

Interim Management, Discussion & Analysis of

PHOENIX COAL INC.

For the three and six months ended June 30, 2008

Management's Comments On Management, Discussion & Analysis

The accompanying interim management, discussion & analysis of Phoenix Coal Inc. for the three and six months ended June 30, 2008 have been prepared by management and approved by the Board of Directors of the Company. This management, discussion & analysis has not been reviewed by the Company's external auditors.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

The following discussion of the results of operations, financial condition and cash flows of Phoenix Coal Inc. (the "Company") prepared as of August 14, 2008 should be read in conjunction with the Company's unaudited interim financial statements for the three and six months ended June 30, 2008, and the Company's 2007 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 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 of 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 of June 30, 2008, the Company operated four surface mines – Briar Hill, Back in Black, Graham #5 and Stony Point, and managed a fifth surface mine, Beech Creek/Beech Creek South.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

Highlights for the first and second quarters of 2008

During the three and six months ended June 30, 2008:

- The Company was created on June 27, 2008 by the reverse takeover (“RTO”) by Phoenix Coal Corporation (“Phoenix”) of Marimba Capital Corp. (“MCC”), which was previously listed on the TSX Venture Exchange.
- Concurrent with the RTO, the Company raised \$97,784,678, net of issuance costs, in a prospectus 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, with each unit consisting of one common share and one half common share purchase warrant exercisable for 24 months at Cdn\$2.25.
- During the second quarter of 2008, the Company produced nearly 472,000 tons of clean coal and purchased approximately 170,000 tons of clean coal. For the six months ended June 30, 2008, the Company produced approximately 974,000 tons of clean coal and purchased approximately 196,000 tons of clean coal.
- Coal sales totaled approximately 646,000 tons for the second quarter 2008 and approximately 1,206,000 tons for the six months ended June 30, 2008.
- As of January 1, 2008, the Company commenced delivery on its new coal sales contracts with Western Kentucky Energy Corp. (“WKE”), Duke Energy Kentucky, Inc., Duke Energy Ohio, Inc. and Tampa Electric Company. It also continued to ship on existing WKE contracts as well as Louisville Gas & Electric and Kentucky Utilities.
- The Company continued to make progress on its underground mining project, the proposed Pratt Mine, by advancing the permitting process and planning for mine construction and equipment purchases.
- Revenue for the three and six months ended June 30, 2008 was \$21,326,102 and \$39,821,562, respectively, for an average revenue per ton of coal sold of \$33.00 and \$33.02, respectively.
- Cost of goods sold for the three and six months ended June 30, 2008 was \$21,199,549 and \$38,684,869, respectively, for an average cost per ton of coal sold of \$32.80 and \$32.07, respectively.
- For the second quarter of 2008 and year-to-date June 30, 2008, net loss was \$10,695,632 and \$16,711,098, respectively.
- At June 30, 2008, Phoenix had \$71,154,101 in cash and cash equivalents.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

RTO

In May, 2008, MCC and Phoenix entered into a definitive merger agreement with respect to the RTO. 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 one 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.

Summary of Quarterly Results

(figures in thousands except per unit data)	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Clean coal production	472	502	547	584	495	475	250	205
Purchased coal ¹	170	27	-	-	9	43	-	-
Coal sales.....	646	560	539	562	521	499	251	208
Average revenue per ton	\$33.00	\$33.03	\$31.19	\$31.62	\$31.67	\$32.24	\$31.02	\$30.68
Average cost of goods sold per ton.....	\$32.80	\$31.23	\$34.40	\$27.21	\$29.27	\$26.21	\$26.41	\$27.29
Revenue	\$21,326	\$18,495	\$16,830	\$17,764	\$16,495	\$16,095	\$7,780	\$6,391
Cost of goods sold.....	21,200	17,485	18,562	15,287	15,242	13,084	6,625	5,683
Selling expenses	2,074	2,071	2,175	2,229	1,842	1,613	943	766
General and administrative	3,813	1,599	3,118	1,206	1,583	1,155	1,052	812
Depreciation and Amortization	2,043	1,064	1,023	837	712	571	325	287
Asset Impairment	-	-	2,873	-	-	-	-	-
Operating loss.....	(\$7,804)	(\$3,724)	(\$10,921)	(\$1,795)	(\$2,884)	(\$328)	(\$1,165)	(\$1,157)
Other Expense, net	2,893	2,292	4,859	3,875	431	828	642	404
Income tax (benefit)	(1)	-	76	(7)	1	-	1	1
Net loss	(\$10,696)	(\$6,016)	(\$15,856)	(\$5,663)	(\$3,316)	(\$1,156)	(\$1,808)	(\$1,562)
Basic net loss per share	(\$.25)	(\$0.16)	(\$0.43)	(\$0.15)	(\$0.09)	(\$0.03)	(\$0.06)	(\$0.05)

