

**ELGIN MINING INC. (FORMERLY PHOENIX COAL INC.)**

Management's Discussion and Analysis

For the three months ended March 31, 2010 and 2009

# **Elgin Mining Inc. (Formerly Phoenix Coal Inc.)**

## **Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009**

The following discussion of the results of operations, financial condition and cash flows of Elgin Mining Inc. (formerly Phoenix Coal Inc.) (the "Company") prepared as at May 12, 2010 should be read in conjunction with the Company's 2009 and 2008 audited financial statements and the notes thereto as well as its unaudited interim financial statements and the notes thereto for the three months ended March 31, 2010 and 2009. These financial statements, which were prepared in accordance with generally accepted accounting principles in Canada, are available at [www.sedar.com](http://www.sedar.com). All amounts disclosed are in United States dollars unless otherwise stated.

This Management Discussion and Analysis contains "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company and its projects, the future price of coal, the estimation of mineral resources, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as "plans," "expects," "is expected," "budget," "scheduled," "estimates," "forecasts," "intends," "anticipates," or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may," "could," "would," "might" or "will" be taken, occur or be achieved. Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors" in the prospectus of the Company available on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of this management discussion and analysis. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

### ***Overview***

As at the preparation date of management's discussion and analysis, the Company is headquartered in Toronto, Ontario after moving from Louisville, Kentucky. The relocation of the Company's headquarters was part of its overall plan to exit the coal industry. From September 30, 2009 through May 4, 2010, the Company closed transactions with three separate parties that resulted in the sale of substantially all of its coal assets. Consequently, the Company is not currently engaged in any material operating activities and holds cash as its largest asset. The Company intends to redeploy its cash into assets in the natural resource sector; however, it presently has not identified any particular assets to acquire.

On September 30, 2009, the Company sold substantially all of the assets associated with its surface mining operations, but retained several depleted surface mining properties that were not part of the sale and are in the process of being reclaimed. In addition to the sale of its surface mining operations, the Company sold its Panama South Reserves in February 2010 and entered into a definitive agreement for sale of its Gryphon Reserves in March 2010. Without the surface mining operations and the discontinuance of the development of the Panama South and Gryphon Reserves, the Company's operating activity for the first quarter 2010 consisted 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. By contrast, the results of operations from first quarter 2009 primarily pertain to the surface mining operations, which included Briar Hill/Radio Hill (two mines at one geographic location), Back in Black, KO, Jessup and Beech Creek, and development work at the Panama South and Gryphon

# **Elgin Mining Inc. (Formerly Phoenix Coal Inc.)**

## **Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009**

Reserves. Given the dramatic change in year over year operating activity, a comparative analysis of the results of operations from first quarter 2009 to first quarter 2010 would not provide the reader with useful data. Therefore, management's discussion and analysis will have limited comparative analysis.

### ***Highlights for the first three months of 2010***

During the three months ended March 31, 2010:

- On March 29, 2010, the Company announced that Robert M. Buchan would assume the role of CEO in addition to his existing role as Chairman.
- 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 subsequently closed the transaction on May 4, 2010.
- In February 2010, the Company sold its Panama South Reserves to a major U.S. coal producer for \$10 million in cash. The sale resulted in a gain of approximately \$8.8 million.
- For the three months ended March 31, 2010, the Company generated net income of approximately \$4.8 million, or \$0.09 per fully diluted share.
- At March 31, 2010, the Company had approximately \$26.1 million in cash and cash equivalents. The Company also had restricted cash, cash equivalents and certificates of deposit as collateral for letters of credit for reclamation bonding and escrowed funds from the sale of its surface mining operations of approximately \$6.4 million. At May 7, 2010, after the closing of the sale of the Gryphon Reserves, the Company had total cash, cash equivalents and certificates of deposit (restricted and unrestricted) of approximately \$53 million.

### ***Results of Operations***

#### Operating Activity

The Company's primary operating activity was reclamation work performed at several of the depleted surface mining sites that were not included in the sale of the surface mining operations - Providence No. 1, Tex No. 1, Graham #5, Stony Point and Beech Creek South. The Company spent approximately \$472,000 in reclamation during the first quarter 2010. Over 80% of the expenses were related to grading and seeding at Providence No. 1, Graham #5 and Beech Creek South. The remaining costs were incurred for general reclamation work and basin monitoring and maintenance.

