 100% of its available cash within 45 days after the end of each quarter to unitholders of record and to the General Partners. Available cash is generally defined as all cash and cash equivalents of the Partnership on hand at the end of each quarter less reserves established by the Managing GP in its reasonable discretion for future cash requirements. These reserves are retained to provide for the proper conduct of the Partnership's business, the payment of debt principal and interest and to provide funds for future distributions.

Distributions of available cash to the holder of Subordinated Units are subject to the prior rights of holders of Common Units to receive the minimum quarterly distribution ("MQD") for each quarter during the subordination period and to receive any arrearages in the distribution of the MQD on the Common Units for the prior quarters during the subordination period. The MQD is \$0.50 per unit (\$2.00 per unit on an annual basis). Upon expiration of the subordination period, which will generally not occur before September 30, 2004, all Subordinated Units will be converted on a one-for-one basis into Common Units and will then participate, on a pro rata basis with all other Common Units in future distributions of available cash. However, under certain circumstances, up to 50% of the Subordinated Units may convert into Common Units on or after September 30, 2003. Common Units will not accrue arrearages with respect to distributions for any quarter after the subordination period and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

If quarterly distributions of available cash exceed the MQD or the target distributions levels, the General Partners will receive distributions based on specified increasing percentages of the available cash that exceeds the MQD or target distribution level. The target distribution levels are based on the amounts of available cash from the Partnership's operating surplus distributed for a given quarter that exceed distributions for the MQD and common unit arrearages, if any.

For the 42-day period from the Partnership's commencement of operations (on August 20, 1999) through September 30, 1999, the Partnership paid a pro-rata MQD distribution of \$0.23 per unit on its outstanding Common and Subordinated Units amounting to approximately \$3,543,000. On January 26, 2000, the Partnership declared a MQD, for the period from October 1, 1999 to December 31, 1999, of \$0.50 per unit on its outstanding Common and Subordinated Units totaling approximately \$7,703,000.

9. INCOME TAXES

The Predecessor recognized a deferred tax asset for the future tax benefits attributable to deductible temporary differences and other credit carryforwards to the extent that realization of such benefits was more likely than not. Realization of these future tax benefits was dependent on the Predecessor's ability to generate future taxable income, which was not assured. Management for the Predecessor believed that future taxable income would be sufficient to recognize only a portion of the tax benefits and had established a valuation allowance.

Due to the Predecessor's inclusion in ARH's consolidated U.S. income tax returns, ARH allocated alternative minimum tax to the Predecessor. The Predecessor had alternative minimum tax credit carryforwards of \$2,361,000 at December 31, 1998 that were available for use in ARH's consolidated U.S. income tax returns in future periods. A valuation allowance was established for the total estimated future tax effects of the alternative minimum tax credit carryforwards since utilization on future U.S. income tax returns was not being considered more likely than not.

Concurrent with the closing of the IPO, on August 20, 1999 and in connection with the Contribution Agreement, ARH retained the current and deferred income taxes of the Predecessor.

The tax effects of significant items comprising the Predecessor's net deferred tax liability at December 31, 1998 are as follows (in thousands):

Deferred tax liabilities:	
Differences between book and tax basis of property	\$ 18,489
Differences between book and tax basis of advance royalties	1,238
Other	<u>2,601</u>
Deferred tax liability	<u>22,328</u>
Deferred tax assets:	
Accrued workers' compensation and pneumoconiosis benefits	14,856
Accrued reclamation and mine closing	5,520
Accrued expenses not currently deductible	4,349
Coal supply agreements	5,838
Alternative minimum tax credit carryforwards for future use in ARH tax returns	<u>2,361</u>
	32,924
Valuation allowance	<u>(14,502)</u>
Deferred tax asset	<u>18,422</u>
Net deferred tax liability	<u>\$ 3,906</u>

Income before income taxes is derived from domestic operations. Significant components of income taxes are as follows (in thousands):