Generally, the quarterly growth trend in top line revenue, production and sales has been due to the series of acquisitions Phoenix completed during 2006 and 2007, developing additional reserves for production and adding production capacity at current mine sites. During 2007, Phoenix operated six surface mines and two coal fines recovery sites, of which only three surface mines were in operation the entire year — Briar Hill, Back-in-Black and Graham #5. Phoenix depleted the reserve 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 Phoenix put into production the Stony Point surface mine and restarted the fines recovery operation at Providence I. In addition, Phoenix opened a second pit at Graham #5 during the summer of 2007. After having entered into a management services agreement with C&R Coal Inc. in September 2007, Phoenix permitted the Beech Creek South mine and put it in production in the first quarter 2008. A majority of the purchased coal in 2008 came from Beech Creek South (See Purchased Coal discussion below).

During the first half of 2008, the Company generated its production from the Briar Hill, Graham #5, Stony Point and Back in Black mines (See Production discussion below). The Stony Point mine effectively depleted at the end of February 2008, only producing approximately 14,500 tons from March through June 2008. As of the beginning of June 2008, the Company had mined through its Back in Black mine permit area and was idled until the Company receives the permit for the next stage of mining. The

¹ The Company purchased coal from Covol Engineered Fuels and C&R Coal Inc., a mine which it has managed since September 2007.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

equipment and manpower has been moved to other mine sites to maintain similar Company-wide production levels.

During the second quarter of 2007, Phoenix restructured one of its coal sales contracts so that the utility paid for the trucking cost. The effect of the restructuring was to reduce the average revenue per ton sold and average cost of coal sales per ton produced for 2007 by approximately US\$1.00. 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 trend in cost of goods sold has primarily been impacted by maintenance costs, coal preparation costs and rising 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 fourth quarter 2007, the Company has spent \$17,382,018 on new production equipment, which has increased productivity and lowered maintenance costs in 2008. Over a similar period from 2007 through the first quarter 2008, the Company could not produce or purchase enough coal fines to use as a blending feedstock with the Company's raw coal. Consequently, the Company was forced to wash more raw coal to meet contract specifications, thus increasing wash costs and shipping fees. As discussed below, Covol Engineered Fuels ("Covol") increased production in the second quarter 2008, enabling the Company to purchase more coal fines for blending and reducing its need to wash coal. However, rising commodity costs have had a significant impact on the Company's diesel fuel and explosives costs. Since the first quarter 2007 through the second quarter 2008, diesel fuel prices have increased from approximately \$1.80 per gallon to \$3.90 per gallon. Over the same period, ammonium nitrate, a key ingredient in explosives, had increased approximately 40%. Consequently, diesel fuel and explosives costs increased \$4.68 per ton produced from \$7.58 per ton for the second quarter 2007 to \$12.26 per ton for the same period in 2008.

The fourth quarter is typically the slowest quarter of the year for Phoenix with fewer run days because of the holiday season. In addition to higher than expected maintenance costs on the legacy equipment, weather related issues and a build-up in inventory, Phoenix incurred one-time charges in the fourth quarter of 2007, both of which were non-cash that affected the overall results for the quarter. Phoenix recorded \$1,250,637 for post-mining reclamation and took a charge to the goodwill and mine development assets for \$3,117,904 related to the closing of the Crittenden mining operation.