#### 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 ("Acquisition Agreement"), the consideration received, at closing, for the surface mining operations included cash, assumption by the purchaser of all debt associated with the equipment being sold and the assumption of certain asset retirement obligations. Asset retirement obligations related to surface mining operations whose reserves had been depleted as at September 30, 2009 were not included in the sale. The Company also received an additional \$500,000 of cash consideration in January 2010 because it satisfied certain post-closing obligations ("2010 Fee"). The 2010 Fee was included in the determination of the gain on sale of coal assets

# **Elgin Mining Inc. (Formerly Phoenix Coal Inc.)**

## **Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009**

recorded in the first quarter 2010 Consolidated Statements of Operations and Comprehensive Income and placed in escrow per the terms of the Acquisition Agreement.

In addition, upon completion of the regulatory transfer of the acquired mining permits, the purchaser is required to replace the Company's letters of credit for assumed reclamation obligations. As at March 31, 2010, only one mining permit had not yet been transferred to the purchaser and the Company had approximately \$1.2 million in restricted cash related to the bonding requirements for this permit. Subsequent to the end of the first quarter 2010, the permit was transferred and the Company's bonding was returned, thus releasing the \$1.2 million in restricted cash. Furthermore, subject to the indemnification provisions of the Acquisition Agreement, \$1.1 million of the escrowed funds were released to the Company on March 31, 2010. One half of the remaining escrowed balance will be released on September 30, 2010 and the balance of the escrowed funds will be released March 31, 2011.

### Sale of Underground Reserves

In February 2010, the Company sold its Panama South Reserves to a major U.S. coal producer for \$10 million in cash and recorded a gain of approximately \$8.8 million. Furthermore, in March 2010, the Company announced it had entered into a definitive agreement to sell the Gryphon Reserves to a different, large U.S. coal producer for \$23 million in cash. 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. After the closing of the sale of the Gryphon Reserves on May 4, 2010, the Company had divested itself of all of its material coal reserves and assets.

### Revenue and Operating Expenses

For the three months ended March 31, 2010, the Company generated \$10,100 in revenue, primarily from transition services provided to the purchaser of the Company's surface mining operations. The Company's cost of sales of \$37,680 was a non-cash accretion charge related to asset retirement obligations. General and administrative expenses were \$4,459,060. Depreciation of office furniture and a truck totaled \$7,540.

Of the nearly \$4.5 million in general and administrative expenses, approximately \$3.3 million were related to change of control payments to executive officers and severance payments to non-executive employees. As of May 1, 2010, the Company had reduced its full time employee count to seven and was using outside consultants and contractors for reclamation work and day-to-day accounting functions. In addition, directors' fees for the first quarter 2010 were approximately \$143,000; however, the Company temporarily suspended these fees until further notice. Legal, tax and audit fees totaled approximately \$205,000 and are typically heaviest in the first quarter due to tax return preparation, year-end audit and regulatory requirements.

### Interest Income, Interest Expense and Other Expense

Interest income for the three months ended March 31, 2010 was \$6,839 compared to \$76,689 for the similar period in 2009. Interest income decreased from 2009 to 2010 due to historically low interest rates on United States Treasury bills and money market accounts, and the decrease in the Company's cash and investment balances during these periods. Interest expense for the three months ended March 31, 2010 was \$9,450, which was related to the cost of bonding since the Company no longer had any interest-bearing debt. Furthermore, the Company realized a loss on the sale of assets in the amount of \$16,034 in the first quarter 2010.

### Net Income

For the three months ended March 31, 2010, the Company generated net income of \$4,807,540 versus a loss of \$7,634,897 for the similar period in the prior year. The primary catalyst for the net income was the gain on the sale of the Panama South Reserves in the amount of approximately \$8.8 million. On a basic and diluted share basis, the Company earned \$0.10 per share and \$0.09 per share, respectively, for the quarter ended March 31, 2010. Earnings per share 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-

# Elgin Mining Inc. (Formerly Phoenix Coal Inc.)

## Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009

consolidation common share for each three pre-consolidation common shares as further described in the Subsequent Events section below.

