

PHOENIX COAL INC.

Management's Discussion and Analysis

For the three months ended March 31, 2009

Phoenix Coal Inc.
Management's Discussion and Analysis
Three Months Ended March 31, 2009

The following discussion of the results of operations, financial condition and cash flows of Phoenix Coal Inc. (the "Company") prepared as at May 4, 2009 should be read in conjunction with the Company's 2008 audited financial statements and the notes thereto. These financial statements, which were prepared in accordance with generally accepted accounting principles in Canada, are available at 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. 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

The Company is headquartered in Madisonville, Kentucky and is engaged in the exploration, production, acquisition and sale of coal from the Illinois Basin. The primary customers of the Company are electric utilities and consumers of industrial fuel. The current mining operations and near-term development projects of the Company are located in Western Kentucky, an area that comprises a part of the Illinois Basin. As at March 31, 2009, the Company operated five surface mines – Briar Hill, Radio Hill, Back in Black, Jessup and Beech Creek/Beech Creek South ("Beech Creek").

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Highlights for the first three months of 2009

During the three months ended March 31, 2009:

- On January 26, 2009, a devastating ice storm hit Western Kentucky, destroying electrical infrastructure and seriously crippling the area. Consequently, the Company was unable to produce coal for approximately a week because of the loss of power and inability to access its mine sites. The Company estimated it lost approximately 50,000 to 60,000 tons of production due to the ice storm.
- The Company received the required permitting from the Kentucky Department of Natural Resources and the U.S. Army Corps of Engineers for its Winn North and Radio Hill reserves. After receiving all requisite permits, the Company began mining its Radio Hill reserve in January and the Winn North reserve, part of the Back in Black mine, in February after being idled for eight months.
- 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. 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.
- On March 27, 2009, the Company announced it had entered into a sublease agreement with Petersburg Coal, LLC ("Petersburg"). The subleased mineral reserves are contiguous to the Company's Gryphon Mining Complex, formerly known as the Pratt Mine. This purchase increased the estimated reserve at the Gryphon Mining Complex to approximately 43 million tons.
- EBITDAR for the quarter was (\$595,499). In March, the Company generated positive EBITDAR of \$25,238. (Please refer to EBITDAR discussion below and the related footnote which includes the Company's definition of EBITDAR)
- During the first quarter of 2009, the Company produced approximately 493,000 tons of saleable coal and purchased nearly 53,000 tons of saleable coal.
- Coal sales totaled approximately 538,000 tons for the first quarter 2009.
- Revenue for the three months ended March 31, 2009 was approximately \$17,972,000 for an average revenue per ton sold of \$33.40.
- Cost of sales for the three months ended March 31, 2009 was approximately \$14,744,000 for an average cost per ton sold of \$27.40.
- For the first quarter of 2009, net loss was approximately \$7,635,000.
- Capital expenditures for the three months ended March 2009 were \$5,952,416, which included \$5,087,290 of new equipment that was financed through term loans.
- At March 31, 2009, the Company had approximately \$27,700,000 in cash, cash equivalents and short-term investments.

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Summary of Quarterly Results

