

Interim Consolidated Financial Statements of

ELGIN MINING INC. (FORMERLY PHOENIX COAL INC.)

For the three months ended March 31, 2010 and 2009
(Unaudited – Prepared by Management)

Management’s Comments on Unaudited Interim Consolidated Financial Statements

The accompanying unaudited interim consolidated financial statements of Elgin Mining Inc. for the three months ended March 31, 2010 and 2009 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

ELGIN MINING INC. (FORMERLY PHOENIX COAL INC.)

CONSOLIDATED BALANCE SHEETS

(Expressed in U.S. Dollars)

	Note	March 31, 2010 <i>(Unaudited)</i>	December 31, 2009
ASSETS			
Current Assets			
Cash and cash equivalents.....	6	\$ 26,111,909	\$ 13,828,683
Accounts receivable — other		—	47,369
Prepaid expenses and other current assets.....		582,438	286,272
Restricted cash, cash equivalents, and certificates of deposit	2, 6, 7	3,405,500	6,788,467
Total current assets		<u>30,099,847</u>	<u>20,950,791</u>
Property, Plant and Equipment, net	4	581,942	615,671
Restricted Cash, Cash Equivalents and Certificates of Deposit	6,7	3,037,200	5,282,293
Mining Rights, Mine Development Costs and Mineral Reserves, net of accumulated amortization of \$nil in 2010 and 2009	3	22,243,093	22,739,143
Other Assets	3	242,887	624,744
		<u>\$ 56,204,969</u>	<u>\$ 50,212,642</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade accounts payable and accrued liabilities	6, 10	\$ 2,523,960	\$ 985,932
Current portion of asset retirement obligations	5	1,026,700	1,454,700
Total current liabilities		<u>3,550,660</u>	<u>2,440,632</u>
Asset Retirement Obligations, less current portion	5	717,479	723,300
Other Long-term Liabilities		392,585	396,461
Shareholders' Equity			
Share capital	9, 11	171,902,437	171,817,981
Stock options and warrants	9, 11	19,209,566	19,209,566
Accumulated deficit	11	(139,567,758)	(144,375,298)
		<u>51,544,245</u>	<u>46,652,249</u>
		<u>\$ 56,204,969</u>	<u>\$ 50,212,642</u>

See Subsequent Events note 11

See accompanying notes to consolidated financial statements

ELGIN MINING INC. (FORMERLY PHOENIX COAL INC.)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Expressed in U.S. Dollars)
(Unaudited)

For the Three Months Ended March 31, 2010 and 2009

	Note	March 31, 2010	March 31, 2009¹
Revenue		\$ 10,100	\$ 17,971,891
Cost and Expenses			
Cost of sales		37,680	14,743,718
Selling expenses		—	2,155,682
General and administrative expenses	9, 10	4,459,060	3,597,644
Depreciation and amortization		7,540	1,823,781
Sales contract termination cost		—	3,000,000
		4,504,280	25,320,825
Loss from operations		(4,494,180)	(7,348,934)
Other Income (Expense)			
Gain on sale of coal assets	2, 3	9,320,365	—
Interest expense		(9,450)	(359,902)
Interest income		6,839	76,689
Other, net		(16,034)	(2,750)
		9,301,720	(285,963)
Income (loss) before income taxes		4,807,540	(7,634,897)
Income taxes		—	—
Net income (loss) and comprehensive income (loss)		\$ 4,807,540	\$ (7,634,897)
Basic income (loss) per share	8	\$0.10	\$(0.15)
Diluted income (loss) per share	8	\$0.09	\$(0.15)

(1) Per share amounts have been restated to reflect the impact of the one-for-three consolidation of the issued and outstanding common shares of the Company that was approved by shareholders on April 28, 2010.

See accompanying notes to consolidated financial statements

ELGIN MINING INC. (FORMERLY PHOENIX COAL INC.)