### *Summary of Quarterly Results*

(figures in thousands except per unit data)	2010	2009				2008		
	Q1 '10	Q4 '09	Q3 '09	Q2 '09	Q1 '09	Q4 '08	Q3 '08	Q2 '08
Saleable coal production	-	-	432	450	493	527	431	472
Purchased coal (1)	-	-	219	83	53	18	109	170
Tons sold	-	-	680	522	538	568	529	646
Average revenue per ton	\$ -	\$ -	\$ 34.10	\$ 33.20	\$ 33.40	\$ 33.11	\$ 34.20	\$ 33.00
Average cost of sales per ton	\$ -	\$ -	\$ 33.46	\$ 32.62	\$ 27.40	\$ 26.90	\$ 33.87	\$ 32.80
Revenue	\$ 10	\$ 260	\$ 23,202	\$ 17,320	\$ 17,972	\$ 18,809	\$ 18,094	\$ 21,326
Cost of sales	38	857	22,768	17,020	14,744	15,278	17,919	21,200
Selling expenses	-	12	1,844	1,852	2,156	2,286	1,757	2,074
General and administrative	4,459	1,596	2,575	2,005	3,598	5,593	2,541	3,813
Depreciation and amortization	7	21	-	1,908	1,824	3,084	2,221	2,043
Loss (adjustment to previously estimated loss) on sale of surface mining operations	-	175	(2,678)	38,920	-	-	-	-
Sales contract termination cost	-	-	-	-	3,000	-	-	-
Asset impairment write down	-	21,900	-	-	-	-	-	-
Loss from operations	\$ (4,494)	\$ (24,301)	\$ (1,307)	\$ (44,385)	\$ (7,350)	\$ (7,432)	\$ (6,344)	\$ (7,804)
Other expense (income), net	(9,302)	125	410	406	285	578	320	2,893
Income taxes	-	40	6	10	-	38	-	(1)
Net income (loss) for the period	\$ 4,808	\$ (24,466)	\$ (1,723)	\$ (44,801)	\$ (7,635)	\$ (8,048)	\$ (6,664)	\$ (10,696)
Basic net income (loss) per share	\$ 0.10	\$ (0.49)	\$ (0.03)	\$ (0.90)	\$ (0.15)	\$ (0.16)	\$ (0.13)	\$ (0.76)
Diluted net income (loss) per share	\$ 0.09	\$ (0.49)	\$ (0.03)	\$ (0.90)	\$ (0.15)	\$ (0.16)	\$ (0.13)	\$ (0.76)

(1) The Company purchased coal from Covol Engineered Fuels, American Coal Company, Cline Mining and C&R Coal, a mine which it managed from September 2007 through July 2008 before the Company acquired C&R.

### *Liquidity and Capital Resources*

As at March 31, 2010, the Company had \$26,111,909 in cash, cash equivalents and short-term investments, compared to \$13,828,683 as at December 31, 2009. The Company also had restricted cash, cash equivalents and certificates of deposit as collateral for letters of credit for reclamation bonding and escrowed funds from the sale of its surface mining operations in the amount of \$6,442,700 as at March 31, 2010 versus \$12,070,760 as at December 31, 2009.

With the sale of its surface mining operations and underground reserves, the Company's primary source of cash, beyond its own balance sheet, is financing transactions in the event it acquires an asset that requires the use of more cash than what it has at the time of the transaction. Until the time of a potential transaction, the Company's primary uses of cash include costs related to reclamation obligations and general and administrative costs. The Company's ability to grow its business is dependent on its ability to deploy its capital into new assets that can generate positive cash flow.

### Operating Activities

Cash used by operating activities for the three months ended March 31, 2010 was \$3,633,841. General and administrative expenses and reclamation expenditures were the primary reasons for the use of this cash. Changes in

# Elgin Mining Inc. (Formerly Phoenix Coal Inc.)

## Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009

non-cash operating assets and liabilities generated \$1,289,231 of cash during the three months ended March 31, 2010, primarily resulting from the accrual of employment agreement related payments to executive officers.