(figures in thousands except per unit data)	2009	2008				2007		
	Q1 '09	Q4 '08	Q3 '08	Q2 '08	Q1 '08	Q4 '07	Q3 '07	Q2 '07
Saleable coal production	493	527	431	472	502	547	584	495
Purchased coal (1)	53	18	109	170	27	-	-	9
Tons sold	538	568	529	646	560	539	562	521
Average revenue per ton	\$ 33.40	\$ 33.11	\$ 34.20	\$ 33.00	\$ 33.03	\$ 31.19	\$ 31.62	\$ 31.67
Average cost of sales per ton	\$ 27.40	\$ 26.90	\$ 33.87	\$ 32.80	\$ 31.23	\$ 34.40	\$ 27.21	\$ 29.27
Revenue	\$ 17,972	\$ 18,809	\$ 18,094	\$ 21,326	\$ 18,495	\$ 16,830	\$ 17,764	\$ 16,495
Cost of sales	14,744	15,278	17,919	21,200	17,485	18,562	15,287	15,242
Selling expenses	2,156	2,286	1,757	2,074	2,071	2,175	2,229	1,842
General and administrative	3,598	5,593	2,541	3,813	1,599	3,118	1,206	1,583
Depreciation and amortization	1,824	3,084	2,221	2,043	1,064	1,023	837	712
Sales contract termination cost	3,000	-	-	-	-	-	-	-
Asset impairment write down	-	-	-	-	-	2,873	-	-
Loss from operations	\$ (7,350)	\$ (7,432)	\$ (6,344)	\$ (7,804)	\$ (3,724)	\$ (10,921)	\$ (1,795)	\$ (2,884)
Other expense, net	285	578	320	2,893	2,292	4,859	3,875	431
Income taxes	-	38	-	(1)	-	76	(7)	1
Net loss for the year	\$ (7,635)	\$ (8,048)	\$ (6,664)	\$ (10,696)	\$ (6,016)	\$ (15,856)	\$ (5,663)	\$ (3,316)
Basic and diluted net loss per share	\$ (0.05)	\$ (0.05)	\$ (0.04)	\$ (0.25)	\$ (0.16)	\$ (0.43)	\$ (0.15)	\$ (0.09)

(1) The Company purchased coal from Covol Engineered Fuels ("Covol") and C&R - Beech Creek, a mine which it managed from September 2007 through July 2008 before the Company acquired C&R.

On January 26, 2009, a devastating ice storm hit Western Kentucky, destroying electrical infrastructure and seriously crippling the area. Hardest hit were Hopkins and Muhlenberg counties, the hub of the Company's mining operations. The governor of Kentucky declared a state of emergency and mobilized the entire National Guard force in the state. The electrical power infrastructure was rendered inoperable and 80% of the roadways were impassable for several days.

Consequently, the Company was unable to produce coal for approximately a week because of the loss of power and inability to access its mine sites. The Company's mobile equipment sustained no damage and was fully operational. The preparation plant at the Briar Hill mine site sustained only minor damage, but required repair, taking it offline until mid-February. The Company's mines were running at pre-storm capacity by about the end of the first week of February. The Company estimated it lost approximately 50,000 to 60,000 tons of production due to the ice storm.

Production

During 2007, the Company operated six surface mines and two coal fines recovery sites, of which three surface mines were in operation the entire year — Briar Hill, Back-in-Black and Graham #5. The Company depleted the reserves at the Rockcrusher surface mine, shuttered Crittenden County and idled its fines recovery operation at Rockcrusher before selling it on November 30, 2007. In May, 2007, the Company put into production the Stony Point surface mine and restarted the seasonal fines recovery operation at Providence I. In addition, the Company expanded its operations at Graham #5 during the summer of 2007. After entering into a management services agreement with C&R Coal Inc. in September 2007, the Company permitted the Beech Creek South mine in the first quarter 2008 and purchased the coal produced from that property.

During 2008, the Company operated the Briar Hill, Graham #5, Stony Point, Back in Black, Beech Creek and Jessup mines. The Stony Point mine effectively depleted at the end of February 2008, only producing approximately

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24,500 tons from March through July 2008 while completing a required face-up project for the lessor of the property. As at the beginning of June 2008, the Company had mined through its Back in Black mine permit area, and production at Back in Black was idled until the Company received the requisite permits for the adjacent property in the first quarter 2009. The equipment and manpower had been moved to Beech Creek to maintain similar Company-wide production levels. At the end of July 2008, the Company closed the acquisitions of C&R and Renfro, which added the Beech Creek and Jessup mines to the Company's owned portfolio.

The third 2008 quarter results were negatively impacted by a two-week vacation shutdown taken in August. Typically, vacation is scheduled for the end of June and the beginning of July, thus spreading the effect over the second and third quarters, not just one quarter. Fourth quarter production was negatively affected by depletion at Graham #5, which depleted in December, and Beech Creek which experienced declining production as it neared the end of its reserve life. These 2008 production losses were somewhat offset by Jessup, which produced nearly 43,000 tons in the fourth quarter 2008 as opposed to approximately 19,000 tons in the third quarter 2008.