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Expressed in U.S. Dollars)
(Unaudited)

For the Three Months Ended March 31, 2010 and Year Ended December 31, 2009

	Note	Common Shares		Stock Options and	Accumulated	Total
		Shares	Dollars	Warrants	Deficit	
December 31, 2008	8	50,015,184	\$ 171,817,981	\$16,625,724	\$ (65,750,114)	\$122,693,591
Share-based compensation - options	9	—	—	2,583,842	—	2,583,842
Net loss		—	—	—	(78,625,184)	(78,625,184)
December 31, 2009		50,015,184	171,817,981	19,209,566	(144,375,298)	46,652,249
Options exercised.....	8, 9	166,666	84,456	—	—	84,456
Net income.....		—	—	—	4,807,540	4,807,540
March 31, 2010	8, 11	<u>50,181,850</u>	<u>\$ 171,902,437</u>	<u>\$19,209,566</u>	<u>\$(139,567,758)</u>	<u>\$51,544,245</u>

See accompanying notes to consolidated financial statements

ELGIN MINING INC. (FORMERLY PHOENIX COAL INC.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in U.S. Dollars)
(Unaudited)

For the Three Months Ended March 31, 2010 and 2009

	<u>Note</u>	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
Cash Flow From Operating Activities			
Net income (loss).....		\$ 4,807,540	\$ (7,634,897)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		7,540	1,823,781
Gain on sale of coal assets.....	2, 3	(9,320,365)	—
Loss on sale of property and equipment		16,034	—
Share-based compensation	9	—	1,859,000
Asset retirement obligations.....	5	(433,821)	(141,353)
Changes in non-cash operating assets and liabilities:			
Accounts receivable		47,369	(2,664,014)
Inventories		—	(120,458)
Prepaid expenses and other current assets		(296,166)	(107,383)
Trade accounts payable and accrued liabilities.....		1,538,028	2,329,269
Net cash used in operating activities.....		(3,633,841)	(4,656,055)
Cash Flow From Investing Activities			
Restricted cash, cash equivalents, and certificates of deposit.....	2, 6, 7	6,128,060	(1,229,833)
Proceeds from sale of coal assets, net of selling expenses	2, 3	9,753,707	—
Payments for investments.....		—	(1,006)
Payments for other assets, principally mine development and prepaid royalties.....		(55,435)	(537,711)
Proceeds from sale of property and equipment.....		10,155	—
Payments for property and equipment		—	(865,126)
Acquisition of mining rights		—	(3,307,259)
Net cash provided by (used in) investing activities.....		15,836,487	(5,940,935)
Cash Flow From Financing Activities			
Principal payments on debt.....		—	(91,251)
Payments on equipment financing		—	(2,221,522)
Decrease in other long-term liabilities		(3,876)	(17,377)
Proceeds from stock options exercised.....	9	84,456	—
Net cash provided by (used in) financing activities.....		80,580	(2,330,150)
Net Increase (Decrease) in Cash and Cash Equivalents.....		12,283,226	(12,927,140)
Cash and Cash Equivalents, Beginning of Period.....		13,828,683	40,525,609
Cash and Cash Equivalents, End of Period.....		\$ 26,111,909	\$ 27,598,469
Supplemental Disclosure:			
Interest paid		\$ 9,450	\$ 359,902
Non-Cash Investing and Financing Activities:			
Amount escrowed from sale of coal assets	2	\$ 500,000	\$ —
Vendor provided financing for equipment purchases.....		\$ —	\$ 5,087,290
Vendor provided financing for acquisition of mining rights.....		\$ —	\$ 3,000,000

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2010
(Unaudited)

NOTE 1 — NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: On September 30, 2009, Elgin Mining Inc. (formerly Phoenix Coal, Inc.) (the “Company”) sold substantially all of its surface mining operations (as described in note 2) and was thus engaged primarily in the development of its underground coal reserves in Western Kentucky, consisting of the “Gryphon Reserves” and the “Panama South Reserves”, (together, the “Gryphon Mining Complex”). The Company sold its Panama South Reserves in February 2010 (as described in note 3), and in March 2010, entered into a definitive agreement to sell its Gryphon Reserves, which sale was subsequently closed on May 4, 2010. The Company’s ongoing operations consist primarily of reclamation work performed at depleted surface mining locations and undertakings related to the transition of the Company from coal mining to other natural resource sectors.