### Investing Activities

Investing activities resulted in a net cash increase of \$15,836,487 for the three months ended March 31, 2010. The sale of the Company's Panama South Reserves generated cash, net of expenses, of \$9,753,707. The Company also generated net cash of \$6,128,060 from restricted cash, cash equivalents and certificates of deposit for activities related to reclamation bonding and the sale of the surface mining operations. Approximately \$1.3 million was due to bond release and replacing letters of credit with surety bonds that require less cash collateral. The remaining \$4.8 million was provided by escrow release per the Acquisition Agreement and the replacement of the Company's letters of credit by the purchaser of the surface mining operations for assumed reclamation obligations.

### Financing Activities

Financing activities generated net cash of \$80,580 for the three months ended March 31, 2010. Cash proceeds of \$84,456 were generated from the exercise of employee stock options, while \$3,876 went towards the reduction in other long-term liabilities.

### ***Petersburg Coal Sublease***

In March 2009, the Company entered into a sublease agreement with Petersburg Coal, LLC ("Petersburg") to sublease mineral reserves which were contiguous to the Gryphon Reserves. Under the terms of the sublease, the Company paid \$6,000,000 to Petersburg and assumed \$192,178 in liabilities. The Company also incurred transaction costs related to the sublease of \$115,081, bringing the total cost of the sublease to \$6,307,259.

The costs of the sublease were allocated to the following identifiable assets:

Prepaid royalties .....	\$	172,413
Mining rights .....		6,134,846
	\$	<u>6,307,259</u>

As detailed in the Subsequent Events section, the Company sold its Gryphon Reserves on May 4, 2010.

### ***Outstanding Share Data***

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 in the Company's interim consolidated financial statements for the three months ended March 31, 2010 and 2009 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 the Subsequent Events section below.

# Elgin Mining Inc. (Formerly Phoenix Coal Inc.)

## Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009

	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)

As at the filing date, the Company had 50,281,850 common shares issued and outstanding. In addition, there were 3,283,779 stock options, 11,069,526 warrants and 838,095 brokers' options (which entitle the holder to purchase one common share and one half of one warrant) outstanding as at the filing date. If all options, warrants, and brokers' options (including the subsequent exercise of the warrants purchased) were exercised and issued, it would bring the fully diluted issued common shares to a total of 65,892,298, and would generate cash of approximately \$82.1 million. As at March 31, 2010 all options and warrants were fully exercisable.

### *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 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.

# **Elgin Mining Inc. (Formerly Phoenix Coal Inc.)**

## **Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009**

### ***Business Environment and Risks***

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 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.

# Elgin Mining Inc. (Formerly Phoenix Coal Inc.)

## Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009

*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 defined in the Company's interim consolidated financial statements:

	December 31, 2009		
	March 31, 2010		Level 2 Asset
	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	—	—

### ***Critical Accounting Estimates***

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and, in preparing these statements, management must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The estimates and assumptions are believed to be reasonable under the circumstances and are based on historical experience and current conditions. The use of other assumptions could result in different estimates, and actual results may vary from results based on these estimates. As events occur and additional information is obtained, these estimates may be subject to change. Estimates are deemed critical when the Company's financial condition or results of operations could be materially impacted by a change in estimate. The Company's significant accounting policies are discussed in note 1 of the Company's December 2009 consolidated financial statements. The following is a discussion of the critical accounting estimates used to determine the financial results of the Company.

### **Mining Rights, Mineral Reserves and Mine Development**

Mining rights, mineral properties and development assets include expenditures to acquire and develop mineral reserves, as well as development costs incurred to develop new reserves in advance of production. Depletion of producing properties, and amortization of mining rights and development costs, are based on units of production over the estimated proven and probable reserves of the respective coal properties.

The determination of coal reserves requires a number of assumptions and estimates, including geological sampling and modeling as well as estimates of future coal prices and future production costs. Estimates of the reserves may change based on additional information obtained subsequent to the assessment date. This may include data obtained from exploration drilling, significant changes in the price of coal and changes in estimates of the cost of production. A change in the estimate of reserves could result in a change in the rate of depletion, development amortization, or impairment of the reserves, resulting in a write down.

