Interim Financial Statements of

PHOENIX COAL INC.

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

Management's Comments on Unaudited Interim Financial Statements

The accompanying unaudited interim financial statements of Phoenix Coal Inc. for the three months ended March 31, 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.

PHOENIX COAL INC.

CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)

	Note	March 31, 2009	December 31, 2008
		(unaudited)	
ASSETS			
Current Assets			
Cash and cash equivalents	F	$ 27,598,469	$ 40,525,609
Short-term investments	F	101,713	100,707
Trade accounts receivable	F	5,507,148	2,843,134
Coal inventories		573,016	452,558
Prepaid expenses and other current assets		577,889	470,506
Total current assets		34,358,235	44,392,514
Property, Plant and Equipment, net	C	50,641,048	46,037,904
Restricted Cash, Cash Equivalents and Certificates of Deposit	F, G	12,868,754	11,638,921
Mining Rights, Mine Development Costs and Mineral Reserves, net of accumulated amortization of $4,362,590 as at March 31, 2009 and $3,888,082 as at December 31, 2008	B	58,793,125	52,582,655
Other Assets		652,511	492,520
		$ 157,313,673	$ 155,144,514
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade accounts payable and accrued liabilities		$ 8,799,659	$ 6,470,390
Vendor financing	B	3,000,000	—
Current portion of long-term debt	E	7,767,904	6,532,045
Current portion of asset retirement obligations	D	1,958,000	1,958,000
Total current liabilities		21,525,563	14,960,435
Asset Retirement Obligations, less current portion	D	2,224,647	2,366,000
Long-term Debt, less current portion	E	16,180,403	14,641,745
Other Long-term Liabilities		465,366	482,743
Shareholders' Equity			
Share capital		171,817,981	171,817,981
Stock options and warrants	H	18,484,724	16,625,724
Accumulated deficit		(73,385,011)	(65,750,114)
		116,917,694	122,693,591
		$ 157,313,673	$ 155,144,514

See accompanying notes to consolidated financial statements

PHOENIX COAL INC.

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

For the Three Months Ended March 31

	Note	2009	2008
Revenue		$ 17,971,891	$ 18,495,457
Cost and Expenses			
Cost of sales		14,743,718	17,485,318
Selling expenses		2,155,682	2,070,933
General and administrative expenses	H	3,597,644	1,599,112
Depreciation and amortization		1,823,781	1,063,832
Sales contract termination cost	I	3,000,000	—
		25,320,825	22,219,195
Loss from operations		(7,348,934)	(3,723,738)
Other Income (Expense)			
Interest expense, including accretion	E	(359,902)	(2,359,380)
Interest income		76,689	12,661
Foreign currency gain		—	232,840
Other, net		(2,750)	(177,849)
		(285,963)	(2,291,728)
Loss before income taxes		(7,634,897)	(6,015,466)
Income taxes		—	—
Net loss and comprehensive loss		$(7,634,897)	$ (6,015,466)
Basic and diluted loss per share		$(0.05)	$(0.16)
Weighted average number of common shares outstanding		150,045,552	37,701,440

See accompanying notes to consolidated financial statements

PHOENIX COAL INC.

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

For the Three Months Ended March 31, 2009 and 2008

	Note	Common Shares (unlimited authorized)		Stock Options and Warrants	Accumulated Deficit	Total
		Shares	Dollars			
December 31, 2008		150,045,552	171,817,981	16,625,724	(65,750,114)	122,693,591
Share-based compensation - options	H	—	—	1,859,000	—	1,859,000
Net loss		—	—	—	(7,634,897)	(7,634,897)
March 31, 2009		150,045,552	$ 171,817,981	$18,484,724	$(73,385,011)	$116,917,694

	Note	Common Shares (105,000,000 authorized)		Stock Options and Warrants	Accumulated Deficit	Total
		Shares	Dollars			
December 31, 2007		37,701,440	22,426,771	1,458,884	(33,109,913)	(9,224,258)
Share-based compensation - options	H	—	—	140,000	—	140,000
Net loss		—	—	—	(6,015,466)	(6,015,466)
March 31, 2008		37,701,440	$ 22,426,771	$ 1,598,884	$(39,125,379)	$(15,099,724)

See accompanying notes to consolidated financial statements

PHOENIX COAL INC.