On June 27, 2008, Phoenix Coal Corporation (“Phoenix”) completed a reverse takeover (“RTO”) of Elgin Mining Inc., formerly Phoenix Coal Inc. and originally Marimba Capital Corp. (“MCC”). MCC changed its name to Phoenix Coal Inc. on June 25, 2008 and then to Elgin Mining Inc. on May 5, 2010. Phoenix, a U.S. company, was formed in July 2004 as a Delaware C corporation. Where the context requires, in respect to transactions prior to the RTO, the “Company” also refers to Phoenix. Concurrent with the RTO, the Company raised approximately \$98 million, net of issuance costs, in a prospectus offering (the “Offering”) of 62,857,160 subscription receipts.

Principles of Consolidation: These consolidated financial statements reflect the consolidated assets, liabilities and results of operations of the Company and its subsidiaries, all of which are wholly-owned.

Basis of Presentation: The accompanying interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim financial statements and accordingly do not include all disclosures required for annual financial statements. All monetary references expressed in these notes are references to United States dollars, except occasional references to Canadian dollar amounts, where the dollar amount is preceded by Cdn (“Cdn\$”).

With the exception of new accounting pronouncements discussed in this note, these interim consolidated financial statements follow the same significant accounting policies and methods of application as the Company’s audited annual consolidated financial statements for the year ended December 31, 2009 (the “Annual Financial Statements”). The interim consolidated financial statements should be read in conjunction with the Annual Financial Statements.

In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for these interim periods are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2010.

Sale of Surface Mining Operations: On September 30, 2009, the Company sold substantially all of its surface mining operations. At June 30, 2009, pursuant to Canadian Institute of Chartered Accountants’ (“CICA”) Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, and Emerging Issues Committee (“EIC”) Abstract No. 161, Discontinued Operations, the Company had classified these surface mining assets and liabilities related to this sale, as assets and liabilities held for sale. Due to the classification of the property and equipment, mine development and mining rights as assets held for sale, no depreciation and amortization expense was recorded on these assets during the three months ended September 30, 2009. As the Company did not have substantial continuing operations after September 30, 2009, discontinued operations accounting has not been applied in these consolidated financial statements.

Financial Instruments: Financial instruments are classified into one of the following five categories: held for trading assets or liabilities, held to maturity investments, loans and receivables, available for sale financial assets or other financial liabilities. Held for trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company’s financial instruments consist of cash and cash equivalents (including restricted cash), short-term investments,

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trade accounts receivable, trade accounts payable and accrued liabilities, other long-term liabilities, and short-term and long-term debt. Cash and cash equivalents are classified as held for trading, and are measured at fair value at the balance sheet date. Short-term investments are classified as held for trading and are measured at fair value at the balance sheet date. Accounts receivable are designated as loans and receivables and accounted for at amortized cost. Trade accounts payable and accrued liabilities, other long-term liabilities and short-term and long-term debt are classified as other financial liabilities and accounted for at amortized cost. Transaction costs for financial instruments, other than held for trading, are included in the value of the financial instrument. Income and expense related to financial instruments is included in the consolidated statement of operations and comprehensive income as interest income or interest expense.

Disclosures regarding financial instruments include their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are: Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and Level 3 – Inputs that are not based on observable market data.

New Accounting Policies:

Business Combinations: CICA Section 1582 is effective January 1, 2011, and amends standards for the measurement, presentation and disclosure of a business combination. A number of changes are specified, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, a requirement to measure non-controlling interests at fair value, and a requirement to recognize acquisition-related costs as expenses. These standards require a change in the measurement of a non-controlling interest and that the non-controlling interest be presented as part of shareholders' equity on the consolidated balance sheet. These new standards are harmonized with international standards. The Company is currently assessing the impact of these new accounting standards on its financial statements.

NOTE 2 — SALE OF SURFACE MINING OPERATIONS

On September 30, 2009, the Company sold substantially all of its operating assets and operations associated with its surface coal mining operations in Western Kentucky, including coal and supplies inventories, coal reserves and related prepaid royalties, mining property, plant and equipment, mining rights, coal purchase contracts and coal sales contracts. All of the Company's recurring revenues were derived from these operations.