	For the period from January 1, 1999 to August 19, 1999	Years Ended December 31,	
		<u>1998</u>	<u>1997</u>
Current:			
Federal	\$3,376	\$ 4,815	\$ 5,184
State	<u>483</u>	<u>801</u>	<u>1,041</u>
	3,859	5,616	6,225
Deferred:			
Federal	595	(1,531)	(1,695)
State	<u>44</u>	<u>(219)</u>	<u>(242)</u>
	<u>639</u>	<u>(1,750)</u>	<u>(1,937)</u>
Income tax expense	<u>\$4,498</u>	<u>\$ 3,866</u>	<u>\$ 4,288</u>

A reconciliation of the statutory U.S. federal income tax rate and the Predecessor's effective income tax rate is as follows:

	For the period from January 1, 1999 to August 19, 1999	Years Ended December 31,	
		1998	1997
Statutory rate	35 %	35 %	35 %
Increase (decrease) resulting from:			
Excess of tax over book depletion	(21)	(29)	(21)
Alternative minimum tax credit carryforwards	3	6	7
State income taxes, net of federal benefit	3	4	4
Valuation allowance	10	14	(3)
Other	<u>1</u>	<u>1</u>	<u>2</u>
Effective income tax rate	<u>31 %</u>	<u>31 %</u>	<u>24 %</u>

10. EMPLOYEE BENEFIT PLANS

Long-Term Incentive Plan - Effective January 1, 2000, the Managing GP adopted a Long-Term Incentive Plan (the "LTIP") for the benefit of providing incentive compensation awards to its employees, non-employee directors, and employees of the Partnership. Annual grant levels for designated participants are recommended by the chief executive officer of the Managing GP, subject to the review and approval of the Compensation Committee. Grants are made either of restricted units, which are "phantom" units that entitle the grantee to receive a Common Unit or an equivalent amount of cash upon the vesting of a phantom unit, or options to purchase Common Units. Common Units to be delivered upon the vesting of restricted units will be acquired by the Managing GP in the open market or directly from ARH or any other third party. The aggregate number of units reserved for issuance under the LTIP is 600,000. Effective January 1, 2000, the Compensation Committee approved initial grants of 142,100 restricted units, which vest on September 30, 2002. The Partnership agreement provides that the Managing GP be reimbursed for all compensation expenses incurred on behalf of the Partnership.

Defined Contribution Plans - The Partnership's employees currently participate in a defined contribution profit sharing and savings plan sponsored by the Partnership, which is the same plan sponsored by the Predecessor. This plan covers substantially all employees. Plan participants may elect to make voluntary contributions to this plan up to a specified amount of their compensation. The Partnership makes contributions based on matching 75% of employee contributions up to 3% of their annual compensation as well as an additional nonmatching contribution of 3/4 of 1% of their compensation. Additionally, the Partnership contributes a defined percentage of eligible earnings for employees not covered by the defined benefit plan described below. The Partnership's expense for its plan was approximately \$715,000 for the period from August 20, 1999 to December 31, 1999. The Predecessor's expense for the plan was \$1,226,000 for the period from January 1, 1999 to August 19, 1999, \$1,944,000 and \$1,542,000 for the years ended December 31, 1998 and 1997, respectively.

Defined Benefit Plans - Certain employees at the mining operations participate in a defined benefit plan sponsored by the Partnership, which is the same plan sponsored by the Predecessor. The benefit formula is a fixed dollar unit based on years of service.

The following sets forth changes in benefit obligations and plan assets for the years ended December 31, 1999 and 1998 and the funded status of the plans reconciled with amounts reported in the Partnership's consolidated and the Predecessor's combined financial statements at December 31, 1999 and 1998, respectively. The Partnership and Predecessor periods for 1999 have been combined. Since the Partnership maintained the historical basis of the Predecessor's net assets, management believes that the combined Partnership and Predecessor amounts for 1999 are comparable with 1998 (dollars in thousands):