# Elgin Mining Inc. (Formerly Phoenix Coal Inc.)

## Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009

Mining rights and mine development are tested for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. This impairment testing is based on estimated future undiscounted cash flows to be realized from the Company's mining operations. These future cash flows are developed using assumptions that reflect the long-term operating plans given management's best estimate of future economic conditions, such as revenues, production costs, and reserve estimates. A change in these factors could result in a modification of the impairment calculation.

### Future Income Taxes

The Company is subject to Canadian tax and U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years 2006 through 2009 remain open to examination for Canadian, U.S. federal income tax and various state income tax matters.

The expense for income taxes includes federal and state income taxes currently payable and those deferred or prepaid because of temporary differences between the financial statement and the tax basis of assets and liabilities. As a result of losses from operations, the Company has recorded a valuation allowance against its future tax assets as it does not believe it is more likely than not these assets will be realized. Should these tax assets be realized, the valuation allowance would be reduced accordingly.

### 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.

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>

### Share-Based Compensation

Compensation cost attributable to all share options granted is measured at fair-value at the grant date using the Black-Scholes model and expensed over the vesting period with a corresponding increase to stock options and

# Elgin Mining Inc. (Formerly Phoenix Coal Inc.)

## Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009

warrants in shareholders' equity. In determining the fair value, the Company makes estimates for expected volatility of the shares as well as an estimated discount rate. Changes to these estimates could result in the fair-value of the share-based compensation to be less than or greater than the amount recorded.

### *Initial Adoption and Changes in Accounting Policies*

All accounting policies adopted by the Company are in accordance with Canadian generally accepted accounting principles ("GAAP").

#### 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.

*International Financial Reporting Standards ("IFRS"):* In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. In February 2008, the AcSB announced that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. The Company will adopt IFRS for the fiscal year beginning January 1, 2011, with restatement for comparative purposes of amounts reported by the Company for the fiscal year beginning January 1, 2010.

In the fourth quarter 2009, the Company's initial IFRS project plan was re-scoped to determine the standards now applicable to the Company due to the significant changes in the Company's balance sheet and operations resulting from the sale of its surface mining operations. The initial project plan, coupled with the effects of the scope changes, have been included in the formal project plan documentation. Personnel internally and externally were engaged to work on the project analysis. These personnel have expertise in the Company's business, GAAP and IFRS.

Formal impact assessment work performed to date has included:

1. Reviewing draft IFRS policies for all applicable standards.
2. Analyzing underlying financial data to support conclusions and decisions concerning policy development, disclosure controls, and internal controls.
3. Performing a detailed qualitative and quantitative impact assessment on all applicable standards. Each policy element was reviewed in detail and notes and analysis were documented along with supporting financial and engineering analytical data.
4. Documenting and accumulating details of work performed in a formal repository to be used for generating project progress reports.
5. Presenting project decisions and supporting documentation to senior management and the Audit Committee for their approval.

Ongoing work is being performed to determine the financial impact of IFRS on the opening balance sheet at January 1, 2010. No exact quantification is available at this time, but the Company plans to calculate the opening balance as part of the next steps of its IFRS project. Material impacts may arise in IAS 36, Impairment, due to the differing treatment for costs to sell under IFRS as compared to GAAP.

# **Elgin Mining Inc. (Formerly Phoenix Coal Inc.)**

## **Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009**

As of the date of this filing, the Company has evaluated and performed impact assessment on the following standards:

- IAS 16 - Property Plant and Equipment
- IAS 18 - Revenue
- IAS 19 - Employee Benefits
- IAS 33 - Earnings Per Share
- IAS 36 - Impairment of Assets
- IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 - Financial Instruments: Measurement and Recognition
- IFRS 1 - First-Time Adoption of IFRS
- IFRS 2 - Share-Based Compensation
- IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations
- IFRS 6 - Exploration and Evaluation of Mineral Resources

As of the date of this filing, IAS 12 - Income Taxes has yet to be fully analyzed.