During the first quarter 2009, the Company restarted its Back in Black mine and put into production its Radio Hill reserve after receiving all necessary permits. The Jessup mine continued to improve as it increased production by approximately 50% compared to the fourth quarter 2008. Briar Hill and Beech Creek accounted for the majority of the production for the first three months of 2009, but are coming to the end of their reserve lives.

The following table summarizes the quarterly saleable production results for 2008 and the first three months of 2009.

	<u>Q1 '08</u>	<u>Q2 '08</u>	<u>Q3 '08</u>	<u>Q4 '08</u>	<u>Q1 '09</u>
Briar Hill	238,136	236,586	182,438	256,188	241,081
Radio Hill	-	-	-	-	50,025
Graham #5	146,297	154,986	108,251	83,614	-
Back in Black	62,032	65,605	-	-	30,007
Stony Point	55,957	14,564	9,971	-	-
Jessup	-	-	18,742	42,495	61,716
Beech Creek	-	-	111,465	145,053	109,701
Total production	502,422	471,741	430,867	527,350	492,530

Purchased Coal

Prior to the acquisition of C&R at the end of July 2008, the Company managed the Beech Creek property on behalf of C&R and purchased the production from the mine. During the first quarter 2008, the Company developed the mine area for the Beech Creek South permit, which had limited production at the outset. However, after developing a longer, more efficient pit length and acquiring new equipment, the second quarter production improved to where the Company could purchase over 140,000 tons from C&R. Although total production from Beech Creek reached approximately 191,000 tons in the third quarter 2008, the declining trend in purchased coal from the second quarter to the third quarter is due to the acquisition and accounting for the tonnage from August and September as production and no longer as purchased coal.

Since the first quarter 2008, the Company has been purchasing coal fines from Covol, whose production trended upward through the third quarter. Covol's coal fines production increased from approximately 7,500 tons and 29,000 tons in the first and second quarter 2008, respectively, to approximately 44,200 tons in the third quarter 2008. Covol's slow start in the first quarter (its first full quarter of operation after acquiring the Rock Crusher preparation plant and slurry reserves from the Company at the end of November 2007) was due to inclement weather, start-up issues and downtime related to capital improvements. The Company only purchased

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approximately 18,000 tons of coal fines in the fourth quarter because Covol was not able to meet quality specifications. By the end of 2008, Covol had finished construction on its new preparation plant and modifications on the Rock Crusher plant that the Company sold to it in November 2007.

During the first quarter 2009, Covol produced nearly 53,000 tons, the best quarter since acquiring Rock Crusher. However, despite a new preparation plant and modifications to the Rock Crusher plant, production fell short, primarily due to the ice storm.

The following table summarizes the quarterly production and purchased coal for 2008 and the first three months of 2009, illustrating the transition of Beech Creek from purchased coal to owned production.

	<u>Q1 '08</u>	<u>Q2 '08</u>	<u>Q3 '08</u>	<u>Q4 '08</u>	<u>Q1 '09</u>
Company production (excl. Beech Creek)	502,422	471,741	319,402	382,297	382,829
Beech Creek (Owned)	-	-	111,465	145,053	109,701
Sub-total Company production	502,422	471,741	430,867	527,350	492,530
C&R - Beech Creek (purchased coal)	19,142	140,496	64,803	-	-
Covol (purchased coal)	7,508	29,269	44,190	17,558	52,965
Sub-total purchased coal	26,650	169,765	108,993	17,558	52,965
Total sources of production	<u>529,072</u>	<u>641,506</u>	<u>539,860</u>	<u>544,908</u>	<u>545,495</u>

Given the continued shortfall, the Company entered into discussions with Covol to amend the parties' coal supply agreement. By the end of the first quarter, Covol had agreed to make up 124,624 tons of coal that were not delivered in 2008 (the "2008 make-up tons"), beginning on April 1, 2009. The Company will pay a reduced price of \$24.00 per ton instead of \$25.50 per ton, until the 2008 make-up tons are completely delivered. At quarter end, the Company was still in discussions to amend other terms and conditions in its coal supply agreement with Covol but had not yet finalized them.