Selling expenses, which are variable with coal sales, have trended upward quarter over quarter as sales have increased. 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 level. The spike in G&A in the fourth quarter 2007 and the second quarter 2008 was for a non-cash stock-based compensation charge of \$1,448,859 and \$2,151,277, respectively. For 2007, the Company booked its entire stock-based compensation expense at year-end. This practice was changed beginning in 2008, where an expense has been booked monthly. The second quarter 2008 charge includes the expensing of employee stock option grants from the 2004 Stock Incentive Plan and the 2008 Stock Option Plan. On June 27, 2008, 6,847,000 stock options were granted under the 2008 Stock Option Plan, of which one-third vested on the grant date generating a charge of \$2,031,277.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

Results of Operations

Production

For the first half of 2008, production from Phoenix's owned mines came from four sources – Briar Hill, Back in Black, Graham #5 and Stony Point. For these mines, year over year production increased 7.6% and 16.8% for the quarter ended June 30, 2008 and the six months ended June 30, 2008, respectively. Back in Black and Graham #5 experienced significant increases in production as they benefited from newly purchased equipment and changes in management at the mine site level. Briar Hill increased production by just over 3%, year over year, for both the second quarter 2008 and the six months ended June 30, 2008. Due to inclement weather, primarily in the first quarter 2008, and a shortage of coal fines production from our third party supplier Covol, Phoenix washed approximately 112,000 raw tons and 279,000 raw tons from the Briar Hill mine in the second quarter 2008 and the six months ended June 30, 2008, respectively, to use as a blending feedstock to meet coal sales contracts specifications. Raw coal washing activity reduced from approximately 179,000 tons in the first quarter 2008 to approximately 122,000 tons in the second quarter 2008 as Covol increased production and the weather became warmer and drier. Also, during the second quarter 2008, the Stony Point mine was depleted and was primarily in reclamation mode. The other mines that produced coal during 2007 were either depleted, shut down or sold in that year. The following table summarizes the production from Phoenix's owned mines during the quarter ended June 30, 2008 and the six months ended June 30, 2008 versus the prior year.

	<u>Q2</u> <u>2008</u>	<u>Q2</u> <u>2007</u>	<u>Variance</u>	<u>%</u> <u>Variance</u>	<u>YTD 6/30</u> <u>2008</u>	<u>YTD 6/30</u> <u>2007</u>	<u>Variance</u>	<u>%</u> <u>Variance</u>
Briar Hill	236,586	229,070	7,516	3.3%	474,722	460,618	14,104	3.1%
Back in Black	65,605	54,743	10,862	19.8%	127,637	105,133	22,504	21.4%
Graham #5	154,986	132,788	22,198	16.7%	301,283	246,471	54,812	22.2%
Stony Point	14,564	21,852	(7,288)	-33.4%	70,521	21,852	48,669	222.7%
Sub-total	471,741	438,453	33,288	7.6%	974,163	834,074	140,089	16.8%
Other mines	0	56,204	(56,204)	-100.0%	0	135,996	(135,996)	-100.0%
Total	471,741	494,657	(22,916)	-4.6%	974,163	970,070	4,093	0.4%

Purchased Coal

During the second quarter of 2008 and the six months ended June 30, 2008, Phoenix purchased 169,765 tons and 196,415 tons, respectively, from Covol and C&R Coal. Covol's coal fines production increased from approximately 7,500 tons in the first quarter 2008 to over 29,000 tons in the second 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 Phoenix at the end of November 2007) was due to inclement weather, start-up issues and downtime related to capital improvements. The increased tonnage in the second quarter directly impacted Phoenix as it had more coal fines to blend with its raw coal production and did not have to resort to washing as much raw coal in the second quarter as it did in the first quarter.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

Since September 2007, Phoenix has managed C&R Coal Inc. and produced coal from the Beech Creek and Beech Creek South mines. During the second quarter of 2008 and the six months ended June 30, 2008, Phoenix produced 146,559 tons and 192,468 tons, respectively, from the mines. From that production, Phoenix purchased 140,496 tons and 159,639 tons, respectively, from C&R Coal to service its own sales contracts. The bulk of the production came in the second quarter 2008 after mine development of the new Beech Creek South permit was completed in the first quarter and as a result of longer, more efficient pit length coupled with new equipment. The following table summarizes the purchased coal during the quarter ended June 30, 2008 and the six months ended June 30, 2008 versus the prior year.