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

For the Three Months Ended March 31

	Note	2009	2008
Cash Flow From Operating Activities			
Net loss		$ (7,634,897)	$ (6,015,466)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization		1,823,781	2,128,413
Loss on sale of property and equipment		—	176,855
Interest rate swap		—	105,341
Unrealized foreign currency gain		—	(232,840)
Share-based compensation	H	1,859,000	140,000
Asset retirement obligations	D	(141,353)	47,283
Dividends accrued on preferred shares		—	763,821
Changes in non-cash operating assets and liabilities:			
Accounts receivable		(2,664,014)	87,943
Inventories		(120,458)	676,410
Prepaid expenses and other current assets		(107,383)	5,967
Trade accounts payable and accrued liabilities		2,329,269	2,949,378
Net cash (used) provided by operating activities		(4,656,055)	833,105
Cash Flow From Investing Activities			
Restricted cash, cash equivalents, and certificates of deposit	F, G	(1,229,833)	(36,475)
Payments for investments		(1,006)	—
Payments for other assets, principally mine development and mining rights		(537,711)	(876,649)
Proceeds from sale of property and equipment		—	373,300
Payments for property and equipment	C	(865,126)	(35,146)
Acquisition of mining rights	B	(3,307,259)	—
Net cash used in investing activities		(5,940,935)	(574,970)
Cash Flow From Financing Activities			
Principal payments on debt	E	(91,251)	(198,577)
Payments on equipment financing	E	(2,221,522)	(785,695)
Line of credit		—	3,050,000
Decrease in other long-term liabilities		(17,377)	(5,290)
Net cash (used) provided by financing activities		(2,330,150)	2,060,438
Net (Decrease) Increase in Cash and Cash Equivalents		(12,927,140)	2,318,573
Cash and Cash Equivalents, Beginning of Period		40,525,609	381,374
Cash and Cash Equivalents, End of Period		$ 27,598,469	$ 2,699,947
Supplemental Disclosure:			
Interest paid		$ 359,902	$ 414,754
Non-Cash Investing and Financing Activities:			
Vendor financing for equipment purchases	E	$ 5,087,290	$ 2,290,748
Vendor provided financing for acquisition of mining rights	B	$ 3,000,000	$ —

See accompanying notes to consolidated financial statements

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

Nature of Operations: The Company is engaged in the production and sale of steam coal to utilities and industrial fuel consumers. The Company's mining activities are currently limited to one reportable business segment, which is the Illinois Basin. On June 27, 2008, Phoenix Coal Corporation ("Phoenix") completed a reverse takeover ("RTO") of Phoenix Coal Inc. (the "Company"), formerly Marimba Capital Corp. ("MCC"), which was previously listed on the TSX Venture Exchange. MCC was incorporated under the Business Corporations Act (Alberta) on February 8, 2007 and was classified as a Capital Pool Company as defined in the TSX Venture Exchange Policy 2.4 and, accordingly, had no assets other than cash and no commercial operations. MCC changed its name to Phoenix Coal Inc. on June 25, 2008. Phoenix, a U.S. company headquartered in Madisonville, Kentucky with a satellite office in Louisville, Kentucky, was formed in July 2004 as a Delaware C corporation and was originally named Dynamic Separations, Inc. ("DSI"). Where the context requires, in respect to transactions prior to the RTO, the "Company" also refers to Phoenix.

Principles of Consolidation: Pursuant to the RTO transaction, these consolidated financial statements reflect the assets, liabilities and results of operations of Phoenix prior to the RTO and the consolidated assets, liabilities and results of operations of the Company and Phoenix subsequent to the RTO. The consolidated financial statements are issued under the name of the legal parent (the Company), but are deemed to be a continuation of the legal subsidiary (Phoenix). The consolidated financial statements include Phoenix Coal Inc. 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, 2008 (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, 2009.

Reverse takeover accounting: The RTO was completed on June 27, 2008. Prior to the completion of the RTO, MCC affected a reverse split of its outstanding common shares on the basis of 1 new share for each 2.35 shares outstanding. Pursuant to the RTO, the Company issued one common share for each outstanding common share of Phoenix. In addition, warrants and options to purchase Phoenix common shares outstanding immediately prior to the RTO were replaced with warrants and options to purchase an equivalent number of common shares of the Company, on economically equivalent terms and conditions.