Revenue

From 2007 to 2008, average revenue per ton sold increased 5.2% from \$31.67 to \$33.31. Revenue per ton sold growth in 2008 was due to contractual price increases on existing contracts and servicing new contracts with higher negotiated sales prices. The incremental revenue per ton sold realized in the third quarter 2008, compared to the second quarter of 2008, was due to additional transportation and loading fees paid to the Company to ship coal to customers from alternate dock facilities during the Green River lock maintenance shutdown, which occurred in August and September.

For the first three months of 2009, average revenue per ton sold increased to \$33.40 from \$33.11 in the fourth quarter of 2008. The increase of \$0.29 per ton resulted from shipments on several sales contracts which transitioned to 2009 contract pricing after fulfilling 2008 contract commitments during the first quarter of 2009. Additionally, due to renegotiating a change in quality specifications with a customer, the Company was able to ship a higher percentage of its sales on a contract which currently provides the highest base price realization of all its sales contracts. The Company has also renegotiated two contracts, decreasing the BTU quality specifications on them and is in negotiations on a third. The lower BTU requirement will allow the Company to wash less coal and avoid quality penalties.

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Cost of sales

The trend in cost of sales has primarily been impacted by maintenance costs, coal preparation costs and commodity costs. Throughout 2006 and 2007, the Company struggled with older equipment that required more maintenance than normal, thus lowering availability and driving up costs. Since the beginning of the fourth quarter 2007, the Company has spent approximately \$33,400,000 on new production equipment, which has increased productivity and lowered maintenance costs through the first quarter 2009.

Rising commodity costs had a significant impact on the Company's diesel fuel and explosives costs through the first three quarters of 2008. After the severe sell-off in commodities during the latter part of 2008, diesel fuel cost per gallon and ammonium nitrate fuel oil ("ANFO") cost per hundred-weight trended downward by year-end.

As a result of the decline in diesel fuel and ANFO prices, the Company experienced a sharp drop during the fourth quarter 2008 and the first quarter 2009 in these costs on a per ton produced basis. The following table summarizes the trend in diesel and ANFO/Explosives costs through the first quarter 2009.

	<u>Cost per ton produced</u>				
	<u>Q1 '08</u>	<u>Q2 '08</u>	<u>Q3 '08</u>	<u>Q4 '08</u>	<u>Q1 '09</u>
Diesel fuel	\$ 7.86	\$ 9.10	\$ 8.38	\$ 5.10	\$ 4.39
ANFO/Explosives	2.78	3.16	2.92	2.43	2.28
Total	\$ 10.64	\$ 12.26	\$ 11.30	\$ 7.53	\$ 6.67

In the ordinary course of business, for 2009, the Company has entered into contracts to purchase diesel fuel from local suppliers for physical delivery at specified prices. As at, and subsequent to, March 31, 2009, the Company had 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 a weighted average price of \$2.18 per gallon, compared to \$3.38 in 2008.

Selling, general and administrative expenses

During 2008, selling expenses, which include coal taxes and royalties, ranged from approximately 10% to 12% of coal sales. The Company does not pay coal taxes or royalties on purchased coal so selling expenses declined as a percentage of coal sales to approximately 10% during the second and third quarters of 2008 when purchased coal was at its highest for the year. During the third quarter, the Company started paying a \$0.60 per ton sold overriding royalty to the owners of C&R as part of the acquisition agreement. For the fourth quarter of 2008, selling expenses reached 12.2% of coal sales as approximately 97% of sales was sourced from the Company's production and it was the first full quarter for paying the overriding royalty to C&R. After Beech Creek depletes, the Company will not have to pay the \$0.60 per ton sold overriding royalty for the remainder of 2009.

During the first quarter 2009, selling expenses were 12% of coal sales as approximately 90% of sales were sourced from the Company's production. The C&R overriding royalty was paid during the first quarter 2009; however, Beech Creek is expected to deplete at the end of April 2009 so the \$0.60 per ton sold overriding royalty payment will cease. The 50% increase in Jessup's production increased royalty expense since Jessup's royalty rate is higher than average. General and administrative expenses ("G&A") have risen as the Company has hired more employees to fill various roles at the middle and senior management levels. The spike in G&A in the fourth quarter 2007 and the second quarter 2008 was because of a non-cash share-based compensation charge related to options and restricted share issuances of \$1,448,859 and \$2,151,277, respectively. During the fourth quarter of 2008 and the first

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quarter of 2009, the Company cancelled certain stock options that the Board of Directors and several officers voluntarily surrendered. This action accelerated the non-cash stock option expense related to these options and increased compensation expense by approximately \$2,250,000 for the fourth quarter of 2008 and \$1,441,000 for the first quarter of 2009.

