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May 23, 2005

VIA HAND DELIVERY

The Honorable Vernon Williams
Secretary
Surface Transportation Board
1925 K Street, N.W.
Room 711
Washington, DC 20423

ENTERED
Office of Proceedings

MAY 23 2005

Part of
Public Record



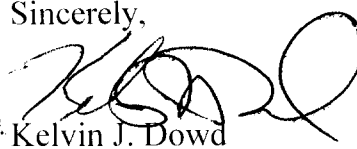
Re: Docket No. AB-290 (Sub-No. 259X), Tennessee Railway
Company – Abandonment Exemption – In Anderson and
Campbell Counties, TN

Dear Secretary Williams:

On Friday, May 20, 2005, National Coal Corporation filed with the Board a copy of the Offer of Financial Assistance which it made on that date to Norfolk Southern Railway, to purchase the line segment at issue in the caption proceeding. Later that day, we were advised that a filing fee was required in connection with this submission.

Enclosed please find our check in the amount \$1,200.00 to cover the requisite filing fee. We appreciate your consideration in this matter.

Sincerely,


Kelvin J. Dowd
An Attorney for
National Coal Corporation

FILED

TRANSPORTATION BOARD

cc: Joseph Dettmar, Office of Proceedings
Surface Transportation Board

Charles W. Kite, Esq.

FILED
MAY 26 2005
SURFACE
TRANSPORTATION BOARD

WILLIAM L. SLOVER
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FEE RECEIVED

MAY 20 2005

SURFACE
TRANSPORTATION BOARD

VIA TELEFAX AND FEDERAL EXPRESS

James R. Paschall, Esq.
Senior General Attorney
Norfolk Southern Corporation
Law Department
Three Commercial Place
Norfolk, Virginia 23510-9423

FILED
MAY 26 2005

SURFACE
TRANSPORTATION BOARD



Re: Docket No. AB-290 (Sub-No. 259X), Tennessee Railway
Company – Abandonment Exemption – In Anderson and
Campbell Counties, TN – Offer of Financial Assistance

Dear Mr. Paschall:

Pursuant to 49 U.S.C. § 10904 and 49 C.F.R. Part 1152.27(c)(2), the purpose of this letter is to submit an Offer of Financial Assistance on behalf of National Coal Corporation ("NCC"), to purchase the 14.04 mile line of railroad between milepost TE-27.96 at Nicks Creek, TN and milepost TE-42.0 at Devonia, TN, that is the subject of the referenced docket.

NCC hereby offers to purchase the line in question, including all rail facilities, appurtenances thereto and right-of-way, and to accept assignment of all of Tennessee Railway Company ("TNR") and/or Norfolk Southern Railway Company's ("NS") rights and interests in all leases, easements and licenses that affect or relate to the line or right-of-way, for Eight Hundred Sixty-Six Thousand Three Hundred Eighty-Six Dollars (\$866,386.00). Because restored rail operations over the Nicks Creek-Devonia line are only possible if the line segment between Nicks Creek and the NS interchange at Oneida likewise remains in operation, this offer is conditioned on (i) continued operation of the Nicks Creek-Oneida segment by TNR or NS or by a purchaser or lessee of the segment (either through a separate transaction or an offer of financial assistance in *Docket No. AB-290 (Sub-No. 260X)*); and (ii) TNR, NS and/or a successor operator's entering into mutually agreeable purchase, interchange, switch fee or rate divisions, and other applicable agreements.

James R. Paschall, Esq.
May 20, 2005
Page 2

As evidence of financial responsibility pursuant to 49 C.F.R. Part 1152.27(c)(ii)(B), NCC submits the enclosed summary of operations income and financial status for the first quarter of 2005 (Attachment A), and its first quarter 2005 SEC Form 10-Q (Attachment B). These documents confirm NCC's dramatic revenue growth (an increase of \$11.5 million over first quarter 2004 levels) as coal operations have ramped-up, its firm prospects for further growth as a result of new sales contracts, and its ability to raise capital and service debt (Attachment A, p. 6). This information clearly demonstrates that a transaction of the type contemplated herein is well within NCC's financial capabilities.

The purchase price proposed herein includes \$17,900.00 allocable to the real estate that comprises the right-of-way underlying the line. This is equal to the estimated value which NS provided in your letter to the undersigned dated April 15, 2005.

The balance of the purchase price being offered (\$848,486.00) is allocable to the net liquidation value of the rail assets and other appurtenances in place on the line. This amount is less than the net salvage value proposed by NS (\$1,007,368.00), *inter alia*, in your letter of March 3, 2005 to Charles Kite, Esq. of NCC. The difference is attributable to the estimated cost of removing the rail assets now in place and restoring the underlying right-of-way; NCC has accepted NS' estimate of the gross salvage value of those assets.

An attachment to your March 3 letter which is dated March 1, 2005 shows an estimated removal cost of \$248,883.00. No source or explanation is offered for this figure, however, and the estimate is nearly identical on a per-mile basis to one offered by NS to U.S. Coals with respect to the same line in July, 2001 – nearly four years ago. Given intervening inflationary impacts on labor costs, fuel and other relevant components, as well as the further growth of vegetation and storm-induced blockage by fallen trees, etc., NCC believes that the estimate proposed by NS significantly understates the actual cost that would be incurred to dismantle and remove the track assets and appurtenances.

As you know, in March of this year the subject line was inspected on behalf of NCC by Dr. Richard Shure, an expert in railroad engineering. As the enclosed summary of his qualifications (Attachment C) shows, Dr. Shure had 17 years experience with the Rail Products Division of Azcon Corporation. During his tenure, the Division dismantled some 250-300 miles of abandoned rail lines each year, using competitive bidding awards to contractors and service vendors. Drawing upon his experience and his recent, personal inspect of the line, Dr. Shure contacted qualified salvage companies and secured estimates for the various activities associated with removal of the Nicks Creek-Devonia track assets. The result of his analysis is that it would cost an estimated \$407,765.00 to remove and market those assets. Applying this figure to NS' gross asset salvage value produces the net value of \$848,468.00 on which this offer is based.

James R. Paschall, Esq.
May 20, 2005
Page 3

The offer presented in this letter is made in the interests of restoring coal transportation service over the subject line, and is grounded on the best estimate of net liquidation value. We believe that the offer is *bona fide* and reasonable, and that NCC has established its financial responsibility within the meaning of 49 U.S.C. § 10904 and related regulations. On behalf of NCC, we look forward to a progressive and mutually satisfactory negotiation.

Sincerely,

A handwritten signature in black ink, appearing to read "Kelvin J. Dowd", written over the printed name.

Kelvin J. Dowd

Attorney for

National Coal Corporation

cc: Hon. Vernon Williams
Secretary
Surface Transportation Board
Charles W. Kite, Esq.

Contacts:

Kearstin Patterson
Vice President of Communications
National Coal Corp.
865/769-3749 (direct)
865/207-3875 (cell)
kpatterson@nationalcoal.com

NATIONAL COAL CORP. REPORTS FIRST QUARTER 2005 FINANCIAL RESULTS

- *Revenue increased by \$11.5 million*
- *Coal tonnage sales increased to 226,000*

Knoxville, Tenn. – (May 16, 2005) – National Coal Corp. (Nasdaq: NCOC), an Appalachian Region coal producer, reports its financial results for the three months ended March 31, 2005. Revenues equaled approximately \$12.6 million based on approximately 226,000 tons of coal sold during the quarter at an average price of approximately \$56 per ton.

Adjusted EBITDA, a non-GAAP financial measure that reflects net income (loss) excluding interest, depreciation, depletion, accretion and amortization expenses, non-cash compensation expenses, other non-operating expenses, and taxes, improved to a positive \$266,000 from a loss of \$1.6 million in the fourth quarter of 2004.

National Coal's net loss for the quarter ended March 31, 2005, totaled \$2.5 million or \$0.18 per common share, compared to a net loss of \$1.1 million, or \$0.11 per share for the first quarter of 2004.

"The results of our effort to maximize value by solidifying a foundation for continued production and revenue increases were much more pronounced during this quarter," said Jon Nix, National Coal's president, CEO and chairman of the board. "Most notably, our persistent focus on devoting resources to mine start-up activities, production equipment, operational improvements and permitting activities can be directly credited with the quick start-up of new mining operations as well as the sales commitments we secured during the quarter."

For the three months ended March 31, 2005, National Coal revenues were derived from coal sales to 10 customers. The growth in total revenues for the three months ended March 31, 2005, compared to the three months ended March 31, 2004, was mainly attributable to National Coal's growing number of signed contracts which resulted in a substantial increase in its customer base. The Company also substantially increased its mining activity during the quarter as it began production at Deep Mine #2 in Straight Creek, Ky. The facility is estimated to increase the Company's production by approximately 20,000 tons per month.

About National Coal Corp.

Headquartered in Knoxville, Tenn., National Coal Corp., through its wholly-owned subsidiary, National Coal Corporation, is engaged in coal mining in Eastern Tennessee and Southeastern Kentucky. For more information, visit www.nationalcoal.com.

The Company's Form 10-QSB for the quarter ended March 31, 2005, can be accessed through its website: www.nationalcoal.com, or on the Securities and Exchange Commission's website: www.sec.gov.