	<u>Q2</u> <u>2008</u>	<u>Q2</u> <u>2007</u>	<u>Variance</u>	<u>YTD 6/30</u> <u>2008</u>	<u>YTD 6/30</u> <u>2007</u>	<u>Variance</u>
Covol	29,269	0	29,269	36,776	0	36,776
C&R Coal	<u>140,496</u>	<u>0</u>	<u>140,496</u>	<u>159,639</u>	<u>0</u>	<u>159,639</u>
Total	169,765	0	169,765	196,415	0	196,415
Other mines	<u>0</u>	<u>9,258</u>	<u>(9,258)</u>	<u>0</u>	<u>52,420</u>	<u>(52,420)</u>
Total	169,765	9,258	160,507	196,415	52,420	143,995

Revenue

Phoenix primarily derives its revenue from coal sales to electric utility companies. For the three months ended June 30, 2008, Phoenix's revenue increased by 29.3% to \$21,326,102 from \$16,494,604 in the prior year comparative three month period. The growth in revenue was attributable to a 24.1% increase in sales volume and 4.2% increase in revenue per ton sold in the second quarter 2008 versus 2007. For the six months ended June 30, 2008, Phoenix's revenue increased by 22.2% to \$39,821,562 from \$32,589,816 in the prior year six month period. Sales volume was up 18.2% and revenue per ton sold grew 3.3% from 2007 to 2008. For the second quarter ended June 30, 2008 and the six months ended June 30, 2008, revenue per ton sold was very similar at \$33.00 and \$33.02, respectively. The increase over 2007 was due to contractual price increases from existing sales contracts and new sales contracts with better pricing terms.

Cost of Goods Sold

Cost of goods sold 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 six months of 2008. For the quarter ended June 30, 2008 and the six months ended June 30, 2008, Phoenix's average cost per gallon for diesel fuel was \$3.83 and \$3.39, respectively. When comparing diesel fuel to the same periods in 2007 on a cost per ton produced basis, Phoenix's cost rose \$3.50 to \$3.85 per ton resulting in approximately a 70% increase in diesel fuel costs. Due to the ammonium nitrate component of explosives, Phoenix also experienced a sharp rise in explosives costs. On a cost per ton produced basis, explosives increased approximately 35%, or over \$0.80 per ton, in the second quarter 2008 versus the same period in 2007, and approximately 24%, or nearly \$0.60 per ton, for the six months ended June 30, 2008 versus the same period in 2007. Together, diesel fuel and explosives increased \$4.68 per ton produced from \$7.58 per ton for the second quarter 2007 to \$12.26 per ton for the same period in 2008.

Rising diesel fuel and explosives costs were somewhat offset by lower maintenance and coal preparation costs. New equipment purchases played a significant role in decreasing maintenance costs and improving productivity. For the second quarter ended June 30, 2008, maintenance parts and supplies expense was \$1,926,971 compared to \$3,083,757 in 2007 for a 37.5% reduction. Year over year, on a per ton produced basis, maintenance parts and supplies expense lowered from \$6.23 to \$4.08 for the three month periods ended June 30, 2007 and 2008, respectively. For the six months ended June 30, 2008, maintenance parts and supplies expense was \$4,335,409 versus \$5,201,712 in 2007, or \$4.45 per ton produced compared to \$5.36 per ton produced. Coal preparation costs decreased as well with the help of higher coal fines production from Covol and drier weather, both of which enabled Phoenix to wash less raw coal in the second quarter. For the second quarter ended June 30, 2008, Phoenix incurred washing costs

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

and transportation related costs of \$561,580 or \$1.19 per ton produced versus \$901,171 or \$1.79 per ton produced in the first quarter 2008.

For the second quarter ended June 30, 2008, purchased coal comprised approximately 25% of cost of goods sold as production from Covol and C&R Coal increased six-fold over first quarter production. Phoenix's purchased coal in the second quarter 2008 was \$5,346,762 versus \$288,629 for the same period in the prior year. For the six months ended June 30, 2008, purchased coal was \$6,160,445 versus \$1,614,430 for the same period in 2007. Phoenix's cost per ton purchased for the second quarter ended June 30, 2008 and the six month period ended June 30, 2008 was \$31.50 and \$31.36, respectively.