Concurrent with the RTO, the Company raised $97,784,678, net of issuance costs, in a prospectus offering (the "Offering") of 62,857,160 subscription receipts priced at Cdn$1.75. In connection with the RTO, each subscription receipt was exchanged for one unit, each unit consisting of one common share and one half common share purchase warrant exercisable until June 25, 2010 at Cdn$2.25 per share.

The acquisition of the shares of Phoenix was accounted for as an RTO transaction in accordance with guidance provided in Canadian Institute of Chartered Accountants' ("CICA") Emerging Issues Committee ("EIC") Abstract No. 10. As MCC did not qualify as a business for accounting purposes, the transaction was accounted for as a capital transaction of Phoenix.

New Accounting Policies:
Goodwill and Intangible Assets: The CICA has issued a new standard, CICA Section 3064, Goodwill and Intangible assets, which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective January 1, 2009. Concurrent with the introduction of this standard, the CICA withdrew EIC-27,

Revenues and Expenses during the pre-operating period. This standard has had no material impact on the Company's consolidated financial statements.

Financial Instruments: The Emerging Issues Committee ("EIC") has issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies the application of credit risk when determining the fair value of financial assets and liabilities. EIC–173 is effective for interim and annual financial statements for periods ending on or after January 20, 2009. This standard has had no material impact on the Company's consolidated financial statements.

Mining Exploration Costs: The EIC has issued EIC–174, Mining Exploration Costs, which discusses the circumstances under which exploration costs may be capitalized. Additionally, EIC–174 clarifies the timing for testing capitalized exploration costs for impairment. EIC–174 is effective for interim and annual financial statements issued after March 27, 2009. This standard has had no material impact on the Company's consolidated financial statements.

Future Accounting Changes:
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.

The Company is currently in the planning phase of the conversion, which includes identifying potential differences between GAAP and existing IFRS as at March 31, 2009, as well as proposed IFRS which may be in effect in 2011. The Company is utilizing both internal and external resources to identify and ultimately quantify these differences and the impact that they will have on accounting policies, information technology and data systems, internal control over financial reporting, disclosure controls and procedures, financial reporting, and business activities. Employees responsible for financial reporting will attend IFRS training and begin IFRS accounting policy development in the second calendar quarter of 2009.

Reclassifications: Certain of the 2008 figures have been reclassified to conform to the 2009 financial statement presentation.

NOTE B — ACQUISITIONS

Petersburg Coal Sublease

In March 2009, the Company entered into a sublease agreement with Petersburg Coal, LLC ("Petersburg") to sublease mineral reserves which are contiguous to its Gryphon Mining Complex, formerly known as the Pratt Mine. Under the terms of the sublease, the Company paid $3,000,000 at closing, assumed $192,178 in liabilities, and will pay an additional $3,000,000 upon satisfactory completion of certain contingencies, including receipt of all required permits from Petersburg. The Company also incurred transaction costs related to the sublease of $115,081, bringing the total cost of the sublease to $6,307,259.

A preliminary estimate of the coal mineral reserves contained in the Gryphon Mining Complex was calculated as of March 25, 2009 by an independent geological and engineering consulting firm. The consulting firm estimates that the Gryphon Mining Complex contains a proven and probable mineral reserve of approximately 43 million tons of bituminous coal, located on approximately 10,000 acres. The Petersburg property was not included in the mining plan and financial analysis developed for the National Instrument ("NI") 43-101, dated March 10, 2008. The NI 43-101 is currently being updated to include the Petersburg reserves.

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

Prepaid royalties	$ 172,413
Mining rights	6,134,846
	$ 6,307,259

The Company is in the process of finalizing its valuation of the assets acquired and liabilities assumed for this sublease. The above allocations are preliminary estimates of fair value and may differ from the final allocation and the differences may be material. The Company will finalize the allocations within one year of the execution of the sublease.

NOTE C — PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following:

	March 31, 2009			December 31, 2008
	Cost	**Accumulated Depreciation**	**Net Book Value**	**Net Book Value**
Land	$ 1,511,074	$ -	$ 1,511,074	$ 1,474,574
Building and improvements	310,520	8,737	301,783	17,726
Preparation plant	3,436,008	424,535	3,011,473	2,737,352
Mining equipment	51,152,691	6,950,988	44,201,703	40,128,200
Loading and marine transport equipment	1,775,000	384,583	1,390,417	1,434,792
Office equipment	374,264	179,350	194,914	212,278
Vehicles	65,965	36,281	29,684	32,982
	$ 58,625,522	$ 7,984,474	$50,641,048	$46,037,904