Under the terms of the agreement with the purchaser ("Acquisition Agreement") a portion of the cash consideration received from the sale (\$2.8 million) was placed in escrow and, subject to the indemnification provisions of the Acquisition Agreement, one third of the escrowed balance was released March 31, 2010, one half of the remaining escrowed balance will be released September 30, 2010, and the balance of the escrowed funds will be released March 31, 2011.

The Company could potentially receive an additional \$500,000 of cash consideration if, by June 30, 2010, it satisfied certain post-closing obligations ("2010 Fee"). These conditions were satisfied in January 2010 and the \$500,000 in cash consideration was placed in escrow and reported in the consolidated statement of operations and comprehensive income for the quarter ended March 31, 2010 as gain on sale of coal assets.

As at December 31, 2009, the escrow account balance was \$2.8 million. The receipt of the 2010 Fee increased the balance to \$3.3 million, and in March 2010 \$1.1 million of the escrow balance was released to the Company. The remaining \$2.2 million has been classified as restricted cash – current in the consolidated balance sheet.

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NOTE 3 — SALE OF PANAMA SOUTH RESERVES

In February 2010, the Company sold its Panama South Reserves to a major U.S. coal producer for \$10 million in cash.

Consideration received from the sale and the related gain is as follows:

Proceeds from sale:

Cash consideration received \$ 10,000,000

Net book value of assets sold and expenses of sale:

Mining rights 500,000

Prepaid royalties 433,342

Expenses of sale..... 246,293

1,179,635

Gain on sale of coal assets \$ 8,820,365

NOTE 4 — PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	March 31, 2010			December 31, 2009
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land.....	\$ 518,574	\$ —	\$ 518,574	\$ 518,574
Office equipment	78,038	34,067	43,971	76,660
Vehicles	20,783	1,386	19,397	20,437
	<u>\$ 617,395</u>	<u>\$ 35,453</u>	<u>\$ 581,942</u>	<u>\$ 615,671</u>

NOTE 5 — ASSET RETIREMENT OBLIGATIONS

The Company estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted risk-free rate. The Company records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred. The ARO asset is amortized on the units-of-production method over its expected life and the ARO liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate credit-adjusted risk-free rate. The Company also recognized an obligation for contemporaneous reclamation liabilities incurred as a result of its former surface mining activities. Contemporaneous reclamation consisted primarily of grading, topsoil replacement, and revegetation of backfilled pit areas.

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A progression of the reclamation liability recorded on the consolidated balance sheet is as follows:

Total asset retirement obligations as at December 31, 2008.....	\$ 4,324,000
Liabilities incurred.....	964,608
Accretion	230,632
Liabilities assumed by purchaser of surface mining operations	(2,764,276)
Liabilities settled.....	<u>(576,964)</u>
Total asset retirement obligations as at December 31, 2009.....	2,178,000
Accretion	37,680
Liabilities settled.....	<u>(471,501)</u>
Total asset retirement obligations as at March 31, 2010.....	1,744,179
Less current portion	<u>1,026,700</u>
	<u>\$ 717,479</u>

NOTE 6 — FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company has exposure to credit risk, liquidity risk, interest rate risk, and foreign currency risk. The Company's risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure the Company's risks and the related exposure are consistent with the business objectives and risk tolerance.

Credit Risk: Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation.

The Company invests its cash and cash equivalents and short-term investments in a U.S. financial institution, which at March 31, 2010, carried Standard and Poor's investment ratings on their short-term deposits of A-2. At March 31, 2010, approximately \$3.9 million of the cash and cash equivalents balance (including restricted cash) was invested in a money market fund managed by this financial institution. The Company has not experienced any losses on its deposits with this financial institution.

The Company also invests in short-term investments issued by the United States government, such as Treasury bills and Treasury notes. Historically, these types of investments have been AAA rated, so the Company does not anticipate any risk related to default on these investments by the issuer. As at March 31, 2010, the Company had \$23.0 million invested in United States Treasury bills.

At March 31, 2010, the total fair value of assets subject to credit risk, including cash and cash equivalents (including restricted cash and investments) totaled \$32.6 million.

Liquidity Risk: Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity by ensuring that there is sufficient capital to meet short and long-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash, cash equivalents, and short-term investments. The Company also strives to maintain sufficient financial liquidity at all times in order to participate in investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances.