Information about Forward Looking Statements

This release contains "forward-looking statements" that include information relating to future events and future financial and operating performance. Examples of forward looking-statements include the projected tons of coal produced from Mine #2. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, that performance or those results will be achieved. Forward-looking statements are based on information available at the time they are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause these differences include, but are not limited to: (i) the worldwide demand for coal; (ii) the price of coal; (iii) the price of alternative fuel sources; (iv) the supply of coal and other competitive factors; (v) the costs to mine and transport coal; (vi) the ability to obtain new mining permits; (vii) the costs of reclamation of previously mined properties; (viii) the risks of expanding coal production; (ix) the ability to bring new mining properties on-line on schedule; (x) industry competition; (xi) our ability to continue to execute our growth strategies; and (xii) general economic conditions. These and other risks are more fully described in the Company's filings with the Securities and Exchange Commission including the Company's most recently filed Annual Report on Form 10-KSB and Quarterly Reports on Form 10-QSB, which should be read in conjunction herewith for a further discussion of important factors that could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements speak only as of the date they are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Reconciliation of Non-U.S. GAAP Measures to U.S. GAAP

National Coal Corp. has prepared Adjusted EBITDA data applicable to 2005 and 2004 to supplement the reporting of its results determined under applicable generally accepted accounting principles (GAAP). Adjusted EBITDA is a non-GAAP financial measure that reflects net income (loss) excluding interest, depreciation, depletion, accretion and amortization expenses, non-cash compensation expenses, other non-operating expenses, and taxes. The adjusted amounts are not meant as a substitute for GAAP, but are included solely for informational purposes.

The following table illustrates the adjustments to net income (loss) to calculate Adjusted EBITDA for the applicable periods and reconciles the non-GAAP financial data to net income (loss) determined in accordance with GAAP:

NATIONAL COAL CORP. CALCULATION OF ADJUSTED EBITDA (NON-GAAP) (Unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005
Net Income (Loss).....	\$ (1,066,208)	\$ (2,191,039)
Depreciation, depletion and amortization.....	154,962	1,405,326
Interest expense and financing fees.....	147,446	676,133
Non-cash compensation	443,135	225,844
Other.....	--	150,000
Adjusted EBITDA.....	<u>\$ (320,665)</u>	<u>\$ 266,264</u>

NATIONAL COAL CORP.
CONSOLIDATED BALANCE SHEET
(unaudited)

	March 31, 2005
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 779,393
Accounts receivable	1,739,427
Inventory	183,664
Prepaid and other	244,300
Total current assets	2,946,784
PROPERTY, PLANT AND EQUIPMENT	
Land	784,290
Mining equipment	20,809,416
Computer equipment and software	93,070
Vehicles and mobile equipment	3,344,017
Buildings	5,909,096
Office equipment and furniture	43,533
	30,983,422
Less: accumulated depreciation	(2,734,530)
Total property, plant and equipment, net	28,248,892
Coal and mineral rights, net of \$164,203 accumulated amortization and depletion	13,883,025
Certificates of deposit and reclamation bond	4,526,600
Loan acquisition costs, net of \$108,678 accumulated amortization	763,883
Prepaid royalty	543,864
Deposits	53,000
Total Assets	\$ 50,966,048
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 5,588,051
Short term portion of capital lease obligations	2,137,421
Accrued payroll and payroll taxes payable	227,980
Note payable, less debt discount of \$574,463	4,563,263
Current portion of bank loans - vehicles	335,519
Total current liabilities	12,852,234
Senior credit facility	16,400,000
Long term portion of capital lease obligations	1,575,173
Long term portion of bank loans - vehicles	117,230
Asset retirement obligations	2,438,770
Total Liabilities	33,383,407
STOCKHOLDERS' EQUITY	
Series A convertible preferred stock, \$.0001 par value; 5% coupon; 1,611 shares authorized; 1,424.78 shares issued and outstanding	--
Common stock, \$.0001 per value; 80 million shares authorized; 13,690,385 shares issued and outstanding	1,330
Additional paid-in capital	33,534,365
Accumulated deficit	(15,953,054)
Total Stockholders' Equity	17,582,641
Total Liabilities and Stockholders' Equity	\$ 50,966,048

NATIONAL COAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005
REVENUES		
Coal Sales	\$ 990,622	\$ 12,584,404
Royalty receipts	74,281	--
Total revenue	<u>1,064,903</u>	<u>12,584,404</u>
EXPENSES		
Cost of sales and selling expense	937,384	10,735,708
General and administrative	831,137	1,915,042
Exploration costs	60,182	161,603
Depreciation, depletion and accretion	109,355	1,176,150
Amortization	<u>45,607</u>	<u>110,807</u>
Total operating expenses	<u>1,983,665</u>	<u>14,099,310</u>
LOSS FROM OPERATIONS	<u>(918,762)</u>	<u>(1,514,906)</u>
OTHER INCOME (EXPENSE)		
Interest expense	(132,800)	(660,511)
Other income (expense), net	<u>(14,646)</u>	<u>(15,622)</u>
Total other income (expense)	<u>(147,446)</u>	<u>(676,133)</u>
NET (LOSS)	(1,066,208)	(2,191,039)
PREFERRED STOCK DIVIDEND	<u>--</u>	<u>291,190</u>
NET (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	<u>\$ (1,066,208)</u>	<u>\$ (2,482,229)</u>
BASIC AND DILUTED		
NET (LOSS) PER COMMON SHARE	<u>\$ (0.11)</u>	<u>\$ (0.18)</u>
WEIGHTED AVERAGE		
COMMON SHARES	<u>10,046,578</u>	<u>13,470,799</u>

NATIONAL COAL CORP.
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	\$ (1,066,208)	\$ (2,191,039)
Adjustments to reconcile net (loss) to net cash provided by operating activities		
Depreciation, depletion and accretion	109,355	1,176,150
Amortization	45,607	229,176
Issuance of common stock in lieu of interest payments	165,313	--
Non-cash compensation:		
Common stock issued in payment of accrued salary	226,573	--
Stock option expense	216,562	225,844
Changes in operating assets and liabilities:		
Receivables	4,327	164,306
Inventory	(115,293)	81,210
Prepaid and other	27,850	(1,784)
Accounts payable and accrued liabilities	(68,748)	1,636,126
Deferred revenue	(149,928)	--
Net cash flows provided by (used in) operating activities	(604,590)	1,319,989
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, plant and equipment purchased	(647,785)	(7,274,060)
Prepaid royalty	--	(151,364)
Deposits	(500,000)	103,000
Net cash flows (used in) investing activities	(1,147,785)	(7,322,424)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common and preferred stock	2,750,000	--
Proceeds from exercise of options and warrants	--	539,500
Proceeds from issuance of notes payable	--	6,537,726
Loan acquisition costs	--	(90,062)
Payment of related party debt	(160,000)	--
Proceeds from bank loans	50,053	--
Payments on bank loans	--	(80,158)
Payments on capital leases	(257,390)	(478,631)
Other	--	1,755
Net cash flows provided by financing activities	2,382,663	6,430,130
NET INCREASE IN CASH	630,288	427,695
CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD	883	351,698
CASH AND CASH EQUIVALENTS END OF PERIOD	\$ 631,171	\$ 779,393
SUPPLEMENTAL DISCLOSURES		
Interest paid in cash	\$ 52,364	\$ 660,511
Non-cash investing and financing transactions:		
Warrants issued in connection with notes payable	--	665,855
Preferred stock dividends payable	--	260,699
Constructive dividend attributable to preferred shareholders	--	30,891

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

FORM 10-QSB

☒ Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2005

☐ Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission file number 0-26509

NATIONAL COAL CORP.
(Exact Name of Small Business Issuer as Specified in its Charter)

Florida
(State or other jurisdiction of
incorporation or organization)

65-0601272
(I.R.S. Employer
Identification No.)

8915 George Williams Road
Knoxville, TN 37923
(Address of principal executive offices)

(865) 690-6900
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No

As of May 10, 2005, the issuer had 13,726,403 shares of common stock, par value \$.0001 per share, issued and outstanding.

Transitional Small Business Disclosure Format (check one): Yes No X

NATIONAL COAL CORP.

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**PART I
FINANCIAL INFORMATION**

Item 1. Financial Statements

**NATIONAL COAL CORP.
CONSOLIDATED BALANCE SHEET
(unaudited)**

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Less: accumulated depreciation.....	(2,734,530)
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Amortization	<u>45,607</u>	<u>110,807</u>
Total operating expenses	<u>1,983,665</u>	<u>14,099,310</u>
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WEIGHTED AVERAGE COMMON SHARES	<u>10,046,578</u>	<u>13,470,799</u>

See Notes to Condensed Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)

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Warrants issued in connection with notes payable	--	665,855
Preferred stock dividends payable	--	260,699
Constructive dividend attributable to preferred shareholders	--	30,891

NATIONAL COAL CORP.
Notes to the Condensed Consolidated Financial Statements
(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-QSB and Item 310 of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year or for any future period. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements of National Coal Corp. and consolidated subsidiary (the "Company") included in the Company's Form 10-KSB for the fiscal year ended December 31, 2004.

The discussion and analysis of the Company's financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to reserves for bad debts and those related to the possible impairment of long-lived assets. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's use of estimates, however, is quite limited, as it has adequate time to process and record actual results from operations.

The Company was incorporated in Florida on August 10, 1995 and engages principally in the business of mining coal in Eastern Tennessee and Southeastern Kentucky. Its customers are primarily state operated electric utilities and industrial concerns in the immediate and surrounding states. The Company owns the coal mineral rights to approximately sixty-five thousand (65,000) acres and leases another approximate twelve thousand one hundred (12,100) acres in Tennessee, and owns the coal mineral rights to approximately eleven thousand seven hundred (11,700) acres and leases another approximate eighteen thousand two hundred (18,200) acres in Kentucky. The Company's first mining activities commenced in July 2003 from a surface mine in Tennessee. At March 31, 2005, the Company was extracting coal from four deep mines and one surface mine.

