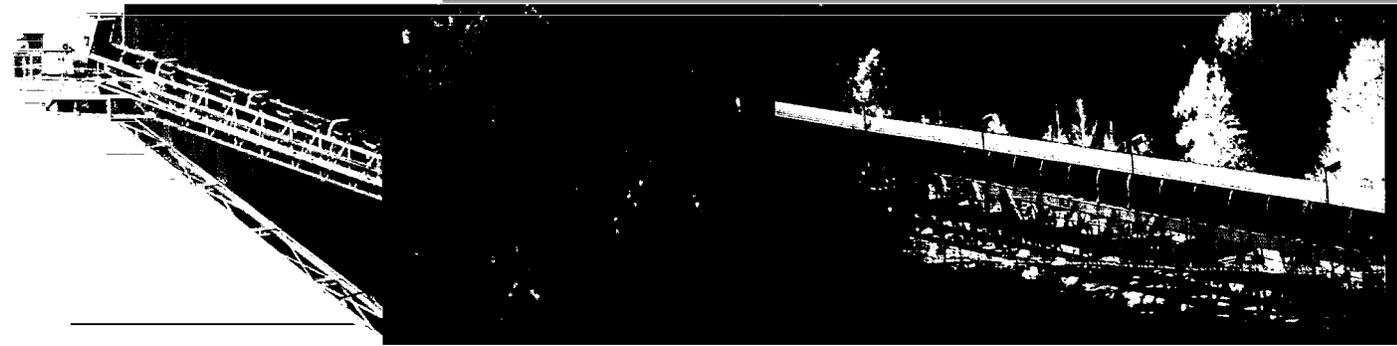




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**Penn Virginia
Resource
Partners, L.P.**

2003 Annual Report

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Partnership Profile

Penn Virginia Resource Partners, L.P. (NYSE:PVR) is a master limited partnership formed by Penn Virginia Corporation (NYSE:PVA) to manage coal properties and related assets. PVR also provides fee-based coal preparation and transportation facilities to some of its lessees to enhance their production levels and to generate additional coal services revenues. In addition to the coal business, PVR generates revenues from the sale of timber growing on its properties.

For more information about PVR, visit the Partnership's website at www.pvresource.com

Highlights

in thousands, except per unit information

Financial Data⁽¹⁾

	2003	2002	2001
Revenues	\$ 55,642	\$ 38,608	\$ 37,513
Operating income	26,560	24,427	25,158
Net income	22,690	24,686	16,099
Cash flow from operations	41,077	30,342	21,595
Distributable cash flow ⁽²⁾	41,488	30,712	21,967
Total assets	259,892	266,575	162,638
Net debt ⁽³⁾	91,786	90,887	—
Partners' capital	153,800	162,532	114,507

Per Limited Partner Unit Data⁽⁴⁾

	2003	2002	2001
Net income ⁽⁵⁾	\$ 1.24	\$ 1.57	\$ 0.24
Cash distributions declared	2.08	2.00	0.34
Weighted average number of limited partner units outstanding	17,941	15,387	15,300

Operating Data

	2003	2002	2001
Coal produced by lessees (millions of tons)	26.5	14.3	15.3
Coal royalties (\$/ton)	\$ 1.90	\$ 2.20	\$ 2.11
Estimated coal reserves (millions of recoverable tons)	588	615	493

⁽¹⁾ 2002 financial data represent total Partnership results for the period from inception (October 30, 2002) through December 31, 2002, and the results of our predecessor from January 1, 2002 through October 29, 2002.

⁽²⁾ Distributable cash flow is calculated as follows:

	2003	2002	2001
Cash flow from operations	\$41,077	\$30,342	\$21,595
Proceeds from note receivable	530	439	439
Maintenance capital	(119)	(69)	(67)
	\$41,488	\$30,712	\$21,967

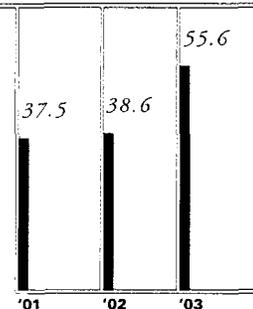
⁽³⁾ 2001 debt of \$43.4 million has been offset by the same amount of short-term investments carried as security for the debt.

⁽⁴⁾ 2001 per unit information represents results from inception (October 30, 2001) through December 31, 2001.

⁽⁵⁾ Per unit amount is computed after general partner's share.

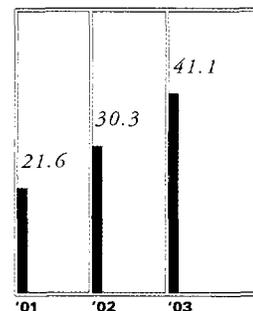
Revenue

Dollars in millions



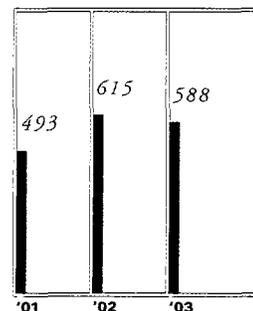
Cash Flow from Operations

Dollars in millions



Coal Reserves

Millions of recoverable tons



Strategic Concepts

- Focus first on eastern coal*
- Seek coal infrastructure assets not dependent on a single operation*
- Seek geographic diversity in coal*
- Look for natural gas infrastructure synergies*
- Maintain financial flexibility*

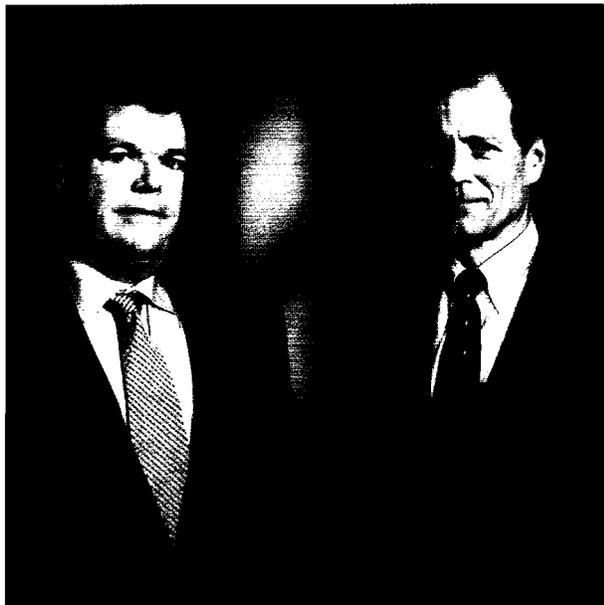
2004 Goals

- Increase distributions to unit holders*
- Complete an accretive coal acquisition*
- Complete an accretive infrastructure acquisition*
- Maintain the highest standards of integrity and fairness for all stakeholders*

Unit Holder Letter

Keith D. Horton
President and
Chief Operating Officer

A. James Dearlove
Chairman and
Chief Executive Officer



Dear Fellow Unit Holders:

Penn Virginia Resource Partners, L.P. (PVR) enjoyed significant year over year increases in revenue, tonnage produced from its properties and cash flow from operations. The year-end market price of the Partnership units was \$34.28, a 66 percent increase over the December 31, 2002 closing price. Distributions to unit holders increased four percent to \$0.52 per quarter effective with the first quarterly distribution in 2003.

PVR's 2002 Annual Report listed a series of goals and objectives for 2003 and the longer term. As a way to summarize the year, each of the goals is reviewed below.

Manage the Partnership to steadily increase unit holder distributions and create appreciation in unit value.

PVR's increased unit price and ability to increase distributions resulted from several factors. Revenues were up 44 percent to \$55.6 million in 2003 from \$38.6 million in 2002, and coal production from Partnership properties was up 85 percent to 26.5 million tons from 14.3 million tons. A key statistic for any master limited partnership (MLP) is distributable cash flow, which is a measure of the cash available for distribution to unit holders. PVR's distributable cash flow increased 35 percent to \$41.5 million in 2003 from \$30.7 million in 2002 while the weighted average number of equivalent limited partner units outstanding increased 17 percent to 18.3 million units from 15.7 million units.

The primary driver for the significant increases in revenues and tons mined was the December 2002 sale/leaseback transaction between PVR and Peabody Energy Corporation (NYSE: BTU). Other

contributing factors included a stronger coal market and improved operations by several of PVR's lessees. Coal prices were especially strong in central Appalachia where most of PVR's price-sensitive royalties are generated.

PVR was successful at putting in place a high quality, financially sound operator to mine its idled West Coal River property (formerly known as Fork Creek). The new operator started mining in July 2003 and is expected to gradually increase production over the next eighteen months. The West Coal River operation provides PVR with royalties and additional fees from the new operator's use of the on-site coal processing plant and high-speed coal loading facilities which the Partnership owns. Early in 2004, construction of another high-speed railcar loading facility on PVR's Coal River property was completed and put into service. This facility will be leased to various PVR lessees and is expected to generate additional revenues.

Grow the asset base to include geographic diversification and fee based assets.

The December 2002 transaction with Peabody Energy provided diversification of PVR's asset base outside of central Appalachia. Approximately eight percent of the Partnership's coal reserves are now in northern Appalachia and approximately 13 percent are now in New Mexico. As discussed above, a new PVR-owned coal processing and railcar loading facility began operating on the West Coal River property during 2003, resulting in a modest increase in coal services revenue from \$1.7 million in 2002 to \$2.1 million in 2003. A larger increase is expected in 2004 with completion of the new loading facility on the Coal River property. More important than the fees they generate, these facilities increase the competitiveness of PVR coal by lowering handling costs.

Another development during 2003 was the decision to consider oil and gas midstream assets for acquisition by PVR. These fee-based assets are ideal for an MLP structure, where cash flow stability is critical. PVR's relationship with Penn Virginia Corporation (NYSE: PVA) may provide an opportunity for the "drop-down" of those types of assets from PVA to PVR.

Exploit the new alliance with Peabody Energy to the benefit of both companies.

The transaction with Peabody Energy in December 2002 has resulted in increased revenues, tonnage mined and cash flow for PVR during 2003. At the time the transaction was completed, the hope was for additional properties to be sourced by Peabody to PVR. During 2003, a number of potential acquisition opportunities with Peabody were evaluated; however, the companies were unable to complete a transaction. In December 2003 and January 2004, Peabody sold to the public 1.15 million of the 2.76 million PVR units it owned, reducing its percentage ownership in PVR from

In 2004 and beyond, the Partnership will focus on a number of strategic concepts to facilitate growth in value.

14.9 percent to 8.9 percent. Peabody's decision to sell some of its PVR units was driven by a desire to re-deploy funds into other investments. PVR and Peabody will continue to pursue mutually accretive transactions in the future.

Maintain the highest standards of integrity and fairness for all stakeholders.

Throughout their respective histories, PVR and its general partner, Penn Virginia Corporation, have adhered to the highest standards of business conduct. These standards will continue to be met. As evidence of this and as required by the Sarbanes-Oxley Act of 2002, the Partnership's website now includes charters for its Governance Principles, Audit Committee Charter, Financial Officers' Code of Ethics and Code of Business Conduct. In addition, PVR's Board of Directors includes a trio of strong, experienced independent directors.

Strategy

In 2001, the decision to form PVR was based in part on the premise that the Partnership structure would allow the market to directly value Penn Virginia Corporation's coal royalty and land management business and would also enhance the growth capability of that business. Having the ability to use MLP units as a currency has resulted in increased growth opportunities as shown by the Peabody transaction. In 2004 and beyond, the Partnership will focus on a number of strategic concepts to facilitate growth in value.

The first strategic concept is to **focus primarily on eastern coal**, in other words start with what PVR knows best. PVR's roots are in central Appalachia coal and the Partnership continues to seek out and evaluate opportunities in the region. Completing accretive coal acquisitions is difficult in central Appalachia where much of the reserve base is held by either very large public entities or fairly small private landowners who generally have a low tax basis in their assets and are therefore not inclined to sell them. The dramatic improvement in coal prices has made it even more of a challenge to find accretive deals. However, at this writing, several central Appalachia ideas are being evaluated and bids on certain assets have been made.

The second strategic concept is to **seek coal infrastructure assets not dependent on a single operation**. This concept emphasizes acquiring coal handling facilities serving multiple operators or end users. Not only does such a facility spread the risks of any one operator having financial difficulty, it generally will have a longer life than a single block of coal reserves.

The third strategic concept is to **seek geographic diversity in coal**. Not only does geographic diversity broaden the playing field when looking for assets, it recognizes that over time coal market patterns shift due to changes in environmental laws and other supply and demand relationships. The Upshur and Peabody transactions provide PVR with a window on northern Appalachia, which is very

different from central Appalachia in terms of markets. The Peabody transaction also exposed PVR to New Mexico and western coal markets. During 2003, the Partnership spent considerable time and effort to evaluate various Midwestern coal opportunities.

The fourth strategic concept is to **look for natural gas infrastructure synergies**. PVR knows coal; Penn Virginia Corporation (PVA), PVR's general partner, knows natural gas. PVA's expanding operations in Appalachia (particularly its coal bed methane gas development program), the Gulf Coast and other regions expose the Company to a number of midstream oil and gas opportunities. These infrastructure assets, usually gathering systems, fit very well into MLPs. The most successful MLPs, in terms of growth, are midstream oil and gas businesses. PVA's expertise and the compatibility between natural gas infrastructure assets and MLPs may provide PVR another way to add value and thus be more competitive in seeking acquisitions.

The fifth strategic concept is to **maintain financial flexibility**. MLPs in general and PVR in particular have fared well in the stock market. PVR's units are a valuable and powerful currency. However, the preferred financing mode is almost always debt. During 2003, PVR completed a private placement of \$90 million of senior notes to replace bank debt used in the Peabody and Upshur transactions. Also during 2003, PVR filed a registration statement with the Securities and Exchange Commission for a \$300 million universal shelf. The "shelf" allows PVR to move quickly to issue new debt or equity.

The year 2003 ended and 2004 has begun with an improving economy and strong coal markets. PVR made some important tactical moves in 2003 and ended the year in a strong financial position, poised to grow in 2004. The Board of Directors and the management appreciate your investment in Penn Virginia Resource Partners.



Keith D. Horton
President and
Chief Operating Officer



A. James Dearlove
Chairman and
Chief Executive Officer

Overview of Operations

PVR owns or controls an estimated 588 million tons of coal reserves including approximately 466 million tons or 79 percent in central Appalachia, 73 million tons or 13 percent in New Mexico and 49 million tons or 8 percent in northern Appalachia. Coal-related infrastructure assets owned by PVR include coal loading facilities on its Wise and Coal River properties, a preparation plant and loading facility on its West Coal River property, a coal loading dock in West Virginia and various modular preparation plants. The Partnership also owns approximately 240,000 acres of surface, including 114,500 acres of timberland containing approximately 166 million board feet of timber.

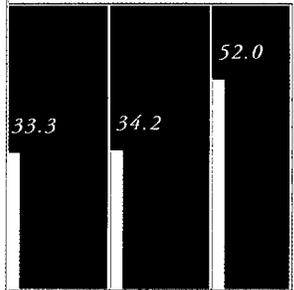
Primarily due to the late 2002 acquisition of 120 million tons of coal from Peabody Energy, 2003 coal royalty and minimum rental revenues increased 52 percent to \$52.0 million from \$34.2 million in 2002, driven by an 85 percent increase in coal production from PVR properties to 26.5 million tons in 2003 from 14.3 million tons in 2002. Production from the Peabody acquisition-related properties contributed 10.6 million tons in 2003, including 6.3 million tons in New Mexico and 4.3 million tons in northern Appalachia. Royalty revenue related to the Peabody acquisition is based on a fixed royalty rate for each property, which increases annually; the average rate received for both properties during 2003 was \$1.33 per ton. Excluding acquisitions, production in West Virginia increased 26 percent due to the start up of new mining operations on PVR's Coal River property, and from additional sub-leased operations on which PVR receives a relatively smaller margin per ton of coal mined. Tonnage mined from PVR's Virginia properties was up approximately three percent from 2002 to 2003.

Coal prices, especially in central Appalachia where the majority of PVR's production is located, have increased significantly since the beginning of 2003. The price increase stems from several causes including increased electricity demand, decreasing stockpiles and production discipline by major coal producers.

In May 2003, PVR agreed to a new lease on its West Coal River property (formerly known as Fork Creek) with an established operator, who has over 25 years of experience as a successful miner in Appalachia. Production from the property commenced in July 2003 and is expected to increase over the next 18 to 24 months.

Coal Royalty Revenue*

Dollars in millions

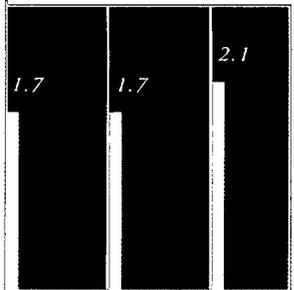


2001 2002 2003

*Includes minimum rental income

Coal Services Revenue

Dollars in millions



2001 2002 2003

Having the ability to use MLP units as a currency has resulted in increased growth opportunities, as shown by the Peabody transaction.





The year 2003 ended and 2004 has begun with an improving economy and strong coal markets. PVR made some important tactical moves in 2003 and ended the year in a strong financial position, poised to grow in 2004.



As part of the arrangement on West Coal River, PVR also collects fees and railroad rebates related to its ownership of the coal preparation plant and coal loading facility on the property. In addition to several smaller, modular coal preparation plants, the West Coal River facility is resulting in additional coal services revenue, supplementing revenues from the Shober loading facility in Virginia. PVR also expended approximately \$4.0 million to construct a third large-scale coal loading facility on its Coal River property, which began operating in February 2004. Coal services revenue increased to \$2.1 million in 2003 from \$1.7 million in 2002, and is expected to increase further in 2004. PVR believes that these types of fee-based infrastructure assets provide exceptional investment and cash flow opportunities to the Partnership and it continues to look for additional investments of this type and in other qualified, primarily fee-based assets, including oil and gas midstream assets.

As part of its coal land management business, PVR owns approximately 166 million board feet of standing timber. The Partnership typically sells cutting rights to various contractors who usually cut in advance of a mining project. Timber revenues in 2003 were \$1.0 million, down from \$1.6 million in 2002, as PVR sold only the timber necessary to accommodate its lessees' mining operations.

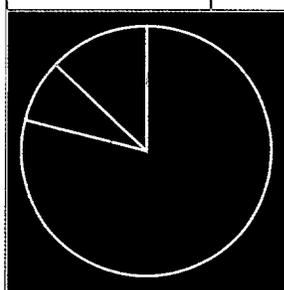
Capital Resources

To take advantage of the favorable interest rate environment, in March 2003, PVR refinanced \$90 million of credit facility debt as senior unsecured notes payable with a final maturity of ten years and an interest rate of 5.77 percent. An interest rate swap was used to convert one third of the original face amount of the notes to a floating interest rate based on the London Interbank Offering Rate plus 2.36 percent. During 2003, PVR paid only interest on the notes, and the first principal payment in the amount of \$1.5 million is due in 2004. In November 2003, PVR also amended its revolving credit facility, extending the maturity date of the facility from September 2004 to October 2006 and increasing the size of the facility from \$50 million to \$100 million, with availability subject to financial covenants. The Partnership also filed a registration statement with the Securities and Exchange Commission for a \$300 million "universal shelf", which would facilitate funding of an acquisition with either debt or new units.

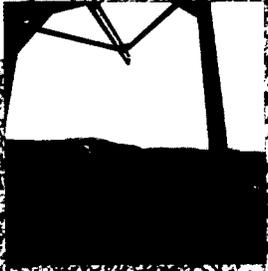
PVR is committed to working with lessees who operate in an environmentally responsible manner. As evidence of that commitment, a contractor on our Buchanan property in Virginia received an award from the Interstate Mining Compact Commission for the best surface mining operation in the nation.

Year End 2003 Coal Reserves

Percentage of
588 million tons



- Central Appalachia 79%
- Northern Appalachia 8%
- New Mexico 13%



Coal Statistics and Operating Regions



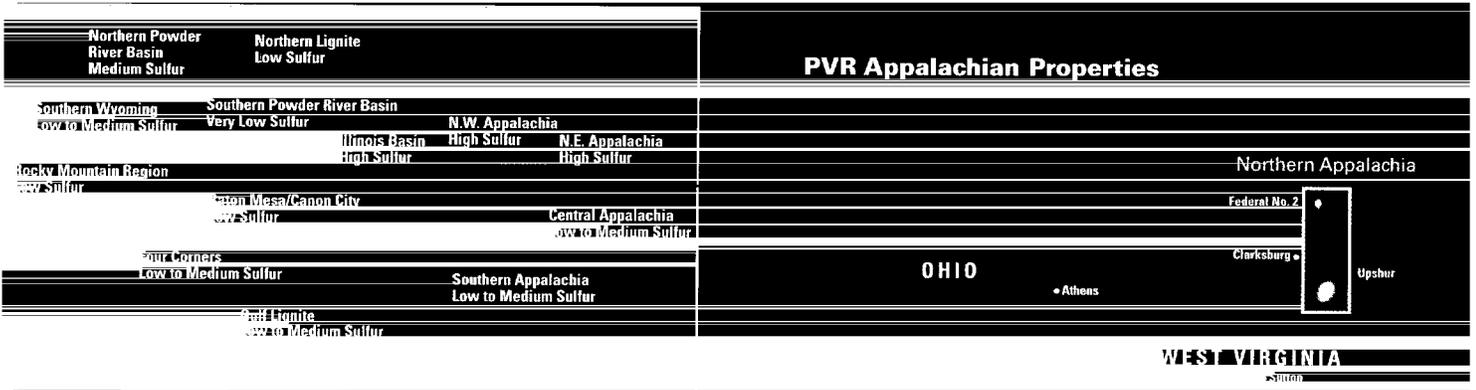
Coal's significant cost advantage over other fuel sources has made it the fossil fuel of choice for electricity generation in the United States, a relationship that is expected to continue well into the future.

Cost of fuel per mmBtu

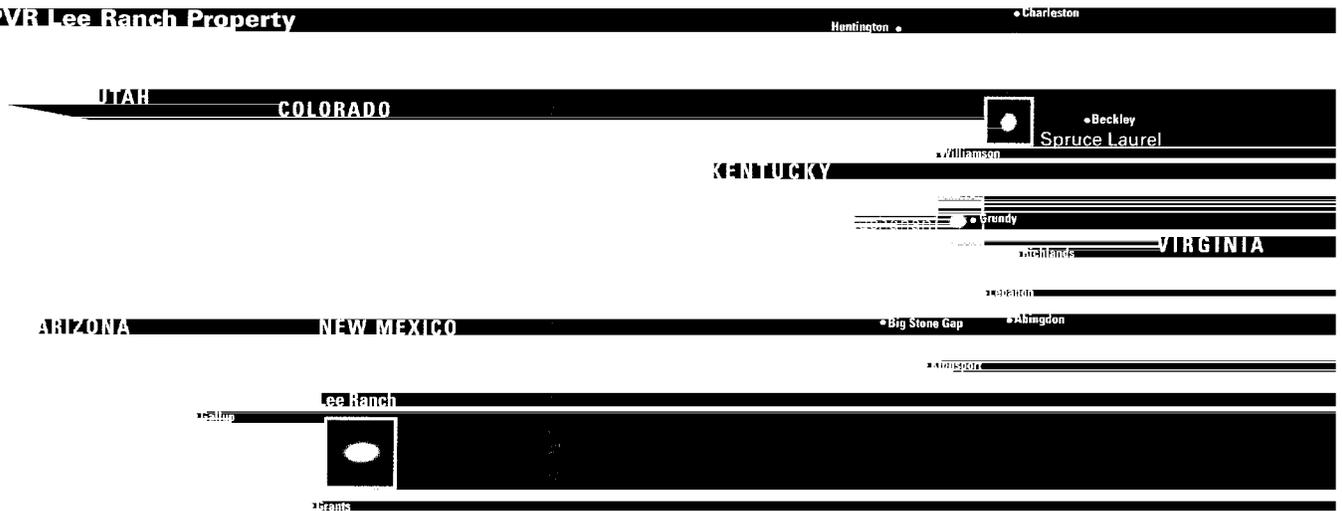
Fuel Type	2001	2002	2003 ⁽¹⁾
Coal	\$1.23	\$1.25	\$1.27
Oil	\$3.69	\$3.34	\$4.46
Natural Gas	\$4.49	\$3.56	\$5.47

⁽¹⁾ For the period from January through October 2003.

U.S. Coal Supply Regions



PVR Lee Ranch Property



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

Commission file number: 1-16735

Penn Virginia Resource Partners, L.P.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

23-3087517
(I.R.S. Employer
Identification Number)

**Three Radnor Corporate Center, Suite 230
100 Matsonford Road
Radnor, Pennsylvania 19087
(610) 687-8900**

(Address, Including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:
Common Units

Name of exchange on which registered:
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of 8,671,213 common units held by non-affiliates of the registrant at February 26, 2004 was \$297,422,606, based on the closing price of \$34.30 per unit.

As of February 26, 2004, 10,425,988 common units and 7,649,880 subordinated units were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None

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Part I

Item 1. *Business*

General

Penn Virginia Resource Partners, L.P. ("the Partnership") is a Delaware limited partnership formed by Penn Virginia Corporation ("Penn Virginia") in July 2001 to primarily engage in the business of managing coal properties in the United States. We enter into long-term leases with experienced, third-party mine operators for the right to mine our coal reserves in exchange for royalty payments. As of December 31, 2003, our properties contained approximately 588 million tons of proven and probable coal reserves located on 241,000 acres in Virginia, West Virginia, New Mexico and eastern Kentucky. In 2003, our lessees produced 26.5 million tons of coal from our properties and paid us coal royalty revenues of \$50.3 million. As of December 31, 2003, we leased an aggregate of approximately 90% of our reserves under 53 leases to 29 different operators who mine coal at 54 mines. We do not operate any mines. Approximately 72% of our 2003 coal royalty revenues and 99% of our 2002 coal royalty revenues were based on the higher of a percentage of the gross sales price or a fixed price per ton of coal they sell, with pre-established minimum monthly or annual rental payments. The balance of our 2003 and 2002 coal royalty revenues was derived from fixed royalty rate leases, which escalate annually, with pre-established minimum monthly payments (see "The Peabody Acquisition" below).

In managing our properties, we actively work with our lessees to develop efficient methods to exploit our reserves and to maximize production from our properties. Additionally, we provide fee-based coal preparation and transportation facilities to some of our lessees to enhance their production levels and to generate additional coal services revenues.

We also earn revenues from the sale of standing timber on our properties. As of December 31, 2003, we owned approximately 114,500 surface acres of timberland containing approximately 166 million board feet of inventory. The timber revenues we receive are dependent on harvest levels and the species and quality of timber harvested. Our harvest levels in any given year will depend upon a number of factors, including anticipated mining activity, timber maturation and market conditions. Any timber, which would otherwise be removed due to lessee mining operations, is harvested in advance to prevent loss of the resource. In 2003, we sold 5.3 million board feet of timber.

In 2003, 94.4% of our revenues were attributable to our coal and land leasing operations, 3.8% of our revenues were attributable to our coal services operations and 1.8% of our revenues were attributable to our timber operations.

Acquisitions and Investments in Coal Facilities

Bull Creek Loadout Facility

In January 2004, we completed the construction of a new coal loadout facility for one of our lessees on our Coal River property in West Virginia. The \$4.0 million loadout facility is designed for the high-speed loading of 150-car unit trains and became operational in January 2004. We expect this facility to generate additional revenues of approximately \$0.7 million in 2004, in addition to increasing coal production from this lessee.