Overall, for the three months ended June 30, 2008, Phoenix's cost of goods sold increased by 39% to \$21,199,549 from \$15,241,838 for the same period in 2007. Comparing the same periods on a cost per ton sold basis, cost of goods sold was \$32.80 versus \$29.27 for an increase of 12%. For the six months ended June 30, 2008, cost of goods sold was \$38,684,869 versus \$28,325,576 for the same period in 2007, or \$32.07 per ton sold compared to \$27.77.

Selling, General & 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 Phoenix's Madisonville and Louisville offices. For the three months ended June 30, 2008, Phoenix's SG&A expenses were \$5,887,179 versus \$3,424,201 for the same period in 2007. For the six months ended June 30, 2008, Phoenix's SG&A expenses were \$9,557,225 versus \$6,192,405 for the same period in 2007. Phoenix's selling costs are variable with respect to coal sales and ranged from approximately 10% to 11% of coal sales for the above mentioned periods. G&A costs in the second quarter 2008 and six months ended June 30, 2008 were \$3,813,178 and \$5,412,290, respectively compared to \$1,581,672 and \$2,736,724, respectively, during similar periods in 2007. The primary variance is a non-cash charge to employee stock-based compensation, which was \$2,151,277 for the second quarter 2008 and \$2,291,277 for the six-month period ended June 30, 2008. On June 27, 2008, the board of directors granted 6,847,000 employee stock options, of which one-third vested on the grant date.

Depreciation and Amortization

Depreciation and amortization expense in the second quarter 2008 and six months ended June 30, 2008 were \$2,043,344 and \$3,107,176, respectively compared to \$712,721 and \$1,283,565, respectively, during similar periods in 2007. Depreciation expense for 2008 increased \$253,750 for the quarter ended June 30 and \$543,245 for the six months ended June 30 when compared to 2007. This increase in depreciation expense is directly related to \$17,400,000 invested in mining equipment since September 30, 2007. Mining rights and mine development amortization expense increased year over year by \$1,076,873 for the quarter and \$1,280,366 for the six month period ended June 30 due to the amortization of mining rights resulting from the reclassification of goodwill to mining rights as explained more fully in Note E to the Company's June 30, 2008 unaudited interim financial statements, and Stony Point operating for only part of the second quarter in 2007, and depleting its reserve in 2008 sooner than originally estimated. Additionally, amortization of development expenses at Back in Black did not begin until July 2007.

EBITDA²

EBITDA in the second quarter 2008 and six months ended June 30, 2008 were (\$5,750,645) and (\$8,541,117), respectively compared to (\$1,320,660) and (\$1,100,592), respectively, during similar periods

² EBITDA is defined as net income (loss) before deducting net interest expense, income taxes, asset retirement obligation expense and depreciation, depletion and amortization. Because EBITDA is not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

in 2007. During 2008, Phoenix incurred costs related to shuttered properties and the winding down of operations that have depleted. For the second quarter of 2008 and the six months ended June 30, 2008, Phoenix incurred costs of \$392,737 and \$523,954, respectively, for post-mining reclamation cash expenses for three properties – Providence I, Tex No. 1 and Rock Crusher surface mine. In addition, Crittenden County incurred a \$250,000 one-time royalty charge in May to its lessor, Kimball International, before terminating the lease. Lastly, Stony Point essentially depleted its reserves by the end of February 2008, only producing approximately 14,500 tons from March through June as it reclaimed property and fulfilled an obligation to the lessor to leave a face-up to a potential underground mine. For the second quarter of 2008 and the six months ended June 30, 2008, Stony Point incurred cash operating losses of \$546,258 and \$1,075,950, respectively. These properties, which will not be part of the Company’s operations going forward, collectively incurred cash operating losses of \$1,188,995 and \$1,849,904 for the second quarter ended June 30, 2008 and the six months ended June 30, 2008, respectively. In addition to the above mentioned non-recurring losses, Phoenix booked non-cash stock-based compensation expenses of \$2,151,277 for the second quarter 2008 and \$2,291,277 for the six-month period ended June 30, 2008.

Adjusting for these items, Phoenix’s adjusted EBITDA would be (\$2,410,373) and (\$4,399,936) for the second quarter 2008 and the six months ended June 30, 2008, respectively. The following table summarizes the adjusted EBITDA calculation.