At the close of business on January 12, 2005, the Company affected a 1-for-4 reverse split of its issued and outstanding common stock as previously approved on October 12, 2004 by its board of directors and stockholders. All share and per share amounts for all periods presented herein reflect the effect of the reverse split.

2. Notes Payable

Senior Secured Credit Facility

On November 26, 2004, the Company's Tennessee subsidiary, National Coal Corporation, in connection with its acquisition of assets from Appalachian Fuels, LLC entered into a credit agreement with D. B. Zwirn Special Opportunities Fund, L.P., as Lender and administrative agent for the Lenders.

NATIONAL COAL CORP.
Notes to the Condensed Consolidated Financial Statements
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The Company and its subsidiary, NC Transportation, Inc., a wholly-owned subsidiary of the Tennessee corporation, guaranteed the obligations of National Coal Corporation under the credit agreement. The credit agreement provides for an initial credit facility of \$15 million with a subsequent additional credit facility not to exceed \$6 million. The Company exercised its right to borrow \$15 million on November 29, 2004, the proceeds of which were used to pay the remaining \$12,250,000 of acquisition costs related to the acquisition of assets of Appalachian Fuels, LLC, pay transaction costs with respect to the closing of the credit facility and asset purchase, and fund working capital. Pursuant to an amendment to the credit agreement dated January 11, 2005, the Company borrowed an additional \$1.4 million in January 2005 to fund its acquisition of mining equipment. Borrowings under the credit agreement bear interest at the rate of interest per annum publicly announced from time to time by JPMorgan Chase as its prime rate in effect at its principal office in New York City, plus 5.75%. The obligations under the credit agreement are secured by substantially all of the Company's assets and those of the Company's subsidiaries.

Secured Note

In January 2005, the Company signed an agreement committing the Company to the purchase of a highwall miner for a total purchase price of approximately \$5.5 million, and paid a \$500,000 deposit toward that purchase commitment. In March 2005, the Company borrowed \$5.14 million pursuant to certain Note and Warrant Purchase Agreements and completed the purchase of this piece of mining equipment. The Company issued notes in the aggregate principal amount of \$5.14 million to three purchasers, including Crestview Capital Master, LLC, which is a significant shareholder of the Company. The notes have a maturity date of August 10, 2005, are secured by the highwall miner, and have an interest rate of eighteen percent (18%) per annum calculated from the 61st day until maturity. The Company paid an origination fee of approximately \$200,000 upon the execution of the loan document. The note purchasers were also issued 5-year common stock purchase warrants to purchase up to 140,000 shares of the Company's common stock at an exercise price per share of \$8.50.

3. Equity Transactions

Preferred Stock Financing

On August 31, 2004, the Company sold \$16,030,000 of Series A 5% convertible preferred stock and common stock purchase warrants in private placement financings in separate transactions. The Company issued a total of 1,068.67 shares of Series A Convertible Preferred Stock, at \$15,000 per share, for cash consideration of approximately \$11.3 million and cancellation of \$4.725 million of its senior secured promissory notes. Dividends on the preferred stock accrue at a rate of five percent (5%) per annum and shall be cumulative from the date of issuance. Until paid, the right to receive dividends on the preferred stock shall accumulate, and shall be payable in cash on June 30 and December 31 of each year, and commenced on December 31, 2004. Each share of Series A convertible preferred stock is convertible into 2,500 shares of common stock. For each share of Series A convertible preferred stock, the investors also were issued two-year warrants to purchase 500 shares of common stock at an exercise price of \$8.40 per share.

On August 31, 2004, the Company issued \$3,000,000 of convertible promissory notes. Prior to maturity, the convertible promissory notes may be converted into units consisting of the Series A convertible preferred stock and common stock purchase warrants at a price of \$15,000 per unit. Each unit consists of one share of Series A convertible preferred stock and two-year warrants to purchase up to 500 shares of common stock at an exercise price of \$8.40 per share. In December 2004, the holders of the

NATIONAL COAL CORP.
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convertible promissory notes converted the \$3,000,000 principle into 200 shares Series A convertible preferred stock and warrants to purchase up to 100,000 shares of common stock.

Investors who paid cash consideration in either the Series A convertible preferred stock financing or convertible debt financing also received the right to purchase additional units of Series A convertible preferred stock and common stock purchase warrants. Each of these investors can purchase, at a price of \$15,000 per unit, up to a number of units with an aggregate purchase price equal to 33.33% of the amount invested in the initial financing. Each unit consists of one share of Series A convertible preferred stock and two-year warrants to purchase up to 500 shares of common stock at an exercise price of \$8.40 per share. The purchase rights must be exercised no later than ninety days following January 28, 2005. The holders of convertible promissory notes may exercise this additional purchase right only if they convert their promissory note in full. In December 2004, the Company issued 241.33 shares of its Series A convertible preferred stock and warrants to purchase 482,660 shares of its common stock upon the exercise by certain holders of these purchase rights, and received gross proceeds of approximately \$3,620,000 in connection with the sale of these securities. In February 2005, the Company issued 4.44 shares of its Series A convertible preferred stock and warrants to purchase 2,220 shares of its common stock upon the exercise by certain holders of these purchase rights, and received gross proceeds of approximately \$67,000 in connection with the sale of these securities. In April 2005, the Company issued 11.55 shares of its Series A convertible preferred stock and warrants to purchase 5,775 shares of its common stock upon the exercise by certain holders of these purchase rights, and received gross proceeds of approximately \$173,000 in connection with the sale of these securities. These purchase rights expired on April 28, 2005.

Issuance of Stock Pursuant to the Exercise of Options

In the three months ended March 31, 2005, the Company issued 206,250 shares of common stock and received gross proceeds of \$469,500 upon the exercise of stock options by employees.

4. Events Subsequent to March 31, 2005

Appointment of an Officer and Directors

On April 1, 2005, Mark Oldham became the Company's Chief Financial Officer and a member of the Company's board of directors. Also on April 1, 2005, Robert Heinlein and Ken Scott were appointed independent directors of the Company's board.

Form S-3 Registration Statement

On May 6, 2005, the Company filed with the Securities and Exchange Commission, a post effective amendment #1 to Form SB-2 on Form S-3 registration statement to register the resale by the selling stockholders identified therein, of an aggregate of 17,188,996 shares of the Company's common stock which was then outstanding or which could be acquired by the selling stockholders from the Company upon the conversion or exercise of options, warrants, and Series A convertible preferred stock. The amendment was declared effective by the SEC on May 12, 2005.

Exercise of Additional Purchase Rights by Series A Shareholders

In April 2005, certain investors who paid cash consideration in the Series A convertible preferred stock financing and received the right to purchase additional units of Series A convertible preferred stock and common stock purchase warrants, exercised their rights prior to the April 28, 2005 expiration date.

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Pursuant to these exercises, the Company issued 11.55 shares of its Series A convertible preferred stock and warrants to purchase 5,775 shares of its common stock, and received gross proceeds of approximately \$173,000 in connection with the sale of these securities.

Item 2. Management's Discussion and Analysis or Plan of Operation

The information contained in this Form 10-QSB is intended to update the information contained in our Annual Report on Form 10-KSB for the year ended December 31, 2004 and presumes that readers have access to, and will have read, the "Management's Discussion and Analysis or Plan of Operation" and other information contained in such Form 10-KSB and 2004 Form 10-QSBs previously filed. The following discussion and analysis also should be read together with our condensed consolidated financial statements and the notes to the condensed consolidated financial statements included elsewhere in this Form 10-QSB.

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of National Coal Corp. for the three months ended March 31, 2005 and the three months ended March 31, 2004. Except for historical information, the matters discussed in this Management's Discussion and Analysis or Plan of Operation are forward-looking statements that involve risks and uncertainties and are based upon judgments concerning various factors that are beyond our control. Actual results could differ materially from those projected in the forward-looking statements as a result of, among other things, the factors described below under the caption "Cautionary Statements and Risk Factors."

Overview

National Coal Corp., through our wholly-owned subsidiary National Coal Corporation, engages principally in the business of mining coal in Eastern Tennessee and Southeastern Kentucky. We own the coal mineral rights to approximately sixty-five thousand (65,000) acres and lease another approximate twelve thousand one hundred (12,100) acres in Tennessee, and own the coal mineral rights to approximately eleven thousand seven hundred (11,700) acres and lease another approximate eighteen thousand two hundred (18,200) acres in Kentucky. We commenced mining coal in July 2003 from a surface mine in Tennessee. At March 31, 2005, we were extracting coal from four deep mines and one surface mine.

We engage in coal production by locating, assembling, leasing, assessing, permitting and developing coal properties in Eastern Tennessee and Southeastern Kentucky. After obtaining permits from the U.S. Department of the Interior, Office of Surface Mining ("OSM") and posting reclamation bonds, we mine our properties for the extraction of coal minerals, and then sell the coal on a per ton basis at previously negotiated rates, primarily to state run utility companies. The reclamation bonds typically take the form of letters of credit or direct cash deposits with OSM. At March 31, 2005, we had \$257,500 on deposit with OSM, had approximately \$4.27 million of cash invested in certificates of deposit, against which irrevocable bank letters of credit are written in favor of OSM and had posted a \$700,000 letter of credit in favor of OSM secured by our executive office building.

We typically sell our coal for a specified tonnage amount and at a negotiated price pursuant to short-term and long term contracts. We also price coal sales on a one-day or one-shipment tonnage amount. The price per ton for these types of sales typically fluctuates in direct correlation to the price per ton of coal quoted on the New York Mercantile Exchange, referred to as the "spot price." We intend to continue to reduce the price volatility for our coal by entering long-term supply contracts (contracts in excess of one year) for a majority of our coal production, which generally will provide us a fixed price for our coal over the term of the contract. We will continue to use the spot market to sell surplus coal produced above our long-term contract commitments.