The Peabody Acquisition

In December 2002, we acquired two properties from Peabody Energy Corporation ("Peabody"). Central to the transaction was the purchase and leaseback of approximately 120 million tons of proven and probable coal reserves (the "Reserves") located in New Mexico (80 million tons) and West Virginia (40 million tons) (the "Peabody Acquisition"). The transaction was an acquisition of assets, in which the Partnership did not acquire from Peabody, or its affiliates, any physical facilities, mining equipment, employees, market distribution system,

sales force or customer base associated with the assets acquired. As a result of the Peabody Acquisition, our total proven and probable reserves increased by approximately 25% as of December 2002 and our royalty revenues increased by 45% in 2003 over 2002. All of the Reserves were leased back to subsidiaries of Peabody by the Partnership under leases containing the terms described below under "Coal Leases."

Approximately two-thirds, or 80 million tons, of the Reserves consist of predominantly low sulfur, low BTU coal located in New Mexico (the "Lee Ranch Reserves") and are being mined by an affiliate of Peabody at the Lee Ranch mine by a combination of the dragline and truck-and-shovel surface mining methods. For a description of the dragline and truck-and-shovel mining methods, see "Item 2. Properties—Coal Reserves and Production." The Lee Ranch Reserves are trucked from the mine to a loading facility which blends and loads the coal via conveyor belts into railcars for delivery to Peabody's customers. Production from the Lee Ranch mine during the year ended December 31, 2003 was 7.0 million tons which generated \$9.4 million of coal royalty revenues and \$1.1 million of deferred income. Production from the Lee Ranch Reserves during 2004 is expected to be between 5.3 and 6.0 million tons. We anticipate that the Lee Ranch Reserves will be exhausted in approximately 2015.

Approximately one-third, or 40 million tons, of the Reserves consist of predominantly high sulfur, high BTU coal located in northern West Virginia (the "Federal Reserves") which are being mined by a second affiliate of Peabody (together, the "Peabody Lessees") at the Federal No. 2 mine predominantly by the longwall underground mining method. For a description of the longwall mining method, see "Item 2. Properties—Coal Reserves and Production." Peabody has a preparation plant located in close proximity to the Federal No. 2 mine and they load the processed coal onto railcars at a unit train loading facility for delivery to their customers. Production from the Federal No. 2 mine for the year ended December 31, 2003 was approximately 4.3 million tons which generated \$4.7 million in coal royalty revenues and \$0.4 million of deferred income. Production from the Federal Reserves during 2004 is expected to be between 4.2 and 4.8 million tons. We anticipate that the Federal Reserves will be exhausted in approximately 2011.

The Peabody Acquisition, which included 8,800 mineral acres, was funded with \$72.5 million in cash and the issuance by the Partnership to Peabody of 1,522,325 common units and 1,240,833 class B common units. In July 2003, 241,000 Class B common units were released from escrow in exchange for certain title transfers in New Mexico. All of the Class B common units were converted into common units in accordance with their terms, upon the approval of PVR common unitholders in July 2003. As of December 31, 2003, 52,700 of the common units were being held in escrow pending Peabody acquiring and transferring to us approximately one million tons of coal reserves located in West Virginia. As a result of the units held in escrow, approximately one million tons of coal reserves and 52,700 common units were not included in property, plant and equipment or partners' capital, respectively, at December 31, 2003. In December 2003 and January 2004, Peabody sold 1,150,000 of its common units in a public offering sponsored by the Partnership.

The Peabody Acquisition provides geographic diversity by exposing us to new markets in the western United States and in northern Appalachia. The inclusion of Peabody as a significant part of our lessee mix adds additional strength and stability to our lessee group. In addition, Peabody is incentivized to source additional assets to the Partnership in the future. This incentive is derived not only from Peabody's ownership of our common units, but also from the right to share in our general partner's incentive distribution rights if Peabody sells us additional coal assets in the future. See "Incentive Distribution Rights."

The Upshur Acquisition

In August 2002, we purchased approximately 16 million tons of proven and probable coal reserves located on the Upshur properties in northern Appalachia for \$12.3 million (the "Upshur Acquisition"). The Upshur Acquisition was our first investment outside of central Appalachia. The properties, which include approximately 18,000 mineral acres, contain predominately high sulfur, high BTU coal reserves.

The West Coal River Acquisition

In May 2001, we acquired the Fork Creek property in West Virginia, which we now refer to as our West Coal River property, by purchasing approximately 53 million tons of coal reserves for \$33 million. In early 2002, the operator at West Coal River filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. West Coal River's operations were subsequently idled on March 4, 2002. The operator continued to pay minimum royalties until we recovered our lease on August 31, 2002. In November 2002, we purchased various infrastructure at West Coal River, including a 900 ton per hour coal preparation plant and a unit train loading facility, and a railroad-granted rebate on coal loaded through the facility for \$5.1 million plus the assumption of approximately \$2.4 million in reclamation liabilities and approximately \$0.6 million of stream mitigation obligations. We leased this property in May 2003 and have assigned all reclamation and mitigation liabilities to the new lessee, which agreed to be responsible for those liabilities. The new lessee began operations in the third quarter of 2003.

Business Strategy

Our principal business strategies are to:

- *Focus first on eastern coal.* We have been engaged in the coal land management business in Appalachia since 1882. We actively pursue opportunities to expand our eastern reserves through acquisition of additional coal reserves and exploration of our existing properties. In 2002, we closed the Peabody and Upshur Acquisitions, acquiring an additional aggregate of 56 million tons of coal reserves located in northern Appalachia. We also provide technical support and fee-based coal preparation and transportation facilities to our lessees to maximize production levels and ultimate reserve recovery on our properties. Our technical staff has an average experience of over 25 years in the coal industry and considerable operational expertise. Our staff regularly reviews mining plans and consults with our lessees to develop efficient methods of exploiting our reserves. In addition, we initiate and fund exploration and infrastructure projects to enhance production and maximize reserve recovery.
- *Expand geographic diversity of our reserves.* We actively pursue opportunities to expand the geographic diversity our reserves through the acquisition of additional coal reserves. In 2002, we closed the Peabody and Upshur Acquisitions, acquiring an additional aggregate of approximately 136 million tons of coal reserves, all of which were located outside of central Appalachia, where our operations have been centered historically. These acquisitions included approximately 23,000 mineral acres located in the western United States and northern Appalachia.
- *Diversify our lessee base and sources of coal-related revenues.* As of December 31, 2003, the Partnership leased its coal reserves under 53 leases to 29 different operators, who are mining coal at 38 underground mines and 16 surface mines. The addition of the Peabody and Upshur acquisitions further diversified our base and enhanced the stability of our cash flow. We intend to continue to diversify our lessee base and revenue sources to further enhance our cash flow. In addition to coal royalty revenues, we also generate coal services revenues through fee-based coal preparation and transportation facilities. We intend to continue to look for opportunities to increase our fee-based asset revenues through acquisitions of assets such as rail car or barge loading facilities, terminals and coal preparation plants, specifically those that serve multiple operators and end-users. These types of fee-based assets are typically long-lived and generally produce steady and predictable cash flows.
- *Pursue other opportunities.* In addition to coal reserves, infrastructure and related assets, we intend to pursue other types of long-term assets with stable cash flows. For example, one of our attributes is our relationship with Penn Virginia, a publicly held energy company which is engaged in the exploration, development and production of oil and natural gas. See "Ownership by and Relationship with Penn Virginia Corporation." Penn Virginia's expanding operations in Appalachia, the Gulf Coast and other regions exposes us to a number of opportunities to purchase oil and natural gas gathering systems and other infrastructure assets, which are generally well suited assets for master limited partnerships.

- *Maintain financial flexibility.* During 2003, we completed a private placement of \$90 million of 5.77% senior unsecured notes the proceeds of which were used to repay debt incurred in connection with the Peabody and Upshur Acquisitions. In February 2004, the notes received an investment grade rating of BBB (low) from Dominion Bond Rating Service. In 2003, we also increased our revolving credit facility from \$50 million to \$100 million. The Credit Facility had a borrowing capacity of approximately \$17 million on December 31, 2003. As we carry out our strategy, we believe that the borrowing capacity under our revolver will increase. Finally, in November 2003, we also filed a \$300 million universal shelf registration statement with the Securities and Exchange Commission which provides us the means to respond promptly to acquisition opportunities and the flexibility to issue equity or debt in connection with those opportunities.

Coal Leases

The Partnership earns most of its coal royalty revenues under long-term leases that generally require our lessees, to make royalty payments to us based on the higher of a percentage of the gross sales price or a fixed price per ton of coal they sell. Approximately 72% of our 2003 coal royalty revenues and 99% of our 2002 coal royalty revenues were collected under this type of variable rate lease. The balance of our coal royalty revenues are earned under two long term leases for the Lee Ranch Reserves and the Federal Reserves, which require the Peabody Lessees to make royalty payments to us based on fixed royalty rates per ton of coal sold, which rates escalate annually. Under the lease for the Lee Ranch Reserves (the "Lee Ranch Lease"), the initial royalty payment in 2003 was \$1.50 per ton and escalates annually until it reaches \$2.48 per ton on January 1, 2014. Under the lease for the Federal Reserves (the "Federal Lease" and, together with the Lee Ranch Lease, the "Peabody Leases"), the initial royalty payment in 2003 was \$1.09 per ton and escalates annually until it reaches \$1.75 per ton on January 1, 2010. A typical lease either expires upon exhaustion of the leased reserves, which is the case with the two Peabody Leases, or has a five to ten-year base term, with the lessee having an option to extend the lease for at least five years after the expiration of the base term.

Substantially all of our leases require the lessee to pay minimum rental payments in monthly or annual installments, even if no mining activities are ongoing. These minimum rentals are recoupable, usually over a period from one to three years from the time of payment, against the production royalties owed to the Partnership once coal production commences. The Lee Ranch Lease and the Federal Lease require the Peabody Lessees to pay to the Partnership annual minimum rental payments of \$2.0 million and \$5.0 million, respectively, which are recoupable against production royalties due over the life of the applicable lease.

In addition to the terms described above, substantially all of our leases impose obligations on the lessees to diligently mine the leased coal using modern mining techniques, indemnify us for any damages we incur in connection with the lessee's mining operations, including any damages we may incur on account of our lessee's failure to fulfill reclamation or other environmental obligations, conduct mining operations in compliance with all applicable laws, obtain our written consent prior to assigning the lease and maintain commercially reasonable amounts of general liability and other insurance. Substantially all of the leases grant us the right to review all lessee mining plans and maps, enter the leased premises to examine mine workings and conduct audits of lessees' compliance with lease terms. In the event of default by the lessee, substantially all of the leases give us the right to terminate the lease and take possession of the leased premises. In the event of a default under the Peabody Leases, Peabody is required to purchase the then remaining Federal or Lee Ranch Reserves from the Partnership at a price equal to (x) the number of tons of reserves being purchased times (y) the production royalty rate then in effect with respect to such reserves. If Peabody fails for any reason to pay such purchase price, the Partnership is then entitled to terminate the applicable Peabody Lease and reclaim the reserves leased thereunder.

Ownership by and Relationship with Penn Virginia Corporation

One of the Partnership's attributes is its relationship with Penn Virginia, a publicly held energy company based in Radnor, Pennsylvania. Penn Virginia has been engaged in the coal royalty business since 1882 and is

also engaged in the exploration, development and production of oil and natural gas. Penn Virginia formed the Partnership in July 2001 to own and operate substantially all of the assets and assume the liabilities relating to Penn Virginia's coal land management business. The Partnership completed its initial public offering (the "IPO") of 7,475,000 common units at a price of \$21.00 per unit on October 30, 2001. Penn Virginia has a significant interest in the Partnership through its indirect ownership of a 42% limited partner interest and the 2% sole general partner interest in us.

Penn Virginia has a history of successfully completing energy acquisitions. The Partnership pursues acquisitions independently and has the opportunity to participate jointly with Penn Virginia in reviewing potential acquisitions. These may include acquisitions of properties containing multiple natural resources, such as oil, natural gas, coal and timber as well as infrastructure related to those resources such as natural gas gathering systems and coal preparation plants and loading facilities. The Partnership would expect to retain all coal reserves and related infrastructure, all timber resources and all natural gas gathering systems acquired in any such joint acquisition and expects to allocate the remaining purchased assets between the Partnership and Penn Virginia as appropriate after considering each entity's characteristics and strategies. We expect that our ability to participate in potential acquisitions with, and our access to the experienced management team and industry contacts of, Penn Virginia will benefit us.

Our partnership agreement provides that our general partner, which is an indirect wholly owned subsidiary of Penn Virginia, is restricted by agreement from engaging in any business activities other than those incidental to its ownership of interests in us. Under an omnibus agreement we entered into with Penn Virginia and our general partner concurrently with the closing of our IPO, Penn Virginia agreed, and caused its controlled affiliates to agree, not to engage in the businesses of (i) owning, mining, processing, marketing or transporting coal, (ii) owning, acquiring or leasing coal reserves or (iii) growing, harvesting or selling timber unless it first offers us the opportunity to acquire such businesses or assets and the board of directors of the general partner, with the concurrence of its conflicts committee, elects to cause us not to pursue such opportunity or acquisition. This restriction will not apply to the assets and businesses retained by Penn Virginia at the closing of the IPO. Under the omnibus agreement, Penn Virginia will be able to purchase any business which includes the purchase of coal reserves, timber and/or infrastructure relating to the production or transportation of coal if the majority value of such business is not derived from owning, mining, processing, marketing or transporting coal or growing, harvesting or selling timber. If Penn Virginia makes any such acquisition, it must offer us the opportunity to purchase the coal reserves, timber and/or related infrastructure following the acquisition.

Concurrently with the closing of the IPO, Penn Virginia also agreed to indemnify us through October 2006 for certain pre-existing tax and environmental liabilities of up to \$10 million.

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. We own our subsidiaries through an operating company, Penn Virginia Operating Co., LLC (the "Operating Company"). At February 26, 2004, our Partnership structure was as follows:

- Penn Virginia Resource GP, LLC, our general partner and an indirect wholly owned subsidiary of Penn Virginia, owns the 2% general partner interest in us;
- Penn Virginia Resource LP Corp., and Kanawha Rail Corp. and Penn Virginia Resource GP, LLC, indirect wholly owned subsidiaries of Penn Virginia, own an aggregate of 141,617 common units and 7,649,880 subordinated units, representing an aggregate 42% limited partner interest in us;
- we own 100% of the member interests in the Operating Company; and
- the Operating Company owns 100% of the member interests in its subsidiaries, which include Fieldcrest, LLC, Suncrest, LLC, Loadout, LLC, K Rail, LLC and Wise, LLC.

Our general partner and its affiliates are entitled to distributions on the general partner interest and on any common units and subordinated units they hold. Additionally, our general partner is entitled to distributions on its incentive distribution rights. Our general partner has sole responsibility for conducting our business and for managing our operations. Our general partner will not receive any management fee or other compensation in connection with its management of our business, but will be entitled to be reimbursed for all direct and indirect expenses incurred on our behalf. See “Note 10—Related Party Transactions—General and Administrative—to Consolidated Financial Statements.”

Partnership Distributions

Cash Distributions

The Partnership paid cash distributions of \$2.06 per common and subordinated unit for the year ended December 31, 2003. For 2004, we expect to make distributions of not less than \$2.08 per common unit and subordinated unit.

Incentive Distribution Rights

In accordance with the partnership agreement, incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. The minimum quarterly distribution is \$0.50 per unit (\$2.00 per unit on an annual basis). Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest to an affiliate (other than an individual) or to another entity as part of the merger or consolidation of our general partner with or into such entity or the transfer of all or substantially all of our general partner’s assets to another entity without the prior approval of our unitholders if the transferee agrees to be bound by the provisions of our partnership agreement. Prior to September 30, 2011, other transfers of incentive distribution rights will require the affirmative vote of holders of a majority of the outstanding common units and subordinated units, voting as separate classes. On or after September 30, 2011, the incentive distribution rights will be freely transferable.

If for any quarter:

- we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and
- we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and the general partner in the following manner:

- *First*, 98% to all unitholders, and 2% to the general partner, until each unitholder has received a total of \$0.55 per unit for that quarter (the “first target distribution”);
- *Second*, 85% to all unitholders, and 15% to the general partner, until each unitholder has received a total of \$0.65 per unit for that quarter (the “second target distribution”);
- *Third*, 75% to all unitholders, and 25% to the general partner, until each unitholder has received a total of \$0.75 per unit for that quarter (the “third target distribution”); and
- *Thereafter*, 50% to all unitholders and 50% to the general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution on the common units. In conjunction with the Peabody Acquisition, our general partner issued a special membership interest which entitles Peabody to receive increased percentages, starting at zero and increasing up to 40%, of

payments we make to our general partner with respect to incentive distribution rights if we purchase additional assets from Peabody in the future.

Subordination Period. During the subordination period, which we describe below, the common units have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution, plus arrearages in the payment of any minimum quarterly distribution from prior quarters, before any distributions of available cash from operating surplus can be made on the subordinated units.

Definition of Subordination Period. The subordination period will continue until the first day of any quarter beginning after September 30, 2006 in which each of the following events occur:

- distributions of available cash from operating surplus on each of the common units and the subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;
- the adjusted operating surplus generated during each of the three immediately preceding, non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and
- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Early Conversion of Subordinated Units. Before the end of the subordination period, 50% of the subordinated units, or up to 3,824,940 subordinated units, will convert into common units on a one-for-one basis immediately after the distribution of available cash to partners in respect of any quarter ending on or after:

- September 30, 2004 with respect to 25% of the subordinated units; and
- September 30, 2005 with respect to 25% of the subordinated units.

The early conversions will occur if at the end of the applicable quarter each of the following three tests are met:

- distributions of available cash from operating surplus on each common unit and subordinated unit equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;
- the adjusted operating surplus generated during each of the three immediately preceding, non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and
- there are no arrearages in payment of the minimum quarterly distribution on the common units.

However, the early conversion of the second 25% of the subordinated units may not occur until at least one year following the early conversion of the first 25% of the subordinated units.

When the subordination period ends, all remaining subordinated units will convert into common units on a one-for-one basis and the common units will no longer be entitled to arrearages.

Subordinated Units

The subordinated units are a separate class of limited partner interests in our partnership, and the rights of holders of subordinated units to participate in distributions to limited partners differ from, and are subordinated to, the rights of the holders of common units as set forth above under "Partnership Distributions—Subordination Period." If we liquidate during the subordination period, in some circumstances, holders of outstanding common

units will be entitled to receive more per unit in liquidating distributions than holders of outstanding subordinated units. The per unit difference will be dependent upon the amount of gain or loss recognized by us in liquidating our assets. Following conversion of the subordinated units into common units, all units will be treated the same upon liquidation of our partnership. Holders of subordinated units will sometimes vote as a single class together with the holders of common units and sometimes vote as a class separate from the holders of common units and, as in the case of holders of common units, will have very limited voting rights. During the subordination period, common units and subordinated units each vote separately as a class on the following matters:

- a sale or exchange of all or substantially all of our assets;
- the election of a successor general partner in connection with the removal of our general partner;
- a dissolution or reconstitution of our partnership;
- a merger of our partnership;
- the issuance of limited partner interests in some circumstances; and
- some amendments to the partnership agreement, including any amendment that would cause us to be treated as an association taxable as a corporation.

The subordinated units are not entitled to vote on approval of the withdrawal of our general partner or the transfer by our general partner of its general partner interest or incentive distribution rights. Removal of our general partner requires:

- the affirmative vote of 66 2/3% of all outstanding units voting as a single class; and
- the election of a successor general partner by the holders of a majority of the outstanding common units and subordinated units, voting as separate classes.

Under our partnership agreement, our general partner generally will be permitted to effect amendments to our partnership agreement that do not materially adversely affect unitholders without the approval of any unitholders.

Limited Call Right

If at any time persons other than our general partner and its affiliates do not own more than 20% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then current market price of the common units.

Certain Conflicts of Interest

Our general partner has a legal duty to manage us in a manner beneficial to our unitholders. This legal duty originates in state statutes and judicial decisions and is commonly referred to as a "fiduciary" duty. However, because our general partner is an indirect, wholly owned subsidiary of Penn Virginia, our general partner's officers and directors also have fiduciary duties to manage our general partner's business in a manner beneficial to shareholders of Penn Virginia. The officers and directors of our general partner have significant relationships with, and responsibilities to, Penn Virginia. As a result of this relationship, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates, on the other hand.

In connection with the Peabody Acquisition, Peabody designated one director to serve on the Board of Directors of our general partner. This director has fiduciary duties to Peabody as well as those he has to the Partnership and our general partner as a director of our general partner. Conflicts of interest may arise for this designee as a result of these relationships.

Limits on Fiduciary Responsibilities

Our partnership agreement limits the liability and reduces the fiduciary duties owed by our general partner to unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions that might otherwise constitute breaches of our general partner's fiduciary duty.

Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, the partnership agreement permits our general partner to make a number of decisions in its "sole discretion." This entitles our general partner to consider only the interests and factors that it desires and it shall have no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Other provisions of the partnership agreement provide that our general partner's actions must be made in its reasonable discretion. These standards reduce the obligations to which our general partner would otherwise be held.

Our partnership agreement generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be "fair and reasonable" to us under the factors previously set forth. In determining whether a transaction or resolution is "fair and reasonable" our general partner may consider the interests of all parties involved, including its own. Unless our general partner has acted in bad faith, the action taken by our general partner shall not constitute a breach of its fiduciary duty. These standards reduce the obligations to which our general partner would otherwise be held.

In addition to the other more specific provisions limiting the obligations of our general partner, our partnership agreement further provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for errors of judgment or for any acts or omissions if our general partner and those other persons acted in good faith.

In order to become a limited partner of our partnership, a common unitholder is required to agree to be bound by the provisions in our partnership agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The failure of a limited partner or assignee to sign a partnership agreement does not render the partnership agreement unenforceable against that person.

We are required to indemnify our general partner and its officers, directors, employees, affiliates, partners, members, agents and trustees, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by our general partner or these other persons. This indemnification is required if our general partner or any of these persons acted in good faith and in a manner they reasonably believed to be in, or (in the case of a person other than our general partner) not opposed to, our best interests. Indemnification is required for criminal proceedings if our general partner or these other persons had no reasonable cause to believe their conduct was unlawful. Thus, our general partner could be indemnified for its negligent acts if it met these requirements concerning good faith and our best interests.

Competition

The coal industry is intensely competitive primarily as a result of the existence of numerous producers. Our lessees compete with coal producers in various regions of the United States for domestic sales. The industry has undergone significant consolidation which has led to some of the competitors of our lessees to have significantly larger financial and operating resources than some our lessees. Our lessees primarily compete with both large and small producers in Appalachia as well as in the western United States. Our lessees compete on the basis of coal price at the mine, coal quality (including sulfur content), transportation cost from the mine to the customer and the reliability of supply. Continued demand for our coal and the prices that our lessees obtain are also affected by demand for electricity, access to transportation, environmental and government regulations, technological

developments and the availability and price of alternative fuel supplies, including nuclear, natural gas, oil and hydroelectric power. Demand for our low sulfur coal and the prices our lessees will be able to obtain for it will also be affected by the price and availability of high sulfur coal, which can be marketed in tandem with emissions allowances in order to meet federal Clean Air Act requirements.

Risks Inherent in Our Business

Our business involves several inherent risks. These risks include:

Business Related Risks

- We may not have sufficient cash to enable us to pay the minimum quarterly distribution each quarter.
- Our business will be adversely affected if we are unable to replace or increase our reserves through acquisitions.
- If our lessees do not manage their operations well, their production volumes and our coal royalty revenues could decrease.
- Lessees could satisfy obligations to their customers with coal from properties other than ours, depriving us of the ability to receive amounts in excess of the minimum royalty payments.
- Coal mining operations are subject to numerous operational risks that could result in lower coal royalty revenues and also reduce reserve recovery.
- A substantial or extended decline in coal prices could reduce our coal royalty revenues and the value of our coal reserves.
- We depend on a limited number of primary operators for a significant portion of our coal royalty revenues, and the loss of or reduction in production from any of our major lessees could reduce our coal royalty revenues.
- If our lessees do not receive payments on a timely basis from their customers, their cash flow would be adversely affected, which could cause our cash flow to be adversely affected.
- Due to restrictions under our existing or future debt agreements, competition from other coal companies, or the lack of suitable acquisition candidates, we may not be able to grow and our business will be adversely affected if we are unable to replace or increase our reserves through acquisitions.
- Any debt we incur could reduce our ability to pay distributions to unitholders.
- Our lessees' work force could become increasingly unionized in the future.
- Fluctuations in transportation costs and the availability or reliability of transportation could reduce the production of coal mined from our properties

Regulatory and Legal Risks

• *General Regulation.* Our lessees are obligated to conduct mining operations in compliance with all applicable federal, state and local laws and regulations. These laws and regulations include matters involving the discharge of materials into the environment, employee health and safety, mine permits and other licensing requirements, reclamation and restoration of mining properties after mining is completed, management of materials generated by mining operations, surface subsidence from underground mining, water pollution, legislatively mandated benefits for current and retired coal miners, air quality standards, protection of wetlands, plant and wildlife protection, limitations on land use, storage of petroleum products and substances which are regarded as hazardous under applicable laws and management of electrical equipment containing polychlorinated biphenyls, or PCBs. Because of extensive and comprehensive regulatory requirements, violations during mining operations are not unusual in the industry and, notwithstanding compliance efforts, we do not believe violations

by our lessees can be eliminated completely. However, none of the violations to date, or the monetary penalties assessed, have been material to us or, to our knowledge, to our lessees. We do not currently expect that future compliance will have a material adverse effect on us.

While it is not possible to quantify the costs of compliance by our lessees with all applicable federal and state laws, those costs have been and are expected to continue to be significant. The lessees post performance bonds pursuant to federal and state mining laws and regulations for the estimated costs of reclamation and mine closing, including the cost of treating mine water discharge when necessary. We do not accrue for such costs because our lessees are contractually liable for all costs relating to their mining operations, including the costs of reclamation and mine closure. However, we do require some smaller lessees to deposit into escrow certain funds for reclamation and mine closure costs or post performance bonds for these costs. Although the lessees typically accrue adequate amounts for these costs, their future operating results would be adversely affected if they later determined these accruals to be insufficient. Compliance with these laws has substantially increased the cost of coal mining for all domestic coal producers.

In addition, the utility industry, which is the most significant end-user of coal, is subject to extensive regulation regarding the environmental impact of its power generation activities which could affect demand for our lessees' coal. The possibility exists that new legislation or regulations may be adopted which may have a significant impact on the mining operations of our lessees or their customers' ability to use coal and may require us, our lessees or their customers to change operations significantly or incur substantial costs.

- *Clean Air Act.* The Clean Air Act affects the end-users of coal and could significantly affect the demand for our coal and reduce our coal royalty revenues. The Clean Air Act and corresponding state and local laws extensively regulate the amount of sulfur dioxide, particulate matter, nitrogen oxides and other compounds emitted from industrial boilers and power plants, including those that use our coal. These regulations together constitute a significant burden on coal customers and stricter regulation could further adversely impact the demand for and price of our coal, resulting in lower coal royalty revenues.

In July 1997, the U.S. Environmental Protection Agency (the "EPA") adopted more stringent ambient air quality standards for particulate matter and ozone. Particulate matter includes small particles that are emitted during the combustion process. Nitrogen oxides are naturally occurring byproducts of coal combustion that lead to the formation of ozone. In a February 2001 decision, the U.S. Supreme Court largely upheld the EPA's position, although it remanded the EPA's ozone implementation policy for further consideration. Details regarding the new particulate standard itself are still subject to judicial challenge. These ozone restrictions will require electric power generators to further reduce nitrogen oxide emissions. Further reduction in the amount of particulate matter that may be emitted by power plants could also result in reduced coal consumption by electric power generators. Future regulations regarding ozone, particulate matter and other ambient air standards could restrict the market for coal and the development of new mines by our lessees. This in turn may result in decreased production by our lessees and a corresponding decrease in our coal royalty revenues.