Results of Operations

Production

For the first quarter ended March 31, 2009, the Company produced 492,530 tons from five mine sites, two of which were in production in the similar period in 2008. Briar Hill remained the largest contributor to total production with 241,081 tons. Back in Black production resumed in February 2009, producing 30,007 tons in the first quarter 2009 after eight months of permit delays. Radio Hill was a new mine that began production in January 2009. It produced 50,025 tons in the first quarter with 66% of its production coming in March. Beech Creek and Jessup were not owned by the Company in the first quarter 2008 so there is no comparative data. Graham #5 and Stony Point were two reserves that contributed to production in the first quarter 2008 that had depleted by first quarter 2009. The following table summarizes the production (in tons) from the Company's owned mines during the first quarter 2009 and the similar period in the prior year.

	Q1 2009	Q1 2008	Variance	% Variance
Briar Hill	241,081	238,136	2,945	1.2%
Radio Hill	50,025	-	50,025	0.0%
Back in Black	30,007	62,032	(32,025)	-51.6%
Jessup	61,716	-	61,716	0.0%
Beech Creek	109,701	-	109,701	0.0%
Sub-total	492,530	300,168	192,362	64.1%
Other mines	-	202,254	(202,254)	-100.0%
Total	492,530	502,422	(9,892)	-2.0%

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First quarter 2008 was Covol's first full quarter of operation after acquiring the Rock Crusher preparation plant and slurry reserves from the Company at the end of November 2007. Production was slow to start due to inclement weather, start-up issues and downtime related to initial capital improvements. By the end of 2008, Covol had finished construction on its new preparation plant and modifications on the Rock Crusher plant. As a result, in the first quarter ended March 31, 2009, the Company purchased 52,965 tons from Covol, the most productive quarter for Covol since beginning in November 2007. The following table summarizes the purchased coal, including C&R, during the first quarter 2009 versus the similar period in the prior year.

	Q1		Q1	
	2009		2008	Variance
Covol	52,965		19,142	33,823
C&R Coal	-		7,508	(7,508)
Total	52,965		26,650	26,315

Revenue

The Company primarily derives its revenue from coal sales to electric utility companies. For the three months ended March 31, 2009, the Company's revenue decreased by 2.8% to \$17,971,891 from \$18,495,457 in the prior year comparative three month period. The decrease in revenue was attributable to a 3.9% decrease in sales volume from 559,875 tons to 538,027 tons. The revenue reduction due to lower volume was somewhat offset by a 1.1% increase in revenue per ton sold from the first quarter 2008 to the first quarter 2009. The increase over 2008 was due to contractual price increases from existing sales contracts. Additionally, due to renegotiating a change in quality specifications with a customer, the Company was able to ship a higher percentage of its sales on a contract which currently provides the highest base price realization of all its sales contracts.

Cost of Sales

Cost of sales consists of all mining related expenses, preparation costs, transportation costs and purchased coal before depreciation and amortization. Diesel fuel and explosives had the largest impact on operating costs during the first quarter 2009 as compared to the first quarter 2008. Year over year, diesel fuel cost was down \$1,786,451 and explosives were down \$274,169. On a cost per ton produced basis, diesel fuel cost was \$4.39 in the first quarter 2008 compared to \$7.86 in the first quarter 2009, a \$3.47 decrease or 44.1% reduction year over year. Explosives were down 18.0%, or \$0.50 per ton produced, from \$2.78 per ton produced in 2008 to \$2.28 per ton in 2009.