We also sell coal that we purchase from third party coal producers on a case by case basis. We only enter into these transactions when the price per ton paid to these third party producers is below the

price per ton at which we are able to sell the coal, usually from short term contracts. Additionally, when capacity is available, we charge third party coal producers a negotiated price per ton for their use of our load-out facility located in Turley, TN. This load-out facility allows easy, direct access to load previously mined coal onto rail cars for shipment to their customers. We do not expect the sale of coal purchased from third party producers or the rental to third parties of our load-out facility to represent a material portion of our future business.

The coal industry has been highly competitive with very low margins in the past several years. Recently, the surge in prices for natural gas has made coal more competitive with that alternative energy source, which has enabled coal fired power plants, using the latest clean air compliant scrubber technology, to be price competitive with natural gas fired plants. We believe this has and will continue to cause increased demand for coal for the foreseeable future, resulting in higher prices and improved margins for our product. However, the price of coal is very volatile, and there can be no assurances that the price of coal will not drop below current levels. To reduce our exposure to fluctuations in the price of coal, we intend to sign long term contracts with respect to a majority of our coal production, to fix the price per ton we receive for our coal over a period of one or more years.

Our historical operations prior to April 30, 2003 reflect only the operations of National Coal Corporation, a Tennessee corporation. Prior to April 30, 2003, National Coal Corp., a Florida corporation formerly known as Southern Group International, Inc., was a "blank check" company, which is a company that has no specific business plan or purpose or has indicated that its business plan is to engage in a merger or acquisition with an unidentified company or companies. On April 30, 2003, National Coal Corp. consummated a reorganization in which all of the outstanding shares of National Coal Corporation, a privately-held Tennessee corporation, were exchanged for 8,549,975 shares of National Coal Corp. a Florida corporation. National Coal Corporation was formed in January 2003, and from inception through June 30, 2003, National Coal Corporation was in the exploration stage with no operating revenue. During the third quarter of 2003, we commenced coal mining operations and, accordingly, are no longer in the exploration stage.

Critical Accounting Policies, Judgments and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to computing depreciation, depletion, amortization, accretion, reclamation liability, asset impairment, valuation of non-cash transactions, and recovery of receivables. Estimates are then based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our use of estimates, however, is limited, as we have adequate time to process and record actual results from operations.

We believe our most critical accounting policies include revenue recognition, the corresponding accounts receivable and the methods of estimating depletion and reclamation expense of actual mining operations in relation to estimated total mineable tonnage on our properties. We believe the following accounting policies affect our more significant judgments and estimates used in preparation of our consolidated financial statements.

Revenue Recognition. Under SEC Staff Accounting Bulletin No. 104, "Revenue Recognition," we recognize revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured.

Mined Coal. In the case of coal we mine and sell, we negotiate a specific sales contract with each customer, which includes a fixed price per ton, a delivery schedule, and terms for payment. We recognize revenue from sales made pursuant to these contracts at the time of delivery.

Coal Royalties. We recognize coal royalty revenues on the basis of tons of coal mined by our lessees. During the three months ended March 31, 2005 we did not recognize any coal royalty revenues, and during calendar 2004, we had one source of royalty revenue pursuant to our agreement with Jenco Capital Corporation ("Jenco"). We recognized the final remaining royalties pursuant to our agreement with Jenco in the second calendar quarter of 2004 and do not anticipate any future royalty transactions for the foreseeable future.

Accounts Receivable. Accounts receivable balances are evaluated on a continual basis and allowances, if any, are provided for potentially uncollectible accounts based on management's estimate of the collectibility of customer accounts. If the financial condition of a customer were to deteriorate, resulting in an impairment of its ability to make payments, an additional allowance may be required. Allowance adjustments, if any, are charged to operations in the period in which the facts that give rise to the adjustments become known. To date, we have not had any customer whose payment was considered past due, and as such, have not recorded any reserves for doubtful collectibility.

Asset Retirement Obligation. The Surface Mining Control and Reclamation Act of 1977 and similar state statutes require that mine properties be restored in accordance with specified standards and an approved reclamation plan. Significant reclamation activities include reclaiming refuse and slurry ponds, reclaiming the pit and support acreage at surface mines, and sealing portals at deep mines. Reclamation activities that are performed outside of the normal mining process are accounted for as asset retirement obligations in accordance with the provisions of Statement of Financial Accounting Standards, or SFAS, No. 143, "Accounting For Asset Retirement Obligations". We record our reclamation obligations on a mine-by-mine basis based upon current permit requirements and estimated reclamation obligations for such mines as determined by the Office of Surface Mining when we post a predetermined amount of reclamation bonds prior to commencing mining operations. The Office of Surface Mining's estimates of disturbed acreage are determined based on approved mining plans and related engineering data. Cost estimates are based upon estimates approved by OSM based on historical costs. In accordance with SFAS No. 143, we determine the fair value of our asset retirement obligations using a discounted cash flow methodology based on a discount rate related to the rates of US treasury bonds with maturities similar to the expected life of a mine, adjusted for our credit standing.

On at least an annual basis, we review our entire reclamation liability and make necessary adjustments for permit changes granted by state authorities, additional costs resulting from accelerated mine closures, and revisions to cost estimates and productivity assumptions, to reflect current experience. At March 31, 2005, we had recorded asset retirement obligation liabilities of approximately \$2.4 million. While the precise amount of these future costs cannot be determined with certainty, as of March 31, 2005, we estimate that the aggregate undiscounted cost of final mine closure is approximately \$5 million.

Stock-Based Compensation. We account for stock-based compensation using Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees". Under APB No. 25, compensation expense is recognized for stock options with an exercise price that is less than the market price on the grant date of the option. For stock options granted employees or directors with

exercise prices at or above the market value of the stock on the grant date, we have adopted the Financial Accounting Standards Board ("FASB") disclosure-only provisions of Statement of Financial Accounting Standards No. 123, *"Accounting for Stock-Based Compensation"* ("SFAS No. 123"). Except for the issuance of 1,237,500 options granted to directors and officers in March 2004, we have not recorded any compensation costs for these types of option grants.

Beneficial Conversion Feature of Debt and Preferred Stock. In accordance with Emerging Issues Task Force No. 98-5, *"Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios,"* and No. 00-27, *"Application of Issue No. 98-5 to Certain Convertible Instruments,"* we recognize the value of conversion rights attached to convertible debt and equity instruments. These rights give the instrument holder the immediate ability to convert debt or preferred equity into common stock at a price per share that is less than the trading price of the common stock to the public. The beneficial value is calculated based on the market price of the stock at the commitment date in excess of the conversion rate of the debt and related accruing interest or preferred stock and is recorded as a discount to the related debt or constructive dividend to preferred stockholders and an addition to additional paid-in capital. The debt discount is amortized and recorded as interest expense over the remaining outstanding period of related debt.

Reserves. We do not disclose coal "reserves" in our financial statements. "Reserves," to be so classified, must (i) be based upon reasonably accurate scientific data and professional analysis, (ii) be recoverable (economically and physically), (iii) have a permitted and operating mine facility at the coal location, and (iv) be subject to current sales. We have not satisfied all of these requirements with respect to our coal mineral rights. To record coal reserves, in addition to the other requirements, we would have to engage a geologist to render a professional report indicating the recoverable tonnage on the portions of our property which are permitted and being actively mined.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123R *"Share-Based Payment,"* a revision to FASB No. 123. SFAS No. 123R replaces existing requirements under SFAS No. 123 and APB Opinion No. 25, and requires public companies to recognize the cost of employee services received in exchange for equity instruments, based on the grant-date fair value of those instruments, with limited exceptions. SFAS No. 123R also affects the pattern in which compensation cost is recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. For small-business filers, SFAS No. 123R will be effective for annual and interim periods beginning after December 15, 2005. The Company is currently determining what impact the proposed statement would have on its results of operations and financial position.

The FASB has proposed FASB Staff Position No. SFAS No. 109 a, *"Application of FASB Statement No. 109, Accounting for Income Taxes, for the Tax Deduction Provided to U.S. Based Manufacturers by the American Jobs Creation Act of 2004."* On October 22, 2004, the *American Jobs Creation Act of 2004* (the "Act") was signed into law by the President. The Act includes tax relief for domestic manufacturers by providing a tax deduction up to 9 percent (when fully phased-in) of the lesser of (a) "qualified production activities income," as defined in the Act, or (b) taxable income (after the deduction for the utilization of any net operating loss carry forwards). As a result of this Act, an issue has arisen as to whether this deduction should be accounted for as a special deduction or a tax rate reduction under Statement 109. The FASB staff believes that the domestic manufacturing deduction's characteristics are similar to special deductions because the domestic manufacturing deduction is based on the future performance of specific activities, including the level of wages. Accordingly, the FASB staff believes that the deduction provided for under the Act should be accounted for as a special deduction

in accordance with Statement 109 and not as a tax rate reduction. This provision of the Act is not expected to have an impact on the Company's financial statements.