The Clean Air Act also imposes standards on sources of hazardous air pollutants. These standards have not yet been extended to coal mining operations, but on January 30, 2004, the EPA proposed regulations to control emissions of mercury, a hazardous air pollutant, from power plants that combust coal, as well as nitrogen oxides and sulfur dioxide, which are also power plant pollutants, in 29 states. Like other environmental regulations, these standards and future standards could result in a decreased demand for coal.

In addition to EPA proposals, various members of Congress have proposed so-called multi-pollutant bills, which could regulate nitrogen oxides, sulfur dioxide and other emissions, including carbon dioxide, from power plants that combust coal and the regulation of greenhouse gases that contribute to global warming could occur either pursuant to regulatory changes under the Clean Air Act, regulations by states, or future U.S. treaty obligations. While the details of proposed initiatives to regulate air emissions vary, there is a movement toward increased regulation of emissions of pollutants from the combustion of fossil fuels, including coal. If such

initiatives are enacted into law, power plants could choose to shift away from coal as a fuel source to meet these requirements.

- *Surface Mining Control and Reclamation Act of 1977.* The Surface Mining Control and Reclamation Act of 1977 (“SMCRA”) and similar state statutes impose on mine operators the responsibility of restoring the land to its original state and compensating the landowner for types of damages occurring as a result of mining operations, and require mine operators to post performance bonds to ensure compliance with any reclamation obligations. Regulatory authorities may attempt to assign the liabilities of the our lessees to us if any of our lessees are not financially capable of fulfilling those obligations. In conjunction with mining the property, our lessees are contractually obligated under the terms of their leases to comply with all laws, including SMCRA and equivalent state and local laws, which obligations include reclaiming and restoring the mined areas by grading, shaping and reseeding the soil. Upon completion of the mining, reclamation generally is completed by seeding with grasses or planting trees for use as pasture or timberland, as specified in the approved reclamation plan.

- *CERCLA.* We could become liable under federal and state Superfund and waste management statutes if our lessees are unable to pay environmental cleanup costs. The Comprehensive Environmental Response, Compensation and Liability Act, known as CERCLA or “Superfund,” and similar state laws create liabilities for the investigation and remediation of releases and threatened releases of hazardous substances to the environment and damages to natural resources. As a landowner, we are potentially subject to liability for these investigation and remediation obligations.

Surface Mining Valley Fills. Over the course of the last several years, opponents of surface mining have filed three lawsuits challenging the legality of permits authorizing the construction of valley fills for the disposal of coal mining overburden under federal and state laws applicable to surface mining activities. Although two of these challenges were successful in the United States District Court for the Southern District of West Virginia (the “District Court”), the United States Court of Appeals for the Fourth Circuit overturned both of those decisions.

On October 23, 2003, a third lawsuit involving the disposal of coal mining overburden was filed under the name of Ohio Valley Environmental Coalition v. Bulen. In this case, which was also filed in the District Court, several public interest group plaintiffs have alleged that the Army Corps of Engineers violated the Clean Water Act (“CWA”) and other federal regulations when it issued Nationwide Permit 21, a general permit for the disposal of coal mining overburden into United States waters. This most recent suit also challenges certain individual discharge authorizations in West Virginia, including several involving the mining activities of the Partnership’s lessees. If the plaintiffs prevail in this latest lawsuit, lessees who have received authorization for discharges pursuant to Nationwide Permit 21 could be prevented from undertaking future discharges until they receive individual CWA permits, and future operations could require individual permits. Obtaining these individual permits is likely to substantially increase both the time and the costs of obtaining CWA permits for our lessees and other coal mining operators throughout the industry where any such unfavorable ruling may be applied. These increases could adversely affect our coal royalty revenues. Although the Partnership expects that any ruling for the plaintiffs would be appealed to the Fourth Circuit, the coal mining industry, including the operations of our lessees, could be significantly adversely impacted by the initial effects of an adverse decision while any appeal is pending.

- *West Virginia Anti-degradation Policy.* As a result of a September 2003 decision by the District Court in *Ohio Valley Environmental Coalition v. Whitman*, the State of West Virginia is currently implementing the CWA without an EPA-approved anti-degradation implementation policy, which would apply in cases of pollutant discharges into waters that have been designated as high quality waters by the State. In this case, the District Court vacated EPA’s previous approval of the West Virginia anti-degradation policy after the District Court determined that the State’s policy did not comply with the requirements of the CWA. The West Virginia anti-degradation policy had included a number of exceptions, including one for parties holding general CWA permits, from anti-degradation review requirements. The District Court ruled that this exemption and certain other provisions of the West Virginia anti-degradation policy were not consistent with the requirements of the CWA.

The EPA has reportedly decided not to appeal this decision and is instead proceeding with a policy review. Our lessees seek permits to discharge into high quality waters under a new policy which does not include such an exception. Permit applications will likely be required to undergo the public and intergovernmental scrutiny associated with an anti-degradation review, which may either delay the issuance or reissuance of CWA permits, require the use of more costly control measures or lead to the denial of these permits. The delay, denial or added costs of complying with these permits may increase the costs of coal production, potentially reducing our royalty revenues.

- *Mine Health and Safety Laws.* Stringent safety and health standards have been imposed by federal legislation since the adoption of the Mine Health and Safety Act of 1969. The Mine Health and Safety Act of 1969 resulted in increased operating costs and reduced productivity. The Mine Safety and Health Act of 1977, which significantly expanded the enforcement of health and safety standards of the Mine Health and Safety Act of 1969, imposes comprehensive safety and health standards on all mining operations. In addition, as part of the Mine Health and Safety Acts of 1969 and 1977, the Black Lung Acts require payments of benefits by all businesses conducting current mining operations to coal miners with black lung and to some survivors of a miner who has died from this disease. Since we do not operate any mines and do not employ any coal miners, we are not subject to such laws and regulations.

- *Mining Permits and Approvals.* Numerous governmental permits or approvals are required for mining operations. In connection with obtaining these permits and approvals, our lessees may be required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed production of coal may have upon the environment. The requirements imposed by any of these authorities may be costly and time consuming and may delay commencement or continuation of mining operations.

In order to obtain mining permits and approvals from state regulatory authorities, mine operators, including our lessees, must submit a reclamation plan for restoring, upon the completion of mining operations, the mined property to its prior condition, productive use or other permitted condition. Typically, our lessees submit the necessary permit applications between 12 and 18 months before they plan to begin mining a new area. In our experience, permits generally are approved within 12 months after a completed application is submitted. In the past, our lessees have generally obtained their mining permits without significant delay. Our lessees have obtained or applied for permits to mine a majority of the reserves that are currently planned to be mined over the next five years. Our lessees are also in the planning phase for obtaining permits for the additional reserves planned to be mined over the following five years. However, there are no assurances that they will not experience difficulty in obtaining mining permits in the future.

- *Timber Regulations.* Our timber operations are subject to federal, state and local laws and regulations, including those related to the environment, protection of endangered species, foresting activities and health and safety. We believe we are managing our timberlands in substantial compliance with applicable federal and state regulations.

See also Item 7. "Quantitative and Qualitative Disclosure about Market Risk" for a discussion of interest rate risk.

Employees and Labor Relations

We have no employees. To carry out our operations, our general partner and its affiliates employed 32 employees who directly supported our operations at December 31, 2003. The general partner considers current employee relations to be good.

Available Information

The Partnership's internet address is www.pvresource.com. We make available free of charge on or through our Internet website, our Governance Principles, Code of Business Conduct and Ethics, Executive and Financial

Officer Code of Ethics and Audit Committee Charter, and we will provide copies of such documents to any shareholder who so requests. We also make available free of charge on or through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Item 2. Properties

Title to Property

Of the 588 million tons of proven and probable coal reserves as of December 31, 2003, we owned the mineral interests and the majority of related surface rights to 544 million tons, or 93%, and we lease the remaining 44 million tons, or 7%, from unaffiliated third parties. In addition to the revenues we receive from our coal business, we also earn revenues from the sale of timber. At December 31, 2003, we owned 114,500 surface acres of timberland containing 166 million board feet of timber inventory.

Coal Reserves and Production

As of December 31, 2003, we had approximately 588 million tons of proven and probable coal reserves located on 241,000 acres in Virginia, West Virginia, New Mexico and eastern Kentucky. Our reserves are located on six separate properties:

- the Wise property, located in Wise and Lee Counties, Virginia and Letcher and Harlan Counties, Kentucky;
- the Coal River property, located in Boone, Fayette, Kanawha, Lincoln and Raleigh Counties, West Virginia;
- the New Mexico property, located in McKinley County, New Mexico;
- the Northern Appalachia property, located in Barbour, Harrison, Lewis, Monongalia and Upshur Counties, West Virginia;
- the Spruce Laurel property, located in Boone and Logan Counties, West Virginia; and
- the Buchanan property, located in Buchanan County, Virginia.

Reserves are coal tons that can be economically extracted or produced at the time of determination considering legal, economic and technical limitations. All of the estimates of our reserves are classified as proven and probable reserves. Proven and probable reserves are defined as follows:

Proven Reserves—Proven reserves are reserves for which: (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely, and the geologic character is so well defined, that the size, shape, depth and mineral content of reserves are well-established.

Probable Reserves—Probable reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

In areas where geologic conditions indicate potential inconsistencies related to coal reserves, we perform additional exploration to ensure the continuity and mineability of the coal reserves. Consequently, sampling in those areas involves drill holes or channel samples that are spaced closer together than those distances cited above.

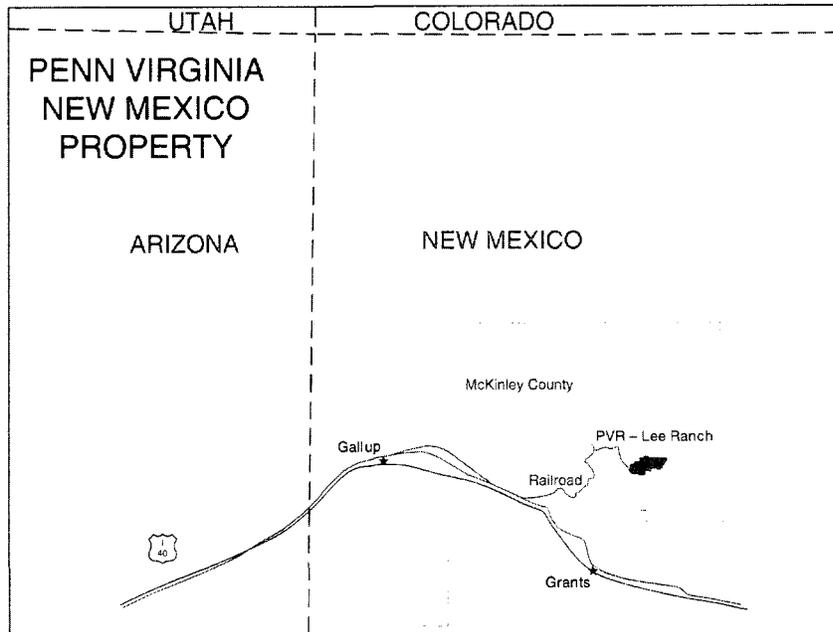
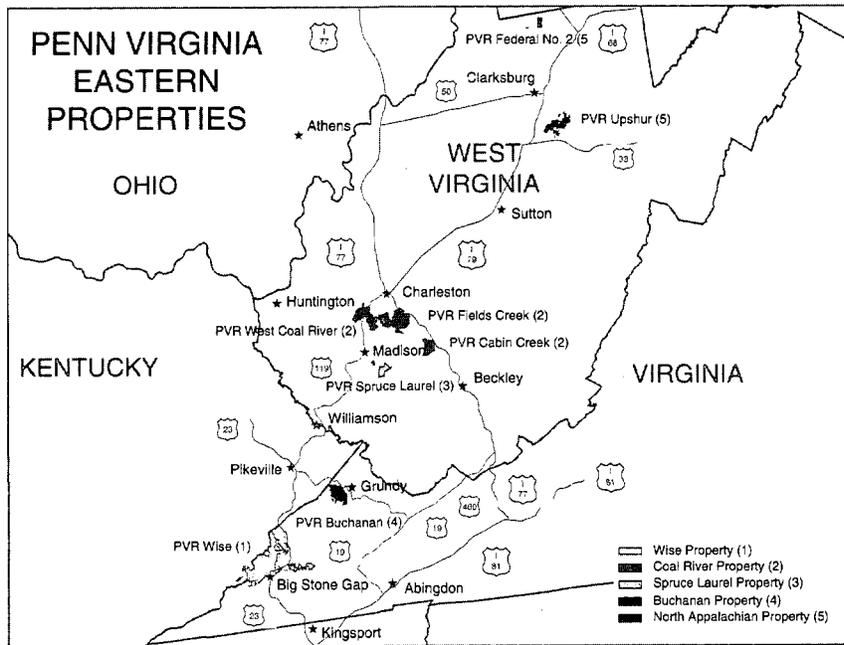
Our lessees mine coal using both underground and surface methods. Our lessees currently operate 16 surface mines and 38 underground mines. Approximately 55% of the coal produced from our properties in 2003 came from underground mines and 45% came from surface mines. Most of our lessees use the continuous mining method in all of the underground mines located on our properties. In continuous mining, main airways and transportation entries are developed and remote-controlled continuous miners extract coal from "rooms," leaving "pillars" to support the roof. Shuttle cars transport coal to a conveyor belt from transportation entries to the surface. In several underground mines, our lessees use two continuous miners running at the same time, also known as a supersection, to improve productivity and reduce unit costs.

Two of our lessees use the longwall mining method to mine underground reserves. Longwall mining uses hydraulic jacks or shields, varying from four feet to twelve feet in height, to support the roof of the mine while a mobile cutting shearer advances through the coal. Chain conveyors then move the coal to a standard deep mine conveyor belt system for delivery to the surface. Continuous mining is used to develop access to long rectangular panels of coal that are mined with longwall equipment, allowing controlled subsidence behind the advancing machinery. Longwall mining is typically highly productive when used for large blocks of medium to thick coal seams.

Surface mining methods used by our lessees include use auger and highwall miners, in conjunction with surface mining, to enhance production, improve reserve recovery and reduce unit costs. On our New Mexico property, a combination of the dragline and truck-and-shovel surface mining methods is used to mine the coal. Dragline and truck-and-shovel mining uses large capacity machines to remove overburden to expose the coal seams. Shovels then load the coal in haul trucks for transportation to a loading facility.

Our lessees' customers are primarily utilities. Coal produced from our properties is transported by rail, barge and truck, or a combination of these means of transportation. Coal from the Virginia portion of the Wise property and the Buchanan property is primarily shipped to electric utilities in the Southeast by the Norfolk Southern railroad. Coal from the Kentucky portion of the Wise property is primarily shipped to electric utilities in the Southeast by the CSX railroad. Coal from the Coal River and Spruce Laurel properties is shipped to steam and metallurgical customers by the CSX railroad, by barge along Kanawha River, by truck or by a combination thereof. Coal from the Northern Appalachia property is shipped by barge on the Monongahela River, by truck and by the CSX and Norfolk Southern railroads. Coal from the New Mexico property is shipped to steam markets in New Mexico and Arizona by the Burlington Northern Santa Fe railroad. All of our properties contain and have access to numerous roads and state or interstate highways.

The following maps show the locations of our properties.



The following table sets forth actual coal royalty revenues we have received and the amount of minimum rentals we would have received if our lessees had not produced any coal with respect to each of our properties. Revenues in the table set forth below reflect revenues actually recognized during the period presented. Minimum rentals reflect amounts we would have been entitled to receive had no coal been mined during the periods presented. Any amounts received from minimum rentals are recorded as deferred income, and not as revenues, at the time of receipt until the payment has been recouped by the lessee or the lessee fails to meet its minimum production for certain predetermined time periods.

Property	2003		2002		2001	
	Royalty Revenues	Minimum Rentals	Royalty Revenues	Minimum Rentals	Royalty Revenues	Minimum Rentals
	(in thousands)					
Wise	\$21,413	3,894	\$20,420	\$3,996	\$19,987	\$4,321
Coal River	9,469	4,542	5,263	3,532	7,967	4,256
New Mexico	9,398	2,000	259	70	—	—
Northern Appalachia	6,273	5,000	816	280	—	—
Spruce Laurel	3,052	1,570	3,732	695	3,293	640
Buchanan	707	460	868	540	1,118	540
Grand Total	<u>\$50,312</u>	<u>\$17,466</u>	<u>\$31,358</u>	<u>\$9,113</u>	<u>\$32,365</u>	<u>\$9,757</u>

The following table sets forth production data and reserve information with respect to each of our six properties:

Property	Production Year Ended December 31,			Proven and Probable Reserves at December 31, 2003		
	2003	2002	2001	Under-ground	Surface	Total
	(tons in millions)					
Wise	9.341	8.945	8.961	186.5	25.2	211.7
Coal River	3.909	2.493	4.043	128.0	73.2	201.2
New Mexico	6.265	0.173	—	—	73.3	73.3
Northern Appalachia	5.108	0.448	—	46.5	2.5	49.0
Spruce Laurel	1.471	1.774	1.704	35.4	15.9	51.3
Buchanan	0.369	0.448	0.598	1.6	0.1	1.7
Total	<u>26.463</u>	<u>14.281</u>	<u>15.306</u>	<u>398.0</u>	<u>190.2</u>	<u>588.2</u>

Of the 588.2 million tons of proven and probable coal reserves to which we had rights as of December 31, 2003, we owned the mineral interests and the related surface rights to 396.9 million tons, or 67.5%, and we owned the mineral interests only to 147.6 million tons, or 25.1%. We lease the mineral rights to the remaining 43.7 million tons, or 7.4%, from unaffiliated third parties and, in turn, sublease these reserves to our lessees. For the reserves we lease from third parties, we pay royalties to the owner based on the amount of coal produced from the lease reserves. Additionally, in some instances, we purchase surface rights or otherwise compensate surface right owners for mining activities on their properties. In 2003, our expenses to third-party surface and mineral owners aggregated \$2.7 million.

The following table sets forth the coal reserves we own and lease with respect to each of our coal properties as of December 31, 2003:

<u>Property</u>	<u>Owned</u>			<u>Total</u>
	<u>Surface and Mineral Interests</u>	<u>Mineral Interests Only</u>	<u>Leased</u>	
	(tons in millions)			
Wise	203.4	8.3	0.0	211.7
Coal River	145.7	20.3	35.2	201.2
New Mexico	0.0	69.4	3.9	73.3
Northern Appalachia	0.0	49.0	0.0	49.0
Spruce Laurel	47.8	0.0	3.5	51.3
Buchanan	0.0	0.6	1.1	1.7
Total	<u>396.9</u>	<u>147.6</u>	<u>43.7</u>	<u>588.2</u>

At December 31, 2003, our reserve estimates are prepared from geological data assembled and analyzed by our general partner's geologists and engineers. These estimates are compiled using geological data taken from thousands of drill holes, adjacent mine workings, outcrop prospect openings and other sources. These estimates also take into account legal, qualitative technical and economic limitations that may keep coal from being mined. Reserve estimates will change from time to time due to mining activities, analysis of new engineering and geological data, acquisition or divestment of reserve holdings, modification of mining plans or mining methods and other factors.

We classify low sulfur coal as coal with a sulfur content of less than 1.0%, medium sulfur coal as coal with a sulfur content between 1.0% and 1.5% and high sulfur coal as coal with a sulfur content of greater than 1.5%. Compliance coal is that portion of low sulfur coal that meets compliance standards for Phase II of the Clean Air Act Amendments. As of December 31, 2003, approximately 32.8% of our reserves met compliance standards for Phase II of the Clean Air Act Amendments. There were no compliance reserves in the reserves acquired in the Peabody Acquisition. The following table sets forth our estimate of the sulfur content and the typical clean coal quality of our recoverable coal reserves at December 31, 2003.

<u>Property</u>	<u>Type of Coal</u>	<u>Compliance(1)</u>	<u>Sulfur Content</u>					<u>Typical Clean Coal Quality</u>		
			<u>Reserves as of 12/31/03</u>					<u>Heat Content</u>		
			<u>Low Sulfur(2)</u>	<u>Medium Sulfur</u>	<u>High Sulfur</u>	<u>Sulfur Unclassified</u>	<u>Total</u>	<u>(Btu per Pound)(3)</u>	<u>Sulfur (%)</u>	<u>Ash (%)</u>
			(tons in millions)							
Wise	Steam/Metallurgical	58.6	115.6	51.6	33.9	10.6	211.7	12,700	1.20	9.50
Coal River	Steam/Metallurgical	105.0	153.6	25.8	7.4	14.4	201.2	12,500	0.82	6.00
New Mexico	Steam	0.0	42.0	25.6	5.7	0.0	73.3	9,200	0.89	17.80
Northern Appalachia ..	Steam/Metallurgical	0.0	0.0	0.0	49.0	0.0	0.0	12,900	2.58	8.80
Spruce Laurel	Steam/Metallurgical	28.4	43.0	3.3	0.1	4.9	51.3	12,700	0.80	5.50
Buchanan	Steam/Metallurgical	1.0	1.7	0.0	0.0	0.0	1.7	12,900	0.83	6.20
Total		<u>193.0</u>	<u>355.9</u>	<u>106.3</u>	<u>96.1</u>	<u>29.9</u>	<u>588.2</u>			

- (1) Compliance coal is low sulfur coal which, when burned, emits less than 1.2 pounds of sulfur dioxide per million Btu. Compliance coal meets the sulfur dioxide emission standards imposed by Phase II of the Clean Air Act Amendments without blending in other coals or using sulfur dioxide reduction technologies. Compliance coal is a subset of low sulfur coal and is, therefore, also reported within the amounts for low sulfur coal.
- (2) Includes compliance coal.
- (3) As-received Btu per pound includes the weight of moisture in the coal on an as sold basis.

The following table shows the reserves we lease to mine operators by property.

<u>Property</u>	Proven And Probable Reserves As of December 31, 2003		
	<u>Controlled</u>	<u>Leased (Out)</u>	<u>Percentage Leased (Out)</u>
	(tons in millions)		
Wise	211.7	182.5	86.2%
Coal River	201.2	172.0	85.5%
New Mexico	73.3	73.3	100.0%
Northern Appalachia	49.0	48.8	99.6%
Spruce Laurel	51.3	51.3	100.0%
Buchanan	1.7	1.7	100.0%
Total	<u>588.2</u>	<u>529.6</u>	<u>90.0%</u>

The Wise Property

The Wise property consists of 103,000 acres located in Wise and Lee Counties, Virginia, and Letcher and Harlan Counties, Kentucky. We own 66,000 acres in fee and own the mineral interests in an additional 37,000 acres. We first acquired the majority of this property in 1882, and the first lease entered into with a lessee for a portion of this property was in 1902. As of December 31, 2003, the property included 212 million tons of coal reserves and related infrastructure, including a unit train loadout facility capable of loading 4,500 tons of coal per hour that can sample, blend and load coal into unit trains of up to 108 railcars within a four-hour period.

As of December 31, 2003, we leased 86% of the Wise property reserves pursuant to 22 separate leases. Production from the property totaled 9.3 million tons for the year ended December 31, 2003 and was shipped to our lessees' customers via truck, the Norfolk Southern railroad and the CSX railroad.

The Coal River Property

The Coal River property consists of 84,000 acres located in Boone, Fayette, Kanawha, Lincoln and Raleigh Counties, West Virginia. We own 53,000 acres in fee, the mineral interests to 19,000 acres and lease 12,000 acres from third parties. We acquired rights to this property pursuant to four acquisitions between 1996 and 2002, and the first lease we entered into with a lessee for this property was in 1996. As of December 31, 2003, the Coal River property included 201 million tons of proven and probable coal reserves in West Virginia and related infrastructure and other assets, including a coal loading dock on the Kanawha River, a 900-ton per hour coal preparation plant, a unit train loading facility and a modular coal preparation plant. In January 2004, we completed the construction of a new coal loadout facility for one of our lessees on our Coal River property in West Virginia. The \$4.0 million loadout facility is designed for the high-speed loading of 150-car unit trains and became operational in January 2004.

As of December 31, 2003, we leased 86% of the Coal River property reserves pursuant to 11 leases. Production from the property totaled 3.9 million tons for the year ended December 31, 2003 and was shipped to our lessees' customers via truck, barge and the CSX railroad.

The New Mexico Property

The New Mexico property consists of over 4,000 acres located in McKinley County, New Mexico. We acquired the mineral interests to this property in December 2002 in connection with the Peabody Acquisition. As of December 31, 2003, the New Mexico property included approximately 73 million tons of proven and probable coal reserves

As of December 31, 2003, we leased all of the New Mexico property reserves to Peabody. Production from the property totaled 6.3 million tons for the year ended December 31, 2003 and was shipped to our lessee's customers via the Burlington Northern Santa Fe railroad.

The Northern Appalachia Property

The Northern Appalachia property consists of over 18,000 acres of mineral interests located in Barbour, Harrison, Lewis, Monongalia and Upshur Counties, West Virginia. We acquired the mineral interests to this property through the Upshur Acquisition in August 2002 and the Peabody Acquisition in December 2002. As of December 31, 2003, the Northern Appalachia property included approximately 49 million tons of proven and probable coal reserves and approximately one million tons of reserves which we have not included in the total reserves in our combined and consolidated financial statements for the year ended December 31, 2003. See "Part II. Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions."

As of December 31, 2003, we leased substantially all of the Northern Appalachia property reserves pursuant to eight leases. Production from the property totaled 5.1 million tons for the year ended December 31, 2003 and was shipped to our lessees' customers via truck, barge and the CSX and Norfolk Southern railroads.

The Spruce Laurel Property

The Spruce Laurel property consists of 12,000 acres located in Boone and Logan Counties, West Virginia. We own 10,000 acres in fee and lease 2,000 acres from third parties. We first acquired the rights to this property in 1963. As of December 31, 2003, the Spruce Laurel property included approximately 51 million tons of proven and probable coal reserves.

As of December 31, 2003, we leased all of the Spruce Laurel property reserves pursuant to eight leases. Production from the Spruce Laurel property was 1.5 million tons for the year ended December 31, 2003 and was shipped to our lessees' customers via a belt line and the CSX railroad.

The Buchanan Property

The Buchanan property consists of 20,000 acres located in Buchanan County, Virginia. We own the mineral interests to 6,500 acres, and we lease the mineral rights to 13,400 acres from third parties. We first acquired the rights to this property in 1997. As of December 31, 2003, the Buchanan property included approximately 1.7 million tons of coal reserves, all of which are low sulfur.

As of December 31, 2003, we leased all of the Buchanan property reserves pursuant to three leases. Production from the Buchanan property was 0.4 million tons for the year ended December 31, 2003 and was shipped to our lessees' customers via the Norfolk Southern railroad and via truck.

Timber

The Partnership's approximately 166 million board feet ("Mbf") of timber inventory only includes timber that can be harvested and is greater than 12 inches in diameter. Our timberlands are located on our Wise, Spruce Laurel and Coal River properties and contain various hardwood species, including red oak, white oak, yellow poplar and black cherry. In 2003, we sold 5.3 Mbf of timber, which generated timber revenues of \$1.0 million. Timber is sold in a competitive bid process involving sales of standing timber on individual parcels and, from time to time, on a contract basis where independent contractors harvest and sell the timber. Timber revenues are recognized when the timber has been sold or harvested by the independent contractors. Title and risk of loss pass to the independent contractors upon the execution of the contract. In addition, if the contractors do not harvest the timber within the specified time period, the title of the timber reverts back to the Partnership with no refund of original payment.