The Company has determined at this time that IFRS 9 - Financial Instruments will not be early adopted. Other standards were reviewed and analyzed as part of the impact assessment and determined to be inapplicable to the Company at this time. This analysis has been included in the project documentation.

The Company will review other presentation and disclosure standards as part of its 2010 project work to assure that presentation and disclosure changes will be properly adopted. These are instructional standards and have been adopted as written. Review of guidance from the Canadian Securities Administrators is also part of the project regarding appropriate presentation under IFRS.

The Company began formal IFRS training for its staff in June of 2009. Continued familiarization with the standards and changes is occurring by working on the transition and assisting on the impact assessment of the standards. This allows staff to become familiar with the standards as they work on the project and are required to document portions of the standards that apply to the Company and compile applicable portions of the standards as part of the conversion project.

Internal controls over the IFRS transition are in place to assure an appropriate and accurate transition as well as a process which is appropriately documented and approved. This includes additional processes in the financial reporting areas with new procedures including approvals over IFRS adjustments. Changes in impairment policy and asset retirement obligation and procedures require updates to internal controls. Changes in asset retirement obligations require updates in procedures and controls due to changes in calculations of asset retirement obligations. Additionally at this time, changes in financial reporting processes have been made to accommodate the reduction in workforce due to the sale of assets and the closing of the Madisonville, Kentucky accounting office. Some functions have been subsequently outsourced to allow appropriate internal controls over financial reporting.

As of the date of this filing, the Company's assessment of the impact of IFRS on IT systems is minimal. IT systems are adequate to accommodate current transaction levels. Should this change, new IT systems would be considered in property plant and equipment, share-based compensation and financial reporting.

The investor relations function will be part of the transition project. Changes and impacts in key areas have been documented and all areas that must be communicated to investors are part of the project plan. Education for investor relations personnel in key areas has been planned. These areas include financial instruments, impairment and reclamation liabilities.

Disclosure controls will be updated to accommodate the changes in disclosure requirements for IFRS. For all standards that apply, the Company has an inventory of disclosures that are required. This inventory is updated as disclosures change. Pro forma financial statements with disclosures are part of the ongoing project plan. At this time, the disclosures for property, plant and equipment, asset retirement obligation and share based compensation have been updated. Other disclosures are being updated and are part of the project plan for 2010.

# Elgin Mining Inc. (Formerly Phoenix Coal Inc.)

## Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009

### *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 in 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, 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 Stock Option 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.

### *Disclosure Controls and Procedures*

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. For the fiscal year ended December 31, 2009, an evaluation was commissioned by the Company under the supervision of the CEO and CFO and with the participation of management of the effectiveness of the Company's disclosure controls and procedures as defined under the rules adopted by the Canadian securities regulatory authorities. Based on this evaluation, and that there have been no material changes in disclosure controls and procedures in 2010, the Company's CEO and CFO have concluded as at March 31, 2010, that the Company's disclosure controls and procedures provide reasonable assurance that material information related to the Company is made known to them for disclosure in these financial statements. It should be noted that while the Company's CEO and CFO believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

# **Elgin Mining Inc. (Formerly Phoenix Coal Inc.)**

## **Management's Discussion and Analysis Three Months Ended March 31, 2010 and 2009**

### ***Internal Controls over Financial Reporting***

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles in Canada. Management is responsible for establishing and maintaining adequate internal controls over financial reporting appropriate to the nature and size of the business to provide reasonable assurance regarding the reliability of financial reporting for the Company. However, any system of internal control over financial reporting has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company uses the COSO control framework. For the fiscal year ended December 31, 2009, an evaluation was commissioned by the Company under the supervision of the CEO and CFO and with the participation of management of the effectiveness of the Company's internal control over financial reporting. Based on this evaluation, and that there have been no material changes in internal controls over financial reporting in 2010, the CEO and CFO have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at March 31, 2010. Management is continually monitoring and revising its control procedures and processes. Due to the size of its finance staff, there is not complete segregation of duties in the Company. However, for more complex areas of accounting and accounting estimates, the CFO and Controller review each other's work.