	Combined Partnership/Predecessor 1999	Predecessor 1998
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 6,742	\$ 3,501
Service cost	2,107	2,980
Interest cost	452	240
Actuarial (gain) loss	(1,435)	166
Benefits paid	<u>(92)</u>	<u>(145)</u>
Benefit obligation at end of year	<u>\$ 7,774</u>	<u>\$ 6,742</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	2,911	-
Employer contribution	4,736	2,940
Actual return on plan assets	710	116
Benefits paid	<u>(92)</u>	<u>(145)</u>
Fair value of plan assets at end of year	<u>8,265</u>	<u>2,911</u>
Funded status	491	(3,831)
Unrecognized prior service cost	332	380
Unrecognized actuarial (gain) loss	<u>(1,273)</u>	<u>459</u>
Net amount recognized	<u>\$ (450)</u>	<u>\$ (2,992)</u>
Weighted-average assumptions as of December 31:		
Discount rate	7.75 %	6.75 %
Expected return on plan assets	9.00 %	9.00 %
Components of net periodic benefit cost:		
Service cost	\$ 2,107	\$ 2,980
Interest cost	452	240
Expected return on plan assets	(413)	(135)
Prior service cost	<u>48</u>	<u>48</u>
Net periodic benefit cost	<u>\$ 2,194</u>	<u>\$ 3,133</u>
Effect on minimum pension liability	<u>\$ (459)</u>	<u>\$ 186</u>

11. RECLAMATION AND MINE CLOSING COSTS

The majority of the Partnership's operations are governed by various state statutes and the Federal Surface Mining Control and Reclamation Act of 1977, which establish reclamation and mine closing standards. These regulations, among other requirements, require restoration of property in accordance with specified standards and an approved reclamation plan. The Partnership has estimated the costs and timing of future reclamation and mine closing costs and recorded those estimates on a present value basis using a 6% discount rate.

Discounting resulted in reducing the accrual for reclamation and mine closing costs by \$5,489,000 and \$6,738,000 at December 31, 1999 and 1998, respectively. Estimated payments of reclamation and mine closing costs as of December 31, 1999 are as follows (in thousands):

2000	\$ 1,389
2001	699
2002	727
2003	1,141
2004	1,566
Thereafter	<u>14,763</u>
Aggregate undiscounted reclamation and mine closing	20,285
Effect of discounting	<u>5,489</u>
Total reclamation and mine closing costs	14,796
Less current portion	<u>1,389</u>
Reclamation and mine closing costs	<u>\$ 13,407</u>

The following table presents the activity affecting the reclamation and mine closing liability (in thousands):

	<u>Partnership</u>	<u>Predecessor</u>		
	From Commencement of Operations (on August 20, 1999) to <u>December 31, 1999</u>	For the period from January 1, 1999 to August 19, 1999	Year Ended <u>December 31,</u> <u>1998</u> <u>1997</u>	
Beginning balance	\$ 13,856	\$ 13,800	\$ 5,439	\$ 5,313
Accrual	348	457	705	339
Payments	(394)	(401)	(1,544)	(213)
Allocation of liability associated with acquisition	<u>986</u>	<u>-</u>	<u>9,200</u>	<u>-</u>
Ending balance	<u>\$ 14,796</u>	<u>\$ 13,856</u>	<u>\$ 13,800</u>	<u>\$ 5,439</u>

12. PNEUMOCONIOSIS ("BLACK LUNG") BENEFITS

Certain mine operating entities of the Partnership are liable under state statutes and the Federal Coal Mine Health and Safety Act of 1969, as amended, to pay black lung benefits to eligible employees and former employees and their dependents. These subsidiaries provide self-insurance accruals, determined by independent actuaries, at the present value of the actuarially computed present and future liabilities for such benefits. The actuarial studies utilize a 6% discount rate and various assumptions as to the frequency of future claims, inflation, employee turnover and life expectancies.

The cost or reduction of cost due to change in the estimate of black lung benefits charged (credited) to operations for the period from the Partnership's commencement of operations on August 20, 1999 to December 31, 1999 and for the Predecessor period from January 1, 1999 to August 19, 1999, and the years ended December 31, 1998 and 1997 was \$(1,028,000), \$726,000, \$1,139,000, and \$1,252,000, respectively.

13. RELATED PARTY TRANSACTIONS

The Partnership Agreement provides that the Managing GP and its affiliates be reimbursed for all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership including management's salaries and related benefits, accounting, treasury, land administration, environmental and permitting management, disability and workers' compensation management, legal and information technology services. The Managing GP may determine in its sole discretion the expenses that are allocable to the Partnership. Total costs reimbursed to the Managing GP and its affiliates by the Partnership were approximately \$1,283,000 for the period from the Partnership's commencement of operations on August 20, 1999 to December 31, 1999.