	Q2	YTD 6/30
	<u>2008</u>	<u>2008</u>
EBITDA	(\$5,750,645)	(\$8,541,117)
Non-recurring operating losses	1,188,995	1,849,904
Stock based compensation	<u>2,151,277</u>	<u>2,291,277</u>
Adjusted EBITDA	(\$2,410,373)	(\$4,399,936)

Interest Expense/Foreign Currency Adjustment

Interest expense is comprised of (1) interest on Phoenix’s revolving line of credit, equipment financing, and short-term bridge financing and (2) non-cash costs which include accrued dividends on the preferred stock, accretion of the preferred stock offering costs, accretion of loan costs on the short-term bridge financing, and mark to market on the interest rate swap. Total interest expense for the three and six month periods ended June 30, 2008 was \$2,765,589 and \$5,124,968 respectively. Non-cash costs, as described above, included in interest expense totaled \$1,933,742 and \$3,769,535 for the three and six months period ended June 30, 2008, respectively.

Interest expense for the three and six month periods ended June 30, 2007 was \$1,300,198 and \$2,130,646, respectively. The primary reason for the year over year increase in interest expense was the interest costs associated with the August 2007 preferred stock offering.

The foreign currency gain (loss) of (\$103,710) and \$129,130 for the three and six month periods ended June 30, 2008 were related to mark to market adjustments for the short-term bridge financing which is denominated in Canadian dollars.

Interest Income

For the three months ended June 30, 2008, interest income was \$14,060 compared to \$18,640 in the prior year comparative period.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

Other Expense

For the three months ended June 30, 2008, the Company had a loss on the sale of assets in the amount of \$37,202 versus a gain of \$856,672 for the same period in 2007. During the 2008 three month period, the Company disposed of non-core equipment, while in the previous year three month period, the gain was primarily attributable to the sale of non-core real estate.

Liquidity and Capital Resources

As of June 30, 2008, Phoenix had \$71,154,101 in cash and cash equivalents, compared to \$381,374 at December 31, 2007. Phoenix also had restricted cash as collateral for letters of credit for reclamation bonding in the amount of \$2,226,075 at June 30, 2008 versus \$2,312,500 at December 31, 2007. As of June 30, 2008, Phoenix's current assets exceeded its current liabilities by \$60,777,094.

Phoenix's primary sources of cash include sales of coal production to customers, sales of non-core assets and financing transactions. Phoenix's primary uses of cash include cash costs of coal production, capital expenditures, costs for development projects, debt service costs and costs related to reclamation obligations. Phoenix'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 during the three months and six months ended June 30, 2008 was \$4,567,210 and \$3,734,105, respectively. For the three months ended June 30, 2008, the primary differences between the net loss of (\$10,695,632) and the cash used in operating activities relate to depreciation/amortization of \$3,296,291, stock-based compensation of \$2,151,277 and accrued dividends on preferred stock of \$703,344. For the six months ended June 30, 2008, the same items gave rise to the difference between net loss and cash used from operating activities. In addition, however, changes in non-cash operating assets and liabilities generated \$3,629,514. With a net cash use of \$90,184 from operating assets and liabilities in the second quarter 2008, the cash generation from operating assets and liabilities during the first six months of 2008 mainly came from the first quarter 2008. Accounts payable grew as Phoenix's liquidity position decreased and inventory that built up at year-end 2007 was sold during the first quarter 2008.

Investing Activities

Investing activities resulted in a net cash decrease of \$24,732,897 and \$25,307,867 for the three months and six months ended June 30, 2008, respectively. The Company's investing activities in the second quarter 2008 and the six months ended June 30, 2008 primarily related to the final payment in the amount of \$25,000,000 relating to the acquisition of Pact Resources LLC ("PACT").

Capital expenditures for the three months ended June 30, 2008 were \$4,977,255, which included \$4,797,889 of new equipment that was financed through term loans. The remaining \$179,366 was primarily spent on the construction of a preparation plant at the Briar Hill mine, which is expected to be operational by the end of August 2008, and upgrades at Island Dock. For the six months ended June 30, 2008, capital expenditures totaled \$7,303,149. The majority of the capital, \$7,088,637, was spent on new equipment and was financed through term loans. During the first half of 2008, Phoenix continued its capital expenditures program to replace high maintenance, low productivity equipment. It purchased an Hitachi shovel, three Caterpillar 777-F trucks and a Caterpillar D-11 bulldozer.