Purchased coal, a variable cost, accounted for approximately 9% of the cost of sales in the first quarter 2009. For the quarter ended March 31, 2009, purchased coal was \$1,354,743 versus \$813,683 for the same period in 2008. While the volume of purchased coal doubled year-over-year, the total cost of purchased coal did not double because the cost per ton purchased decreased from \$30.53 in 2008 to \$25.58 in 2009. In 2009, Covol provided all purchased coal, which was less expensive than the coal purchased from C&R in 2008.

Overall, the Company's cost of sales decreased by 15.7% to \$14,743,718 in the first quarter 2009 from \$17,485,318 in the similar period for 2008. Comparing the same periods on a cost per ton sold basis, cost of sales was \$27.40 versus \$31.23 for a decrease of 12.3%.

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Selling, General and Administrative ("SG&A") Expenses

SG&A expenses primarily consist of royalty payments to surface and mineral owners, sales commissions, federal excise tax, severance tax, federal reclamation fee and corporate overhead costs in the Company's Madisonville and Louisville offices. For the first quarter 2009, the Company's SG&A expenses were \$5,753,325 versus \$3,670,044 for the similar period in 2008. The Company's selling costs (royalties and coal taxes described above) are variable with respect to coal sales and were 12.0% of coal sales during the quarter ended March 31, 2009 and 11.2% for the quarter ended March 31, 2008. Selling costs rose, on a percentage basis, year over year due to the C&R \$0.60 per ton sold overriding royalty payment, and a relatively higher royalty rate at Jessup.

G&A costs for the quarter ended March 31, 2009 were \$3,597,644 compared to \$1,599,112 for the similar period in 2008. The primary variance was a non-cash charge to employee share-based compensation, which was \$1,859,000 in first quarter 2009 versus \$140,000 in first quarter 2008. 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. On a cash basis, for first quarter 2009 and first quarter 2008, G&A costs were \$1,738,644 and \$1,459,112, respectively. This cost increase is primarily attributable to the addition of corporate staff to support field operations, sales and corporate development.

Depreciation and Amortization

Depreciation and amortization expenses for the three months ended March 31, 2009 were \$1,823,781 versus \$1,063,832 for the three months ended March 31, 2008. Depreciation expense for 2009 increased \$488,933 primarily because of the significant investment in mining equipment since September 30, 2007. Mining rights and mine development amortization expense increased year over year by \$271,016 mainly due to the amortization of mining rights in the first quarter 2009, which did not begin until the second quarter 2008, as explained more fully in Note A to the Company's 2008 audited financial statements.

Interest Expense/Foreign Currency Adjustment

Interest expense for the three months ended March 31, 2009 was comprised primarily of interest paid on equipment financing. For the three months ended March 31, 2008, interest expense included (1) interest on the Company's revolving line of credit, equipment financing, and short-term bridge financing and (2) non-cash costs which included accrued dividends on the preferred shares, accretion of the preferred share offering costs, accretion of loan costs on the short-term bridge financing, and mark to market on an interest rate swap. Interest expense for the three months ended March 31, 2009 and 2008 was \$359,902 and \$2,359,380, respectively. Interest expense decreased \$1,999,478 year-over-year due primarily to the elimination of interest related costs on the preferred shares and the short-term bridge financing which were converted to common share equity in June 2008.

The foreign currency gain of \$232,840 for 2008 was related to mark to market adjustments for the short-term bridge financing which was denominated in Canadian dollars. This financing was converted to common share equity in June 2008.

Interest Income

For the three months ended March 31, 2009, interest income was \$76,689 compared to \$12,661 for the comparable period in 2008. The year over year increase of \$64,028 in interest income from first quarter 2008 to first quarter

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2009 was due to higher balances for cash and short-term investments as a result of the capital raised from the prospectus offering in June 2008. Interest income decreased in the first quarter of 2009, compared to the third and fourth quarters of 2008 as interest rates on United States Treasury bills, which is the primary investment utilized by the Company, have decreased to historically low rates.

Other Expense

For the three months ended March 31, 2008, the Company had a loss on the sale of assets in the amount of \$176,855 versus nil for the comparable period in 2009. In 2008, the Company disposed of non-core property and equipment.