NOTE D — 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 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 recognizes an obligation for contemporaneous reclamation liabilities incurred as a result of surface mining. Contemporaneous reclamation consists primarily of grading, topsoil replacement, and revegetation of backfilled pit areas. A progression of the asset retirement obligations recorded on the consolidated balance sheet is as follows:

Total asset retirement obligations as at December 31, 2007	$ 3,757,353
Liabilities acquired	1,131,000
Liabilities incurred	166,083
Accretion	189,132
Liabilities settled	(919,568)
Total asset retirement obligations as at December 31, 2008	4,324,000
Accretion	73,401
Liabilities settled	(214,754)
Total asset retirement obligations as at March 31, 2009	4,182,647
Less current portion	1,958,000
	$ 2,224,647

NOTE E — DEBT

Long-term debt consists of the following:

	March 31, 2009	December 31, 2008
Bank notes payable, interest at 5.50% to 8.90%. Payments are made in monthly installments. The loans are collateralized by various pieces of equipment and mature April 2010	$ 86,667	$ 105,109
Equipment notes payable, interest at 5.25% to 8.75%. Payments are made in monthly installments. The loans are collateralized by related assets with a net book value of $31,381,000 as at March 31, 2009 and have maturity dates from May 2009 to March 2013.	23,861,640	21,068,681
Total long-term debt	23,948,307	21,173,790
Less current portion	7,767,904	6,532,045
	$ 16,180,403	$ 14,641,745

Expected maturities of notes payable based on years ending December 31 are as follows:

2009 (remaining nine months)	$ 5,812,628
2010	7,673,552
2011	6,940,603
2012	3,356,020
2013	165,504
	$ 23,948,307

NOTE F — 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 its 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 had invested approximately $15,837,000 of its cash and cash equivalents (including restricted cash and investments) and short-term investments in a U.S. financial institution, which as at March 31, 2009, carried Standard and Poor's investment ratings on their deposits of A to A-1. As at March 31, 2009, approximately $3,706,000 of the cash and cash equivalents balance was invested in a money market fund managed by this financial institution, which is guaranteed until September 18, 2009 by the U.S. Treasury Department under the Temporary Guarantee Program for Money Market Funds. The Company has not experienced any losses on its deposits with this financial institution.

The Company is also subject to credit risk from its trade accounts receivable. While economic factors can affect credit risk, the Company manages risk by providing credit terms on a case by case basis. Customers are primarily investment grade companies and quasi-governmental agencies. As a result, the Company has not experienced any instances of non-payment.

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, 2009, the total fair value of assets subject to credit risk, including cash and cash equivalents (including restricted cash and investments), short-term investments, and trade accounts receivable is their carrying value of $46,076,084.

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. As at March 31, 2009, the Company had $27.7 million of cash, cash equivalents, and short-term investments.

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. The Company's long-term debt consists of only fixed rate notes.

Currency Risk: The Company's functional currency is the U.S. dollar and the Company's sales are denominated in U.S. dollars. 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, 2009, the Company had no material financial instruments that were denominated in non U.S. currencies.

NOTE G — 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 totaled approximately $12.2 million as at March 31, 2009 and approximately $11.0 million as at December 31, 2008. These bonds are secured by letters of credit or certificates of deposit issued by a bank equal to the amount of the outstanding reclamation bonds. The letters of credit are collateralized by the restricted cash and certificates of deposit on the consolidated balance sheet of $12,868,754 and 11,638,921 as at March 31, 2009 and December 31, 2008, respectively.

The Company leases certain office space and mining equipment over long-term operating leases running through 2009. Future minimum lease commitments under non-cancelable operating leases as at March 31, 2009, payable in 2009, totaled $313,226.

A significant amount of the Company's coal reserves are controlled through leasing arrangements and non-cancellable royalty lease agreements under which future minimum lease payments are due.

In the ordinary course of business, the Company enters into contracts to purchase diesel fuel from local suppliers for physical delivery at specified prices. Pursuant to these contracts, the Company does not own a futures or options position in the purchased fuel. As at, and subsequent to, March 31, 2009, the Company has executed purchase contracts for a total of 2,058,000 gallons to be delivered in 2009 and 2010 at a total cost of $4,484,096, or an average weighted price of $2.18 per gallon.