Item 3. *Legal Proceedings*

Legal Proceedings

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we are not currently a party to any material legal proceedings. In addition, we are not aware of any material legal or governmental proceedings against us, or contemplated to be brought against us, under the various environmental protection statutes to which we are subject. See “Item 1. Business—Risks Inherent in Our Business” above for a more detailed discussion of our material environmental obligations.

Item 4. *Submission of Matters to a Vote of Security Holders*

There were no matters submitted to a vote of security holders during the fourth quarter of 2003.

Part II

Item 5. *Market for the Registrant's Common Units and Related Unitholder Matters*

Market Information

Our common units are listed on the New York Stock Exchange, Inc. (the "Exchange") under the symbol "PVR." The high and low sales prices (composite transactions) in 2003 and 2002, respectively, were as follows:

<u>Quarter</u>	<u>2003</u>		<u>2002</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First	\$24.38	\$20.95	\$26.05	\$21.70
Second	29.50	24.20	24.26	19.70
Third	30.30	27.78	21.21	17.54
Fourth	\$35.30	\$29.70	\$20.98	\$19.10

The quarterly cash distributions paid in 2002 and 2003 were as follows:

<u>Period Covered by Distribution</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Unit</u>
Fourth quarter 2001	January 16, 2002	February 14, 2002	\$0.34
First quarter 2002	May 15, 2002	May 15, 2002	\$0.50
Second quarter 2002	August 1, 2002	August 14, 2002	\$0.50
Third quarter 2002	November 1, 2002	November 14, 2002	\$0.50
Fourth quarter 2002	January 28, 2003	February 14, 2003	\$0.50
First quarter 2003	May 6, 2003	May 14, 2003	\$0.52
Second quarter 2003	August 5, 2003	August 14, 2003	\$0.52
Third quarter 2003	November 4, 2003	November 14, 2003	\$0.52

We issued subordinated units in October 2001, all of which are held by two affiliates of our general partner. There is no established public trading market for these units.

Equity Holders

As of February 26, 2004, there were approximately 6,400 holders of our common units and two holders of our subordinated units.

Distributions

For the year ended December 31, 2003, the Partnership paid cash distributions of \$2.06 per common and subordinated unit. For 2004, we expect to pay distributions of at least \$2.08 per common unit and subordinated unit. The cash distribution paid in February 2002 was in the amount of \$0.34 per unit, which amount represented the pro rata quarterly cash distribution due with respect to the time period from October 30, 2001, the closing date of the Partnership's IPO, through December 31, 2001.

If cash distributions per unit exceed \$0.55 in any quarter, our general partner will receive a higher percentage of the cash we distribute in excess of that amount in increasing percentages up to 50%. See "Part I. Item 1. Business—Partnership Distributions—Incentive Distribution Rights."

There is no guarantee that we will pay quarterly cash distributions on the common units in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause an event of default under our credit facility. See "Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Item 6. Selected Financial Data

On October 30, 2001, the Partnership completed its initial public offering whereby the Partnership became the successor to the business of the Penn Virginia Coal Business (predecessor). For the purposes of this selected financial data, the Partnership refers to the Penn Virginia Coal Business for the periods prior to October 30, 2001 and to Penn Virginia Resource Partners, L.P. for the periods subsequent to October 30, 2001. The following selected historical financial information was derived from the financial statements of the Partnership as of December 31, 2003, 2002, 2001, 2000 and 1999 and for the five years ended December 31, 2003, 2002, 2001, 2000 and 1999. The selected financial data should be read in conjunction with the combined financial statements, including the notes thereto, and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	2003	2002	2001	2000	1999
(in thousands, except per unit data and operating data)					
Income Statement Data:					
Revenues:					
Coal royalties	\$ 50,312	\$ 31,358	\$ 32,365	\$ 24,308	\$ 17,836
Coal services	2,111	1,704	1,660	1,385	982
Timber	1,020	1,640	1,732	2,388	1,948
Minimum rentals	1,720	2,840	941	819	230
Other	479	1,066	815	1,289	354
Total revenues	<u>55,642</u>	<u>38,608</u>	<u>37,513</u>	<u>30,189</u>	<u>21,350</u>
Expenses:					
Royalty	2,712	1,765	2,051	1,634	213
Operating	1,523	1,147	1,145	1,183	663
Taxes other than income	1,256	895	616	663	506
General and administrative	7,013	6,419	5,459	4,847	4,123
Depreciation, depletion and amortization	16,578	3,955	3,084	2,047	1,269
Total expenses	<u>29,082</u>	<u>14,181</u>	<u>12,355</u>	<u>10,374</u>	<u>6,774</u>
Income from operations	26,560	24,427	25,158	19,815	14,576
Other income (expense):					
Interest expense	(4,986)	(1,758)	(7,272)	(7,670)	(3,980)
Interest income and other	1,223	2,017	4,904	4,697	2,789
Income before taxes and cumulative effect of change in accounting principle	22,797	24,686	22,790	16,842	13,385
Income tax expense	—	—	6,691	5,287	4,116
Income before cumulative effect of change in accounting principle	22,797	24,686	16,099	11,555	9,269
Cumulative effect of change in accounting principle	(107)	—	—	—	—
Net income	<u>\$ 22,690</u>	<u>\$ 24,686</u>	<u>\$ 16,099</u>	<u>\$ 11,555</u>	<u>\$ 9,269</u>
Net income per unit, basic and diluted (a)	\$ 1.24	\$ 1.57	\$ 0.24(a)	N/A	N/A
Balance Sheet Data:					
U.S. Treasuries securing long-term debt	\$ —	\$ —	\$ 43,387	\$ —	\$ —
Property and equipment, net	233,277	248,068	104,494	73,995	75,560
Total assets	259,892	266,575	162,638	135,936	110,026
Long-term debt	90,286	90,887	43,387	104,333	89,957
Total liabilities	106,092	104,043	48,131	109,243	94,888
Partners' Capital / Owner's equity	153,800	162,532	114,507	26,693	15,138
Cash Flow Data:					
Net cash flow provided by (used in):					
Operating activities	\$ 41,077	\$ 30,342	\$ 21,595	\$ 16,508	\$ 12,819
Investing activities	(4,711)	(48,976)	(95,718)	(28,010)	(58,101)
Financing activities	(36,920)	19,919	81,740	10,764	45,897
Distributions paid	(36,708)	(28,723)	—	—	—
Distributions paid per unit	\$ 2.06	\$ 1.84	—	—	—
Other Data:					
Royalty coal tons produced by lessees (in thousands)	26,463	14,281	15,306	12,536	8,603
Average gross coal royalty per ton	\$ 1.90	\$ 2.20	\$ 2.11	\$ 1.94	\$ 2.07

(a) Net income per unit relates to the period from October 31, 2001 (commencement of operations) to December 31, 2001.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following review of the financial condition and results of operations of Penn Virginia Resource Partners, L.P. (the "Partnership") should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

Overview

Penn Virginia Resource Partners, L.P. ("the Partnership") is a Delaware limited partnership formed by Penn Virginia Corporation ("Penn Virginia") in 2001 to primarily engage in the business of managing coal properties and related assets in the United States. Penn Virginia contributed its coal properties and related assets to the Partnership and effective with the closing of its initial public offering in October 2001, our common units began trading publicly on the New York Stock Exchange.

Both in our current limited partnership form and in our previous corporate form, we have managed coal properties since 1882. We conduct operations in three business segments: coal royalty and land leasing, coal services and timber. In 2003, 94.4% of our revenues were attributable to our coal and land leasing operations, 3.8% of our revenues were attributable to our coal services operations and 1.8% of our revenues were attributable to our timber operations.

Our coal reserves, coal infrastructure and timber assets are located on the following six properties:

- the Wise property, located in Wise and Lee Counties, Virginia and Letcher and Harlan Counties, Kentucky;
- the Coal River property, located in Boone, Fayette, Kanawha, Lincoln and Raleigh Counties, West Virginia;
- the New Mexico property, located in McKinley County, New Mexico;
- the Northern Appalachia property, located in Barbour, Harrison, Lewis, Monongalia and Upshur Counties, West Virginia;
- the Spruce Laurel property, located in Boone and Logan Counties, West Virginia; and
- the Buchanan property, located in Buchanan County, Virginia.

In our coal royalty and land leasing operations, we enter into long-term leases with experienced, third-party mine operators for the right to mine our coal reserves in exchange for royalty payments. We do not operate any mines. As of December 31, 2003, our properties contained approximately 588 million tons of proven and probable coal reserves located on 241,000 acres in Virginia, West Virginia, New Mexico and eastern Kentucky. In 2003, our lessees produced 26.5 million tons of coal from our properties and paid us coal royalty revenues of \$50.3 million. As of December 31, 2003, we leased an aggregate of approximately 90% of our reserves under 53 leases to 29 different operators who mine coal at 54 mines. Approximately 72% of our 2003 coal royalty revenues and 99% of our 2002 coal royalty revenues were based on the higher of a percentage of the gross sales price or a fixed price per ton of coal sold, with pre-established minimum monthly or annual rental payments. The remainder of our 2003 and 2002 coal royalty revenues were derived from fixed royalty rate leases, which escalate annually, with pre-established minimum monthly payments (see "The Peabody Acquisition" below). In managing our properties, we actively work with our lessees to develop efficient methods to exploit our reserves and to maximize production from our properties. We also derive revenues from minimum rental payments. Minimum rental payments are initially deferred and are recognized as minimum rental revenues when our lessees fail to meet specified production levels for certain predetermined periods. The recoupment period on most of our leases generally ranges from 1-3 years. During 2003, we recognized \$1.7 million of minimum rental revenues.

In addition to our coal royalty revenues, we also generate coal services revenues from fees we charge to our lessees for the use of our coal preparation and transportation facilities. The facilities provide efficient methods to

enhance lessee production levels and exploit our reserves. Historically, the majority of these fees have been generated by our unit train loadout facility, which accommodates 108 car unit trains that can be loaded in approximately four hours. Some of our lessees utilize the unit train loadout facility to reduce the delivery costs incurred by their customers. The coal service facility we purchased in November 2002 on our West Coal River property in West Virginia (formerly referred to as "Fork Creek") began operations late in the third quarter of 2003. In addition, we completed construction of a coal loadout facility for another lessee in West Virginia for \$4.0 million (see "Bull Creek Loadout Facility" below). Our coal services revenues totaled \$2.1 million for 2003. We expect the operations of the West Coal River infrastructure and the Bull Creek facility to increase coal services revenues to over \$3.0 million in 2004.

We also earn revenues from the sale of standing timber on our properties. As of December 31, 2003, we owned approximately 114,500 surface acres of timberland containing approximately 166 million board feet of inventory. The timber revenues we receive are dependent on harvest levels and the species and quality of timber harvested. Our harvest levels in any given year will depend upon a number of factors, including anticipated mining activity, timber maturation and market conditions. Any timber, which would otherwise be removed due to lessee mining operations, is harvested in advance to prevent loss of the resource. In 2003, we sold 5.3 million board feet of timber.

Our revenues and the profitability of our coal royalty and land leasing operations are largely dependent on the production of coal from our reserves by our lessees. The coal royalty revenues we receive are affected by changes in coal prices and our lessees' supply contracts and, to a lesser extent, by fluctuations in the spot market prices for coal. The prevailing price for coal depends on a number of factors, including demand, the price and availability of alternative fuels, overall economic conditions and governmental regulations.

Royalty expenses that we incur in our coal business consist primarily of lease payments on property which we lease from third parties and sublease to our lessees. Our lease payment obligations vary based on the production from these properties. Of the 588 million tons of proven and probable coal reserves to which we had rights as of December 31, 2003, we owned the mineral interests to 544 million tons and leased the mineral rights to 44 million tons. With respect to the 44 million tons that we lease, we are granted mining rights in exchange for per ton royalty payments. We also incur costs related to lease administration and property maintenance as well as technical and support personnel.

2003 Performance

Our coal royalty revenues increased 60% to \$50.3 million in 2003 from \$31.4 million in 2002, driven by an 85% increase in coal production from our properties to 26.5 million tons in 2003 from 14.3 million tons in 2002. These increases were primarily due to the late 2002 acquisition of 120 million tons of coal from Peabody Energy Corporation ("Peabody"), with production from the Peabody Acquisition-related properties contributing 10.6 million tons in 2003, including 6.3 million tons in New Mexico and 4.3 million tons in northern Appalachia. The weighted average royalty rate received for coal produced from these properties during 2003 was \$1.33 per ton. Excluding the property acquired from Peabody, production in West Virginia increased 34% due to the start up of new mining operations on our Coal River property, a lessee mining onto our property from an adjacent property in 2003 and the Upshur Acquisition (see below) in August 2002. Tonnage mined from our Virginia properties was up 3% in 2003 from 2002.

Coal prices, especially in central Appalachia where the majority of our production is located, have increased significantly since the beginning of 2003. The price increase stems from several causes including increased electricity demand and decreasing coal production in central Appalachia.

In May 2003, we agreed to a new lease on our West Coal River property (formerly known as Fork Creek) with an established operator, who has over 25 years of experience as a successful miner in Appalachia.

Production from the idled property commenced in July 2003 and is expected to increase over the next two years.

We also collect fees and railroad rebates related to our ownership of the coal preparation plant and coal loading facility on the West Coal River property. This new facility and several smaller modular coal preparation plants are resulting in additional coal services revenues, supplementing revenues from the Shoher loading facility in Virginia. We also spent approximately \$4.0 million to construct a third large-scale coal loading facility on our Coal River property, which began operating in February 2004. Coal services revenues increased to \$2.1 million in 2003 from \$1.7 million in 2002, and are expected to increase to over \$3.0 million in 2004. We believe that these types of fee-based infrastructure assets provide good investment and cash flow opportunities for the Partnership, and we continue to look for additional investments of this type as well as other primarily fee-based assets, including oil and gas midstream assets.

As part of our coal land management business, we own approximately 166 million board feet of standing timber. We generally sell cutting rights to various contractors who cut in advance of a mining project. Timber revenues in 2003 were \$1.0 million, down from \$1.6 million in 2002.

Economic and Industry Factors

The United States relies significantly on coal as a primary fuel source. Coal is used as a fuel source for about half of domestic electricity generation and represents approximately 85% of fossil fuel reserves in the United States. As environmental progress continues, we are optimistic about the future of coal continuing to play a vital role in the generation of electricity. Most of our lessee's customers are major utilities and have favorable transportation options to such utilities.

We are not an operating company and do not employ any coal miners. There are several key distinctions between our coal royalty business and a coal operating business which include:

- higher operating margins due to no risk in variable mining costs;
- more cash flow stability since we are not as sensitive to volatility in market prices and we have a diversified lessee base;
- less capital reinvestment requirements because we do not maintain coal mining or preparation equipment;
- no social obligations under the numerous mine health and safety laws and regulations applicable to the coal mining industry; and
- coal operators are required to reclaim operations where we currently have no such requirement.

However, our lessees are obligated to conduct mining operations in compliance with all applicable federal, state and local laws and regulations. Because of extensive and comprehensive regulatory requirements, violations during mining operations are not unusual in the industry and, notwithstanding compliance efforts, we do not believe violations by our lessees can be eliminated completely. None of the violations to date, or the monetary penalties assessed, have been material to us or, to our knowledge, to our lessees. We do not currently expect that future compliance will have a material adverse effect on us.

While it is not possible to quantify the costs of compliance by our lessees with all applicable federal and state laws, those costs have been and are expected to continue to be significant. The lessees post performance bonds pursuant to federal and state mining laws and regulations for the estimated costs of reclamation and mine closing, including the cost of treating mine water discharge when necessary. We do not accrue for such costs because our lessees are contractually liable for all costs relating to their mining operations, including the costs of reclamation and mine closure. Compliance with these laws has substantially increased the cost of coal mining for all domestic coal producers.

In addition, the utility industry, which is the most significant end-user of coal, is subject to extensive regulation regarding the environmental impact of its power generation activities which could affect demand for our lessees' coal. The possibility exists that new legislation or regulations may be adopted which may have a significant impact on the mining operations of our lessees or their customers' ability to use coal and may require us, our lessees or their customers to change operations significantly or incur substantial costs. See "Item 1.—Risks inherent in our business"

Opportunities, Challenges and Risks

Our revenues and profitability will be adversely affected in the future if we are unable to replace or increase our reserves through acquisitions. Our management continues to focus on acquisitions of assets and energy sources necessary to meet the requirements of diverse markets and environmental regulations. Additional management has been added to assist in the evaluation of coal reserves, infrastructure and related assets as well as other appropriate assets, such as oil and gas gathering and transportation systems.

As the economic growth of the United States and the world continues and the need for clean, environmental friendly energy increases, additional output from conventional energy sources will be essential. Coal represents the vast majority of energy resources in the United States and it continues to be substantially more economical than other fossil fuel alternatives. Although coal represents about half of the nation's electricity, coal combustion emits sulfur dioxide, nitrous oxides and carbon dioxide, all of which are considered pollutants. The challenge to the industry is to continue to reduce these emissions while remaining the fuel of choice.

Acquisitions and Investments in Coal Facilities

Capital expenditures, including noncash items, for each of the three years ended December 31, 2003 were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
		(in thousands)	
Acquisitions of coal reserves	\$ 6,330	\$138,450	\$32,994
Coal services capital projects and acquisitions	4,009	9,016	608
Other property and equipment expenditures	<u>119</u>	<u>69</u>	<u>67</u>
Total capital expenditures	<u>\$10,458</u>	<u>\$147,535</u>	<u>\$33,669</u>

Bull Creek Loadout Facility

In January 2004, we completed the construction of a new coal loadout facility for one of our lessees on our Coal River property in West Virginia. The \$4.0 million loadout facility is designed for the high-speed loading of 150-car unit trains and became operational in January 2004. We expect this facility to generate revenues of approximately \$0.7 million in 2004.

The Peabody Acquisition

In December 2002, we acquired two properties from Peabody Energy Corporation ("Peabody"). Central to the transaction was the purchase and leaseback of approximately 120 million tons of proven and probable coal reserves (the "Reserves") located in New Mexico (80 million tons) and West Virginia (40 million tons) (the "Peabody Acquisition"). The transaction was an acquisition of assets, in which the Partnership did not acquire from Peabody, or its affiliates, any physical facilities, mining equipment, employees, market distribution system, sales force or customer base associated with the assets acquired. As a result of the Peabody Acquisition, our total proven and probable reserves increased by approximately 25% as of December 2002 and our royalty revenues increased by 45% in 2003 over 2002. All of the Reserves were leased back to subsidiaries of Peabody by the Partnership under leases containing the terms described below under "Coal Leases."

Approximately two-thirds, or 80 million tons, of the Reserves consist of predominantly low sulfur, low BTU coal located in New Mexico (the "Lee Ranch Reserves") and are being mined by an affiliate of Peabody at the Lee Ranch mine by a combination of the dragline and truck-and-shovel surface mining methods. For a description of the dragline and truck-and-shovel mining methods, see "Item 2. Properties—Coal Reserves and Production." The Lee Ranch Reserves are trucked from the mine to a loading facility which blends and loads the coal via conveyor belts into railcars for delivery to Peabody's customers. Production from the Lee Ranch mine during the year ended December 31, 2003 was 7.0 million tons which generated \$9.4 million of coal royalty revenues and \$1.1 million of deferred income. Production from the Lee Ranch Reserves during 2004 is expected to be between 5.3 and 6.0 million tons. We anticipate that the Lee Ranch Reserves will be exhausted in approximately 2015.

Approximately one-third, or 40 million tons, of the Reserves consist of predominantly high sulfur, high BTU coal located in northern West Virginia (the "Federal Reserves") which are being mined by a second affiliate of Peabody (together, the "Peabody Lessees") at the Federal No. 2 mine predominantly by the longwall underground mining method. For a description of the longwall mining method, see "Item 2. Properties—Coal Reserves and Production." Peabody has a preparation plant located in close proximity to the Federal No. 2 mine and they load the processed coal onto railcars at the unit train loading facility for delivery to their customers. Production from the Federal No. 2 mine for the year ended December 31, 2003 was approximately 4.3 million tons which generated \$4.7 million in coal royalty revenues and \$0.4 million of deferred income. Production from the Federal Reserves during 2004 is expected to be between 4.2 and 4.8 million tons. We anticipate that the Federal Reserves will be exhausted in approximately 2011.

The Peabody Acquisition, which included 8,800 mineral acres, was funded with \$72.5 million in cash and the issuance by the Partnership to Peabody of 1,522,325 common units and 1,240,833 class B common units. All of the Class B common units were converted into common units in accordance with their terms, upon the approval of our common unitholders in which were subsequently converted to common units in July 2003. In July 2003, 241,000 Class B common units were released from escrow in exchange for certain title transfers in New Mexico. As of December 31, 2003, 52,700 of the common units were being held in escrow pending Peabody acquiring and transferring to us certain of the West Virginia reserves we purchased. As a result of the units held in escrow, approximately one million tons of coal reserves and 52,700 common units were not included in property, plant and equipment or partners' capital, respectively, at December 31, 2003. Peabody sold 1,150,000 of its common units in a public offering in December 2003 and January 2004. The Peabody Acquisition provides geographic diversity by exposing us to new markets in the western United States and in northern Appalachia. The inclusion of Peabody as a significant part of our lessee mix adds additional strength and stability to our lessee group. In addition, Peabody is incentivized to source additional assets to the Partnership in the future. This incentive is derived not only from Peabody's ownership of our common units, but also from the right to share in our general partner's incentive distribution rights if Peabody sells us additional coal assets in the future. See "Incentive Distribution Rights."

The West Coal River Acquisition

In May 2001, we acquired the Fork Creek property in West Virginia, which we now refer to as our West Coal River property, by purchasing approximately 53 million tons of coal reserves for \$33 million. In early 2002, the operator at West Coal River filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. West Coal River's operations were subsequently idled on March 4, 2002. The operator continued to pay minimum royalties until we recovered our lease on August 31, 2002. In November 2002, we purchased various infrastructure at West Coal River, including a 900-ton per hour coal preparation plant and a unit-train loading facility and a railroad-granted rebate on coal loaded through the facility for \$5.1 million and the assumption of approximately \$2.4 million in reclamation liabilities and approximately \$0.6 million of stream mitigation obligations. We leased this property in May 2003 and have assigned all reclamation and mitigation liabilities to the new lessee, which agreed to be responsible for those liabilities. The new lessee began operations in the third quarter of 2003.

The Upshur Acquisition

In August 2002, we purchased approximately 16 million tons of proven and probable coal reserves located on the Upshur properties in northern Appalachia for \$12.3 million (the "Upshur Acquisition"). The Upshur Acquisition was our first investment outside of central Appalachia. The properties, which include approximately 18,000 mineral acres, contain predominantly high sulfur, high BTU coal reserves.

Critical Accounting Policies and Estimates

Depletion. Coal properties are depleted on an area-by-area basis at a rate based on the cost of the mineral properties and the number of tons of estimated proven and probable coal reserves contained therein. In 2001, we estimated proven and probable coal reserves with the assistance of third-party mining consultants and involved the use of estimation techniques and recoverability assumptions. As a result of the independent reserve audit conducted in 2001 in connection with our initial public offering, we recorded a downward revision of our coal reserves, resulting from differences in general reserve criteria utilized by our independent engineer and the site or operator specific criteria utilized by us. Consequently, we increased our depletion rates on a prospective basis. Subsequent to 2001, proven and probable reserves have been estimated internally by our geologists. Our estimates of coal reserves are updated periodically and may result in adjustments to coal reserves and depletion rates that are recognized prospectively. The Partnership estimates its timber inventory using statistical information and data obtained from physical measurements, site maps, photo-types and other information gathering techniques. These estimates are updated annually and may result in adjustments of timber volumes and depletion rates, which are recognized prospectively.

Coal Mineral Rights. Based on the application of certain provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," the Partnership has begun to classify costs associated with the leasing of certain coal reserves as an intangible asset on the balance sheet, apart from other capitalized property costs. The amount capitalized related to a mineral right represents its fair value at the time such right was acquired less accumulated amortization. The transition provisions of SFAS No. 141 and SFAS No. 142 only require the reclassification of rights which were acquired after the June 30, 2001 effective date, unless previously maintained records make it possible to reclassify rights acquired prior to that date. Prior to June 30, 2001, the Partnership did not separately allocate acquisition costs between owned mineral interests (tangible property) and leased mineral rights (intangible property), as such interests were part of the same coal seams. Accordingly, the Partnership has only classified coal mineral rights acquired after June 30, 2001 as an intangible asset in the accompanying consolidated balance sheet. The pattern in which the economic benefits of the intangibles are used cannot be reliably determined; consequently, the Partnership is amortizing the coal mineral rights using the straight-line method over an estimated useful life of 13 years.

Coal Royalties Revenues. Coal royalty revenues are recognized on the basis of tons of coal sold by our lessees and the corresponding revenues from those sales. Coal royalty revenues are accrued on a monthly basis, based on our best estimates of coal mined on our properties. Since we do not operate any coal mines, we rely on estimates made by our engineers and information obtained from our lessees to make our accruals.

Results of Operations

Year Ended December 31, 2003 Compared With Year Ended December 31, 2002

The following table sets forth our revenues, operating expenses and operating statistics for the year ended December 31, 2003 compared with the year ended December 31, 2002.

	Year Ended December 31,		Percentage Change
	2003	2002	
(in thousands except prices)			
Financial Highlights:			
Revenues:			
Coal royalties	\$50,312	\$31,358	60%
Coal services	2,111	1,704	24%
Timber	1,020	1,640	(38%)
Minimum rentals	1,720	2,840	(39%)
Other	479	1,066	(55%)
Total revenues	<u>55,642</u>	<u>38,608</u>	44%
Operating Costs and Expenses:			
Royalty	2,712	1,765	54%
Operating	1,523	1,147	33%
Taxes other than income	1,256	895	40%
General and administrative	7,013	6,419	9%
Depreciation, depletion and amortization	<u>16,578</u>	<u>3,955</u>	319%
Total operating costs and expenses	<u>29,082</u>	<u>14,181</u>	105%
Income from operations	26,560	24,427	8%
Other income (expense):			
Interest expense	(4,986)	(1,758)	184%
Interest income	<u>1,223</u>	<u>2,017</u>	(39%)
Income before cumulative effect of change in accounting principle	22,797	24,686	(8%)
Cumulative effect of change in accounting principle	<u>(107)</u>	<u>—</u>	—
Net income	<u>\$22,690</u>	<u>\$24,686</u>	(8%)
Operating Statistics:			
Coal:			
Royalty coal tons produced by lessees (tons in thousands)	26,463	14,281	85%
Average gross royalties per ton	\$ 1.90	\$ 2.20	(14%)
Timber:			
Timber sales (Mbf)	5,250	8,345	(37%)
Average timber sales price per Mbf	\$ 179	\$ 187	(4%)

Revenues. Our combined revenues for the year ended December 31, 2003 were \$55.6 million compared to \$38.6 million for the year ended December 31, 2002, an increase of \$17.0 million, or 44%.

Coal royalty revenues for the year ended December 31, 2003 were \$50.3 million compared to \$31.4 million for the year ended December 31, 2001, an increase of \$18.9 million, or 60%. Average gross royalties per ton decreased from \$2.20 in 2002 to \$1.90 in 2003 as a result of the lower royalty rates attributable to the Peabody Leases. Over these same periods, production increased by 12.2 million tons, or 85%, from 14.3 million tons to 26.5 millions tons. These variances were primarily due to the following factors:

- Production on the New Mexico property increased by 6.1 million tons, which resulted in an increase in revenues of \$9.1 million. The increase was a direct result of the Peabody Acquisition in December 2002.