EBITDAR¹:

Because of improved operating costs, the Company made significant progress toward generating positive EBITDAR results during the first quarter 2009. For the three months ended March 31, 2009, the Company generated EBITDAR of negative \$595,499 before the one-time \$3,000,000 payment for the termination of the 2009/2010 Supply Agreement. However, each month during the quarter was progressively better, with March producing positive EBITDAR of approximately \$25,000. The following table summarizes the quarterly trend in EBITDAR for the first quarter 2009.

	JAN '09	FEB '09	MAR '09	Q1 '09
Revenue	\$ 4,825,262	\$ 5,579,358	\$ 7,567,271	\$ 17,971,891
Total cash costs	5,213,562	5,811,795	7,542,033	18,567,390
EBITDAR	\$ (388,300)	\$ (232,437)	\$ 25,238	\$ (595,499)
Unit Economics				
Tons sold	145,385	166,989	225,652	538,026
Per ton economics				
Revenue	\$ 33.19	\$ 33.41	\$ 33.54	\$ 33.40
Total cash costs	35.86	34.80	33.43	34.51
EBITDAR	\$ (2.67)	\$ (1.39)	\$ 0.11	\$ (1.11)

Liquidity and Capital Resources

As at March 31, 2009, the Company had \$27,700,182 in cash, cash equivalents and short-term investments, compared to \$40,626,316 as at December 31, 2008. The Company also had restricted cash, cash equivalents and certificates of deposit as collateral for letters of credit for reclamation bonding in the amount of \$12,868,754 as at March 31, 2009 versus \$11,638,921 as at December 31, 2008. As at March 31, 2009, the Company's current assets exceeded its current liabilities by \$12,832,672.

The Company's primary sources of cash include sales of coal production to customers, sales of non-core assets and financing transactions. The Company's primary uses of cash include cash costs of coal production, capital

¹ EBITDAR is defined as net income (loss) before deducting net interest expense, income taxes, asset retirement obligation expense, share-based compensation and depreciation, depletion and amortization. Because EBITDAR is not calculated identically by all companies, the Company's calculation may not be comparable to similarly titled measures of other companies.

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expenditures, costs for development projects, debt service costs and costs related to reclamation obligations. The Company's ability to continue to grow its business is dependent on its ability to continue to generate cash from its primary sources in excess of its primary uses.

Operating Activities

Cash used by operating activities for the three months ended March 31, 2009 was \$4,656,055. The Company's operating loss was the primary reason for the use of cash, which included the \$3,000,000 payment to terminate a coal sales contract with one of its customers. Accounts receivable, accounts payable and accrued liabilities increased during the three months ended March 31, 2009, resulting in a net use of cash of \$334,745. The increase in these balances resulted from strong sales in the last half of March 2009, which increased both the receivables balance and accrued selling expenses related to the sales.

Investing Activities

Investing activities resulted in a net cash decrease of \$5,940,935 for the three months ended March 31, 2009. The Company's investing activities primarily related to \$3,307,259 incurred to acquire the Petersburg Coal Sublease, an increase in restricted cash of \$1,229,833 pledged to secure reclamation bonding for opening the Radio Hill and Back in Black operations, and \$537,711 paid primarily for development costs for the Radio Hill and Back in Black mines.

Capital expenditures for the three months ended March 31, 2009 were \$5,952,416, which included \$5,087,290 invested in three trucks and a loader that were financed through term loans. The remaining \$865,126 was primarily spent on the preparation plant at the Briar Hill mine, and costs for relocating the Company's maintenance and administrative mine operations to a location centrally located to its Western Kentucky surface operations. As at March 31, 2009, the Company had spent approximately \$33,400,000 to recapitalize its surface mining equipment fleet, completing this program which began in October 2007.

Financing Activities

Financing activities used cash of \$2,330,150 for the three months ended March 31, 2009. The majority of the financing activities were payments on equipment financing and long-term debt principal payments which totaled \$2,312,773.