In 2007, the Company entered into a master coal purchase and sale agreement (the "**Master Agreement**") to purchase coal fines recovered and processed by Covol Fuels No. 2, LLC ("Covol") from two coal slurry reserve areas in Muhlenberg County, Kentucky. The term of the Master Agreement runs through the exhaustion of the reserves (the "Term"). As at March 31, 2009, for the remaining Term of the Master Agreement, Covol is obligated to deliver not less than 60,000 tons of coal fines per month. The Company agrees that it will purchase from Covol, pursuant to the terms of the Master Agreement including certain BTU and quality specifications, all of the coal fines produced by Covol from the reserves up to 60,000 tons per month during the Term. As at March 31, 2009, the Company was in discussions with Covol to amend certain terms and conditions in the Master Agreement related to the volume commitments, but had not yet finalized them.

NOTE H — 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 150,000 shares at a price of Cdn$0.25 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.

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 13,500,000 common shares are reserved for issuance under 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

	2009 Activity	
Options Denominated in Canadian Dollars	**Number of Options**	**Weighted Average Exercise Price**
Balance, December 31, 2008	4,410,830	Cdn$0.83
Granted	5,800,000	Cdn 0.30
Voluntarily surrendered and cancelled	(900,000)	Cdn 1.75
Cancelled	(25,000)	Cdn 1.75
Cancelled and replaced	(337,000)	Cdn 1.75
Replacement options, including 208,000 previously issued in U.S. dollars	545,000	Cdn 0.30
Forfeited	(10,000)	Cdn 1.75
Options outstanding as at March 31, 2009	9,483,830	Cdn$0.35
Options exercisable as at March 31, 2009	3,193,560	Cdn$0.35

Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)	**Number of Options**	**Weighted Average Exercise Price**
Balance, December 31, 2008	5,311,000	$0.98
Voluntarily surrendered and cancelled	(3,300,000)	1.25
Cancelled and replaced (in Canadian dollars)	(208,000)	1.25
Forfeited	(103,000)	0.30
Options outstanding as at March 31, 2009	1,700,000	$0.47
Options exercisable as at March 31, 2009	1,275,402	$0.40

	2008 Activity	
Options Denominated in Canadian Dollars	**Number of Options**	**Weighted Average Exercise Price**
Balance, December 31, 2007	150,000	Cdn$0.25
Consolidated at 1:2.35, pursuant to RTO	(86,170)	
Balance after consolidation	63,830	Cdn 0.59
Granted	9,397,000	Cdn 1.32
Voluntarily surrendered and cancelled	(5,050,000)	Cdn 1.75
Options outstanding as at December 31, 2008	4,410,830	Cdn$0.83
Options exercisable as at December 31, 2008	1,498,340	Cdn$0.82

Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)	**Number of Options**	**Weighted Average Exercise Price**
Balance, December 31, 2007	6,749,000	$0.87
Granted	1,000	1.25
Exercised	(25,438)	0.25
Forfeited	(1,413,562)	0.43
Options outstanding as at December 31, 2008	5,311,000	$0.98
Options exercisable as at December 31, 2008	2,986,495	$0.89

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, 2009 and 2008 was $1,859,000 and $140,000, respectively. In March 2009, certain officers of the Company voluntarily surrendered, and the board of directors concurrently cancelled, 4,200,000 options that had been previously issued to them, of which 2,075,849 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 Handbook Section 3870. Had these officers not voluntarily surrendered these options, the related compensation expense for the three months ended March 31, 2009 would have decreased by approximately $1,441,000.

Additionally, in March 2009, the board of directors cancelled and replaced 545,000 stock options that had been previously issued to various production and administrative personnel. These options had originally been granted in 2007 and 2008, with vesting periods ranging from 3 years to 5 years, and exercise prices ranging from $1.25 to Cdn$1.75. The replacement options have a 3 year vesting period and an exercise price of Cdn$0.30.

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 accompanying consolidated statements of operations.