Management forecasts cash flows for its current and subsequent fiscal years to predict future financing requirements. Future requirements are met through a combination of credit commitments and access to capital markets. At March 31, 2010, the Company had approximately \$29.5 million of cash, cash equivalents and short-term restricted cash.

Interest Rate Risk: Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's most significant interest rate risk arises from its investments in marketable securities and cash

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equivalents. However, the maturity on these instruments is generally less than ninety days, thereby mitigating the exposure to the impact of changing interest rates.

Currency Risk: As at March 31, 2010 the Company's functional currency was the U.S. dollar. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the U.S. dollar. The results of the Company's operations are subject to currency transaction risk and currency translation risk. As at March 31, 2010, the Company had no material financial instruments that were denominated in non-U.S. currencies.

Fair Values: The following are the fair values and the respective carrying values of the Company's financial instruments at March 31, 2010 and December 31, 2009:

	March 31, 2010		December 31, 2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Cash and cash equivalents	\$ 26,111,909	\$ 26,111,909	\$ 13,828,683	\$ 13,828,683
Accounts receivable.....	—	—	47,369	47,369
Restricted cash, cash equivalents, and certificates of deposit.....	6,442,700	6,442,700	12,070,760	12,070,760
Trade accounts payable and accrued liabilities.....	2,523,960	2,523,960	985,932	985,932
Other long-term liabilities.....	392,585	392,585	396,461	396,461

As at March 31, 2010 and December 31, 2009, the fair values of cash and cash equivalents (including restricted cash and investments), accounts receivable, and trade accounts payable and accrued liabilities approximated their carrying values because of the short-term nature of these instruments. The fair value of other long-term liabilities also approximated its carrying value.

The following table illustrates the classification of the Company's financial instruments, which are carried at fair value, within the fair value hierarchy previously defined in note 1:

	March 31, 2010		December 31, 2009
	Level 1 Asset	Level 2 Asset	Level 2 Asset
Money market fund.....	\$ —	\$ 3,881,420	\$ 16,426,860
United States Treasury Bill.....	22,998,531	—	—

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities including liabilities related to asset retirement obligations and financial obligations in connection with mining permits that are not reflected in the accompanying consolidated balance sheet. The Company does not anticipate any material losses as a result of these transactions. In accordance with Kentucky state law, the Company is required to post reclamation bonds to assure that reclamation work is completed. Outstanding reclamation bonds related to Company owned reclamation operations totaled approximately \$5.3 million and \$6.3 million as at March 31, 2010 and December 31, 2009, respectively. In addition, as at March 31, 2010 and December 31, 2009, the Company had approximately \$1.2 million and \$4.9 million, respectively, of additional reclamation bonds outstanding related to its previously owned surface mining operations that are being replaced by the purchaser under the terms of the Acquisition Agreement. These bonds are secured by letters of credit, cash, or surety bonds. The surety bonds and letters of credit are collateralized by cash. The restricted cash and certificates of deposit collateralizing the reclamation bonds on the consolidated balance sheet totaled \$4,242,600 and \$9,270,700 as at March 31, 2010 and December 31, 2009, respectively.

The Gryphon Reserves are controlled through leasing arrangements and non-cancellable royalty lease agreements under which future minimum lease payments are due. As described in note 11, in March 2010, the Company announced it had

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entered into a definitive agreement to sell the Gryphon Reserves to a major U.S. coal producer for \$23 million in cash. The Company subsequently closed the transaction on May 4, 2010 and those lease agreements were no longer the obligation of the Company. However, the buyer of the Gryphon Reserves did not assume three consulting arrangements that provide for future payments to third parties based on the sale of coal from specific tracts within the Gryphon Reserves. If the coal that is subject to the consulting arrangements were mined and sold, two of the consulting agreements would require the Company to pay 2% of the gross sales price for coal sold from the tracts associated with those agreements and the other agreement would require the Company to pay \$0.05 per ton for coal sold from the tracts associated with that agreement. Because of the uncertainty regarding the timing, volume and dollar amount of future coal sales, it is not possible as of the balance sheet date to quantify the liability, if any, with any degree of accuracy. The Company does not believe that the present value of the future payments, if any, pursuant to these arrangements would be material.