ARH allocated certain direct and indirect general and administrative expenses to the Predecessor. These allocations were primarily based on the relative size of the direct mining operating costs incurred by each of the mine locations of the Predecessor. The allocations of general and administrative expenses to the Predecessor were approximately \$2,982,000, \$2,595,000 and \$2,942,000 for the period from January 1, 1999 to August 19, 1999 and for the years ended December 31, 1998 and 1997, respectively. Management is of the opinion that the allocations used are reasonable and appropriate.

During November 1999, the Managing GP was authorized by its Board of Directors to purchase up to 1.0 million Common Units of the Partnership. As of December 31, 1999 the Managing GP had purchased 164,000 Common Units in the open market at prevailing market prices.

14. COMMITMENTS AND CONTINGENCIES

Commitments - The Partnership leases buildings and equipment under operating lease agreements which provide for the payment of both minimum and contingent rentals. Rent expense under all operating leases was \$801,000, \$496,000, \$1,169,000, and \$1,142,000 for the period from the Partnership's commencement of operations on August 20, 1999 to December 31, 1999 and the Predecessor period from January 1, 1999 to August 19, 1999, and the years ended December 31, 1998 and 1997, respectively.

Future minimum payments under operating leases are \$2.9 million in total of which \$452,000 is payable each year in 2000 and 2001, \$408,000 in 2002, \$274,000 in 2003, \$284,000 in 2004 and \$1,063,000 thereafter.

Contractual Commitments - In connection with development of a new mining complex, the Partnership has entered into contractual commitments for mine construction of approximately \$6.8 million at December 31, 1999.

Transloading Facility Dispute - The Partnership is currently involved in litigation with Seminole Electric Cooperative, Inc. ("Seminole") with respect to a long-term contract for the transloading of coal from rail to barge through the Partnership's terminal in Indiana. Seminole has filed a lawsuit to terminate this contract and is

seeking declaratory judgment as to the damages owed to the Partnership. The provisions of the contract stipulate the calculation of damages to be paid in the event of breach. Rather than pay the amount of damages stipulated, Seminole is seeking the court's agreement that the proper damage award should be calculated based on the Partnership's loss of net profits from the terminal for the term of the agreement.

Seminole has ceased transloading any coal shipments through this terminal and is transporting coal deliveries under the supply contract by rail. The Partnership is currently exploring alternative uses for this terminal. The Partnership intends to vigorously defend its contract rights and believes that it will prevail in the determination of the amount of damages Seminole owes under the contract and believes those damages will be in excess of the carrying value of this terminal.

General Litigation - The Partnership is involved in various lawsuits, claims and regulatory proceedings incidental to its business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Partnership's business, combined financial position or results of operations.

15. SIGNIFICANT CUSTOMERS

The Partnership has significant long-term coal supply agreements some of which contain price adjustment provisions designed to reflect changes in market conditions, labor and other production costs and, when the coal is sold other than FOB the mine, changes in railroad and/or barge freight rates. Sales to major customers which exceed ten percent of total net sales are as follows (in thousands):

	<u>Partnership</u>	<u>Predecessor</u>		
	From Commencement of Operations (on August 20, 1999) to <u>December 31, 1999</u>	For the period from January 1, 1999 to <u>August 19, 1999</u>	<u>Years Ended December 31,</u> <u>1998</u> <u>1997</u>	
Customer A	\$26,970	\$40,685	\$56,351	\$40,297
Customer B	20,512	34,686	56,280	50,219
Customer C	16,090	31,315	69,651	57,382

The coal supply agreements with customer A expire at dates between 2000 and 2003. The coal supply agreements with customers B and C expire in 2006 and 2010, respectively.