Financing Activities

Financing activities generated net cash of \$97,754,261 for the three months ended June 30, 2008. Net proceeds from the prospectus offering generated cash of \$97,784,678 after agents' fees, other out-of-

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

pocket expenses and converting the proceeds from Canadian to US dollars. Phoenix also generated net proceeds of \$4,891,890 from a loan from a finance company after conversion from Canadian to US dollars. On June 30, 2008, Phoenix paid off the balance on its \$3,050,000 revolving line of credit facility. On July 7, 2008 the facility was terminated and the collateral will be released. Equipment financing and long term debt principal payments totaled \$1,438,943 and payments relating to the RTO were \$408,000.

Acquisitions

In June, 2008, the Company and the former owners of PACT entered into an agreement to clarify and amend certain terms of their Buy-out Agreement dated March 31, 2008 (“Buy-out Agreement”). The parties acknowledged and agreed that a reverse takeover shall qualify as and constitute an event (“Monetization Event”) under the Buy-out Agreement requiring that Phoenix pay the former owners of PACT \$25 million (“Buy-out Payment”). The parties also agreed to extend the date by which the Monetization Event must be consummated under the Buy-out Agreement. As the Monetization Event was a reverse takeover, the Buy-out Payment had to be paid by the Company to the former owners of PACT within three days of MCC’s receipt of the proceeds of the public offering. On June 27, the Company completed the RTO and subsequently paid \$25,000,000 to the former owners of PACT on June 30, 2008.

In January 2007, Phoenix acquired 100% of the membership interest in Charolais Coal Sales, LLC and other assets (“Charolais Assets”) from the Charolais Corporation, Charolais No. 1, LLC, Charolais Coal Resources, LLC, Mark Energy, Inc., Mark One, Inc., and Donald Bowles, (collectively, “Charolais Group”), for consideration of \$21,735,000 (plus the assumption of reclamation liabilities estimated as of December 31, 2007 at \$495,967), of which \$12,003,000 was paid in cash, \$543,300 was paid by issuing 434,640 shares of common stock of Phoenix and the remaining \$9,188,700 was satisfied by the issuance of a seller’s note. The Charolais Assets included active surface mining operations (the Graham #5 mine) and Greenfield surface reserves with permits, coal and surface leases, land, a workforce, surface mining equipment, a preparation plant and the Island Dock facility on the Green River.

Prospectus Offering

Concurrent with the RTO, the Company raised \$97,784,678, net of issuance costs, in a prospectus offering of 62,857,160 subscription receipts priced at Cdn\$1.75 for gross proceeds of Cdn\$110,000,030. The subscription receipts were converted into units in connection with the RTO, with each unit consisting of one common share and one half common share purchase warrant exercisable for 24 months at Cdn\$2.25.

Pursuant to an agreement among MCC, the Company and the Offering agents, the agents received a cash commission equal to 6% of the gross proceeds of the Offering plus compensation options equal to 4% of the Subscription Receipts sold pursuant to the Offering.

A summary of the gross proceeds received and Offering costs incurred is as follows:

Gross proceeds (C\$110,000,030 converted to U.S. dollars at a conversion rate of 0.99007 U.S. to Cdn).....	\$108,908,500
Agents’ fees.....	(6,534,510)
Other out-of-pocket expenses.....	<u>(4,589,312)</u>
Net proceeds.....	<u>\$97,784,678</u>

In addition to the Offering costs, the Company incurred an estimated \$408,000 in costs related to the RTO, which have been treated as a capital transaction and charged to accumulated deficit.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

Outstanding Share Data

At August 14, 2008, the Company had 150,008,264 common shares issued and outstanding. In addition, there were 13,458,830 stock options, 33,251,133 warrants and 2,514,286 brokers options (which entitle the holder to purchase one common share and one half of one warrant) outstanding at August 14, 2008. If all options, warrants, 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 200,489,656, and would generate cash of approximately \$97,000,000.