NOTE 8 — NET INCOME PER SHARE AND SHARE CONSOLIDATION

The following table reconciles the denominators for basic and diluted net income per share calculations. The treasury stock method is used to determine the diluted effect of outstanding options to purchase common shares. Common shares outstanding, stock options and warrants, and earnings per share for all periods presented have been retroactively adjusted to reflect the estimated effect of the April 28, 2010 shareholder approved consolidation of all of the issued and outstanding common shares of the Company on the basis of one post-consolidation common share for each three pre-consolidation common shares as further described in note 11.

Three months ended
March 31

	2010	2009
Weighted average shares outstanding – basic.....	50,128,147	50,015,184
Dilutive effect of share options.....	792,979	—
Weighted average shares outstanding – diluted.....	50,921,126	50,015,184
Net income (loss).....	\$ 4,807,540	\$ (7,634,897)
Net income (loss) per share – basic	\$ 0.10	\$ (0.15)
Net income (loss) per share – diluted	\$ 0.09	\$ (0.15)

NOTE 9 — STOCK INCENTIVE PLAN AND WARRANTS

2007 Stock Option Plan of MCC

MCC adopted an incentive stock option plan in May 2007 (the “2007 Plan”) which provides that the board of directors of the Company may from time to time, in its discretion, and in accordance with TSX requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms will be determined at the time of grant by the board of directors.

In 2007, upon closing of an initial public offering, MCC granted to its directors and officers options to acquire 21,278 shares at a price of Cdn\$1.77 per share, exercisable for a period of five years from August 28, 2007.

The 2007 Plan remains in force and options issued prior to the RTO will continue to be governed by the 2007 Plan; however due to the approval of the 2008 Plan (defined below), no further options will be issued pursuant to the 2007 Plan.

2008 Stock Option Plan of the Company

In connection with completion of the RTO, the Company adopted a new stock option plan (the “2008 Plan”) on May 20, 2008, which was effective upon the closing of the RTO.

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The 2008 Plan is designed to advance the interests of the Company by encouraging employees, officers, directors and consultants to have equity participation in the Company through the acquisition of common shares. The current intention is to use the 2008 Plan for option grants to employees, officers, directors and consultants of the Company. Options granted under the 2008 Plan may be “incentive stock options” or “non-qualified stock options”. The 2008 Plan was approved by the shareholders of the Company in June 2008 and 5,166,666 common shares are reserved for issuance under the 2008 Plan. See note 11 regarding the amendment to the 2008 Plan.

The exercise price per common share is not to be less than the market price of the common shares at the time of the grant. The exercise period for each stock option is not to be more than ten years (five years in the case of an incentive stock option granted to a person who owns more than 10% of the issued and outstanding common shares). Options may be granted subject to vesting requirements.

Unless terminated earlier by the board of directors, the 2008 Plan will remain in effect until all options granted under the 2008 Plan have been exercised or forfeited, or have expired. However, no new options may be granted under the 2008 Plan more than 10 years from the date the Plan was originally adopted by the board of directors.

Phoenix had a stock incentive plan authorized by its board of directors in 2004 (the “2004 Plan”) to grant options to its employees (including officers), directors and consultants. Pursuant to the 2004 Plan, Phoenix could issue “non-statutory options” and “incentive stock options” to purchase common shares of Phoenix as well as “stock purchase rights”.

Stock options granted under the 2004 Plan were generally subject to vesting provisions of 25% at the end-of-year one from the date of grant and then evenly over the following 48 months. The options were granted at a price equal to 100% of the fair value of the Company’s common shares on the date of grant and have a ten-year term.

Upon completion of the RTO, each Phoenix stock option was cancelled and extinguished and the holder received a replacement option of the Company to purchase that number of common shares of the Company equal to the number of shares of Phoenix common shares issuable under the Phoenix option with no change in the exercise price of such options due to the nature of the exchange rate between United States dollars and Canadian dollars. These replacement options are governed by the terms of the 2008 Plan.