In November 2004, the FASB issued FASB Statement No. 151, which revised ARB No.43, relating to inventory costs. This revision is to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that these items be recognized as a current period charge regardless of whether they meet the criterion specified in ARB 43. In addition, this Statement requires the allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after the date this Statement is issued. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

In December 2004, the FASB issued FASB Statement No. 152, which amends FASB Statement No. 66, *Accounting for Sales of Real Estate*, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position ("SOP") 04-2, *Accounting for Real Estate Time-Sharing Transactions*. This Statement also amends FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real-estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

In December 2004, the FASB issued FASB Statement No. 153. This Statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this Statement is issued. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

Results of Operations

The following table presents consolidated statement of operations data for each of the periods indicated as a percentage of revenues.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005
Revenues.....	100.0 %	100.0 %
Operating expenses:		
Cost of sales and selling expenses.....	88.0	85.3
General and administrative.....	78.0	15.2
Exploration costs.....	5.7	1.3
Depreciation, depletion and accretion.....	10.3	9.3
Amortization.....	4.3	0.9
Total operating expenses.....	186.3	112.0
Loss from operations.....	(86.3)	(12.0)
Other income (expense):		
Gain on sale of marketable securities.....	--	--
Other income (expense), net.....	(1.3)	(0.1)
Financing fees.....	--	--
Interest expense.....	(12.5)	(5.3)
Net loss.....	(100.0)%	(17.4)%

Comparison of three months ended March 31, 2005 and three months ended March 31, 2004

Revenues

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005	Percent Change
Coal sales.....	\$ 990,622	\$ 12,584,404	1,170%
Royalties receipts.....	74,281	--	*
Total revenues.....	\$ 1,064,903	\$ 12,584,404	1,082%

* Not meaningful

For the three months ended March 31, 2005, our revenues were derived entirely from coal sales to 10 customers, 7 of which were utilities and 3 of which were industrial customers. Our five largest customers represented 90% of our total revenues. For the three months ended March 31, 2004, approximately 90% of revenues were derived from coal sales to one utility, and the balance of the revenue was derived from the recognition of royalty revenues. The increase in total revenues of approximately \$11.5 million, or 1,082%, for the three months ended March 31, 2005, compared to the three months ended March 31, 2004 was mainly attributable to our having signed contracts with multiple industrial and utility customers which resulted in an increase in customers to ten compared to three, as we substantially increased our mining activity. There were no royalty receipts for the three months ended March 31, 2005, and we do not anticipate any royalty revenues for the foreseeable future.

Operating Expenses

Cost of sales and selling expenses

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005	Percent Change
Cost of sales and selling expenses.....	\$ 937,384	\$ 10,735,708	1,045%

Cost of sales and selling expenses consist primarily of salary, benefits and other compensation costs paid directly to miners, and direct costs paid to third party vendors whose goods and services were directly used in the process of producing coal inventory. Third party vendor costs include coal purchases, equipment leases and maintenance costs, blasting costs, fuel costs, parts and supplies, and transportation costs. The primary reason for the increase in total cost is due to the increase in the volume of production when compared to the same period in the prior year. Our goal is to continue to lower costs as a percentage of revenues by employing the latest mining technologies, analyzing the Company's coal properties in order to mine them efficiently, and increasing volume to achieve economies of scale.

General and administrative expenses

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005	Percent Change
General and administrative expenses ...	\$ 831,137	\$ 1,915,042	130.4%

General and administrative expenses primarily include salary, benefits, and related expenses; executive, financial, and accounting consulting expenses; legal and outside audit professional fees; insurance expenses; and travel and travel related expenses. This increase in general and administrative expenses for the three months ended March 31, 2005 is primarily attributed to an increase in administrative costs due to the increase in the volume of coal production and sales after we expanded production on existing properties and completed several acquisitions of additional operations in the previous year.

Exploration costs

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005	Percent Change
Exploration costs	\$ 60,182	\$ 161,603	168.5%

For the three months ended March 31, 2005 we incurred exploration and development costs for fees paid to professional geology and exploration experts. We plan to invest additional resources to gain the necessary understanding of our coal properties to make the best decisions about which areas to mine most profitably.

Depreciation, depletion and accretion expense

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005	Percent Change
Depreciation, depletion and accretion expense.....	\$ 109,355	\$ 1,176,150	976%

The increase in depreciation, depletion and accretion expense for the three months ended March 31, 2005 as compared to the comparable period in 2004, is primarily attributable to the acquisition of property, plant and equipment in support of increased mining activity. Given that the coal mining business is capital intensive, we expect our depreciation expense to increase in the remainder of 2005 and beyond as we increase our acquisition of property, plant and equipment.

Amortization expense

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005	Percent Change
Amortization expense.....	\$ 45,607	\$ 110,807	143%

We record amortization expense for previously capitalized financing fees and discounts related to the issuance of debt securities. These expenses are recorded using the interest method over the life of the securities. If the securities are repaid or are converted prior to maturity, the remaining unamortized balance is immediately recognized. We also record amortization expense for mine development costs.

Other Income (Expense)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2005	Percent Change
Interest expense and financing fees.....	\$ (132,800)	\$ (660,511)	397.4%
Other income (expense), net.....	(14,646)	(15,622)	6.7%
Total other income (expense).....	\$ (147,446)	\$ (676,133)	358.6%

The \$528,687 increase in other income (expense), net, for the three months ended March 31, 2005 compared to the three months ended March 31, 2004 is primarily attributable to added borrowings for asset acquisitions made during calendar 2004.

Related Party Transactions

In March 2005, we borrowed \$5.14 million pursuant to certain Note and Warrant Purchase Agreements. We issued notes in the aggregate principal amount of \$5.14 million to three purchasers. The notes have a maturity date of August 10, 2005, are secured by certain mining equipment, and have an interest rate of eighteen percent (18%) per annum calculated from the 61st day until maturity. The note purchasers were also issued 5-year common stock purchase warrants to purchase an aggregate of up to 140,000 shares of the Company's common stock at an exercise price per share of \$8.50. We paid an origination fee of approximately \$200,000 upon the execution of the loan documents. Crestview Capital

Master, LLC, a significant shareholder of ours, purchased a note in this transaction in the principal amount of approximately \$2.1 million and received a warrant to purchase approximately 56,000 shares of our common stock.

On March 21, 2005, we and Robert Chmiel, entered into a Separation Agreement in connection with his resignation as our Chief Financial Officer and as a Director, pursuant to which, effective March 31, 2005, Mr. Chmiel agreed to (i) an aggregate severance payment of \$145,000, and (ii) the retention of 56,250 of previously issued but unvested stock options as consideration for the cancellation of his employment agreement.

Liquidity and Capital Resources

As of March 31, 2005, we had cash and cash equivalents of approximately \$779,400. As of March 31, 2005, we had negative net working capital of approximately \$9.9 million. We expect a significant use of cash during the balance of fiscal 2005 as we continue to expand our coal mining operations. We anticipate that our current cash reserves plus cash we expect to generate from operations will not be sufficient to fund our operational expenditures for the first six months of 2005, yet we expect to be cash flow positive from operations commencing in the third quarter of 2005. We anticipate the need to acquire additional assets and/or mining operations, and will likely be required to raise additional funds by issuing additional equity or debt securities, the amount and timing of which will depend in large part on our spending program and our ability to generate cashflow from operations in future months. In November 2004, we entered into a senior secured credit facility and borrowed \$15 million to facilitate our purchase of assets from Appalachian Fuels, LLC. We borrowed an additional \$1.4 million in January 2005 pursuant to this senior secured credit facility for the deposit on and purchase of a \$5.5 million high wall miner, and borrowed an additional \$5.14 million in a separate transaction to complete the purchase of the high wall miner equipment. We may borrow an additional \$4.6 million, as our senior secured credit facility allows for a maximum draw of \$21 million.

If additional funds are raised through the issuance of equity securities, the current stockholders may experience dilution. Furthermore, there can be no assurance that additional financings will be available when needed or that if available, such financings will include terms favorable to our stockholders. If such financings are not available when required or are not available on acceptable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

Cash Flows

We currently satisfy our working capital requirements primarily through cash flows generated from operations and sales of equity and debt securities. For the three months ended March 31, 2005, we had a net increase in cash of approximately \$428,000. Cash flows from operating, financing and investing activities for the three months ended March 31, 2004 and the three months ended March 31, 2005 are summarized in the following table:

Activity:	Three Months Ended March 31,	
	2004	2005
Operating activities	\$ (604,590)	\$ 1,319,989
Investing activities	(1,147,785)	(7,322,424)
Financing activities	2,382,663	6,430,130
Net increase (decrease) in cash	<u>\$ 631,171</u>	<u>\$ 427,695</u>
<i>Operating Activities</i>		

The net cash provided by operating activities of approximately \$1.3 million during the three months ended March 31, 2005 was primarily the result of the net loss of approximately \$2.2 million and increases in accounts payable of approximately \$1.9 million, decreases in receivables of approximately \$164,000, and decreases in inventory of approximately \$81,000. The non-cash expenses recorded during the quarter included depreciation, depletion and accretion of \$1,184,073, amortization of \$200,070, and stock option expense of \$225,843. The increase in accounts payable is primarily a result of increased operational activity.

Investing Activities

The approximately \$7.3 million of cash used in investing activities during the three months ended March 31, 2005 was due primarily to the purchase of approximately \$7.3million of property, plant and equipment. To the extent that we make additional asset acquisitions in the balance of 2005 similar to our investing activities in 2004, we will need to raise additional cash from outside sources. If additional funds are raised through the issuance of equity securities, the current stockholders may experience dilution. Furthermore, there can be no assurance that additional financings will be available when needed or that if available, such financings will include terms favorable to our stockholders. If such financings are not available when required or are not available on acceptable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

Financing Activities

The net cash provided by financing activities of approximately \$6.4million during the three months ended March 31, 2005 was primarily the result of \$6.5 million raised from sales of debt securities. During the three months ended March 31, 2005, approximately \$500,000 was raised by the exercise of warrants for the purchase of common stock from the Company. Payments on bank loans and capital leases were approximately \$80,000 and \$480,000, respectively, for the three months ended March 31, 2005. The net cash provided by financing activities of approximately \$2.4 million during the three months ended March 31, 2004 was the result of approximately \$2.8 million raised from sales of common stock, offset by approximately \$160,000 paid on related party debt, and approximately \$260,000 paid on capital leases.