16. GEOGRAPHIC INFORMATION

Included in the consolidated and combined financial statements are the following revenues and long-lived assets relating to geographic locations (in thousands):

	<u>Partnership</u>	<u>Predecessor</u>		
	From Commencement of Operations (on August 20, 1999) to December 31, 1999	For the period from January 1, 1999 to August 19, 1999	Years Ended December 31,	
			1998	1997
Revenues:				
United States	\$ 129,218	\$ 211,740	\$ 330,312	\$ 267,096
Other foreign countries	-	5,870	31,581	46,724
	<u>\$ 129,218</u>	<u>\$ 217,610</u>	<u>\$ 361,893</u>	<u>\$ 313,820</u>
Long-lived assets:				
United States	\$ 203,697	\$ 200,057	\$ 204,078	\$ 193,085
Other foreign countries	-	-	-	-
	<u>\$ 203,697</u>	<u>\$ 200,057</u>	<u>\$ 204,078</u>	<u>\$ 193,085</u>

17. SUPPLEMENTAL CASH FLOW INFORMATION

The Partnership's and Predecessor's supplemental disclosure of cash flow information and other non-cash investing and financing activities were as follows (in thousands):

	<u>Partnership</u>	<u>Predecessor</u>		
	From Commencement of Operations (on August 20, 1999) to December 31, 1999	For the period from January 1, 1999 to August 19, 1999	Years Ended December 31,	
			1998	1997
Cash paid for:				
Interest	\$ 1,173	\$ -	\$ -	\$ -
Income taxes paid through Parent (Note 9)	-	3,504	3,135	9,764
Non-cash investing and financing activities:				
Debt transferred from Special GP	230,000	-	-	-
Marketable securities transferred from Special GP	15,486	-	-	-
Issuance of promissory note for acquisition of minerals and other assets	-	-	-	2,186

18. NET PARENT INVESTMENT

The Net Parent Investment in the Predecessor is comprised of the following for the period from January 1, 1999 through August 19, 1999 and the years ended December 31, 1998 and 1997 (in thousands):

Predecessor balance, January 1, 1997	\$ 176,213
Net income	13,717
Dividends to Parent	(13,795)
Return of capital to Parent	(17,043)
Other	<u>(273)</u>
Predecessor balance, December 31, 1997	158,819
Net income	8,668
Dividends to Parent	(8,642)
Return of capital to Parent	(5,890)
Other	<u>(186)</u>
Predecessor balance, December 31, 1998	152,769
Net income	10,205
Return of capital to Parent	<u>(11,359)</u>
Predecessor balance, August 19, 1999	<u>\$ 151,615</u>

19. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

On August 20, 1999, the Partnership completed its IPO in which the Partnership became the successor to the business of the Predecessor. Accordingly, no recognition has been given to income taxes in the financial statements of the Partnership as income taxes will be borne by the partners and not the Partnership. Additionally, interest expense associated with the debt incurred concurrent with the closing of the IPO is applicable only to the Partnership period. Accordingly, the quarterly operating results prior to August 20, 1999 are not necessarily comparable to subsequent periods.

A summary of the quarterly operating results for the Partnership and Predecessor is as follows (in thousands, except unit and per unit data):

	Predecessor			Partnership	
	Quarter Ended		July 1, 1999 to August 19, 1999	From Commencement of Operations (on August 20, 1999) to September 30, 1999	Quarter Ended December 31, 1999
	March 31, 1999	June 30, 1999			
Revenues	\$ 83,062	\$ 86,745	\$ 47,803	\$ 44,052	\$ 85,166
Operating income	4,273	6,995	3,004	5,019	6,499
Net income	2,969	4,934	2,302	3,509	2,763
Basic and diluted net income per unit	-	-	-	\$ 0.22	\$ 0.18
Weighted average number of units outstanding	-	-	-	15,405,311	15,405,311

	Predecessor Quarter Ended			
	March 31, 1998	June 30, 1998	September 30, 1998 (1)	December 31, 1998 (1)
Revenues	\$ 88,322	\$ 90,969	\$ 98,428	\$ 84,174
Operating income	4,750	929	2,484	4,653
Net income	3,324	672	1,611	3,061

(1) In response to market conditions, the Pontiki mine ceased operation and terminated substantially all of its workforce in September 1998. During the idle status period, which ended in late 1998, Pontiki incurred a net loss of approximately \$5.2 million, \$3.8 million was recorded in the quarter ended September 30, 1998 and \$1.4 million was recorded in the quarter ended December 31, 1998 (Note 4).

Operating income in the above table represents income from operations before interest expense.