Information regarding stock option activity under the Plans follows:

2007 MCC Plan and 2008 Company Plan

	2010 Activity	
	Number of Options	Weighted Average Exercise Price
Options Denominated in Canadian Dollars		
Balance, December 31, 2009	3,118,942	Cdn\$0.82
Exercised	(166,666)	Cdn 0.54
Forfeited.....	(16,166)	Cdn 0.90
Options outstanding as at March 31, 2010.....	<u>2,936,110</u>	<u>Cdn\$0.82</u>
Options exercisable as at March 31, 2010	<u>2,936,110</u>	<u>Cdn\$0.82</u>
Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)		
Balance, December 31, 2009	461,667	\$0.93
Forfeited.....	(8,333)	\$0.75
Options outstanding as at March 31, 2010.....	<u>453,334</u>	<u>\$0.93</u>
Options exercisable as at March 31, 2010	<u>453,334</u>	<u>\$0.93</u>

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	2009 Activity	
	Number of Options	Weighted Average Exercise Price
Options Denominated in Canadian Dollars		
Balance, December 31, 2008	1,470,276	Cdn\$2.49
Granted	2,166,666	Cdn 0.90
Voluntarily surrendered and cancelled	(300,000)	Cdn 5.25
Cancelled	(8,333)	Cdn 5.25
Cancelled and replaced	(112,333)	Cdn 5.25
Replacement options, including 69,333 previously issued in U.S. dollars	181,666	Cdn 0.90
Forfeited.....	(279,000)	Cdn 3.69
Options outstanding as at December 31, 2009.....	<u>3,118,942</u>	<u>Cdn\$0.82</u>
Options exercisable as at December 31, 2009	<u>3,118,942</u>	<u>Cdn\$0.82</u>
Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)		
Balance, December 31, 2008	1,770,333	\$2.94
Voluntarily surrendered and cancelled	(1,100,000)	3.75
Cancelled and replaced (in Canadian dollars).....	(69,333)	3.75
Forfeited.....	(139,333)	2.91
Options outstanding as at December 31, 2009.....	<u>461,667</u>	<u>\$0.93</u>
Options exercisable as at December 31, 2009	<u>461,667</u>	<u>\$0.93</u>

Compensation cost of stock option grants is recognized straight-line over the options' vesting periods. Compensation expense related to stock options for the three months ended March 31, 2010 and 2009 was \$nil and \$1,859,000, respectively. As at December 31, 2009, all outstanding options were fully vested and therefore no share-based compensation expense was recognized in the three months ended March 31, 2010.

In March 2009, certain officers of the Company voluntarily surrendered, and the board of directors concurrently cancelled, 1,400,000 options that had been previously issued to them, of which 691,950 were fully vested at the surrender date. The voluntary surrender was not accompanied by a concurrent grant of a replacement award or other consideration to these officers. This surrender caused an acceleration of the related compensation costs under CICA Section 3870 which totaled approximately \$1,441,000.

The options' fair value was determined using the Black-Scholes option-pricing model. Expected volatilities are based on comparable company historical share price movement and other factors. The cost relating to the stock-based compensation plans is included in general and administrative expenses in the consolidated statement of operations and comprehensive income.

Total cash received from options exercised during the three months ended March 31, 2010 and the year ended December 31, 2009 totaled \$84,456 and \$nil, respectively.

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March 31, 2010
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As at March 31, 2010, the following stock options were outstanding:

Number of Options	Exercise Price	Expiration Date
195,000	\$0.75	April 2015
146,668	0.75	December 2015
111,666	1.50	May 2016
21,278	Cdn 1.77	August 2012
683,333	Cdn 0.54	November 2018
1,998,166	Cdn 0.90	March 2019
233,333	Cdn 0.90	May 2019
<hr/>		
3,389,444		

Phoenix Warrants and Company Warrants

As part of the fee structure related to Phoenix's preferred share offering in August 2007, the underwriter received warrants ("Phoenix Warrants") to purchase 593,333 shares of the preferred shares of Phoenix at \$3.75 per share. The warrants' total value of \$462,800 was determined using the Black-Scholes option pricing model. On June 27, 2008, under the terms of a broker agreement, the warrants were converted to warrants to purchase common shares of the Company at \$3.75 per common share and expire in June 2010. As at March 31, 2010 and December 31, 2009 there were 593,333 Phoenix Warrants outstanding and exercisable.