As previously stated, to the extent that we make additional asset acquisitions during the balance of 2005 similar to our investing activities in the first quarter of 2005 we will need to raise additional cash from the sale of equity or debt securities, which financings may not be available on acceptable terms, if at all, and which may dilute existing stockholders.

In March 2005, we borrowed \$5.14 million pursuant to certain Note and Warrant Purchase Agreements. We issued notes in the aggregate principal amount of \$5.14 million to three purchasers. The notes have a maturity date of August 10, 2005, are secured by certain mining equipment, and have an interest rate of eighteen percent (18%) per annum calculated from the 61st day until maturity. The note purchasers were also issued 5-year common stock purchase warrants to purchase an aggregate of up to 140,000 shares of the Company's common stock at an exercise price per share of \$8.50. We paid an origination fee of approximately \$200,000 upon the execution of the loan documents. Crestview Capital Master, LLC, a significant shareholder of ours, purchased a note in this transaction in the principal amount of approximately \$2.1 million and received a warrant to purchase approximately 56,000 shares of our common stock.

Sales of Preferred Stock and Warrants

In February and April 2005, we issued 15.99 shares of Series A convertible preferred stock and two-year warrants to purchase 7,995 shares of its common stock upon the exercise by certain holders of purchase rights, and received gross proceeds of approximately \$240,000 in connection with the sale of these securities. As of April 28, 2005, there were outstanding 1,436.33 shares of our Series A convertible preferred stock.

We initially issued shares of our Series A convertible preferred stock and common stock purchase warrants in separate private placement transactions on August 31, 2004. Dividends on our Series A convertible preferred stock accrue at a rate of five percent (5%) per annum and are cumulative from the date of issuance. Until paid, the right to receive dividends on the preferred stock accumulates and is payable, in cash, on June 30 and December 31 of each year, and commenced on December 31, 2004. Each share of Series A convertible preferred stock is convertible into 2,500 shares of our common stock. For each share of Series A convertible preferred stock, investors were also issued two-year warrants to purchase up to 500 shares of our common stock at an exercise price of \$8.40 per share.

On August 31, 2004, the closing price of our common stock on the NASDAQ Over-the-Counter Bulletin Board was \$9.40. Since this closing price exceeded the \$6.00 conversion price of the Series A preferred stock, and exceeded the \$8.40 exercise price for the warrants, we recognized a one-time constructive dividend of \$10,762,676 pursuant to the calculation of the beneficial conversion value for both the initial issuance of our Series A convertible preferred stock and the attached warrants on August 31, 2004 with conversion prices below the market price of the common stock. The beneficial conversion value of the warrants was calculated using a Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield, expected volatility rate of 48%; risk free interest rate of 3.50%; and an average life of 2 years. During the calendar first quarter of 2005, we recognized an additional constructive dividend of \$30,891 pursuant to the additional Series A purchase right investments exercised in February 2005. The beneficial conversion value of the additional warrants was calculated using a Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield, expected volatility rate of 30%; risk free interest rate of 3.75%; and an average life of 1.5 years.

Issuance of Stock Pursuant to the Exercise of Options

In the three months ended March 31, 2005, the Company issued 206,250 shares of common stock and received gross proceeds of \$469,500 upon the exercise of stock options by employees.

Senior Secured Credit Facility

On November 26, 2004, our Tennessee subsidiary, National Coal Corporation, in connection with our acquisition of assets from Appalachian Fuels, LLC entered into a credit agreement with D. B. Zwirn Special Opportunities Fund, L.P., as Lender and administrative agent for the Lenders. The company and our subsidiary, NC Transportation, Inc., guaranteed the obligations of National Coal Corporation under the credit agreement. The credit agreement provides for an initial credit facility of \$15 million with a subsequent credit facility not to exceed \$6 million. We exercised our right to borrow \$15 million on November 29, 2004, the proceeds of which were used to pay the remaining \$12,250,000 of acquisition costs related to the acquisition of assets of Appalachian Fuels, LLC, pay transaction costs with respect to the closing of the credit facility and asset purchase, and fund working capital. We borrowed an additional \$1.4 million in January 2005 to fund our acquisition of mining equipment. Borrowings under the credit agreement bear interest at the rate of interest per annum publicly announced from time to time by JPMorgan Chase as its prime rate in effect at its principal office in New York City, plus 5.75%. The

obligations under the credit agreement are secured by substantially all of our assets and those of our subsidiaries.

Amounts borrowed under the Credit Agreement are payable in monthly installments of amounts equal to 50% of our Free Cash Flow (as defined in the credit agreement) and become immediately due and payable on their maturity date of November 26, 2006. Under this facility, we are subject to numerous financial covenants, including that:

- we maintain a specified minimum EBITDA (as defined in credit agreement) for specified periods ending on each calendar quarter during the term of the credit agreement;
- we do not exceed a specified ratio of debt to EBITDA for specified periods ending on each calendar quarter during the term of the credit agreement;
- we maintain a specified minimum ratio of EBITDA to interest expense for specified periods ending on each calendar quarter during the term of the credit agreement;
- we maintain a specified minimum fixed charge coverage ratio for specified periods ending on each calendar quarter during the term of the credit agreement;
- we meet minimum sales volume requirements;
- our general and administrative costs on an annualized basis as of specified periods ending on each calendar quarter during the term of the credit agreement do not exceed a specified percentage of our coal sales for each such period; and
- we will not make any capital expenditures except in the ordinary course of business in accordance with past practices.

March 2005 Bridge Financing

In January 2005, we signed an agreement committing us to the purchase of a highwall miner for a total purchase price of approximately \$5.5 million, and paid a \$500,000 deposit toward that purchase commitment. In March 2005, we borrowed an additional approximately \$5.14 million and completed the purchase of this piece of mining equipment. The note has a maturity of August 10, 2005, is secured by the highwall miner, and has a rate of interest of eighteen percent (18%) per annum calculated from the 61st day until maturity. We paid an origination fee of approximately \$200,000 upon the execution of the loan documents. The lenders were also issued 5-year common stock purchase warrants to purchase an aggregate of up to 140,000 shares of the Company's common stock at an exercise price per share of \$8.50. We valued these warrants using the Black-Scholes option-pricing model with the following weighted average assumptions: no dividend yield, expected volatility rate of 133%; risk free interest rate of 4.00%; and an average life of 5 years, and recognized a non-cash discount against the note of \$665,855 to be amortized over the life of the note. Amortization of that discount totaled \$91,392 of non-cash expense in the three month period ended March 31, 2005. Crestview Capital Master, LLC, a significant shareholder of the Company, participated in this transaction.

Contractual Obligations

In November 2004, pursuant to our signed asset purchase agreement with Appalachian Fuels, LLC, we agreed to replace \$6.5 million of their reclamation bonds on the Straight Creek, KY mining operations upon the transfer to us all of the mining permits listed in the asset purchase agreement. To date, Appalachian Fuels has not fulfilled this obligation and has indicated that there are three permits which are still to be transferred. They have indicated to us that final transfer may take a number of

months. None of the mining permits to be transferred to us are for mines which are in current production and as such lack of transfer does not impact our current or planned operations.

Our notes payable at March 31, 2005 consisted of the following:

Notes Payable	Amount Due at March 31, 2005
Senior credit facility dated November 26, 2004; interest rate of Prime + 5.75%, payable monthly, with principle reductions also payable monthly based on 50% of Free Cash Flow (as defined in the credit facility)	\$ 16,400,000
Notes maturing August 10, 2005 issued in March 2005 Bridge Financing	4,563,263
Bank loan dated July 29, 2004; interest rate of 7.25%, payable monthly	452,749
Total	<u>\$ 21,416,012</u>

We rent mining equipment pursuant to operating lease agreements, and made lease payments totaling approximately \$400,000 during the three months ended March 31, 2005.

In September 2004, we purchased an office building in Knoxville, Tennessee for \$690,000, which is the new location of our corporate operations. The building has been pledged to satisfy certain OSM bonding requirements.

For the three months ended March 31, 2005, we accrued dividends to the holders of our Series A convertible preferred stock in the aggregate of \$260,299. We are required to make semi-annual cash dividend payments to the holder of the Series A preferred stock on June 30 and December 31.

Off-Balance Sheet Arrangements

At March 31, 2005, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, variable interest or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Cautionary Statements and Risk Factors

Several of the matters discussed in this document contain forward-looking statements that involve risks and uncertainties. Factors associated with the forward-looking statements that could cause actual results to differ materially from those projected or forecast are included in the statements below. In addition to other information contained in this report, readers should carefully consider the following cautionary statements.

Risks Related To Our Business

Significant competition from entities with greater resources could result in our failure.

We operate in a highly competitive industry with national and international energy resources companies. Some of our competitors have longer operating histories and substantially greater financial and other resources than we do. Our competitors' use of their substantially greater resources could overwhelm our efforts to operate successfully and could cause our failure.

There is no assurance that our limited revenues will be sufficient to operate as a going concern, or that we will generate greater revenues in the future.

We were formed to create a regional coal producer in Tennessee. We had no revenues from inception until the third quarter 2003 when we began mining operations. We are not profitable and have a limited operating history. We must be regarded as a risky venture with all of the unforeseen costs, expenses, problems, risks and difficulties to which such ventures are subject.

Our coal sales for the three months ended March 31, 2005 were approximately \$12.6 million, and coal sales during fiscal 2004 were approximately \$16.9 million. There is no assurance that we can achieve greater sales or generate profitable sales. We expect that many coal producers could produce and sell coal at cheaper prices per ton than our production cost rates, which could adversely affect our revenues and profits, if any. There is no assurance that we will ever operate profitably. There is no assurance that we will generate continued revenues or any profits, or that the market price of our common stock will be increased thereby.