Coal Sales Contract Revisions

Since December 2008, the Company has been able to renegotiate certain coal sales contracts with two customers and come to proposed terms with a third customer. Generally, the negotiations resulted in changes in quality specifications, deferment of volume commitments to later years and the extinguishment of certain obligations. The three customers required a guaranteed monthly average delivery of 11,500-BTU coal, the highest BTU requirement for any of the Company's contracts. Two of the customers agreed to lower this specification to 11,200-BTU, while the third proposed to lower its BTU requirement to 11,400 for a portion of the contract term. As a result, the percentage of contract commitments that required 11,500-BTU coal over the life of the Company's total portfolio of commitments reduced from 66% to 46% as at March 31, 2009. In addition, one of the customers agreed to increase the maximum allowable sulfur dioxide ("SO₂") requirement. The change in BTU and SO₂ will help improve the Company's unit operating costs as it will reduce washing expenses, logistics related costs and the loss factor on washed coal.

In addition to the change in quality specifications, the Company was successful in deferring or extinguishing volume commitments with two of its customers. For 2009, the Company's coal sales commitments have reduced by approximately 700,000 tons from these two customers. One customer has agreed in principle to defer approximately

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613,000 tons of 2008 and 2009 commitments to 2010, 2011 and 2012. With the other customer, the Company entered into a mutual release and settlement agreement where the Company agreed to make up in 2009 approximately 170,000 tons of shipments that were not delivered in 2008. Additionally, the customer agreed to cancel nearly 1.0 million tons of commitments for 2009 and 2010 in exchange for a \$3,000,000 cash payment. The Company has also had discussions with two more customers about deferring commitments to later years, but has not yet come to proposed terms.

Consequently, as at March 31, 2009, the Company had coal sales contract commitments of nearly 6.0 million tons at a weighted average price of \$34.54 that extend through 2012. As at the filing of the MD&A, the Company's coal sales commitments before adjustments for BTU or transportation (if applicable in the contract) are detailed in the table below. The timing of the commitments is based on renegotiated contracts, proposed terms and preliminary discussions with customers about deferring some additional tonnage.

	<u>Q2 – Q4</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Commitments (tons)	1,587,559	2,450,841	1,629,287	288,473	5,956,160
Avg. sales price	\$34.11	\$34.77	\$34.95	\$32.66	\$34.54
% of 11,500 BTU contracts	41%	41%	54%	74%	46%

Acquisitions

Petersburg Coal Sublease

In March 2009, the Company entered into a sublease agreement with 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. In addition to the reserves, the Company also acquired prepaid royalties totaling \$172,413.

A preliminary estimate of the coal mineral reserve contained in the Gryphon Mining Complex was calculated as at 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.

Outstanding Share Data

As at May 4, 2009, the Company had 150,045,552 common shares issued and outstanding. In addition, there were 11,183,830 stock options, 33,239,283 warrants and 2,514,286 brokers options (which entitle the holder to purchase one common share and one half of one warrant) outstanding as at May 4, 2009. 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 198,240,094, and would generate cash of approximately \$68,000,000.

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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:

	<u>Three Months Ended</u>	
	<u>2009</u>	<u>2008</u>
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.

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

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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.

Business Environment and Risks

The Company's operations are subject to the risks normally inherent in the operation and development of coal properties. There is no assurance of developing economic coal reserves in commercial quantities. Operational risks include weather, geologic anomalies, competition, potential transportation interruptions, a complex regulatory regime and environmental and safety concerns. Financial and liquidity risks include commodity price fluctuations, interest rates, and the costs of goods and services. The Company uses a variety of means to help minimize its business risks.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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.

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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.

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 A of the Company's December 2008, 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.

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.

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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 2005 through 2008 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 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.....	<u>(919,568)</u>
Total asset retirement obligations as at December 31, 2008.....	4,324,000
Accretion	73,401
Liabilities settled.....	<u>(214,754)</u>
Total asset retirement obligations as at March 31, 2009.....	4,182,647
Less current portion	1,958,000
	<u><u>\$ 2,224,647</u></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 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.

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Initial Adoption and Changes in Accounting Policies

All accounting policies adopted by the Company are in accordance with Canadian generally accepted accounting principles ("GAAP"). The following financial reporting standards are applicable to the Company in 2009.

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.

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, 2008, an evaluation was commissioned by the Company under the supervision of the CEO and CFO and with the participation of

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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 2009, the Company's CEO and CFO have concluded as at March 31, 2009, 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.

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, 2008, 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 2009, 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, 2009. 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.