Under the terms of the Offering, 10,476,193 warrants ("Company Warrants") were issued to the purchasers of the common shares offered. The warrants entitle the holder to purchase one common share for each warrant held at a price of Cdn\$6.75 per share. The warrants expire in June 2010. The warrants total value of \$8,077,145 was determined by the underwriter of the Offering. As at March 31, 2010 and December 31, 2009 there were 10,476,193 Company Warrants outstanding and exercisable.

Broker Options

Under the terms of the Offering, the agents received Brokers' Options entitling the agents to purchase in the aggregate 838,095 Brokers' Units. Each Broker Unit entitles the agent to purchase one common share for Cdn\$5.25 per share and one half warrant entitling the agent to purchase one additional common share for each full warrant at Cdn\$6.75 per share. The Brokers Options expire in June 2010 and are all exercisable as at March 31, 2010 and December 31, 2009. The options total value of \$1,106,286 was determined using the Black-Scholes option pricing model.

NOTE 10 — EMPLOYEE TERMINATION BENEFITS AND EXECUTIVE PAYMENTS

The Company incurred termination benefits for the retention of certain administrative personnel. These benefits totaled approximately \$57,000 and are included in general and administrative expenses in the consolidated statement of operations and comprehensive income for the three months ended March 31, 2010. The Company estimates it will incur an additional \$100,000 in retention payments in 2010.

Upon closing of the sale of the Gryphon Reserves, the Company will have sold substantially all of its assets. Pursuant to employment agreements with the former CEO, the former COO and the CFO of the Company (the "Contracted Officers"), the sale of the Gryphon Reserves, the surface mining operations in September 2009 and the Panama South Reserves in February 2010 cause the Contracted Officers to be entitled to a total change of control payment of approximately \$3.1 million. The board of directors approved the payment to these officers in March 2010. The former CEO received his payment in March 2010. The former COO and the CFO received their payments totaling approximately \$1.5 million in April 2010 and this amount is included in accrued liabilities in the consolidated balance sheet as at March 31, 2010. These change

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of control payments are included in general and administrative expenses in the consolidated statement of operations and comprehensive income for the three months ended March 31, 2010.

NOTE 11 — SUBSEQUENT EVENTS

In March 2010, the Company announced it had entered into a definitive agreement to sell the Gryphon Reserves to a major U.S. coal producer for \$23 million in cash. The Company's shareholders approved this sale at its annual meeting held on April 28, 2010 and the sale was closed on May 4, 2010. As at March 31, 2010, the carrying value of the assets associated with the Gryphon Reserves approximated \$23 million. Costs associated with the sale total approximately \$566,000 resulting in an estimated loss on sale to be recorded in the second quarter 2010 of \$530,000.

At the April 28, 2010 annual shareholders' meeting, the Company's shareholders approved a resolution to eliminate the accumulated deficit as at March 31, 2010 by applying it to the Company's share capital balance. Had this resolution been approved as at March 31, 2010, the shareholders' equity section of the consolidated balance sheet would have been presented as follows:

Share capital.....	\$ 32,334,679
Stock options and warrants	19,209,566
Retained earnings.....	—
	<u>\$ 51,544,245</u>

The following items were also approved at the annual shareholders' meeting:

1. A special resolution authorizing the Company to file articles of amendment to change the name of the Company from Phoenix Coal Inc. to Elgin Mining Inc.
2. A special resolution to consolidate all of the issued and outstanding common shares of the Company on the basis of one post-consolidation common share for each three pre-consolidation common shares. The exercise or conversion price and the number of common shares issuable under any outstanding convertible securities of the Company, including outstanding stock options and outstanding common share purchase warrants, have been adjusted in accordance with their terms. Common shares outstanding, stock options, warrants and earnings per share for all periods have been retroactively adjusted to reflect this special resolution.
3. An amendment to the 2008 Plan increasing the number of common shares issuable under the plan from 13.5 million shares to 15.5 million shares. These share amounts are pre-consolidation shares as previously described.