20. SUBSEQUENT EVENTS

On March 17, 2000, the Special GP exercised two separate options and paid approximately \$2.0 million, for the rights to acquire substantial tracts of coal reserves in western Kentucky. Upon completion of the acquisition, the Special GP may elect to either lease or assign the coal reserves to the Partnership in return for payment of all amounts the Special GP expends in connection with the coal reserve acquisition. The closing is anticipated to occur during the third quarter of 2000, however, the Special GP can make no assurances that it will be able to consummate the transaction.

On March 23, 2000, the Partnership entered into an arrangement with the Special GP for construction of a coal preparation plant and ancillary facilities (collectively the "coal preparation plant") at a new mining complex currently under development. Under the terms of the arrangement, the Special GP is constructing the coal preparation plant at an anticipated cost of approximately \$23.1 million and has the option to sell or lease the coal preparation plant to the Partnership when construction is completed. At December 31, 1999, the Partnership has incurred and capitalized costs of approximately \$300,000 related to site preparation for the coal preparation plant at the mining complex.

* * *

The Annual Report on Form 10-K for 1999 is filed with the Securities and Exchange Commission and may be obtained, excluding exhibits, in a reasonable time without charge upon written request to: Investor Relations, Alliance Resource Partners, L.P., P.O. Box 22027, Tulsa, OK 74121.

Unitholder Information

Publicly-Traded Units

Alliance Resource Partners, L.P. is a publicly-traded master limited partnership.

Alliance Resource Partners, L.P. common units began trading on the Nasdaq National Market under the symbol ARLP in August of 1999. As of December 31, 1999, there were 15,405,311 common and subordinated units outstanding.

Cash Distributions

Alliance Resource Partners, L.P. expects to make Minimum Quarterly Distributions of \$0.50 per common unit within 45 days after the end of each March, June, September and December to unitholders of record on the applicable record dates.

Partnership Tax Details

- Unitholders are partners in the Partnership and receive cash distributions. The cash distributions are generally not taxable as long as the partner's tax basis remains above zero.
- A partnership is generally not subject to federal or state income tax. The annual income, gains, losses, deductions, or credits of the Partnership flow through to the unitholders, who are required to report their allocated share of these amounts on their individual tax returns, as though the unitholder had incurred these items directly.

- Unitholders of record will receive Schedule K-1 packages that summarize their allocated share of the Partnership's reportable tax items for the fiscal year. It is important to note that cash distributions received should not be reported as taxable income. Only the amounts provided on the Schedule K-1 should be entered on each unitholder's 1999 tax return.

- Should you have questions regarding the Schedule K-1 contact:

Alliance Resource Partners, L.P.
K-1 Support
P.O. Box 480927
Denver, CO 80248
1-800-485-6875

Transfer Agent and Registrar

Unitholder requests regarding transfer of units, lost certificates, lost distribution checks or changes of address should be directed to:

American Stock Transfer and Trust Company
Attn: Shareholder Services
40 Wall Street
New York, NY 10005
(800) 937-5449

Additional Investor Information

Additional information about Alliance Resource Partners, L.P. can be obtained by contacting Investor Relations by e-mail at fredric@arlp.com, telephone at (918) 295-7642, or writing to the Partnership's Mailing Address provided below.

Partnership Offices

Alliance Resource Partners, L.P.
1717 South Boulder Avenue
Tulsa, OK 74119
(918) 295-7600

Partnership Mailing Address

P.O. Box 22027
Tulsa, OK 74121-2027

Independent Auditors

Deloitte & Touche LLP
Two Warren Place
6120 South Yale, Suite 1700
Tulsa, OK 74136

Officers and Directors

Joseph W. Craft III
President, Chief Executive Officer and Director

Thomas L. Pearson
Senior Vice President – Law and Administration, General Counsel and Secretary

Michael L. Greenwood
Senior Vice President – Chief Financial Officer and Treasurer

Charles R. Wesley
Senior Vice President – Operations

Gary J. Rathburn
Senior Vice President – Marketing

John J. MacWilliams
Director

Preston R. Miller, Jr.
Director

John P. Neafsey
Director

John H. Robinson
Director

Paul R. Tregurtha
Director



**ALLIANCE RESOURCE
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Alliance Resource Partners, L.P.
common units
are traded on the Nasdaq National Market

Ticker Symbol: ARLP

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