Our inability to diversify our operations may subject us to economic fluctuations within our industry.

Our limited financial resources reduce the likelihood that we will be able to diversify our operations. Our probable inability to diversify our activities into more than one business area will subject us to economic fluctuations within a particular business or industry and therefore increase the risks associated with our operations.

The loss of, or conflicts with, key management personnel could adversely affect our business.

We are heavily dependent upon the skills, talents, and abilities of our executive officers and board of directors, as well as our consultants, to implement our business plan. Given the intense competition for qualified management personnel in our industry, the loss of the services of any key management personnel may significantly and detrimentally affect our business and prospects. There is no assurance that we will be able to retain these personnel, and it may be time consuming and costly to recruit qualified replacement personnel.

Certain conflicts of interest may exist between our officers, directors and us. Although management's time is devoted to our business, some of our officers and directors have other business interests to which they devote their attention, and they may be expected to continue to do so. As a result, conflicts of interest may arise that can be resolved only through the exercise of prudent judgment consistent with such officers' and directors' fiduciary duties to us. We may, from time to time, find that the inability of our directors and other officers to devote their complete attention to our business results in a delay in progress toward implementing our business plan, and detrimentally affects our business.

Our director and officer indemnification policies in conjunction with the provisions of Florida law could result in substantial un-recoupable expenditures and reduced remedies against directors and officers.

Florida Revised Statutes provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against attorney's fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on our behalf. We will also bear the expenses of such litigation for any of our directors, officers, employees, or agents, upon such person's promise to repay us such amounts, if it is ultimately determined that such person was not entitled to indemnification. This indemnification policy could result in substantial expenditures by us that we will be unable to recoup.

Florida Revised Statutes exclude personal liability of our directors to us and our stockholders for monetary damages for breach of fiduciary duty except in certain specified circumstances. Accordingly, we will have a much more limited right of action against our directors than otherwise would be the case. This provision does not affect the liability of any director under federal or applicable state securities laws.

There is no assurance that we will find purchasers of our product at profitable prices.

If we are unable to achieve supply contracts, or are unable to find buyers willing to purchase our coal at profitable prices, our revenues and operating profits could suffer.

If transportation for our coal becomes unavailable or uneconomic for our customers, our ability to sell coal could suffer.

Transportation costs represent a significant portion of the total cost of delivered coal and, as a result, play a critical role in a customer's purchasing decision. Increases in transportation costs could make our coal less competitive as a source of energy or could make some of our operations less competitive than other sources of coal.

Coal producers depend upon rail, barge, trucking, overland conveyor and other systems to deliver coal to its customers. While U.S. coal customers typically arrange and pay for transportation of coal from the mine to the point of use, disruption of these transportation services because of weather-related problems, strikes, lock-outs or other events could temporarily impair our ability to supply coal to our customers and thus could adversely affect our results of operations.

Risks inherent to mining could increase the cost of operating our business.

Our mining operations are subject to conditions beyond our control that can delay coal deliveries or increase the cost of mining at particular mines for varying lengths of time. These conditions include weather and natural disasters, unexpected maintenance problems, key equipment failures, variations in coal seam thickness, variations in the amount of rock and soil overlying the coal deposit, variations in rock and other natural materials and variations in geologic conditions.

The government extensively regulates our mining operations, which imposes significant costs on us, and future regulations could increase those costs or limit our ability to produce coal.

Federal, state and local authorities regulate the coal mining industry with respect to matters such as employee health and safety, permitting and licensing requirements, air quality standards, water pollution, plant and wildlife protection, reclamation and restoration of mining properties after mining is completed, the discharge of materials into the environment, surface subsidence from underground mining and the effects that mining has on groundwater quality and availability. In addition, significant legislation mandating specified benefits for retired coal miners affects our industry. Numerous governmental permits and approvals are required for mining operations. We are required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed exploration for or production of coal may have upon the environment. The costs, liabilities and requirements associated with these regulations may be costly and time-consuming and may delay commencement or continuation of exploration or production operations. The possibility exists that new legislation and/or regulations and orders may be adopted that may materially adversely affect our mining operations, our cost structure and/or our customers' ability to use coal. New legislation or administrative regulations (or judicial interpretations of existing laws and regulations), including proposals related to the protection of the environment that would further regulate and tax the coal industry, may also require us or our customers to change operations significantly or incur increased costs. The majority of our coal supply agreements contain provisions that allow a purchaser to terminate its contract, if legislation is passed that either

restricts the use or type of coal permissible at the purchaser's plant or results in specified increases in the cost of coal or its use. These factors and legislation, if enacted, could have a material adverse effect on our financial condition and results of operations.

In addition, the United States and over 160 other nations are signatories to the 1992 Framework Convention on Climate Change, which is intended to limit emissions of greenhouse gases, such as carbon dioxide. In December 1997, in Kyoto, Japan, the signatories to the convention established a binding set of emission targets for developed nations. Although the specific emission targets vary from country to country, the United States would be required to reduce emissions to 93% of 1990 levels over a five-year budget period from 2008 through 2012. Although the United States has not ratified the emission targets and no comprehensive regulations focusing on U.S. greenhouse gas emissions are in place, these restrictions, whether through ratification of the emission targets or other efforts to stabilize or reduce greenhouse gas emissions, could adversely impact the price of and demand for coal. According to the Energy Information Administration's Emissions of Greenhouse Gases in the United States 2001, coal accounts for 32% of greenhouse gas emissions in the United States, and efforts to control greenhouse gas emissions could result in reduced use of coal if electricity generators switch to sources of fuel with lower carbon dioxide emissions. Further developments in connection with regulations or other limits on carbon dioxide emissions could have a material adverse effect on our financial condition or results of operations.

Our future success depends upon our ability to continue acquiring and developing coal reserves that are economically recoverable.

Our recoverable reserves will decline as we produce coal. We have not yet applied for the permits required or developed the mines necessary to use all of the coal deposits under our mineral rights. Furthermore, we may not be able to mine all of our coal deposits as profitably as we do at our current operations. Our future success depends upon our conducting successful exploration and development activities and acquiring properties containing economically recoverable coal deposits. Our current strategy includes increasing our coal deposits base through acquisitions of other mineral rights, leases, or producing properties and continuing to use our existing properties. Additionally, the federal government limits the amount of federal land that may be leased by any company to 150,000 acres nationwide. As of March 31, 2005, we leased no acres from the federal government. The limit could restrict our ability to lease significant federal lands.

Our planned development and exploration projects and acquisition activities may not result in the acquisition of significant additional coal deposits and we may not have continuing success developing additional mines. Our mining operations are conducted on mineral rights owned and/or leased by us. Because title to most of our mineral rights are not thoroughly verified until a permit to mine the property is obtained, our right to mine some of our leased coal deposits may be materially adversely affected, if defects in title or boundaries exist. In addition, in order to develop our coal deposits, we must receive various governmental permits. We cannot predict whether we will continue to receive the permits necessary for us to operate profitably in the future.

If the coal industry experiences overcapacity in the future, our profitability could be impaired.

During the mid-1970s and early 1980s, a growing coal market and increased demand for coal attracted new investors to the coal industry, spurred the development of new mines and resulted in added production capacity throughout the industry, all of which led to increased competition and lower coal prices. Similarly, an increase in future coal prices could encourage the development of expanded capacity by new or existing coal producers. Any overcapacity could reduce coal prices in the future.

Our operations could be adversely affected if we fail to maintain required bonds.

Federal and state laws require bonds or cash deposits to secure our obligations to reclaim lands used for mining, to pay federal and state workers' compensation, to secure coal lease obligations and to satisfy other miscellaneous obligations. At March 31, 2005, \$257,500 was on deposit with OSM for reclamation bonds related to our Patterson Mountain mining operations. In addition, we have approximately \$4.27 million of cash invested in certificates of deposit, against which an irrevocable bank letter of credit is written in favor of OSM and have posted a \$700,000 letter of credit secured by our executive office building favor of OSM for the reclamation bonds related to our mine #7, mine #9, and mine #1 operations and other mining permits acquired from U.S. Coal, Inc. Reclamation bonds are typically renewable on a yearly basis if they are not posted with cash. Our failure to maintain, or inability to acquire, bonds that are required by state and federal law would have a material adverse effect on us. That failure could result from a variety of factors including the following:

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

Terrorist attacks and threats, escalation of military activity in response to such attacks or acts of war may negatively affect our business, financial condition and results of operations.

Terrorist attacks and threats, escalation of military activity in response to such attacks or acts of war may negatively affect our business, financial condition and results of operations. Our business is affected by general economic conditions, fluctuations in consumer confidence and spending, and market liquidity, which can decline as a result of numerous factors outside of our control, such as terrorist attacks and acts of war. Future terrorist attacks against U.S. targets, rumors or threats of war, actual conflicts involving the United States or its allies, or military or trade disruptions affecting our customers may materially adversely affect our operations. As a result, there could be delays or losses in transportation and deliveries of coal to our customers, decreased sales of our coal and extension of time for payment of accounts receivable from our customers. Strategic targets such as energy-related assets may be at greater risk of future terrorist attacks than other targets in the United States. In addition, disruption or significant increases in energy prices could result in government-imposed price controls. It is possible that any, or a combination, of these occurrences could have a material adverse effect on our business, financial condition and results of operations.

Our ability to collect payments from our customers could be impaired due to credit issues.

Our ability to receive payment for coal sold and delivered depends on the continued creditworthiness of our customers. Our customer base may not be highly creditworthy. If deterioration of the creditworthiness of customers or trading counterparties occurs, our business could be adversely affected..