- Production on the Northern Appalachia property increased by 4.7 million tons, which resulted in an increase in revenues of \$5.5 million. The increase was a direct result of the Peabody Acquisition in December 2002 and the Upshur Acquisition in August 2002.
- Production on the Coal River property increased by 1.4 million tons, which resulted in an increase in revenues of \$4.2 million. The addition of a mine operator and a new mine by one of our lessees which contributed 0.6 million tons, or \$1.7 million. One lessee mined onto our property from an adjacent property in 2003, which resulted in an additional 0.6 million tons, or \$1.4 million. The remainder of the increase was primarily due to one lessee beginning operations in late 2002 and reaching full production in 2003 and start-up operations on our West Coal River property. Additional production from two of our lessees with high royalty rates coupled with an increased demand in the region resulted in a 15% increase in the average gross royalty per ton on the Coal River property, from \$2.11 per ton in 2002 to \$2.42 per ton in 2003.
- Production on the Wise property increased by 0.4 million tons, which resulted in an increase in revenues of \$1.0 million. The increase was primarily due to additional mining equipment being added by two of our lessees and another lessee beginning operations in late 2002 and reaching full production in 2003.
- Production on the Spruce Laurel property decreased by 0.3 million tons, which resulted in a decrease in revenues of \$0.7 million. The decrease was the result of the depletion of two mines in 2003.
- Production on the Buchanan property decreased by 0.1 million tons, which resulted in a \$0.2 million decrease in revenues as this property continues to approach the end of its reserve life.

Coal services revenues for the year ended December 31, 2003 were \$2.1 million compared to \$1.7 million for the year ended December 31, 2002, an increase of \$0.4 million, or 24%. The increase was a direct result of our West Coal River preparation and transportation facility beginning operations in July 2003 and the addition of a small preparation plant.

Timber revenues decreased to \$1.0 million for the year ended December 31, 2003 from \$1.6 million for the year ended December 31, 2002, a decrease of \$0.6 million, or 38%. Volume sold declined 3,095 thousand board feet (Mbf), or 37%, to 5,250 Mbf in 2003, compared to 8,345 Mbf for 2002. The decrease in volume sold was due to the timing of parcel sales.

Minimum rental revenues for the year ended December 31, 2003 were \$1.7 million compared to \$2.8 million for the year ended December 31, 2002, a decrease of \$1.1 million, or 39%. The decrease was primarily due to a lessee rejecting our lease in bankruptcy in 2002; consequently, \$0.8 million of deferred revenues from this respective lessee was recognized as income in 2002. The remainder of the decrease was primarily due to the timing of expiring recoupments from our lessees.

Other revenues were \$0.5 million for the year ended December 31, 2003 compared to \$1.1 million for the year ended December 31, 2002, a decrease of \$0.6 million, or 55%. The decrease is primarily due to the expiration of a railroad rebate received for the use of a specific portion of railroad by one of our lessees, which was paid in full in the fourth quarter of 2002.

Operating Costs and Expenses. Our aggregate operating costs and expenses for the year ended December 31, 2003 were \$29.1 million compared to \$14.2 million for the year ended December 31, 2002, an increase of \$14.9 million, or 105%. The increase in operating costs and expenses primarily relates to increases in depreciation, depletion and amortization and royalty expenses.

Royalty expenses were \$2.7 million for the year ended December 31, 2003 compared to \$1.8 million for the year ended December 31, 2002, representing a 54% increase. The increase was due to an increase in production by lessees on our subleased properties, including increased production on one lease with higher royalty rates payable by us to the mineral interest owners. Aggregate production from subleased properties increased to 2.0

million tons for the year ended December 31, 2003 from 1.8 million tons for the year ended December 31, 2002, an increase of 0.2 million tons, or 11%.

Operating expenses were \$1.5 million for the year ended December 31, 2003 compared to \$1.1 million for the year ended December 31, 2002, an increase of \$0.3 million, or 33%. The increase was primarily due to maintenance costs for idled mines on our West Coal River property. We leased our West Coal River property in May 2003 and the on-going maintenance costs were assumed by the new lessee as of that date.

Taxes other than income for the year ended December 31, 2003 was \$1.3 million compared to \$0.9 million for the year ended December 31, 2002, an increase of \$0.4 million, or 40%. The increase was attributable to higher property taxes as a result of assuming the property tax obligation on our West Coal River property upon re-acquiring the lease from the bankrupt lessee. We leased our West Coal River property in May 2003 and the on-going property taxes were assumed by the new lessee as of that date.

General and administrative expenses increased to \$7.0 million for the year ended December 31, 2003 compared to \$6.4 million for the year ended December 31, 2002, representing a 9% increase. The increase was primarily attributable to increased payroll, an increase in insurance premiums, additional recurring expenses associated with the Peabody Acquisition and costs related to the secondary offering of units for Peabody.

Depreciation, depletion and amortization expense for the year ended December 31, 2003 was \$16.6 million compared to \$4.0 million for the year ended December 31, 2002, an increase of \$12.6 million, or 319%. The increase was a result of higher depletion rates caused by higher cost bases relative to reserves added as well as increased production, both of which related primarily to the Peabody and Upshur Acquisitions completed in the last half of 2002.

Interest Expense. Interest expense was \$5.0 million for the year ended December 31, 2003 compared with \$1.8 million for the same period in 2002, an increase of \$3.2 million, or 184%. The increase was primarily due to long-term borrowings in connection with the Peabody Acquisition in December 2002.

Interest Income. Interest income was \$1.2 million for the year ended December 31, 2003 compared with \$2.0 million for the year ended December 31, 2002, a decrease of \$0.8 million, or 39%. The decrease was primarily due to the liquidation of \$43.4 million of U.S. Treasury notes in the last half of 2002, which was used to purchase a portion of the Peabody Acquisition and all of the Upshur Acquisition.

Cumulative effect of change in accounting principle. On January 1, 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." As a result of the adoption, we recognized a cumulative effect of accounting change. See "Note 7. Asset Retirement Obligations" in the notes to the consolidated financial statements.

Year Ended December 31, 2002 Compared With Year Ended December 31, 2001

The following table sets forth our revenues, operating expenses and operating statistics for the year ended December 31, 2002 compared with the year ended December 31, 2001.

	<u>Year Ended December 31,</u>		<u>Percentage Change</u>
	<u>2002</u>	<u>2001</u>	
	(in thousands except prices)		
Financial Highlights:			
Revenues:			
Coal royalties	\$31,358	\$32,365	(3%)
Coal services	1,704	1,660	3%
Timber	1,640	1,732	(5%)
Minimum rentals	2,840	941	202%
Other	1,066	815	31%
Total revenues	<u>38,608</u>	<u>37,513</u>	3%
Operating Costs and Expenses:			
Royalty	1,765	2,051	(14%)
Operating	1,147	1,145	—
Taxes other than income	895	616	45%
General and administrative	6,419	5,459	18%
Depreciation, depletion and amortization	3,955	3,084	28%
Total operating costs and expenses	<u>14,181</u>	<u>12,355</u>	15%
Total operating costs and expenses	24,427	25,158	(3%)
Other income (expense):			
Interest expense	(1,758)	(7,272)	(76%)
Interest income	2,017	4,904	59%
Income before taxes	24,686	22,790	8%
Income tax expense	—	6,691	—
Net income	<u>\$24,686</u>	<u>\$16,099</u>	53%
Operating Statistics:			
Coal:			
Royalty coal tons produced by lessees (tons in thousands)	14,281	15,306	(7%)
Average gross royalties per ton	\$ 2.20	\$ 2.11	4%
Timber:			
Timber sales (Mbf)	8,345	8,741	(5%)
Average timber sales price per Mbf	\$ 187	\$ 168	11%

Revenues. Our combined revenues for the year ended December 31, 2002 were \$38.6 million compared to \$37.5 million for the year ended December 31, 2001, an increase of \$1.1 million, or 3%.

Coal royalty revenues for the year ended December 31, 2002 were \$31.4 million compared to \$32.4 million for the year ended December 31, 2001, a decrease of \$1.0 million, or 3%. Over these same periods, production decreased by 1.0 million tons, or 7%, from 15.3 million tons to 14.3 millions tons. These variances were primarily due to the following factors:

- Production on the Wise property remained constant at 9.0 million tons for the years ended December 31, 2002 and 2001, while revenues increased to \$20.4 million in 2002 from \$20.0 million in 2001, representing an increase of \$0.4 million or 2%. In the last half of 2001, many of our lessees on the Wise property entered into long-term contracts with more favorable pricing terms.

- Production on the Coal River property decreased by 1.6 million tons, which resulted in a decrease in revenues of \$2.7 million. The production decrease was primarily caused by reduced production at one mine nearing the end of its mineable reserves, two mines being idled during the year due to poor market conditions and the bankruptcy of our West Coal River lessee.
- Production on the New Mexico property increased to 0.2 million tons, or \$0.3 million, from zero due to the Peabody Acquisition in December 2002.
- Production on the Northern Appalachia property increased to 0.4 million tons, or \$0.8 million, from zero due to the aforementioned acquisitions from Peabody in December 2002.
- Production on the Spruce Laurel property increased by 0.1 million tons, or 5%, to 1.8 million tons, while revenues increased by \$0.4 million. The increase was primarily due to one lessee mining onto our property from an adjacent property and, in the last half of 2001, two of our lessees entering into long-term contracts with more favorable pricing terms.
- Production on the Buchanan property decreased by 0.2 million tons, which resulted in a \$0.2 million decrease in revenues as this property continues to approach the end of its reserve life.

Coal services revenues remained constant at \$1.7 million for the years ended December 31, 2002 and 2001. Slight increases in revenues generated from our modular preparation plants and dock loadout facility were offset by a minor reduction in revenues from our unit-train loadout facility on the Wise property.

Timber revenues decreased to \$1.6 million for the year ended December 31, 2002 from \$1.7 million for the year ended December 31, 2001, a decrease of \$0.1 million, or 5%. Volume sold declined 396 thousand board feet (Mbf), or 5%, to 8,345 Mbf in 2002, compared to 8,741 Mbf for 2001.

Minimum rental revenues for the year ended December 31, 2002 were \$2.8 million compared to \$0.9 million for the year ended December 31, 2001, an increase of \$1.9 million, or 202%. The increase was due to the recognition of minimum rental payments received from certain lessees which are no longer recoupable by those lessees. Two of our lessees, Horizon Resources, Inc. (formerly AEI Resources, Inc.) and Pen Holdings, Inc., each of which filed bankruptcy proceedings under Chapter 11 of the U.S. Bankruptcy Code during the year, accounted for \$1.9 million of minimum rental income in 2002. See "Liquidity and Capital Resources."

Other revenues were \$1.1 million for the year ended December 31, 2002 compared to \$0.8 million for the year ended December 31, 2001, an increase of \$0.3 million, or 31%. The increase was primarily due to \$0.2 million of rental income received from one of our lessees, Pen Holdings, Inc., for the brief use of our West Coal River property.

Operating Costs and Expenses. Our aggregate operating costs and expenses for the year ended December 31, 2002 were \$14.2 million compared to \$12.4 million for the year ended December 31, 2001, an increase of \$1.8 million, or 15%. The increase in operating costs and expenses relates to increases in taxes other than income, general and administrative expenses and depreciation, depletion and amortization.

Royalty expenses were \$1.8 million for the year ended December 31, 2002 compared to \$2.1 million for the year ended December 31, 2001, a decrease of \$0.3 million, or 14%. This decrease was primarily due to a decrease in production by lessees on our subleased properties. Aggregate production from our subleased Coal River and Buchanan properties decreased to 1.8 million tons for the year ended December 31, 2002 from 2.3 million tons for the year ended December 31, 2001, a decrease of 0.5 million tons, or 22%.

Taxes other than income for the year ended December 31, 2002 was \$0.9 million compared to \$0.6 million for the year ended December 31, 2001, an increase of \$0.3 million, or 45%. The increase was primarily due to an increase in state franchise taxes resulting from filing as a partnership. Prior to the initial formation of the Partnership, franchise taxes were calculated based on our predecessor's corporate structure.

General and administrative expenses increased to \$6.4 million for the year ended December 31, 2002 compared to \$5.5 million for the year ended December 31, 2001, representing an 18% increase. The increase was primarily attributable to a full year of fees and expenses associated with being a public entity, such as director's fees and fees for professional services.

Depreciation, depletion and amortization expense for the year ended December 31, 2002 was \$4.0 million compared to \$3.1 million for the year ended December 31, 2001, an increase of \$0.9 million, or 28%. The increase in depreciation, depletion and amortization resulted from an increase in the depletion rate per ton caused by a downward revision of coal reserves in late 2001, higher cost coal properties being depleted as a result of recent acquisitions and additional depreciation related to coal services capital projects.

Interest Expense. Interest expense was \$1.8 million for the year ended December 31, 2002 compared with \$7.3 million for the same period in 2001, a decrease of \$5.5 million, or 76%. The decrease is primarily due to the Partnership's repayment of affiliated long-term borrowings in conjunction with our October 2001 initial public offering. The Partnership historically financed its working capital requirements and capital expenditures with borrowings from an affiliate.

Interest Income. Interest income was \$2.0 million for the year ended December 31, 2002 compared with \$4.9 million for the year ended December 31, 2001, a decrease of \$2.9 million, or 59%. The decrease is primarily due to the existence of a long-term receivable from an affiliate for the period from January 1, 2001 through the closing of our initial public offering in October 2001. The Partnership historically advanced cash receipts from our operations to our parent company so that the parent could centrally manage cash funding requirements for its consolidated group. In conjunction with the closing of the initial public offering, the long-term receivable from affiliate was forgiven.

Income Taxes. No income tax expense was recorded for the year ended December 31, 2002, compared with \$6.7 million for the same period in 2001. Subsequent to the initial formation of the Partnership, no provision for income taxes related to the operations of the Partnership was included in the financial statements since, as a partnership, we are not subject to federal or state income taxes and the tax effect of our activities accrues to our unitholders.

Liquidity and Capital Resources

Since closing our initial public offering in October 2001, cash generated from operations and our borrowing capacity, supplemented with the issuance of new common units for the Peabody Acquisition in December 2002, have been sufficient to meet our scheduled distributions, working capital requirements and capital expenditures. Our primary cash requirements consist of distributions to our general partner and unitholders, normal operating expenses, interest and principal payments on our long-term debt and acquisitions of new assets or businesses.

Cash Flows. Net cash provided by operating activities was \$41.1 million in 2003, \$30.3 million in 2002 and \$21.6 million in 2001. The overall increase in cash provided by operations in 2003, compared to 2002, was largely due to increased production by our lessees, as a direct result of the Peabody and Upshur Acquisitions in the last half of 2002 and additional mine openings. The overall increase in cash provided by operations in 2002, compared to 2001, was largely due to the omission of income taxes due to our switch to limited partnership status in the last half of 2001, resulting in the tax effect of our activities passing through to our unitholders.

Net cash used in investing activities was \$4.7 million in 2003, \$49.0 million in 2002 and \$95.7 million in 2001. Cash used in investing activities in 2003 primarily related to our construction of a new coal loading facility on our Coal River property in West Virginia. Net cash used in 2002 investing activities primarily reflected \$92.8 million of capital expenditures related to acquisitions, offset by \$43.4 million from the sale of U.S. Treasury notes. The cash used for the year ended December 31, 2001 was primarily due to the purchase of \$43.4 million in restricted U.S. Treasury notes used to secure our term loan, a \$33 million acquisition of coal reserves in June 2001 and \$19.2 million of advances to affiliates prior to the closing of our initial public offering.

Net cash provided by (used in) financing activities was (\$36.9) million in 2003, \$19.9 million in 2002 and \$81.7 million in 2001. Net cash used by financing activities in 2003 included distributions to partners of \$36.7 million and debt issuance costs of \$2.1 million, offset by additional borrowings related to the senior notes. Net cash provided by financing activities in 2002 included \$47.5 million of borrowings to fund acquisitions and a \$1.1 million contribution from the general partner, offset by \$28.7 million of distributions to unitholders. Net cash provided by financing activities in 2001 include \$142.4 million of net proceeds received from the initial public offering, \$84.1 million used to pay net borrowings to an affiliate and proceeds from borrowings of \$43.4 million used to purchase restricted U.S. Treasury notes.

Long-Term Debt. As of December 31, 2003, we had outstanding borrowings of \$91.8 million, consisting of \$2.5 million borrowed against our \$100.0 million revolving credit facility and \$89.3 million attributable to our senior unsecured notes (\$90.0 million offset by \$0.7 million fair value of interest rate swap).

Revolving Credit Facility. On October 31, 2003, we entered into an amendment to our revolving credit facility (the "Revolver") to increase the facility from \$50 million to \$100 million and to extend the maturity date to October 2006. The Revolver is with a syndicate of financial institutions led by PNC Bank, National Association, as its agent. Based primarily on the total debt to consolidated EBITDA covenant and subsequent to our issuance of senior unsecured notes, as described below, available borrowing capacity under the Revolver as of December 31, 2003 was approximately \$17 million. The Revolver is available for general partnership purposes, including working capital, capital expenditures and acquisitions, and includes a \$5.0 million sublimit available for working capital needs and distributions and a \$5.0 million sublimit for the issuance of letters of credit.

Indebtedness under the Revolver bears interest, at our option, at either (i) the higher of the federal funds rate plus 0.50% or the prime rate as announced by PNC Bank, National Association or (ii) the Eurodollar rate plus an applicable margin which ranges from 1.25% to 2.25% based on our ratio of consolidated indebtedness to consolidated EBITDA (as defined in the Revolver) for the four most recently completed fiscal quarters. We will incur a commitment fee on the unused portion of the Revolver at a rate per annum ranging from 0.40% to 0.50% based upon the ratio of our consolidated indebtedness to consolidated EBITDA for the four most recently completed fiscal quarters. When the Revolver matures in October 2006, it will terminate and all outstanding amounts thereunder will be due and payable. We may prepay the Revolver at any time without penalty. We are required to reduce all working capital borrowings under the working capital sublimit under the Revolver to zero for a period of at least 15 consecutive days once each calendar year.

The Revolver prohibits us from making distributions to unitholders and distributions in excess of available cash if any potential default or event of default, as defined in the Revolver, occurs or would result from the distribution. In addition, the Revolver contains various covenants that limit, among other things, our ability to incur indebtedness, grant liens, make certain loans, acquisitions and investments, make any material change to the nature of our business, acquire another company or enter into a merger or sale of assets, including the sale or transfer of interests in our subsidiaries. At December 31, 2003, we were in compliance with the covenants in the Revolver.

Senior Unsecured Notes. In March 2003, we closed a private placement of \$90 million of senior unsecured notes payable (the "Notes"). The Notes bear interest at a fixed rate of 5.77% and mature over a ten year period ending in March 2013, with semi-annual interest payments through March 2004 followed by semi-annual principal and interest payments beginning in September 2004. Proceeds of the Notes after the payment of expenses related to the offering were used to repay and retire the \$43.4 million Term Loan and to repay the majority of debt outstanding on our Revolver.

The Notes prohibit us from making distributions to unitholders and distributions in excess of available cash if any potential default or event of default, as defined in the Notes, occurs or would result from the distribution. In addition, the Notes contain various covenants that are similar to those contained in the Revolver. At December 31, 2003, we were in compliance with the covenants in the Notes. In February 2004, we received an

investment grade debt rating of BBB (low) from Dominion Bond Rating Services, an accredited bond rating agency.

Hedging Activities. In March 2003, we entered into an interest rate swap agreement with a notional amount of \$30 million, to hedge a portion of the fair value of the Notes. This swap is designated as a fair value hedge and has been reflected as a decrease in long-term debt of \$0.7 million as of December 31, 2003. Under the terms of the interest rate swap agreement, the counterparty pays us a fixed annual rate of 5.77% on a total notional amount of \$30 million, and we pay the counterparty a variable rate equal to the floating interest rate which will be determined semi-annually and will be based on the six month London Interbank Offering Rate plus 2.36%.

Future Capital Needs and Commitments. In 2004, we anticipate making total capital expenditures, excluding acquisitions, of approximately \$0.2 million for coal services related projects. Part of our strategy is to make acquisitions which increase cash available for distribution to our unitholders. Our ability to make these acquisitions in the future will depend in part on the availability of debt financing and on our ability to periodically use equity financing through the issuance of new units. Since completing the Peabody Acquisition in late 2002, our ability to incur additional debt has been restricted due to limitations in our debt instruments. As of December 31, 2003, we had approximately \$17 million of borrowing capacity available under our revolving credit facility. This limitation may have the effect of necessitating the issuance of new units, as opposed to using debt, to fund acquisitions in the future.

Contractual Obligations

Our contractual cash obligations as of December 31, 2002 are as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	Thereafter
	(in thousands)				
Contractual Obligations:					
Revolving credit facility	\$ 2,500	\$ —	\$ 2,500	\$ —	\$ —
Senior unsecured notes	90,000	1,500	13,100	23,700	51,700
Rental commitments (1)	2,402	399	801	801	401
Total contractual cash obligations (2)	\$94,902	\$1,899	\$16,401	\$24,501	\$52,101

- (1) The Partnership’s rental commitments primarily relate to reserve-based properties which are, or are intended to be, subleased by the Partnership to third parties. The obligation expires when the property has been mined to exhaustion or the lease has been canceled. The timing of mining by third party operators is difficult to estimate due to numerous factors. See “Item 1. Business—Risk Factors.” We believe the obligation after five years cannot be estimated with certainty; however, based on historical trends, we believe the Partnership will incur approximately \$0.4 million in rental commitments in perpetuity until the reserves have been exhausted.
- (2) The total contractual cash obligations do not include general partner reimbursement. The general partner of the Partnership is entitled to receive reimbursement of direct and indirect expenses incurred on our behalf until the Partnership has been dissolved.

We believe that we will continue to have adequate liquidity to fund future recurring operating and investing activities. Short-term cash requirements, such as operating expenses and quarterly distributions to our General Partner and unitholders, are expected to be funded through operating cash flows. Long-term cash requirements for asset acquisitions are expected to be funded by several sources, including cash flows from operating activities, borrowings under credit facilities, and the issuance of additional equity and debt securities. Our ability to complete future debt and equity offerings will depend on various factors, including prevailing market conditions, interest rates and our financial condition and credit rating at the time.

Environmental

Surface Mining Valley Fills. Over the course of the last several years, opponents of surface mining have filed three lawsuits challenging the legality of permits authorizing the construction of valley fills for the disposal of coal mining overburden under federal and state laws applicable to surface mining activities. Although two of these challenges were successful in the United States District Court for the Southern District of West Virginia (the "District Court"), the United States Court of Appeals for the Fourth Circuit overturned both of those decisions in *Bragg v. Robertson* in 2001 and in *Kentuckians For The Commonwealth v. Rivenburgh* in 2003.

On October 23, 2003, a third lawsuit involving the disposal of coal mining overburden was filed under the name of *Ohio Valley Environmental Coalition v. Bulen*. In this case, which was also filed in the District Court, several public interest group plaintiffs have alleged that the Army Corps of Engineers violated the Clean Water Act ("CWA") and other federal regulations when it issued Nationwide Permit 21, a general permit for the disposal of coal mining overburden into United States waters. This most recent suit also challenges certain individual discharge authorizations in West Virginia, including several involving the mining activities of the Partnership's lessees. If the plaintiffs prevail in this latest lawsuit, lessees who have received authorization for discharges pursuant to Nationwide Permit 21 could be prevented from undertaking future discharges until they receive individual CWA permits, and future operations could require individual permits. Obtaining these individual permits is likely to substantially increase both the time and the costs of obtaining CWA permits for our lessees and other coal mining operators throughout the industry where any such unfavorable ruling may be applied. These increases could adversely affect our coal royalty revenues. Although the Partnership expects that any ruling for the plaintiffs would be appealed to the Fourth Circuit, the coal mining industry, including the operations of our lessees, could be significantly adversely impacted by the initial effects of an adverse decision while any appeal is pending.

Mine Health and Safety Laws. The operations of our lessees are subject to stringent health and safety standards that have been imposed by federal legislation since the adoption of the Mine Health and Safety Act of 1969. The Mine Health and Safety Act of 1969 resulted in increased operating costs and reduced productivity. The Mine Safety and Health Act of 1977, which significantly expanded the enforcement of health and safety standards of the Mine Health and Safety Act of 1969, imposes comprehensive health and safety standards on all mining operations. In addition, as part of the Mine Health and Safety Acts of 1969 and 1977, the Black Lung Acts require payments of benefits by all businesses conducting current mining operations to coal miners with black lung and to some beneficiaries of a miner who dies from this disease.

Environmental. The operations of our lessees are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. The terms of the Partnership's coal property leases impose liability for all environmental and reclamation liabilities arising under those laws and regulations on the relevant lessees. The lessees are bonded and have indemnified the Partnership against any and all future environmental liabilities. The Partnership regularly visits the properties subject to our leases to generally observe our lessee's compliance with environmental laws and regulations, as well as to review mining activities. Management believes that the Partnership's lessees will be able to comply with existing regulations and does not expect any material impact on its financial condition or results of operations as a result of environmental regulations.

We have some reclamation bonding requirements with respect to certain of our unleased and inactive properties. In conjunction with the November 2002 purchase of equipment (see "Note 3. Acquisitions"), the Partnership assumed reclamation and mitigation liabilities of approximately \$3.0 million. In 2003, the Partnership leased the property and related infrastructure to a third party who is actively operating on the property. Consequently, all of the reclamation and stream mitigation liabilities were assigned to the new lessee. As of December 31, 2003 and 2002, the Partnership's environmental liabilities totaled \$1.6 million and \$4.6 million, respectively. The environmental liabilities are not covered by the indemnification agreement with Penn Virginia.

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others", which clarifies the requirements of SFAS No. 5, Accounting for Contingencies, relating to a guarantor's accounting for and disclosure of certain guarantees issued. FIN 45 requires enhanced disclosures for certain guarantees. It also will require certain guarantees that are issued or modified after December 31, 2002, including certain third-party guarantees, to be initially recorded on the balance sheet at fair value. For guarantees issued on or before December 31, 2002, liabilities are recorded when and if payments become probable and estimable. The financial statement recognition provisions are effective prospectively. The Partnership adopted the standard and has not issued any guarantees that are subject to the interpretation.

Forward-Looking Statements

Statements included in this report which are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto) are forward-looking statements. In addition, the Partnership and its representatives may from time to time make other oral or written statements which are also forward-looking statements.

Such forward-looking statements include, among other things, statements regarding development activities, capital expenditures, acquisitions and dispositions, expected commencement dates of coal mining, projected quantities of future coal production by the Partnership's lessees and costs and expenditures as well as projected demand or supply for coal, which will affect sales levels, prices and royalties realized by the Partnership.

These forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting the Partnership and therefore involve a number of risks and uncertainties. The Partnership cautions that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

Important factors that could cause the actual results of operations or financial condition of the Partnership to differ include, but are not necessarily limited to: the cost of finding new coal reserves; the ability to acquire new coal reserves on satisfactory terms; the price for which such reserves can be sold; the volatility of commodity prices for coal; the risks associated with having or not having price risk management programs; the Partnership's ability to lease new and existing coal reserves; the ability of lessees to produce sufficient quantities of coal on an economic basis from the Partnership's reserves; the ability of lessees to obtain favorable contracts for coal produced from the Partnership's reserves; competition among producers in the coal industry generally; the extent to which the amount and quality of actual production differs from estimated mineable and merchantable coal reserves; unanticipated geological problems; availability of required materials and equipment; the occurrence of unusual weather or operating conditions including force majeure or events; the failure of equipment or processes to operate in accordance with specifications or expectations; delays in anticipated start-up dates; environmental risks affecting the mining of coal reserves; the timing of receipt of necessary governmental permits; labor relations and costs; accidents; changes in governmental regulation or enforcement practices, especially with respect to environmental, health and safety matters, including with respect to emissions levels applicable to coal-burning power generators; risks and uncertainties relating to general domestic and international economic (including inflation and interest rates) and political conditions; the experience and financial condition of the Partnership's lessees, including their ability to satisfy their royalty, environmental, reclamation and other obligations to the Partnership and others; changes in financial market conditions; and other risk factors detailed in the Partnership's Securities and Exchange commission filings. Many of such factors are beyond the Partnership's ability to control or predict. Readers are cautioned not to put undue reliance on forward-looking statements.

While the Partnership periodically reassesses material trends and uncertainties affecting the Partnership's results of operations and financial condition in connection with the preparation of Management's Discussion and

Analysis of Results of Operations and Financial Condition and certain other sections contained in the Partnership's quarterly, annual or other reports filed with the Securities and Exchange Commission, the Partnership does not intend to review or update any particular forward-looking statement, whether as a result of new information, future events or otherwise.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

Market risk is the risk of loss arising from adverse changes in market rates and prices. The principal market risks to which we are exposed are interest rate risk and coal price risks.

In March 2003, we refinanced \$90.0 million of current amounts borrowed on our credit facility borrowings with more permanent debt which has a fixed interest rate throughout its term. We executed an interest rate derivative transaction for \$30.0 million of the amount refinanced to hedge the fair value of our unsecured senior notes. The interest rate swap is accounted for as a fair value hedge in compliance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. The debt we incur in the future under our credit facility will bear variable interest at either the applicable base rate or a rate based on LIBOR.

We are also indirectly exposed to the credit risk our lessees if our lessees do not manage their operations well or if there is a significant decline in coal prices, our lessees may not be able to pay their debts as they become due or our coal royalty revenues could decrease due to decreased production volumes. In the fourth quarter of 2002, one of our lessees filed for bankruptcy under Chapter 11 of the Code for the second time in nine months. In October 2003, another entity purchased the respective leases from the lessee in bankruptcy and we assigned those leases to the new lessee.

Item 8. *Financial Statements and Supplementary Data*

Penn Virginia Resources, L.P. and Subsidiaries

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Management's Report on Financial Information

Management of the general partner of Penn Virginia Resources, L.P. is responsible for the preparation and integrity of the financial information included in this annual report. The financial statements have been prepared in accordance with generally accounting principles generally accepted in the United States, which involve the use of estimates and judgments where appropriate.

The partnership has a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and to produce the records necessary for the preparation of financial information. The system of internal control is supported by the selection and training of qualified personnel, the delegation of management authority and responsibility, and dissemination of policies and procedures. There are limits inherent in all systems of internal control based on the recognition that the costs of such systems should be related to the benefits to be derived. We believe the partnership's systems provide this appropriate balance.

The partnership's independent public accountants, KPMG LLP, have developed an understanding of our accounting and financial controls and have conducted such tests as they consider necessary to support their opinion on the financial statements. Their report contains an independent, informed judgment as to the partnership's reported results of operations and financial position.

The Board of Directors pursues its oversight role for the financial statements through the Audit Committee, which consists solely of outside directors. The Audit Committee meets regularly with management, the internal auditor and KPMG LLP, jointly and separately, to review management's process of implementation and maintenance of internal controls, and auditing and financial reporting matters. The independent and internal auditors have unrestricted access to the Audit Committee.

A. James Dearlove
*President and
Chief Executive Officer*

Frank A. Pici
*Vice President and
Chief Financial Officer*

Independent Auditors' Report

To the Partners of Penn Virginia Resource Partners, L.P.

We have audited the accompanying consolidated balance sheets of Penn Virginia Resource Partners, L.P., a Delaware limited partnership, and subsidiaries (collectively "the Partnership") as of December 31, 2003 and 2002, and the related consolidated statements of income, partners' capital and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The 2001 financial statements of Penn Virginia Resource Partners, L.P. and the Penn Virginia Coal Business ("the Predecessor") (see Note 1) were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 18, 2002.

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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Penn Virginia Resource Partners, L.P. (and subsidiaries) as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9 to the consolidated financial statements, effective January 1, 2003, the Partnership changed its method of accounting for asset retirement obligations.

KPMG LLP

Houston, Texas
February 16, 2004

**THIS REPORT IS A COPY OF A REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSEN LLP.
THE REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP, NOR HAS ARTHUR
ANDERSEN LLP PROVIDED A CONSENT TO THE INCLUSION OF ITS REPORT IN THIS
FORM 10-K.**

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Penn Virginia Resource Partners, L.P.:

We have audited the accompanying consolidated balance sheet of Penn Virginia Resource Partners, L.P., a Delaware limited partnership, and subsidiaries (the "Partnership") as of December 31, 2001 and the combined balance sheet of the Penn Virginia Coal Business (the "Predecessor") (see Note 1) as of December 31, 2000 and the related consolidated and combined statements of income, partners' capital and owner's equity and cash flows from the Partnership's commencement of operations (on October 31, 2001) to December 31, 2001 and the Predecessor period from January 1, 2001 through October 30, 2001, and for the years ended December 31, 2000 and 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. 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 estimated 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, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2001 and the Predecessor as of December 31, 2000, and the results of their operations and their cash flows from the Partnership's commencement of operation (on October 31, 2001) to December 31, 2001, and the Predecessor period from January 1, 2001 through October 30, 2001, and for the years ended December 31, 2000 and 1999, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Houston, Texas
February 18, 2002

PENN VIRGINIA RESOURCE PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per unit amounts)

	For the Years Ended December 31,		From Commencement of Operations (on October 31, 2001) through December 31, 2001	For the Period from January 1, 2001 through October 30, 2001
	2003 (Partnership)	2002 (Partnership)	(Partnership)	(Predecessor)
Revenues:				
Coal royalties	\$50,312	\$31,358	\$5,394	\$26,971
Coal services	2,111	1,704	198	1,462
Timber	1,020	1,640	323	1,409
Minimum rentals	1,720	2,840	—	941
Other	479	1,066	21	794
Total revenues	<u>55,642</u>	<u>38,608</u>	<u>5,936</u>	<u>31,577</u>
Operating costs and expenses:				
Royalty	2,712	1,765	281	1,770
Operating	1,523	1,147	369	776
Taxes other than income	1,256	895	94	522
General and administrative	7,013	6,419	926	4,533
Depreciation, depletion and amortization	16,578	3,955	648	2,436
Total operating costs and expenses	<u>29,082</u>	<u>14,181</u>	<u>2,318</u>	<u>10,037</u>
Operating income	26,560	24,427	3,618	21,540
Other income (expense):				
Interest expense	(4,986)	(1,758)	(269)	—
Interest expense—affiliate	—	—	—	(7,003)
Interest income	1,223	2,017	328	1,060
Interest income—affiliate	—	—	—	3,516
Income before taxes and cumulative effect of change in accounting principle	22,797	24,686	3,677	19,113
Income tax expense	—	—	—	6,691
Income before cumulative effect of change in accounting principle	22,797	24,686	3,677	19,113
Cumulative effect of change in account principle	(107)	—	—	—
Net income	<u>\$22,690</u>	<u>\$24,686</u>	<u>\$3,677</u>	<u>\$12,422</u>
General partner's interest in net income for the periods subsequent to October 30, 2001	<u>\$ 454</u>	<u>\$ 494</u>	<u>\$ 73</u>	
Limited partners' interest in net income for the periods subsequent to October 30, 2001	<u>\$22,236</u>	<u>\$24,192</u>	<u>\$3,604</u>	
Basic and diluted net income per limited partner unit, common and subordinated:				
Income before cumulative effect of change in accounting principle	\$ 1.25	\$ 1.57	\$ 0.24	
Cumulative effect of change in accounting principle	(0.01)	—	—	
Net income per limited partner unit	<u>\$ 1.24</u>	<u>\$ 1.57</u>	<u>\$ 0.24</u>	
Weighted average number of units outstanding, basic and diluted:				
Common	<u>10,291</u>	<u>7,737</u>	<u>7,650</u>	
Subordinated	<u>7,650</u>	<u>7,650</u>	<u>7,650</u>	

See accompanying notes to consolidated financial statements.

PENN VIRGINIA RESOURCE PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31,	
	2003	2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,066	\$ 9,620
Accounts receivable	6,909	4,414
Current portion of long-term note receivable	767	527
Other current assets	—	11
Total current assets	16,742	14,572
Property and equipment	264,897	263,321
Less: Accumulated depreciation, depletion and amortization	31,620	15,253
Net property and equipment	233,277	248,068
Coal mineral rights, net	4,869	—
Debt issuance costs, net	2,065	443
Long-term note receivable, net of current portion	504	1,274
Long-term prepaid minimums, net and other	2,435	2,218
Total assets	\$259,892	\$266,575
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Accounts payable	\$ 965	\$ 1,907
Accrued liabilities	2,910	1,454
Current portion of long-term debt	1,500	—
Deferred income	1,610	2,829
Total current liabilities	6,985	6,190
Deferred income	6,028	2,488
Other liabilities	2,793	4,478
Long-term debt	90,286	90,887
Commitments and contingencies (Note 13)		
Partners' Capital:		
Common units (10,373,288 units in 2003 and 9,172,205 units in 2002)	171,485	154,037
Common units—Class B (947,133 units in 2002)	—	19,610
Subordinated units (7,649,880 units in 2003 and 2002)	(18,060)	(11,780)
General partner interest	375	665
Total partners' capital	153,800	162,532
Total liabilities and capital	\$259,892	\$266,575

See accompanying notes to consolidated financial statements.

PENN VIRGINIA RESOURCE PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,		From Commencement of Operations (on October 31, 2001) through December 31, 2001	For the period from January 1, 2001 through October 30, 2001
	2003 (Partnership)	2002 (Partnership)	(Partnership)	(Predecessor)
Cash flows from operating activities:				
Net income	\$ 22,690	\$ 24,686	\$3,677	\$ 12,422
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation, depletion and amortization	16,578	3,955	648	2,436
Gain on sale of property and equipment	(5)	(9)	—	(31)
Noncash interest expense	520	319	52	2,535
Cumulative effect of change in accounting principle	107	—	—	—
Changes in operating assets and liabilities:				
Accounts receivable	(2,495)	(460)	196	(1,067)
Accounts payable	140	516	48	(70)
Accrued liabilities	1,456	693	574	(269)
Deferred income	2,321	1,389	158	705
Other assets and liabilities	(235)	(747)	105	(524)
Net cash provided by operating activities	<u>41,077</u>	<u>30,342</u>	<u>5,458</u>	<u>16,137</u>
Cash flows from investing activities:				
Payment received on long-term notes	530	439	110	329
Advances to affiliate	—	—	—	(19,218)
Proceeds from (purchase of) restricted U.S. Treasury notes	—	43,387	—	(43,387)
Proceeds from the sale of property and equipment	50	15	—	117
Coal property acquisitions	(1,361)	(86,767)	—	(32,994)
Coal services additions	(3,811)	(5,981)	(186)	(422)
Other property and equipment expenditures	(119)	(69)	(18)	(49)
Net cash used in investing activities	<u>(4,711)</u>	<u>(48,976)</u>	<u>(94)</u>	<u>(95,624)</u>
Cash flows from financing activities:				
Payments for debt issuance costs	(2,142)	—	—	(779)
Proceeds from (repayments of) of line of credit	—	—	—	(111)
Proceeds from initial public offering, net	—	—	—	142,373
Proceeds from long-term debt	90,000	47,500	—	43,387
Repayments of long-term debt	(88,387)	—	—	—
Purchase of common units from affiliate	—	—	—	(19,042)
Repayments of borrowings—affiliate	—	—	—	(122,845)
Proceeds from borrowings—affiliate	—	—	—	38,757
Proceeds received from issuance of partners' capital	317	1,142	—	—
Distributions	(36,708)	(28,723)	—	—
Net cash provided by (used in) financing activities	<u>(36,920)</u>	<u>19,919</u>	<u>—</u>	<u>81,740</u>
Net increase (decrease) in cash	(554)	1,285	5,364	2,253
Cash-beginning of period	9,620	8,335	2,971	718
Cash-end of period	<u>\$ 9,066</u>	<u>\$ 9,620</u>	<u>\$8,335</u>	<u>\$ 2,971</u>
Supplemental disclosures:				
Cash paid during the period for:				
Interest	\$ 3,248	\$ 1,694	\$ 109	\$ 7,063
Income taxes	—	—	—	5,656
Noncash investing and financing activities:				
Issuance of partners' capital for acquisitions	\$ 4,969	\$ 50,920	\$ —	\$ —
Liabilities associated with acquisitions, net	198	3,798	—	—
Increase in long-term debt—affiliate	—	—	—	2,535
Contribution from affiliate	—	—	—	4,691
Cancellation of long-term receivable—affiliate	—	—	—	75,349

See accompanying notes to consolidated financial statements.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL AND OWNER'S EQUITY
(in thousands, except unit data)

	Common Units		Class B Common Units		Subordinated Units		General Partner	Owner's Equity	Total
	Units	Amount	Units	Amount	Units	Amount			
Balance at December 31, 2000	—	\$ —	—	\$ —	—	\$ —	\$ —	\$ 26,693	\$ 26,693
Net income for the period from from January 1, 2001 to October 30, 2001	—	—	—	—	—	—	—	12,422	12,422
Book value of net assets contributed by parent	1,149,880	4,928	—	—	7,649,880	32,837	1,350	(39,115)	—
Issuance of units to the public, net of offering and other costs	6,500,000	123,331	—	—	—	—	—	—	123,331
Sale of underwriter overallotment	975,000	19,042	—	—	—	—	—	—	19,042
Purchase of common units from Parent to execute underwriter overallotment	(975,000)	(19,042)	—	—	—	—	—	—	(19,042)
Forgiveness and elimination of intercompany accounts with parent	—	(5,462)	—	—	—	(44,335)	(1,819)	—	(51,616)
Net income for the period from October 31, 2001 through December 31, 2001	—	1,802	—	—	—	1,802	73	—	3,677
Balance at December 31, 2001	7,649,880	124,599	—	—	7,649,880	(9,696)	(396)	—	114,507
Capital contributions	—	—	—	—	—	—	1,142	—	1,142
Issuance of units	1,522,325	31,390	947,133	19,530	—	—	—	—	50,920
2002 net income allocation	—	12,118	—	80	—	11,994	494	—	24,686
2002 distributions	—	(14,074)	—	—	—	(14,074)	(575)	—	(28,723)
Balance at December 31, 2002	9,172,205	\$154,033	947,133	19,610	7,649,880	(11,776)	665	—	162,532
Capital contributions	—	—	—	—	—	—	6	—	6
Issuance of units	12,950	311	241,000	4,969	—	—	—	—	5,280
Conversion of Class B units to common units	1,188,133	24,579	(1,188,133)	(24,579)	—	—	—	—	—
2003 net income allocation	—	12,058	—	702	—	9,476	454	—	22,690
2003 distributions	—	(19,496)	—	(702)	—	(15,760)	(750)	—	(36,708)
Balance at December 31, 2003	10,373,288	\$171,485	—	\$ —	7,649,880	\$(18,060)	\$ 375	\$ —	\$153,800

See accompanying notes to consolidated financial statements.

PENN VIRGINIA RESOURCE PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Penn Virginia Resource Partners, L.P. (the "Partnership"), a Delaware limited partnership, was formed in July 2001 to own and manage most of the assets, liabilities and operations of Penn Virginia Corporation's ("Penn Virginia") coal business (the "Penn Virginia Coal Business" or the "Predecessor").

The Partnership, through its wholly owned subsidiary Penn Virginia Operating Co., LLC, enters into leases with various third-party operators that gives those operators the right to mine coal reserves on the Partnership's land in exchange for royalty payments. The lessees make payments to the Company based on the higher of a percentage of the gross sales price or a fixed price per ton of coal they sell, with pre-established minimum monthly or annual payments. The Partnership also sells timber growing on its land and provides fee-based infrastructure facilities to certain lessees to enhance coal production and to generate additional coal services revenues.

The Partnership completed its initial public offering of 7,475,000 common units (including underwriter's overallotment) at a price of \$21.00 per unit on October 30, 2001. Total proceeds for the 7,475,000 units were \$157.0 million before offering costs and underwriters' commissions. Effective with the closing of the initial public offering, Penn Virginia's wholly owned subsidiaries received 174,880 common units, 7,649,880 subordinated units and a 2% partnership interest in the ownership of the Partnership. In addition, concurrent with the closing of the initial public offering, the Partnership borrowed \$43,386,750 under its term loan credit facility with PNC Bank, National Association and other lenders.

In conjunction with the formation of the Partnership, Penn Virginia contributed net assets totaling \$39.1 million to us. Concurrent with the initial public offering, the Partnership paid \$141.5 million to Penn Virginia for repayment of debt and the purchase of 975,000 common units held by Penn Virginia. The Partnership's note receivable from Penn Virginia was forgiven as well as the remaining portion of the Partnership's note payable to Penn Virginia. Additionally, deferred income taxes were retained by Penn Virginia as income taxes will be the responsibility of the unitholders and not the Partnership.

In December 2002, the Partnership acquired approximately 120 million tons of coal reserves from subsidiaries of Peabody Energy Corporation ("Peabody"). In conjunction with the acquisition, the Partnership issued 1,522,325 common units and 1,240,833 Class B common units, of which 293,700 Class B common units were held in escrow pending certain title transfers at December 31, 2002. In July 2003, all of the class B common units were converted, in accordance with their terms, upon the approval of our common unitholders. As of December 31, 2003, 52,700 common units remained in escrow pending Peabody acquiring and transferring to us certain of the West Virginia reserves we purchased. As a result of the units held in escrow, approximately one million tons of coal reserves and 52,700 common units were not included in property, plant and equipment or partners' capital, respectively, at December 31, 2003.

The general partner of the Partnership is Penn Virginia Resource GP, LLC, a wholly owned subsidiary of Penn Virginia.

2. Summary of Significant Accounting Policies

Basis of Presentation

Unless otherwise indicated, for the purposes of these financial statements, the Partnership refers to the Penn Virginia Coal Business for the periods prior to October 30, 2001 and to Penn Virginia Resource Partners, L.P. for the periods subsequent to October 30, 2001. The consolidated financial statements present the results of operations and financial position of the Partnership as if it had existed as a single entity, separate from Penn

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Virginia, for the periods prior to October 30, 2001. Intercompany balances and transactions within the Partnership have been eliminated.

Use of Estimates

Preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents / Restricted U.S. Treasury Notes

The Partnership considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of December 31, 2001, the Partnership had restricted cash in the form of U.S. Treasury notes, which were used to secure the Partnership's term loan facility – see "Note 7. Long-Term Debt." In December 2002, the Partnership sold the remaining U.S. Treasury notes and used the proceeds to purchase property and equipment.

Note Receivable

The note receivable is recorded at cost, adjusted for amortization of discounts. Discounts are amortized over the life of the note receivable using the effective interest rate method.

Debt Issuance Costs

Debt issuance costs relating to the Partnership's revolving credit facility and term loan have been capitalized and are being amortized over the life of the revolving credit facility and the senior notes.

Property and Equipment

Property and equipment represent the Partnership's ownership in coal fee mineral interests. Property and equipment are carried at cost and also include expenditures for additions and improvements, such as roads and land improvements, which increase the productive lives of existing assets. Maintenance and repair costs are expensed as incurred. Depreciation and amortization of property and equipment is computed using the straight-line or declining balance methods over the estimated useful lives of such property and equipment, varying from 3 years to 20 years. Coal properties are depleted on an area-by-area basis at a rate based upon the cost of the mineral properties and estimated proven and probable tonnage therein. From time to time, the Partnership carries out core-hole drilling activities on its coal properties in order to ascertain the quality and quantity of the coal contained in those properties. These core-drilling activities are expensed as incurred. When an asset is retired or sold, its cost and related accumulated depreciation and amortization are removed from the accounts. The difference between undepreciated cost (net of any related asset retirement obligation) and proceeds from disposition is recorded as gain or loss.

Timber and timberlands are stated at cost less depletion and amortization for timber previously harvested. The cost of the timber harvested is determined based on the volume of timber harvested in relation to the amount of estimated net merchantable volume, utilizing a composite pool. The Partnership estimates its timber inventory using statistical information and periodic data obtained from physical measurements, site maps, photo-types and other information gathering techniques. These estimates are updated annually and may result in adjustments of timber volumes and depletion rates, which are recognized prospectively. Changes in these estimates have no effect on the Partnership's cash flow.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Coal Mineral Rights

Based on the application of certain provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," the Partnership has begun to classify costs associated with the leasing of coal reserves acquired after June 30, 2001 as an intangible asset on the balance sheet, apart from other capitalized property costs. The amount capitalized related to a mineral right represents its fair value at the time such right was acquired less accumulated amortization. The transition provisions of SFAS No. 141 and SFAS No. 142 only require the reclassification of amounts acquired after the June 30, 2001 effective date, unless previously maintained records make it possible to reclassify rights acquired prior to that date. Prior to June 30, 2001, the Partnership did not separately allocate acquisition costs between owned mineral interests (tangible property) and leased mineral rights (intangible property), as such interests were part of the same coal seams. Accordingly, the Partnership has only classified coal mineral rights acquired after June 30, 2001 as an intangible asset in the accompanying consolidated balance sheet. The pattern in which the economic benefits of the intangibles are used cannot be reliably determined; consequently, the Partnership is amortizing the coal mineral rights using the straight-line method over an estimated useful life of 13 years.

Impairment of Long-Lived Assets

The Partnership reviews its long-lived assets to be held and used whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. An impairment loss must be recognized when the carrying amount of an asset exceeds the sum of the undiscounted estimated future cash flows. In this circumstance, the Partnership would recognize an impairment loss equal to the difference between the carrying value and the fair value of the asset. Fair value is estimated to be the present value of expected future net cash flows from proved reserves, utilizing a risk-adjusted rate of return.

Long-Term Prepaid Minimums

The Partnership leases a portion of its reserves from third parties which require monthly or annual minimum rental payments. The prepaid minimums are recoupable from future production and are deferred and charged to royalty expense as the coal is subsequently produced. The Partnership evaluates the recoverability of the prepaid minimums on a periodic basis; consequently, any prepaid minimums that cannot be recouped are charged to royalty expense.

Environmental Liabilities

Included in "Other Liabilities" are accruals for environmental liabilities that were either assumed in connection with certain acquisitions or recorded in operating expenses when it is probable that a liability has been incurred and the amount of that liability can be reasonably estimated.

Concentration of Credit Risk

Substantially all of the Partnership's accounts receivable at December 31, 2003 result from accrued revenues from lessee production. This concentration of lessees may impact the Partnership's overall credit risk, either positively or negatively, in that these entities may be similarly affected by changes in economic or other conditions. In determining whether or not to require collateral from a lessee, the Partnership analyzes the lessee entity's net worth, cash flows, earnings and credit ratings to the extent information is available. Receivables are generally not collateralized. Historical credit losses incurred by the Partnership on receivables have not been significant.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Value of Financial Instruments

The Partnership's financial instruments consist of cash and cash equivalents, accounts receivable, note receivable, accounts payable, interest rate swap and long-term debt. The carrying values of cash and cash equivalents, accounts receivable and payable and the interest rate swap approximate fair value. The fair value of long-term debt at December 31, 2003 and 2002 was \$88.9 million and \$90.9 million, respectively. The fair value of the note receivable at December 31, 2003 and 2002 was \$2.3 million and \$3.4 million, respectively.

Revenues

Coal Royalties. Coal royalty revenues are recognized on the basis of tons of coal sold by the Partnership's lessees and the corresponding revenues from those sales. Most coal leases are based on minimum monthly or annual payments, a minimum dollar royalty per ton and/or a percentage of the gross sales price.

Coal Services. Coal services revenues are recognized when lessees use the Partnership's facilities for the processing, loading and/or transportation of coal. Coal services revenues consist of fees collected for the use of the Partnership's loadout facility, coal preparation plants and dock loading facility.

Timber. Timber revenues are recognized when timber is sold in a competitive bid process involving sales of standing timber on individual parcels and, from time to time, on a contract basis where independent contractors harvest and sell the timber. Timber revenues are recognized when the timber has been sold or harvested by the independent contractors. Title and risk of loss pass to the independent contractors upon the execution of the contract. In addition, if the contractors do not harvest the timber within the specified time period, the title of the timber reverts back to the Partnership with no refund of original payment.

Minimum Rentals. Most of the Partnership's lessees must make minimum monthly or annual payments that are generally recoupable over certain time periods. These minimum payments are recorded as deferred income. If the lessee recoups a minimum payment through production, the deferred income attributable to the minimum payment is recognized as coal royalty revenues. If a lessee fails to meet its minimum production for certain pre-determined time periods, the deferred income attributable to the minimum payment is recognized as minimum rental revenues.

Income Taxes

Subsequent to the initial formation of the Partnership, no provision for income taxes related to the operations of the Partnership has been included in the accompanying financial statements because, as a Partnership, it is not subject to federal or state income taxes 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.

For periods prior to the Partnership's initial public offering, the Penn Virginia Coal Business' (Predecessor) operations were included in Penn Virginia's consolidated federal and state income tax returns. The Penn Virginia Coal Business' income tax provisions were computed as though separate returns were filed. The Penn Virginia Coal Business accounted for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." This statement requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in Penn Virginia Coal Business' financial statements or tax returns. Using this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net income per unit

Basic and diluted net income per unit is determined by dividing net income, after deducting the general partner's 2% interest, by the weighted average number of outstanding Common Units and Subordinated Units. At December 31, 2003, there were no dilutive units.

New Accounting Standards

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others, which clarifies the requirements of SFAS No. 5, Accounting for Contingencies, relating to a guarantor's accounting for and disclosures of certain guarantees issued. FIN 45 requires enhanced disclosures for certain guarantees. It also will require certain guarantees that are issued or modified after December 31, 2002, including certain third-party guarantees, to be initially recorded on the balance sheet at fair value. For guarantees issued on or before December 31, 2002, liabilities are recorded when and if payments become probable and estimable. The Partnership adopted the standard and has not issued any guarantees that are subject to the interpretation.

3. Acquisitions

In December 2002, the Partnership acquired two properties containing approximately 120 million tons of coal reserves (unaudited) from Peabody for 1,522,325 million common units, 1,240,833 million Class B common units (a combined common unit value of \$57.0 million) and \$72.5 million in cash plus closing costs. The \$130.5 million acquisition included approximately \$6.1 million, or 293,700 Class B units, held in escrow pending certain title transfers at December 31, 2002. As a result of the units held in escrow, approximately five million tons of coal reserves (unaudited) and 293,700 common units were not included in property, plant and equipment or partners' capital, respectively, at December 31, 2002. In July 2003, 241,000 Class B common units were released from escrow in exchange for certain title transfers in New Mexico. In July 2003, all of the class B common units were converted, in accordance with their terms, upon the approval of our common unitholders. As of December 31, 2003, 52,700 common units remained in escrow pending Peabody acquiring and transferring to us certain of the West Virginia reserves we purchased. As a result of the units held in escrow, approximately one million tons of coal reserves and 52,700 common units were not included in property, plant and equipment or partners' capital, respectively, at December 31, 2003. Approximately two-thirds of the reserves are located on the Lee Ranch property in New Mexico, which Peabody continues to operate as a surface mining operation. Approximately one third of the acquired reserves are in northern West Virginia, which Peabody also continues to operate. Each set of reserves are being leased back to Peabody for royalty rates which escalate annually over the life of the property's production. As part of the transaction, Peabody will receive the right to share in the general partner's incentive distribution rights, if any, in exchange for additional properties Peabody may source to the Partnership in the future. The cash portion of the transaction was funded with long-term debt and \$26.4 million in proceeds from the sale of U.S. Treasury notes. The acquired coal reserves had existing productive operations that have been included in the Partnership's statements of income since the closing date.