As at March 31, 2009, the following stock options were outstanding:

Number of Options	Exercise Price	Expiration Date
585,000	$0.25	April, 2015
465,000	0.25	December, 2015
360,000	0.50	May, 2016
290,000	1.25	March, 2017
63,830	Cdn 0.59	August, 2012
525,000	Cdn 1.75	June, 2018
2,550,000	Cdn 0.18	November, 2018
6,345,000	Cdn 0.30	March, 2019
11,183,830		

Phoenix Warrants
As part of the fee structure related to Phoenix's preferred share offering in August 2007, the underwriter received warrants to purchase 1,780,000 shares of the preferred shares of Phoenix at $1.25 per share. The warrants expire 24 months following the date Phoenix consummates an initial public offering of its common shares. The warrants' total value of $462,800 was determined using the Black-Scholes option pricing model. Assumptions used in the model were a risk free interest rate of 4.76%, dividend yield of 6.50%, and expected volatility of .40. The value of the warrants was charged to share capital. 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 $1.25 per common share and expire in June 2010.

Company Warrants
Under the terms of the Offering, 31,428,580 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$2.25 per share. The warrants expire on June 25, 2010. The warrants total value of $8,077,145 was determined by the underwriter of the Offering. The value of the warrants was charged to share capital.

Information regarding the warrant activity follows:

Phoenix Warrants	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007	—	$ —
Converted preferred warrants to common warrants	1,780,000	1.25
Warrants outstanding and exercisable as at March 31, 2009 and December 31, 2008	1,780,000	$1.25

Warrants Denominated in Canadian Dollars Company Warrants	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007	100,000	Cdn$0.25
Consolidated at 1:2.35, pursuant to RTO	(57,447)	
Balance after consolidation	42,553	Cdn 0.59
Exercised	(11,850)	Cdn 0.59
Warrants issued with new common shares	31,428,580	Cdn 2.25
Warrants outstanding and exercisable as at March 31, 2009 and December 31, 2008	31,459,283	Cdn$2.25

As at March 31, 2009 the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiration Date
1,780,000	$1.25	June, 2010
30,703	Cdn 0.59	September, 2009
31,428,580	Cdn 2.25	June, 2010
33,239,283		

Total cash received from options and warrants exercised during the three months ended March 31, 2009 and the year ended December 31, 2008 totaled nil and $12,838, respectively.

Broker Options

Under the terms of the Offering, the agents received Brokers' Options entitling the agents to purchase in the aggregate 2,514,286 Brokers' Units. Each Broker Unit entitles the agent to purchase one common share for Cdn$1.75 per share and one half warrant entitling the agent to purchase one additional common share for each full warrant at Cdn$2.25 per share. The Brokers Options expire on June 25, 2010 and are all exercisable at March 31, 2009. The options total value of $1,106,286 was determined using the Black-Scholes option pricing model. Assumptions used in the model were a risk free interest rate of 3.99%, no dividend yield, and expected volatility of .40. The value of the options was charged to share capital as a cost of the Offering.

NOTE I — SALES CONTRACT TERMINATION

On March 3, 2009, the Company entered into a mutual release and settlement agreement with one of its customers to terminate a coal supply agreement for delivery of coal in 2009 and 2010 (the "2009/2010 Supply Agreement"). In consideration for terminating the 2009/2010 Supply Agreement, the Company paid the customer $3,000,000 in cash. The payment relieved the Company of the obligation to deliver approximately 970,000 tons of coal, 470,000 in 2009 and 500,000 in 2010. In addition, the Company agreed to make up in 2009 approximately 170,000 tons of shipments that were not delivered in 2008 under a separate coal supply agreement dated January 1, 2008 (the "2008 Supply Agreement"). In return for fulfilling the 2008 Supply Agreement, the customer agreed to change the guaranteed monthly average BTU specification from 11,500 to 11,200. The $3,000,000 payment has been charged to the consolidated statement of operations.

NOTE J — RELATED PARTY TRANSACTIONS

The Company enters into transactions with shareholders and/or affiliated entities that have some level of common ownership with the Company. A summary of the related party transactions and balances follows for the three months ended March 31, 2009 and 2008:

	Three Months Ended	
	2009	2008
Expenses:		
Consulting fees	$ —	$ 117,000
Rent and miscellaneous	—	20,817
Accounts receivable	—	16,858
Accounts payable	—	13,944

The above expense amounts were paid to MHI Energy Partners, LLC, which amounts were applied towards, among other things, salaries, overhead and benefits for individuals who provided services. These transactions are also in the normal course of business, and are recorded at the consideration established and agreed to by the related parties. David Wiley and Timothy Fogarty were managing directors of MHI Energy Partners, LLC. David Wiley is currently an officer and director of the Company and Phoenix, and Tim Fogarty resigned as a director of Phoenix in September 2008. During the second quarter of 2008, the Company discontinued these payments to MHI.