Risks Related To Our Common Stock

A limited public market exists for our securities, which may restrict our shareholders' ability to trade in our stock.

There is a limited public market for our common stock on the NASDAQ SmallCap Stock Market, and no assurance can be given that a market will continue or that a shareholder will ever be able to

liquidate his investment without considerable delay, if at all. Our stock price may be highly volatile. Factors such as those discussed in this section may have a significant impact upon the market price of our securities. Due to the low price of our securities, many brokerage firms may not be willing to effect transactions in our securities. Even if a purchaser finds a broker willing to effect a transaction in our securities, the combination of brokerage commissions, state transfer taxes, if any, and any other selling costs may exceed the selling price. Further, many lending institutions will not permit the use of such securities as collateral for any loans.

We do not foresee paying dividends in the near future.

We have not paid dividends on our common stock and do not anticipate paying such dividends in the foreseeable future. We are restricted from making cash dividend payments on our common stock under the terms of our Series A convertible preferred stock.

Our issuance of further stock may result in the loss of control by present management and shareholders.

We may issue further shares as consideration for cash, assets or services out of our authorized but not issued common stock that could, upon issuance, represent a majority of our voting power and equity. The result of such an issuance would be that those new shareholders and management would control us, and unknown persons could replace our management at that time. Such an occurrence would result in a greatly reduced percentage of ownership of us by our current shareholders.

We operate in an industry that is subject to significant fluctuations in operating results from quarter to quarter that may result in unexpected reductions in revenue and stock price volatility.

Factors that may influence our quarterly operating results include:

- the worldwide demand for coal;
- the price of coal;
- the supply of coal and other competitive factors;
- the costs to mine and transport coal;
- the ability to obtain new mining permits;
- the costs of reclamation of previously mined properties; and
- industry competition.

Due to these factors, it is possible that in some quarters our operating results may be below our shareholders' expectations and those of public market analysts. If this occurs, the price of our common stock would likely be adversely affected.

Our stock price may decrease, which could adversely affect our business and cause our shareholders to suffer significant losses.

The following factors could cause the market price of our common stock to decrease, perhaps substantially:

- the failure of our quarterly operating results to meet expectations of investors or securities analysts;

- adverse developments in the financial markets, the coal and energy industries and the worldwide or regional economies;
- interest rates;
- changes in accounting principles;
- sales of common stock by existing security holders;
- announcements of key developments by our competitors; and
- the reaction of markets and securities analysts to announcements and developments involving our Company.

If we need to sell or issue additional shares of common stock or assume additional debt to finance future growth, our shareholders' ownership could be diluted or our earnings could be adversely impacted.

Our business strategy may include expansion through internal growth, by acquiring complementary businesses, or by establishing strategic relationships with targeted customers. In order to do so or to fund our other activities, we may issue additional equity securities that could dilute our shareholders' stock percentage ownership. We may also assume additional debt and incur impairment losses related to goodwill and other tangible assets if we acquire another company and this could negatively impact our results of operations.

Officers and directors own a significant portion of our common stock, which could limit our shareholders' ability to influence the outcome of key transactions.

As of April 28, 2005, our officers and directors and their affiliates owned approximately 44.8% of our outstanding voting shares. As a result, our officers and directors are able to exert considerable influence over the outcome of any matters submitted to a vote of the holders of our common stock, including the election of our Board of Directors. The voting power of these shareholders could also discourage others from seeking to acquire control of us through the purchase of our common stock which might depress the price of our common stock.

Item 3. Controls and Procedures.

Controls and Procedures

Members of the company's management, including our Chief Executive Officer and President, Jon Nix, and Chief Financial Officer, Mark A. Oldham, have evaluated the effectiveness of our disclosure controls and procedures, as defined by paragraph (e) of Exchange Act Rules 13a-15 or 15d-15, as of March 31, 2005, the end of the period covered by this report. Based upon that evaluation, Messrs. Nix and Oldham concluded that our disclosure controls and procedures are effective.

Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the first quarter ended March 31, 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Note and Warrant Purchase Agreements

On March 10, 2005, our wholly-owned subsidiary, National Coal Corporation, a Tennessee corporation ("NC Tennessee") sold to each of Crestview Capital Master, LLC, Big Bend XIX Investment, L.P. and CCA (US) Fund I, LP, in a private placement transaction pursuant to the terms of a series of Note and Warrant Purchase Agreements by and among us, NC Tennessee, and each purchaser, dated March 10, 2005, (i) secured promissory notes of NC Tennessee due no later than August 10, 2005, in the aggregate principal amount of \$5,137,726, and (ii) an aggregate of 140,000 five-year warrants to purchase our Common Stock at an exercise price of \$8.50 per share. The notes are secured by certain equipment of NC Tennessee pursuant to the terms of a Security Agreement by and between NC Tennessee and Crestview Capital Master, LLC as agent for itself and the other purchasers. In connection with this financing, we delivered a Continuing and Unconditional Guaranty to the purchasers, guaranteeing full payment and performance of the Notes and the Security Agreement by NC Tennessee. We paid an origination fee of approximately \$200,000 upon the execution of the Note and Warrant Purchase Agreements..

We issued the notes and warrants at a purchase price of 100% of the principal amount of the notes. The notes accrue interest from the 61st day after March 10, 2005 until each note is paid in full at a rate of eighteen percent (18%) per annum. The entire amount of principal and accrued interest is due and payable on August 10, 2005. NC Tennessee may, at its option, prepay the notes at any time without penalty.

Each of the purchasers represented to us that the purchaser was an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, and that such investor was receiving the warrants for investment and not in connection with a distribution thereof. The issuance and sale of the warrants was exempt from the registration and prospectus delivery requirements of the Securities Act pursuant to Section 4(2) of the Securities Act and Rule 506 thereunder as a transaction not involving any public offering.

Item 6. Exhibits

The following exhibits are filed as part of this report:

- 10.1 First Amendment to Credit Agreement by and between National Coal Corporation and D.B. Zwirn Special Opportunities Fund, L.P. as lender, and administrative agent for the lenders, dated January 11, 2005.
- 10.2 Second Amendment to Credit Agreement by and between National Coal Corporation and D.B. Zwirn Special Opportunities Fund, L.P. as lender, and administrative agent for the lenders, effective as of December 31, 2004.
- 10.3 Form of Note and Warrant Purchase Agreements by and among National Coal Corp., National Coal Corporation, and each of Crestview Capital Master, LLC, Big Bend Investments, L.P., and CCA (US) Fund I, L.P., dated March 10, 2005, including form of Secured Promissory Note and form of Common Stock Purchase Warrant attached as

exhibits thereto.

- 10.4 Security Agreement by and between National Coal Corporation and Crestview Capital Master, LLC as agent for itself, Big Bend Investment, L.P. and CCA (US) Fund I, L.P., dated March 10, 2005.
- 10.5 Continuing and Unconditional Guaranty of National Coal Corp., dated March 10, 2005, guaranteeing full payment and performance of the Notes issued by National Coal Corporation and the Security Agreement executed by National Coal Corporation pursuant to the Note and Warrant Purchase Agreements dated March 10, 2005.
- 10.6 Separation Agreement by and between the Company and Robert Chmiel, dated March 21, 2005.
- 31.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
- 31.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
- 31.3 Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL COAL CORP.

Date: May 16, 2005

By: Mark A. Oldham
Its: Chief Financial Officer
(Principal Financial and
Accounting Officer)

Certification of CEO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Jon Nix, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of National Coal Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 16, 2005

Jon Nix
President and Chief Executive Officer

Certification of CFO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark Oldham, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of National Coal Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 16, 2005

Mark A. Oldham
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-QSB for the Quarter Ended March 31, 2005 (the "Report") by National Coal Corp. ("Registrant"), each of the undersigned hereby certifies that:

1. to the best of our knowledge, the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. to the best of our knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: May 16, 2005

Jon Nix
President and
Chief Executive Officer

Date: May 16, 2005

Mark A. Oldham
Chief Financial Officer

P H A E D R U S I N C .

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RICHARD S. SHURE

QUALIFICATIONS

Having worked for many years for a railroad supply company and having kept numerous contacts within the industry, I am in the position of being able to capture current sales prices, specific material demands, and industry trends. In addition, having also been responsible for the take-up of railroad lines, I have actual current take-up costs that a railroad supplier would incur in order to bring this type of material to market.

EDUCATION

University of Illinois at Chicago, School of Urban Planning and Policy,
Ph.D. Public Policy Analysis

University of North Dakota, Grand Forks, M.S. Public Administration

University of Illinois, Urbana, B.S. Industrial Engineering

PROFESSIONAL EXPERIENCE

Phaedrus, Inc., Chicago, IL, 1997-Present, Principal

Provides professional managerial and engineering services to the railroad products industry on a job contract basis.

Azcon Corporation, Chicago, Ill, 1980-1997, Vice President, Rail Products Division

Responsibilities: The rail division dismantled 250 to 300 track miles of abandoned railroads each year throughout the United States and Canada. As division vice president, I was responsible for the pre-bid line inspections, estimating and integrating a marketing plan as well as labor and transportation costs, into the bidding process. Upon bid award, I hired contractors to dismantle the product, initiated transportation contracts, and sold the generated materials. Integral to each project was the proper disposal of the ties—a significant EPA issue; repair of road crossings; and disassembling of bridge structures. As many as ten projects could be ongoing concurrently, encompassing the hiring of 12 to 15 independent contractors and over 200 employees. All projects required continual comprehensive contact and coordination with local, state, and federal agencies (often overlapping) responsible for land usage, roads, and waterways.

PROFESSIONAL REGISTRATION

Licensed Professional Engineer #1340, State of North Dakota