In November 2002, the Partnership completed the acquisition of certain infrastructure-related equipment and other assets integral to mining on one of our West Virginia properties. The purchased assets included a 900-ton per hour coal preparation plant, a unit-train loading facility and a railroad-granted rebate on coal loaded through the facility. The Partnership acquired the assets from Pen Holdings, Inc. and its lessors for \$5.1 million in cash, which was funded with the proceeds from the sale of U.S. Treasury notes, plus the assumption of approximately \$2.4 million in reclamation liabilities and approximately \$0.6 million of stream mitigation obligations. These assets did not have existing productive operations at the time of acquisition. In 2003, the

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Partnership leased the property and related infrastructure to a third party who is actively operating on the property. Consequently, all of the reclamation and stream mitigation liabilities were assigned to the new lessee.

In August 2002, we acquired the coal mineral interests to approximately 16 million tons of coal reserves located in West Virginia for \$12.3 million. The acquisition, which was purchased from an independent private entity, was funded with the proceeds from the sale of U.S. Treasury notes. The acquired coal mineral interests had existing productive operations that have been included in the Partnership's statements of income as of the closing date.

The factors used by the Partnership to determine the fair market value of acquisitions include, but are not limited to, discounted future net cash flows on a risked-adjusted basis, geographic location, quality of resources, potential marketability and financial condition of the lessees.

4. Note Receivable

At December 31, 2003 and 2002, the Partnership had one note receivable outstanding relating to the sale of coal properties located in Virginia in 1986. The note has a stated interest rate of 6.0% per annum and had an original principal amount of \$15.0 million pursuant to which the Partnership receives quarterly payments through July 1, 2005. In addition, the Partnership owns a 50% residual interest in any royalty income generated on any of the coal mined and sold after July 1, 2005.

The note receivable matures as follows:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	(in thousands)	
Current	\$ 767	\$ 527
Due after one year through July 1, 2005	504	1,274
	<u>\$1,271</u>	<u>\$1,801</u>

5. Property and Equipment

Property and equipment includes:

	<u>December 31,</u>	
	<u>2003</u>	<u>2002</u>
	(in thousands)	
Coal properties	\$244,881	\$244,702
Coal services equipment	16,660	15,368
Land	1,791	1,791
Timber	188	188
Other equipment	1,377	1,272
	<u>264,897</u>	<u>263,321</u>
Less: Accumulated depreciation, depletion and amortization	31,620	15,253
Net property and equipment	<u>\$233,277</u>	<u>\$248,068</u>

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Coal Mineral Rights

Coal mineral rights include:

	December 31,	
	2003	2002
	(in thousands)	
Coal mineral rights—New Mexico	\$5,069	\$—
Less: Accumulated amortization	200	—
Coal mineral rights, net	\$4,869	\$—

Amortization expense totaled \$0.2 million for the year ended December 31, 2003. Amortization expense is expected to be \$0.4 million for each of the next five years.

7. Allowance for Prepaid Minimums

The Partnership establishes provisions for losses on long-term prepaid minimums if we determine that we will not recoup all or part of the outstanding balance. Collectibility is reviewed periodically and an allowance is established or adjusted, as necessary, using the specific identification method. The following table presents the activity of our allowance for prepaid minimums for the three years ended December 31, 2003:

	For the Years Ended December 31,		
	2003	2002	2001
	(in thousands)		
Balance at beginning of period	\$1,240	\$1,475	\$1,475
Charges to expense	94	115	—
Deductions and other	—	(350)	—
Balance at end of period	\$1,334	\$1,240	\$1,475

8. Accrued Liabilities

Accrued liabilities include:

	December 31,	
	2003	2002
	(in thousands)	
Accrued interest	\$1,382	\$ 164
Accrued taxes	611	703
Accrued royalty expense	550	141
Other	367	446
Total accrued liabilities	\$2,910	\$1,454

9. Asset Retirement Obligations

Effective January 1, 2003, the Partnership adopted Statement of Financial Accounting Standards (“SFAS”) No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of assets.

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is also added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to accretion expense, which are recorded as additional depreciation, depletion and amortization. If the obligation is settled for other than the carrying amount of the liability, a gain or loss on settlement will be recognized.

The Partnership identified all required asset retirement obligations and determined the fair value of these obligations on the date of adoption. The determination of fair value was based upon regional market and facility type information. In conjunction with the initial application of SFAS No. 143, the Partnership recorded a cumulative effect of change in accounting principle of \$0.1 million as a decrease to income. In addition, an asset retirement obligation of approximately \$0.4 million was recorded in "Other Liabilities." Below is a reconciliation of the beginning and ending aggregate carrying amount of our asset retirement obligations as of December 31, 2003.

	Year Ended December 31, 2003
	(in thousands)
Balance—January 1, 2003	\$—
Initial adoption entry	435
Liabilities incurred in the current period	198
Accretion expense	33
Balance—December 31, 2003	\$666

On a pro forma basis as required by SFAS No. 143, the amount of the asset retirement obligation would have been \$0.4 million as of December 31, 2002. If SFAS No. 143 were applied retroactively, the impact on the consolidated statements of income for the years ended December 31, 2002 and 2001 would not be material.

10. Long-Term Debt

Long-term debt includes:

	December 31,	
	2003	2002
	(in thousands)	
Revolving credit facility—variable rate of 2.9% at December 31, 2003	\$ 2,500	\$47,500
Senior unsecured notes, net of interest rate swap	89,286	—
Term loan	—	43,387
	91,786	90,887
Less: current maturities	1,500	—
Net long-term debt	\$90,286	\$90,887

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Revolving Credit Facility

In October 2003, the Partnership entered into an amendment to its revolving credit facility (the "Revolver") to increase the facility from \$50 million to \$100 million and to extend the maturity date to October 2006. The Revolver is with a syndicate of financial institutions led by PNC Bank, National Association as its agent. The Revolver is available for general partnership purposes, including working capital, capital expenditures and acquisitions, and includes a \$5.0 million sublimit that is available for working capital needs and distributions and a \$5.0 million sublimit for the issuance of letters of credit.

Indebtedness under the Revolver will bear interest, at our option, at either (i) the Eurodollar rate plus an applicable margin which ranges from 1.25% to 2.25% based on our ratio of consolidated indebtedness to consolidated EBITDA (as defined in the Revolver) for the four most recently completed fiscal quarters, or (ii) the higher of the federal funds rate plus 0.50% or the prime rate as announced by PNC Bank, National Association. The Partnership had utilized letters of credit of \$1.6 million as of December 31, 2003 and 2002. The financial covenants of the Revolver include, but are not limited to, maintaining: (i) a ratio of not more than 2.50:1.00 of total debt to consolidated EBITDA (as defined by the credit agreement), and (ii) a ratio of not less than 4.00:1.00 of consolidated EBITDA to interest. As of December 31, 2003, the Partnership was in compliance with all of its covenants.

Senior Unsecured Notes

In March 2003, we closed a private placement of \$90 million of senior unsecured notes (the "Notes"). The Notes bear interest at a fixed rate of 5.77% and mature over a ten year period ending in March 2013, with semi-annual interest payments through March 2004 followed by semi-annual principal and interest payments beginning in September 2004. Proceeds of the Notes, after the payment of expenses related to the offering, were used to repay and retire a \$43.4 million term loan and to repay the majority of debt outstanding on our Revolver.

The Notes contain various covenants similar to those contained in the Revolver, with the exception of the financial covenants, which require the Partnership to maintain: (i) a ratio of not more than 3.00:1.00 of total debt to consolidated EBITDA (as defined by the credit agreement), and (ii) a ratio of not less than 3.50:1.00 of consolidated EBITDA to interest. However, the Notes do not limit the Partnership's ability to incur additional indebtedness. The Notes rank pari passu in right of payment with all other unsecured indebtedness. As of December 31, 2003, the Partnership was in compliance with all of the covenants.

Interest Rate Swap

Concurrent with the closing of the Notes in March 2003, the Partnership entered into an interest rate swap agreement with a notional amount of \$30 million, to hedge a portion of the fair value of the Notes. This swap is designated as a fair value hedge and has been reflected as a decrease in long-term debt of \$0.7 million as of December 31, 2003. Under the terms of the interest rate swap agreement, the Partnership pays a fixed annual rate of 5.77% on a total notional amount of \$30 million, and receives a variable rate equal to the floating interest rate which will be determined semi-annually and will be based on the six month London Interbank Offering Rate plus 2.36%.

As of December 31, 2003, the Partnership had outstanding borrowings of \$91.8 million, consisting of \$2.5 million borrowed against our Revolver and \$89.3 million attributable to our senior unsecured notes (\$90.0 million offset by \$0.7 million fair value of interest rate swap).

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Debt Maturities

Aggregate maturities of the principal amounts of long-term debt for the next five years and thereafter are as follows (in thousands):

2004	\$ 1,500
2005	4,800
2006	10,800
2007	11,000
2008	12,700
Thereafter	<u>51,700</u>
	92,500
Less: interest rate swap	<u>714</u>
Total debt, including current maturities	<u><u>\$91,786</u></u>

11. Partnership Capital and Distributions

As of December 31, 2003, partners' capital consisted of 10,373,288 common units representing a 56.4% limited partner interest, 7,649,880 subordinated units representing a 41.6% interest and a 2% general partner interest. As of December 31, 2003, affiliates of Penn Virginia, in the aggregate, owned a 44.4% interest in the Partnership consisting of 155,317 common units, 7,649,880 subordinated units and a 2% general partner interest.

The Partnership will distribute 100% of its Available Cash (as defined in the partnership agreement) within 45 days after the end of each quarter to unitholders of record and to the general partner. 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 general partner for future requirements. The general partner has the discretion to establish cash reserves that are necessary or appropriate to (i) provide for the proper conduct of our business; (ii) comply with applicable law, any of our debt instruments or other agreements; or (iii) provide funds for distributions to unitholders and the general partner for any one or more of the next four quarters.

Cash distributions

Distributions of Available Cash to holders 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 subordinated period and to receive any arrearages in the distribution of the MQD on the common units for the prior quarters during the subordinated period. The MQD is \$0.50 per unit (\$2.00 per unit on an annual basis). We expect to make quarterly distributions of \$0.50 or more per common unit to the extent we have sufficient cash from our operations after payment of fees and expenses. In general, we will pay any cash distributions we make each quarter in the following manner:

- *first*, 98% to the common units and 2% to the general partner, until each common unit has received a minimum quarterly distribution of \$0.50 plus any arrearages in the payment of the minimum quarterly distribution from prior quarters;
- *second*, 98% to the subordinated units and 2% to the general partner, until each subordinated unit has received a minimum quarterly distribution of \$0.50; and
- *third*, 98% to all units, pro rata, and 2% to the general partner, until each unit has received a distribution of \$0.55.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

If cash distributions per unit exceed \$0.55 in any quarter, our general partner will receive a higher percentage of the cash we distribute in excess of that amount in increasing percentages up to 50%.

Subordination period

During the subordination period, the common units will have the right to receive the minimum quarterly distribution, plus arrearages, before we make any distributions on the subordinated units. The subordination period will end once we meet the financial tests (discussed below) in the partnership agreement, but it generally cannot end before September 30, 2006. When the subordination period ends, all remaining subordinated units will convert into common units on a one-for-one basis and the common units will no longer be entitled to arrearages.

If the Partnership meets the financial tests in the partnership agreement for any quarter ending on or after September 30, 2004, 25% of the subordinated units will convert into common units. If we meet these tests for any quarter ending on or after September 30, 2005, an additional 25% of the subordinated units will convert into common units. The early conversion of the second 25% of the subordinated units may not occur until at least one year after the early conversion of the first 25% of subordinated units.

Limited call right

If at any time persons other than our general partner and its affiliates do not own more than 20% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then current market price of the common units. If quarterly distributions of Available Cash exceed the MQD or certain target distribution levels, the general partner will receive distributions, which are generally equal to 15%, then 25% and then 50% of the distributions of Available Cash that exceed the target distribution levels.

For the years ended December 31, 2003 and 2002, the Partnership declared and paid quarterly distributions of \$2.06 and \$1.84 per unit to the unitholders, respectively. The quarterly distributions paid in 2002 included a first quarter distribution in the amount of \$0.34 per unit to unitholders of record on January 31, 2002 which represented the pro rata MQD from October 30, 2001, the closing date of the initial public offering, through December 31, 2001.

12. Related Party Transactions

General and Administrative

Penn Virginia charges the Partnership for certain corporate administrative expenses, which are allocable to the Partnership. When allocating general corporate expenses, consideration is given to payroll, general corporate overhead and employee benefits. Any direct costs are charged directly to the Partnership. Total corporate administrative expenses charged to the Partnership and the Penn Virginia Coal Business totaled \$1.1 million, \$1.2 million and \$2.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. From commencement of operations (October 30, 2001) through December 31, 2001, the overhead costs allocated to the Partnership were \$0.9 million. These costs are reflected in general and administrative expenses in the accompanying consolidated statements of income. Management believes the allocation methodologies used are reasonable.

PENN VIRGINIA RESOURCE PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounts payable—affiliate

The Partnership's related party accounts payable and accrued liabilities balance totaled \$0.6 million for the year ended December 31, 2003. The Partnership's related party accounts payable and accrued liabilities balance totaled \$1.7 million for the year ended December 31, 2002, which consists primarily of amounts due to the general partner for expenses incurred relating the December 2002 Peabody acquisition.

Interest expense—affiliate

Prior to the formation of the partnership, The Predecessor financed its working capital requirements and its capital expenditures, prior to the initial public offering, through an unsecured promissory note payable to Penn Virginia Equities Corporation, a wholly owned subsidiary of Penn Virginia. The note was paid in conjunction with the October 30, 2001 closing of the initial public offering. Additionally, during 1998, the Predecessor acquired 810 shares of its own stock owned by Penn Virginia Holding Corp., a wholly owned subsidiary of Penn Virginia, in exchange for an unsecured promissory note totaling \$36.9 million. The note was cancelled in conjunction with the October 30, 2001 closing of the initial public offering. Affiliated interest expense was \$7.0 million for the period from January 1, 2001 through October 30, 2001.

There were no outstanding long-term debt—affiliate balances for the years ended December 31, 2003 and 2002.

Interest income—affiliate

The Partnership advanced its cash receipts from operations to Penn Virginia, prior to the initial public offering, so that Penn Virginia may centrally manage cash funding requirements for its consolidated group. These advances totaled \$75 million and were forgiven in conjunction with the October 30, 2001 closing of the initial public offering. Affiliated interest income was \$3.5 million for the period from January 1, 2001 through October 30, 2001.

There were no outstanding long-term receivables-affiliate balances for the years ended December 31, 2003 and 2002.

13. Income Taxes

The provision for income taxes consisted of current income taxes of \$6.7 million and zero deferred income taxes for the period from January 1, 2001 through October 30, 2001. There were no differences between the taxes computed by applying the statutory tax rate to income from operations before income taxes and the Partnership's reported income tax expense.

Subsequent to the initial formation of the Partnership, no provision for current or deferred income taxes related to the operations of the Partnership has been included in the accompanying financial statements because, as a Partnership, it is not subject to federal or state income taxes and the tax effect of its activities accrues to the unitholders

14. Long-Term Incentive Plan

The long-term incentive plan is administered by the compensation committee of the general partner's board of directors. The Partnership will reimburse the general partner for all payments made pursuant to the programs. Grants may be made either of restricted units, phantom units or options to purchase common units. Common

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

units to be delivered upon the vesting of restricted units, common units to be issued upon the vesting of phantom units, or common units to be issued upon exercise of a unit option will be acquired by the general partner in the open market at a price equal to the then-prevailing price on the principal national securities exchange upon which the common units are then traded, or directly from Penn Virginia Corporation or any other third party, including units newly issued by us, or units already owned by the general partner, or any combination of the foregoing. The general partner will be entitled to reimbursement by us for the cost incurred in acquiring these common units or in paying cash in lieu of common units upon vesting of the phantom units. The aggregate number of units reserved for issuance under the long-term incentive plan is 300,000.

For the year ended December 31, 2003 the general partner granted an aggregate of 12,950 units under the Plan, including 8,950 restricted common units granted to officers and employees of the general partner and 4,000 restricted common units granted to independent directors. For the year ended December 31, 2002 the general partner granted an aggregate of 37,500 units under the Plan, including 21,500 restricted common units granted to officers of the general partner and 16,000 restricted common units granted to independent directors, of which 4,000 vested in 2002. From commencement of operations (October 30, 2001) through December 31, 2001, no grants under the plan were made. The general partner is reimbursed for all direct compensation expenses incurred on the Partnership's behalf and the amount is charged to expense over the vesting period. General and administrative expenses relating to the vesting of restricted units totaled \$0.2 million, \$0.4 million and zero for the years ended December 31, 2003, 2002 and 2001.

15. Commitments and Contingencies

Rental Commitments

Minimum annual rental commitments payable by the Partnership under all coal property non-cancelable operating leases in effect at December 31, 2003 were \$0.4 million per year. The rental commitments relate to various coal reserves leased by the Partnership and do not expire until the respective reserves have been exhausted or the leases have been cancelled. We believe the future rental commitments cannot be estimated with certainty; however, based on historical trends, we believe the Partnership will incur approximately \$0.4 million in rental commitments in perpetuity until the reserves have been exhausted.

Legal

The Partnership is involved, from time to time, in various legal proceedings arising in the ordinary course of business. While the ultimate results of these proceedings cannot be predicted with certainty, Partnership management believes these claims will not have a material effect on the Partnership's financial position, liquidity or operations.

Environmental Compliance

The operations of our lessees are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. The terms of the Partnership's coal property leases impose liability for all environmental and reclamation liabilities arising under those laws and regulations on the relevant lessees. The lessees are bonded and have indemnified the Partnership against any and all future environmental liabilities. The Partnership regularly visits the coal property leases to monitor lessee's compliance with environmental laws and regulations, as well as reviewing mine activities. Management believes that the Partnership's lessees will be able to comply with existing regulations and does not expect any material impact on its financial condition or results of operations.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2003, the Partnership has some reclamation bonding requirements with respect to certain of its unleased and inactive properties. In conjunction with the November 2002 purchase of equipment (see "Note 3. Acquisitions"), the Partnership assumed reclamation and mitigation liabilities of approximately \$3.0 million. In 2003, the Partnership leased the property and related infrastructure to a third party who is actively operating on the property. Consequently, all of the reclamation and stream mitigation liabilities were assigned to the new lessee. As of December 31, 2003 and 2002, the Partnership's environmental liabilities totaled \$1.6 million and \$4.6 million, respectively. The \$1.6 million liability represents the Partnership's best estimate as of December 31, 2003. However, given the uncertainty of when the reclamation area will meet regulatory standards, it is likely that a change in this estimate could occur in the future. The environmental liabilities are not covered by the indemnification agreement with Penn Virginia.

Mine Health and Safety Laws

There are numerous mine health and safety laws and regulations applicable to the coal mining industry. However, since we do not operate any mines and do not employ any coal miners, we are not subject to such laws and regulations. Accordingly, we have not accrued any liabilities related thereto.

16. Major Lessees

The Partnership depends on a few groups of lessees for a significant portion of its revenues. Each lessee group generally includes two or more affiliated entities which conduct mining operations at several locations. Revenues from major lessee groups, which exceed ten percent of total revenues, are as follows:

	Year Ended December 31,					
	2003		2002		2001	
	Revenues	%	Revenues	%	Revenues	%
	(dollars in thousands)					
Lessee group A—Coal royalty segment	\$14,187	25.5	\$ 706	1.8	\$ —	—
Lessee group B—Coal royalty segment	7,906	14.2	7,059	18.3	6,138	16.4
Lessee group C—Coal royalty segment	6,775	12.2	5,175	13.4	5,302	14.1
Lessee group D—Coal royalty and coal services segments ..	6,760	12.1	6,738	17.5	7,364	19.6

17. Segment Information

Segment information has been prepared in accordance with SFAS No. 131 "Disclosure about Segments of an Enterprise and Related Information." The Partnership's coal operations are organized along its natural resource and coal services operations. The Partnership's reportable segments are as follows:

Coal Royalty

The coal royalty segment is engaged in managing the Partnership's coal properties in the Central and Northern Appalachian region of the United States, as well as its property in New Mexico.

Coal Services

The Partnership's coal services segment consists of fees charged to its lessees for the use of the Partnership's unit train loadout facilities, coal preparation plants, dock loading facility and short-line railroads.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Timber

The Partnership's timber segment is engaged in the selling of standing timber on the Partnership's properties.

The following is a summary of certain financial information relating to the Partnership's segments:

	<u>Coal Royalty</u>	<u>Coal Services</u>	<u>Timber</u>	<u>Total</u>
(in thousands)				
For the year ended December 31, 2003				
Revenues	\$ 52,510	\$ 2,112	\$1,020	\$ 55,642
Operating costs and expenses	9,638	2,235	631	12,504
Depreciation, and depletion	15,323	1,250	5	16,578
Operating income (loss)	<u>\$ 27,549</u>	<u>\$ (1,373)</u>	<u>\$ 384</u>	<u>\$ 26,560</u>
Interest expense				(4,986)
Interest income				1,223
Cumulative effect of change in accounting principle				(107)
Income before taxes				<u>\$ 22,690</u>
Total assets	\$245,461	\$14,111	\$ 167	\$259,892
Capital expenditures	1,480	3,811	—	5,291
For the year ended December 31, 2002				
Revenues	\$ 34,820	\$ 2,148	\$1,640	\$ 38,608
Operating costs and expenses	8,491	1,129	606	10,226
Depreciation and depletion	3,266	681	8	3,955
Operating income (loss)	<u>\$ 23,063</u>	<u>\$ 338</u>	<u>\$1,026</u>	<u>\$ 24,427</u>
Interest expense				(1,758)
Interest income				2,017
Income before taxes				<u>\$ 24,686</u>
Total assets	\$252,097	\$14,306	\$ 172	\$266,575
Capital expenditures	138,520	9,015	—	\$147,535
For the year ended December 31, 2001				
Revenues	\$ 34,121	\$ 1,660	\$1,732	\$ 37,513
Operating costs and expenses	7,683	911	677	9,271
Depreciation and depletion	2,631	445	8	3,084
Operating income (loss)	<u>\$ 23,807</u>	<u>\$ 304</u>	<u>\$1,047</u>	<u>\$ 25,158</u>
Interest expense				(7,272)
Interest income				4,904
Income before taxes				<u>\$ 22,790</u>
Total assets	\$156,872	\$ 5,586	\$ 180	\$162,638
Capital expenditures	33,061	608	—	33,669

Operating income is equal to total revenues less operating costs and expenses and depreciation, depletion and amortization. Operating income does not include certain other income items, interest expense, interest income and income taxes. Identifiable assets are those assets used in the Partnership's operations in each segment.

PENN VIRGINIA RESOURCE PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. Quarterly Financial Information (Unaudited)

Summarized Quarterly Financial Data:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2003	(in thousands, except share data)			
Operating revenues royalties	\$13,241	\$13,281	\$12,812	\$16,308
Operating income	6,076	6,216	6,350	7,918
Net income	\$ 5,514	\$ 5,159	\$ 5,269	\$ 6,748
Basic and diluted net income per limited partner unit:				
Common	\$ 0.30	\$ 0.28	\$ 0.29	\$ 0.37
Subordinated	\$ 0.30	\$ 0.28	\$ 0.29	\$ 0.37
Weighted average number of units outstanding, basic and diluted:				
Common	7,650	7,650	7,650	7,997
Subordinated	7,650	7,650	7,650	7,650
	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2002	(in thousands, except share data)			
Operating revenues royalties	\$10,755	\$ 7,791	\$10,404	\$ 9,658
Operating income	7,267	4,879	7,039	5,242
Net income	\$ 7,432	\$ 4,994	\$ 7,078	\$ 5,182
Basic and diluted net income per limited partner unit:				
Common	\$ 0.48	\$ 0.32	\$ 0.45	\$ 0.32
Subordinated	\$ 0.48	\$ 0.32	\$ 0.45	\$ 0.32
Weighted average number of units outstanding, basic and diluted:				
Common	7,650	7,650	7,650	7,997
Subordinated	7,650	7,650	7,650	7,650

Item 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure*

Effective May 3, 2002, the Audit Committee of the Board of Directors of our general partner dismissed Arthur Andersen LLP (“Andersen”) as the Partnership’s independent public accountants and engaged KPMG to serve as the Partnership’s independent public accountants for 2002 and thereafter.

Andersen’s report on the Partnership’s consolidated financial statements for the year ended December 31, 2001 did not contain an adverse opinion or disclaimer of opinion or were qualified or modified as to uncertainty, audit scope or accounting principles.

There were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Andersen, would have caused Andersen to make reference to the subject matter of the disagreements in connection with Andersen’s report; and during such period there were no “reportable events” of the kind listed in Item 304(a)(1)(v) of Regulation S-K.

The Partnership disclosed the foregoing information on a Current Report on Form 8-K dated May 3, 2002 (the “Form 8-K”). The Partnership provided Andersen with a copy of the foregoing disclosure in 2002 and requested Andersen to furnish the Partnership with a letter addressed to the Securities and Exchange Commission stating whether Andersen agreed with the statements by the Partnership in the foregoing disclosure and, if not, stating the respects in which it did not agree. Andersen’s letter stated that it had read the pertinent paragraphs of the Form 8-K and was in agreement with the statements contained therein.

During the Partnership’s three most recent fiscal years and through the date of this Annual Report on Form 10-K, the Partnership did not consult KPMG with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Partnership’s consolidated financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Within the 90 day period prior to the filing date of this Annual Report on Form 10-K, the Partnership, under the supervision, and with the participation, of its management, including its principal executive officer and principal financial officer, performed an evaluation of the design and operation of the Partnership’s disclosure controls and procedures (as defined in Securities and Exchange Act Rule 13a-14(c)). Based on that evaluation, the Partnership’s principal executive officer and principal financial officer concluded that such disclosure controls and procedures are effective to ensure that material information relating to the Partnership, including its consolidated subsidiaries, is accumulated and communicated to the Partnership’s management and made known to the principal executive officer and principal financial officer, particularly during the period for which this periodic report was being prepared.

Changes in Internal Controls

No significant changes were made in the Partnership’s internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation described in Item 14(a).

Part III

Item 10. *Directors and Executive Officers of the General Partner*

As is commonly the case with publicly traded limited partnerships, we do not employ any of the persons responsible for managing or operating our business, but instead we reimburse the general partner for its services. The following table sets forth information concerning the directors and executive officers of the general partner. All directors of the general partner are elected, and may be removed, by Penn Virginia Resource GP Corp., its sole member and wholly owned subsidiary of Penn Virginia Corporation.

<u>Name</u>	<u>Age</u>	<u>Position with the General Partner</u>
A. James Dearlove	56	Chairman of the Board of Directors and Chief Executive Officer
Edward B. Cloues, II	56	Director
John P. DesBarres	64	Director
Keith B. Jarrett	55	Director
James R. Montague	56	Director
Richard M. Whiting	49	Director
Keith D. Horton	50	President, Chief Operating Officer and Director
Nancy M. Snyder	51	Vice President, General Counsel and Director
Frank A. Pici	48	Vice President, Chief Financial Officer and Director
Forrest W. McNair	38	Vice President and Controller
Ronald K. Page	53	Vice President, Corporate Development

A. James Dearlove has served as the Chairman of the Board of Directors and Chief Executive Officer of the general partner since December 2002 and October 2001, respectively. He has served in various capacities with Penn Virginia Corporation since 1977, including as President and Chief Executive Officer since May 1996, President and Chief Operating Officer from 1994 to May 1996, Senior Vice President from 1992 to 1994 and Vice President from 1986 to 1992. He also serves as a director of the Powell River Project and the National Council of Coal Lessors.

Edward B. Cloues, II is a director of the general partner. Since January 1998, Mr. Cloues has served as Chairman of the Board and Chief Executive Officer of K-Tron International, Inc., a provider of material handling equipment and systems. From October 1979 to January 1998, Mr. Cloues was a partner of Morgan, Lewis & Bockius LLP, an international law firm. He also serves as a director of Penn Virginia Corporation and is the non-executive Chairman of the Board of AMREP Corporation.

John P. DesBarres is a director of the general partner. He is currently a private investor and leadership consultant residing in Rancho Palos Verdes, California. From 1991 to 1995 he served as the Chairman, President and Chief Executive Officer of Transco Energy Company, an energy company which merged with The Williams Companies, Inc. in 1995. Mr. DesBarres serves as a director of American Electric Power, Inc. ("AEP") and Texas Eastern Products Pipeline, Inc., the general partner of TEPPCO Partners, LP ("TPP"). He serves as chairman of the Human Resources Committee of the AEP Board and also as a member of the AEP Nuclear Oversight Committee. He also serves as chairman of the TPP Special Committee and is on the Compensation and Audit Committees of the TPP Board.

Keith B. Jarrett is a director of the general partner. Since January 2002, Mr. Jarrett has been providing financial expertise in the investment technology area to start-up companies. Prior to January 2002, he served in various capacities with affiliates of The Thomson Corporation, a public company listed on the New York, Toronto and London Stock Exchanges. Mr. Jarrett served as Chief Executive Officer of Thomson Financial Ventures from 1998 to 2001 and as Chief Executive Officer of Thomson Financial International from 1998 to June 2000. The Thomson Financial companies are in the business of selling information and technology solutions to the global banking and securities management industries. Mr. Jarrett serves as a director of Information Holdings, Inc. ("IHI") and is a member of the Nominating and Corporate Governance Committee of the IHI Board.

James R. Montague is a director of the general partner. From December 2001 to October 2002, Mr. Montague served as President of AEC Gulf of Mexico, Inc., a subsidiary of Alberta Energy Company, Ltd., which is involved in oil and gas exploration and production. From 1996 to June 2001, he served as President of two subsidiaries of International Paper Company, IP Petroleum Company, an exploration and production oil and gas company, and GCO Minerals Company, a company that manages International Paper Company's mineral holdings.

Richard M. Whiting is a director of the general partner. Mr. Whiting has been employed by Peabody Energy Corporation in various capacities since 1976 and currently serves as Executive Vice President—Sales, Marketing and Trading.

Keith D. Horton has served as the President, Chief Operating Officer and a director of the general partner since October 2001. He has also served in various capacities with Penn Virginia Corporation since 1981, including as a director and Executive Vice President since December 2000, Vice President of Eastern Operations from 1999 to 2000 and Vice President from 1996 to 1999. Mr. Horton serves as Chairman of the Central Appalachian Section of the Society of Mining Engineers. He also serves as a director of the Virginia Mining Association, Powell River Project and Virginia Coal Council.

Nancy M. Snyder has served as Vice President, General Counsel and a director of the general partner since October 2001. She has also served in various capacities with Penn Virginia Corporation since 1997, including as Vice President since December 2000 and as General Counsel and Corporate Secretary since 1997. From 1993 to 1997, Ms. Snyder was a solo practitioner representing clients generally in connection with mergers and acquisitions and general corporate matters. From 1990 to 1993, Ms. Snyder served as general counsel to Nan Duskin, Inc. and its affiliated companies, which were in the businesses of womens' retail fashion and real estate. From 1983 to 1989, Ms. Snyder was an associate at the law firm of Duane Morris, where she practiced securities, banking and general corporate law.

Frank A. Pici has served as Vice President and Chief Financial Officer of the general partner since October 2001 and as a director since October 2002. He has also served as Executive Vice President and Chief Financial Officer of Penn Virginia Corporation since September 2001. From 1996 to 2001 Mr. Pici served as Vice President—Finance and Chief Financial Officer of Mariner Energy, Inc. ("Mariner"), a Houston, Texas-based oil and gas exploration and production company. Mr. Pici worked in various positions at Cabot Oil & Gas Company including as Corporate Controller from 1994 to 1996, Director, Internal Audit from 1992 to 1994, and Region Accounting Manager from 1989 to 1992.

Forrest W. McNair has served as the Vice President and Controller of the general partner since October 2001. He has served as a financial reporting manager with Penn Virginia Corporation from September 1998 to October 2001. From May 1997 to September 1998, Mr. McNair was a manager, special projects, and was involved in corporate planning and acquisitions with Southwest Royalties, Inc., a company which primarily deals in oil and gas and real estate, and has a well servicing company. From 1988 to May 1997, Mr. McNair was employed by Decosimo and Company, LLP, a public accounting firm and served as a manager of such company, primarily concentrating in the energy and real estate industries, from 1996 until 1997.

Ronald K. Page has served as Vice President, Corporate Development for the general partner since July 2003. From January 1998 to May 2003, Mr. Page served in various positions with El Paso Field Services Company, including Vice President of Commercial Operations—Texas Pipelines and Processing, Vice President of Business Development, Director of Business Development, and Consultant. From October, 1995 through December, 1997, Mr. Page was employed as Vice President of Business Development by TPC Corporation (formerly Texas Power Corporation). For 17 years prior to 1995, Mr. Page served in various positions at Seagull Energy Corporation, including Vice President of Operations at Seagull's Enstar Natural Gas Company, Vice President of Pipelines and Marketing, and Manager of Engineering.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers and directors of the general partner and persons who own more than ten percent of a registered class of our equity securities to file reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission and to furnish us with copies of all such reports. We believe that all such filings were made on a timely basis in 2003.

Item 11. Executive Compensation

The officers of the general partner manage and operate our business. We do not directly employ any of the persons responsible for managing or operating our business, but instead reimburse the general partner for the services of such persons. The following table sets forth the compensation paid by the general partner during 2003, 2002 and 2001 for services rendered in all capacities to its Chief Executive Officer and the three other executive officers whose compensation exceeded \$100,000 in 2003.

Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>			<u>Long-Term Compensation</u>
		<u>Salary (\$)</u>	<u>Bonus (\$)</u>	<u>Other Annual Compensation (\$)</u>	<u>All Other Compensation (\$)</u>
A. James Dearlove <i>Chief Executive Officer</i>	2003	165,000(1)	62,500(1)	35,715(2)	774(3)
	2002	155,000(1)	62,500(1)	138,900(2)	774(3)
	2001(4)	22,692(1)	10,417(1)	—	—
Keith D. Horton <i>President and Chief Operating Officer</i>	2003	211,500(1)	72,000(1)	35,715(2)	414(3)
	2002	202,500(1)	27,000(1)	196,775(2)	486(3)
	2001(4)	27,693(1)	15,003(1)	—	—
Frank A. Pici <i>Vice President and Chief Financial Officer</i>	2003	113,000(1)	40,000(1)	23,810(2)	270(3)
	2002	107,500(1)	30,000(1)	81,025(2)	263(3)
	2001(4)	26,876(1)	15,000(1)	—	—
Nancy M. Snyder <i>Vice President and General Counsel</i>	2003	96,250(1)	40,000(1)	23,810(2)	414(3)
	2002	87,500(1)	40,000(1)	81,025(2)	264(3)
	2001(4)	11,923(1)	5,417(1)	—	—

- (1) Messrs. Dearlove, Horton and Pici and Ms. Snyder devote approximately 50%, 90%, 50% and 50% of their professional time, respectively, to the business and affairs of the Partnership. They devote the balance of their professional time to the business and affairs of Penn Virginia Corporation, which is the indirect sole member of the general partner.
- (2) These amounts reflect the value on the date of grant of restricted units granted under the general partner's Long Term Incentive Plan. Generally, these restricted units will vest 25%, 25% and 50% on October 30 of each of 2004, 2005 and 2006, respectively, if the Partnership has made all minimum quarterly distributions payable to unitholders as required under its partnership agreement prior to the time of such vesting. Messrs. Dearlove, Horton and Pici and Ms. Snyder received \$ 14,700, \$ 19,850, \$ 8,770 and \$ 8,770, respectively, of distributions paid with respect to the restricted units in 2003. Restricted units may not be transferred, and are subject to forfeiture upon termination of employment, until such time as the restricted units vest.
- (3) Reflects reimbursements for life insurance premiums.
- (4) The Partnership commenced operations upon completion of its public offering on October 30, 2001. Accordingly, these amounts reflect compensation paid by the general partner, and reimbursed by us, during the period commencing October 30, 2001 and ending December 31, 2001.

Compensation of Directors

Each non-employee director of the general partner receives 4,000 restricted units upon election to the Board, 1,000 common units on the first business day of each year and quarterly cash payments of \$3,750 each. Each non-employee director also receives \$1,000 for each Board of Directors and committee meeting he attends. Committee Chairmen receive an additional \$250 for each meeting they chair.

Long-term Incentive Plan

The general partner adopted the Penn Virginia Resource GP, LLC Long-Term Incentive Plan in October 2001 for employees and directors of the general partner and employees of its affiliates who perform services for us. The long-term incentive plan currently permits the grant of awards covering an aggregate of 300,000 common units. Awards under the long-term incentive plan can be for restricted units, unit options and phantom units. In addition, the 1,000 common units annually granted to non-employee directors are granted under the long-term incentive plan. The plan will be administered by the compensation committee of the general partner's board of directors.

Our general partner's board of directors in its discretion may terminate or amend the long-term incentive plan at any time with respect to any units for which a grant has not yet been made. The general partner's board of directors also has the right to alter or amend the long-term incentive plan or any part of the plan from time to time, including increasing the number of units that may be granted subject to unitholder approval as required by the exchange upon which the common units are listed at that time. However, no change in any outstanding grant may be made that would materially impair the rights of the participant without the consent of the participant.

Restricted Units. A restricted unit entitles the grantee to receive a common unit upon the vesting of the restricted unit. The general partner granted 12,950 restricted units to directors, officers and employees of the general partner in 2003. Restricted units vest upon terms established by the committee, but in no case earlier than the conversion to common units of the Partnership's outstanding subordinated units. In addition, the restricted units will vest upon a change of control of the general partner or Penn Virginia Corporation.

If a grantee's employment with or membership on the board of directors of the general partner terminates for any reason, the grantee's restricted units will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise. Common units to be delivered upon the vesting of restricted units may be common units acquired by the general partner in the open market, common units already owned by the general partner, common units acquired by the general partner directly from us or any other person or any combination of the foregoing. The general partner will be entitled to reimbursement by us for the cost incurred in acquiring common units.

Distributions payable with respect to restricted units may, at the committee's request, be paid directly to the grantee or held by the Company and made subject to a risk of forfeiture during the applicable restriction period.

Unit Options. The long-term incentive plan also permits the grant of options covering common units. No grants of unit options have been made under the long-term incentive plan. Unit options will have an exercise price that, in the discretion of the committee, may be less than, equal to or more than the fair market value of the units on the date of grant. In general, unit options granted will become exercisable over a period determined by the compensation committee. In addition, the unit options will become exercisable upon a change in control of the general partner or Penn Virginia Corporation.

Upon exercise of a unit option, the general partner will acquire common units in the open market or directly from us or any other person or use common units already owned by the general partner, or any combination of the foregoing. The general partner will be entitled to reimbursement by us for the difference between the cost

incurred by the general partner in acquiring these common units and the proceeds received by the general partner from an optionee at the time of exercise. Thus, the cost of the unit options will be borne by us.

Phantom Units. A phantom unit entitles the grantee to receive a common unit upon the vesting of the phantom unit, or in the discretion of the compensation committee, the cash equivalent of the value of a common unit. The compensation committee will determine the time period over which phantom units granted to employees and directors will vest. In addition, the phantom units will vest upon a change of control of the general partner or Penn Virginia Corporation.

If a grantee's employment or membership on the board of directors terminates for any reason, the grantee's phantom units will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise. Common units delivered upon the vesting of restricted units may be common units acquired by the general partner in the open market, common units already owned by the general partner, common units acquired by the general partner directly from us or any other person or any combination of the foregoing. The general partner will be entitled to reimbursement by us for the cost incurred in acquiring common units. The compensation committee, in its discretion, may grant tandem distribution equivalent rights with respect to phantom units.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters

The following table sets forth, as of February 26, 2004, the amount and percentage of the Partnership's units beneficially owned by (i) each person known by us to own beneficially more than 5% of its units, (ii) each director of the general partner, (iii) each executive officer of the general partner and (iv) all executive officers and directors of the general partner as a group.

<u>Name of Beneficial Owner</u>	<u>Common Units</u>	<u>Percentage of Common Units(1)</u>	<u>Subordinated Units</u>	<u>Percentage of Subordinated Units(1)</u>	<u>Percentage of Total Units</u>
Penn Virginia Resource LP Corp. (2)	129,148	—	7,135,043	93.3	40.2
Kanawha Rail Corp (2)	10,469	—	514,837	6.7	2.9
Peabody Natural Resources Company	1,613,158(3)	15.5	—	—	8.9
Edward B. Cloues, II	6,000(4)	—	—	—	—
A. James Dearlove	18,600(5)	—	—	—	—
John P. DesBarres	16,000(4)	—	—	—	—
Keith D. Horton	18,300(6)	—	—	—	—
Keith B. Jarrett	12,000(4)	—	—	—	—
Forrest W. McNair	2,300(7)	—	—	—	—
James R. Montague	6,500(4)	—	—	—	—
Ronald K. Page	750(8)	—	—	—	—
Frank A. Pici	7,000(9)	—	—	—	—
Nancy M. Snyder	8,000(9)	—	—	—	—
Richard M. Whiting	2,000	—	—	—	—
All directors and executive officers as a group (11 persons)	97,450	—	—	—	—

- (1) Based on 10,425,988 common units issued and outstanding February 26, 2004 and 7,649,880 subordinated units issued and outstanding on February 26, 2004. On February 26, 2004, there were approximately 6,400 holders of the Partnership's common units and two holders of the Partnership's subordinated units. Unless otherwise indicated, beneficial ownership is less than 1% of the Partnership's common units and/or subordinated units.
- (2) Penn Virginia Corporation is the ultimate parent company of Penn Virginia Resource LP Corp., Kanawha Rail Corp. and Penn Virginia Resource GP, LLC. As such, Penn Virginia Corporation may be deemed to beneficially own the units held by Penn Virginia Resource LP Corp., Kanawha Rail Corp. and Penn Virginia Resource GP, LLC which, together, constitute 1.4% of the Partnership's common units, and 100% of the Partnership's subordinated units.
- (3) Includes 1,307 common units held in escrow.
- (4) Includes 4,000 restricted units which are currently subject to a restriction against transfer and an obligation to forfeiture to the general partner upon termination of Board membership for any reason other than death. Such restrictions lapse at the same time and in the same proportion as our outstanding subordinated units are converted to common units during the Subordination Period (as defined in the Partnership's Amended and Restated Agreement of Limited Partnership). See "Long Term Incentive Plan—Restricted Units."
- (5) Includes 13,200 Restricted Units.
- (6) Includes 14,000 Restricted Units.
- (7) Includes 800 Restricted Units.
- (8) Includes 750 Restricted Units.
- (9) Includes 5,500 Restricted Units.

Item 13. *Certain Relationships and Related Transactions*

We are managed and controlled by our general partner pursuant to our partnership agreement. Under our partnership agreement, the general partner is reimbursed for all direct and indirect expenses it incurs or payments it makes on our behalf. These expenses include salaries, fees and other compensation and benefit expenses of employees, officers and directors, insurance, other administrative or overhead expenses and all other expenses necessary or appropriate to conduct our business. The costs allocated to us by the general partner for administrative services and overhead totaled \$1.1 million and \$1.2 million for the years ended December 31, 2003 and 2002, respectively, and \$0.9 million for the period from October 30, 2001 through December 31, 2001.

The partnership agreement provides for incentive distributions payable to the general partner out of the Partnership's Available Cash (as defined in the partnership agreement) in the event quarterly distributions to unitholders exceed certain specified targets. In general, subject to certain limitations, if a quarterly distribution exceeds a target of \$0.55 per common unit, the general partner will receive incentive distributions equal to (i) 15% of that portion of the distribution per common unit which exceeds but is not more than \$0.65, plus (ii) 25% of that portion of the quarterly distribution per common unit which exceeds \$0.65 but is not more than \$0.75, plus (iii) 50% of that portion of the quarterly distribution per common unit which exceeds \$0.75. See also "Ownership by and Relationship with Penn Virginia Corporation."

Item 14. *Principal Accountant Fees and Services*

The following table presents fees for professionals audit services rendered by KPMG LLP for the audit of the Partnership's annual financial statements for 2003 and 2002, and fees billed for other services rendered by KPMG LLP.

	<u>2003</u>	<u>2002</u>
Audit fees (1)	\$279,950	\$122,200
Audit related fees (2)	5,000	—
Tax fees	—	—
All other fees	—	—
Total Fees	<u>\$284,950</u>	<u>\$122,200</u>

- (1) Audit fees consist of fees for the audits of the Partnership's and the General Partner's financial statements, consents for registration statements and comfort letters. Also included in audit fees are reimbursements of travel related expenses.
- (2) Audit-related fees pertain to debt compliance letters issued by KPMG for our \$90 million senior notes. There were no such fees for 2002.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee's policy is to pre-approve all audit and audit-related services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The Audit Committee may also pre-approve particular services on a case-by-case basis. The independent auditors are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with such pre-approval. The Audit Committee may also delegate pre-approval authority to one or more of its members. Such member(s) must report any decisions to the Audit Committee at the next scheduled meeting.

Part IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

The following documents are filed as exhibits to this Report on Form 10-K.

(a) Financial Statements

1. Financial Statements—The financial statements filed herewith are listed in the Index to *Financial Statements* on page 40 of this report.
2. All schedules are omitted because they are not required, inapplicable or the information is included in the consolidated financial statements or the notes thereto.
3. Exhibits
 - (3.1)† Certificate of Limited Partnership of Penn Virginia Resource Partners, L.P.
 - (3.2)††††† First Amended and Restated Agreement of Limited Partnership of Penn Virginia Resource Partners, L.P.
 - (3.3)††††† Amendment No. 1 to First Amended and Restated Agreement of Limited Partnership of Penn Virginia Resource Partners, L. P.
 - (3.4) Amendment No. 2 to First Amended and Restated Agreement of Limited Partnership of Penn Virginia Resource Partners, L. P.
 - (3.5) Amendment No. 3 to First Amended and Restated Agreement of Limited Partnership of Penn Virginia Resource Partners, L. P.
 - (3.6)††† Certificate of Formation of Penn Virginia Operating Co., LLC
 - (3.7)††††† Form of Amended and Restated Limited Liability Company Agreement of Penn Virginia Operating Co., LLC
 - (3.8)††† Certificate of Formation of Penn Virginia Resource GP, LLC
 - (3.9)††††† Third Amended and Restated Limited Liability Company Agreement of Penn Virginia Resource GP, LLC
 - (10.1)††††† Credit Agreement dated October 30, 2001 among Penn Virginia Operating Co., LLC, PNC Bank, National Association as agent and the other financial institutions party thereto.
 - (10.2)††††††††† Third Amendment to Credit Agreement dated as of October 31, 2003 among Penn Virginia Operating Co., LLC, PNC Bank, National Association as agent and the other financial institutions party thereto.
 - (10.3)††††† Contribution and Conveyance Agreement, dated as of September 13, 2001 among Penn Virginia Operating Co., LLC, Penn Virginia Holding Corp., Penn Virginia Resource Holdings Corp., Penn Virginia Resource LP Corp., Penn Virginia Resource GP Corp. and the other parties named therein.
 - (10.4)††††† Contribution, Conveyance and Assumption Agreement, dated September 14, 2001, among Penn Virginia Resource GP, LLC, Penn Virginia Resource Partners, L.P., Penn Virginia Operating Co., LLC and the other parties named therein
 - (10.5)††††††† Penn Virginia Resource GP, LLC Long-Term Incentive Plan
 - (10.6)††††† Penn Virginia Resource GP, LLC Short-Term Incentive Plan
 - (10.7) Penn Virginia Resource GP, LLC Non-Employee Directors Deferred Compensation Plan
 - (10.8)††††††† Omnibus Agreement dated October 30, 2001 among the Partnership, Penn Virginia Corporation, Penn Virginia Resource GP, LLC and Penn Virginia Operating Co., LLC (“Omnibus Agreement”)
 - (10.9)††††††† Amendment to Omnibus Agreement Dated December 19, 2002
 - (10.10)††††††† Coal Mining Lease dated December 19, 2002 between Suncrest Resources LLC and Sterling Smokeless Coal Company
 - (10.11)††††††† Coal Mining Lease and Sublease dated December 19, 2002 between Fieldcrest Resources LLC and Gallo Finance Company

- (10.12)††† Closing Contribution, Conveyance and Assumption Agreement dated October 30, 2001 among Penn Virginia Operating Co., LLC, Penn Virginia Corporation, Penn Virginia Resource Partners, L. P., Penn Virginia Resource GP, LLC, Penn Virginia Resource L.P. Corp., Wise LLC, Loadout LLC, PVR Concord LLC, PVR Lexington LLC, PVR Savannah LLC, Kanawha Rail Corp.
- (10.13)††††† Purchase and Sale Agreement by and among Peabody Energy Corporation, Eastern Associated Coal Corp., Peabody Natural Resources Company and Penn Virginia Resource Partners, L.P. (incorporated by reference to Registrant's Report on Form 8-K filed on December 19, 2002. Ratio of Earnings to Fixed Charges
- (12.1) Penn Virginia Resource GP, LLC and Penn Virginia Resource Partners, L.P. Executive and Financial Officer Code of Ethics
- (16.1)††††††† Letter dated May 8, 2002, from Arthur Andersen LLP to the Securities and Exchange Commission
- (21.1)††††† List of Subsidiaries of Penn Virginia GP, LLC
- (23.1) Consent of KPMG LLP
- (31.1) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (31.2) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- (32.1) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32.2) Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

† Previously filed with Form S-1 filed on July 19, 2001.

†† Previously filed with Amendment No. 1 to Form S-1 filed on September 7, 2001.

††† Previously filed with Amendment No. 2 to form S-1 filed October 4, 2001.

†††† Previously filed with Amendment No. 3 to Form S-1 filed October 16, 2001.

††††† Previously filed with Form 10-K filed on March 11, 2003.

†††††† Previously filed with Form 10-Q filed on November 11, 2003.

††††††† Previously filed with Form 8-K filed on May 9, 2002.

(b) Reports on Form 8-K

On December 15, 2003, Registrant filed a report on Form 8-K. The report involved the sale by Peabody Energy Corporation of 150,000 of Registrant's common units and was filed under "Item 5. Other Events."

On December 12, 2003, Registrant filed a report on Form 8-K. The report involved the sale by Peabody Energy Corporation of 1,000,000 of Registrant's common units and was filed under "Item 5. Other Events."

Partnership Information

Directors

A. James Dearlove⁴

Chairman of the Board and Chief Executive Officer of the General Partner and Chief Executive Officer and President of Penn Virginia Corporation

Edward B. Cloues, II

Chairman and Chief Executive Officer of K-Tron International, Inc. and Director of Penn Virginia Corporation

John P. DesBarres^{1,2,3}

Private Investor.
Former Chairman, President and Chief Executive Officer of Transco Energy Company

Keith D. Horton

President and Chief Operating Officer of the General Partner and Executive Vice President of Penn Virginia Corporation

Keith B. Jarrett^{1,2,3}

Chairman, Rockport Funding, LLC and Founder and Former Chief Executive Officer of Thomson Financial Ventures

James R. Montague^{1,2,3,4}

Retired. Former President of AEC Gulf of Mexico, Inc. and former President of IP Petroleum Company and GCO Minerals Company

Frank A. Pici

Vice President and Chief Financial Officer of the General Partner and Executive Vice President and Chief Financial Officer of Penn Virginia Corporation

Nancy M. Snyder

Vice President and General Counsel of the General Partner and Senior Vice President, General Counsel and Corporate Secretary of Penn Virginia Corporation

Richard M. Whiting⁴

Executive Vice President – Sales, Marketing and Trading of Peabody Energy

¹ Member of the Audit Committee

² Member of the Compensation & Benefits Committee

³ Member of the Conflicts Committee

⁴ Member of the Coal Committee



L-R: Ronald K. Page, Forrest W. McNair, Nancy M. Snyder, A. James Dearlove, Frank A. Pici, Keith D. Horton

Management

A. James Dearlove

Chief Executive Officer

Keith D. Horton

President and Chief Operating Officer

Frank A. Pici

Vice President and Chief Financial Officer

Nancy M. Snyder

Vice President and General Counsel

Ronald K. Page

Vice President, Corporate Development

Forrest W. McNair

Vice President and Controller

Major Subsidiaries

Penn Virginia Operating Co., LLC

Fieldcrest Resources, LLC

Suncrest Resources, LLC

Loadout, LLC

Transfer Agent & Registrar

American Stock Transfer & Trust Company

Mailing Address:

59 Maiden Lane

New York, NY 10038

Telephone: (800) 937-5449

Facsimile: (718) 236-2641

For K-1 Support:

Penn Virginia Resource Partners, L.P.

Attn: K-1 Support

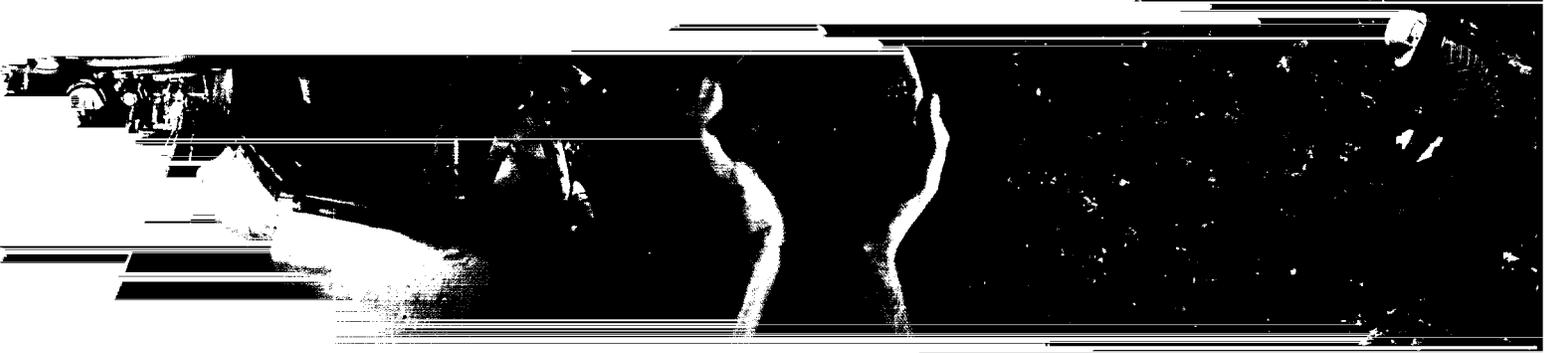
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Partners