Subsequent Events

In July 2008, the Company's subsidiary, R&L Winn Inc. ("R&L Winn"), purchased all of the outstanding common shares of C&R Coal Inc ("C&R"). Under the terms of the agreement, R&L Winn assumed all assets and liabilities of C&R and will pay the former owners \$.60 per ton for each ton of coal sold from the C&R mines. The current mining area, Beech Creek and Beech Creek South, contained approximately 500,000 reserve tons (697,000 reserves tons as of December 31, 2007 per the Company's National Instrument 43-101 revised technical report less coal mined in the first half of 2008) as of June 30, 2008. R&L Winn also acquired other leases in the transaction from C&R and R&G Leasing, LLC, a company that is affiliated with C&R through common ownership. Based on exploration completed to date by the Company, management estimates the leases contain approximately five to seven million tons of coal. The potential quantity is conceptual in nature as there has been insufficient exploration to define a mineral resource and it is uncertain that further exploration will result in the delineation of a mineral resource. The Company has engaged a third party engineering firm to issue a technical report that is compliant with National Instrument 43-101.

In July 2008, Phoenix purchased all of the outstanding common shares of Renfro Equipment, Inc. ("Renfro") for a purchase price of \$1,500,000. The purchase includes all assets and liabilities of Renfro, except certain equipment and associated debt specifically excluded from the purchase. The purchase price will be adjusted for net working capital as of the closing date. Based on exploration completed to date by the Company, management estimates Renfro controls approximately 1.5 million tons of coal via lease. The potential quantity is conceptual in nature as there has been insufficient exploration to define a mineral resource and it is uncertain that further exploration will result in the delineation of a mineral resource. The Company has engaged a third party engineering firm to issue a technical report that is compliant with National Instrument 43-101. Additionally, if by the second anniversary of the closing date, Phoenix acquires at least 1.5 million reserve tons as defined by National Instrument 43-101 due to the direct efforts of the sellers (the "Additional Reserves"), the Company will pay the sellers \$1,000,000 for the first 1.5 million tons of reserves, plus \$0.50 per ton for each reserve ton in excess of 1.5 million. The share purchase agreement defines a specific territory from which the Additional Reserves can be acquired. The acquisition of the Additional Reserves is on terms and conditions acceptable to Phoenix in its sole, reasonable discretion.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

Related Party Transactions

The Company enters into transactions with stockholders 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 six months ended June 30, 2008 and 2007:

	Six months ended June 30, 2008	Six months ended June 30, 2007
Expenses:		
Consulting fees	\$156,000	\$330,000
Rent and miscellaneous	32,925	39,243
Accounts receivable.....	16,858	13,077
Accounts payable	3,741	5,134

These transactions 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 a director of the Company and Phoenix, and Tim Fogarty is currently a director of Phoenix. 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 reclamation costs and financial obligations in connection with mining permits that are not reflected in the accompanying 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 \$8 million at June 30, 2008 and approximately \$9 million at December 31, 2007. These bonds are secured by letters of credit issued by a bank equal to the amount of the outstanding reclamation bonds. The letters of credit are collateralized by general business assets of the Company and the restricted cash on the balance sheet of \$2,226,075 and \$2,312,500 at June 30, 2008 and December 31, 2007, respectively. In July 2008, the Company agreed to increase its restricted cash collateral balance with its bank to 100% of the reclamation bonds outstanding. As a result, the letters of credit are only collateralized by the restricted cash balance, and the general business assets of the Company will be released.

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.

As of, and subsequent to, June 30, 2008, the Company has committed to purchase approximately \$16,500,000 of mining equipment for its operations, with delivery scheduled during the second half of 2008. The Company expects to execute notes with equipment financing companies to finance the purchase of the equipment, and is currently negotiating the terms of the notes. The notes will be collateralized by the equipment purchased.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

Off-Balance Sheet Arrangements

The Company leases certain office space and mining equipment over long-term operating leases running through 2010. Future minimum lease commitments under non-cancelable operating leases as of June 30, 2008, are as follows:

2008.....	\$532,410
2009.....	338,160
	<u>\$870,570</u>

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. Phoenix 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. Financial instruments that potentially subject the company to credit risk are trade receivables from unrelated parties. 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.

Liquidity Risk: Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall 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 and cash equivalents. 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 committed credit facilities and access to capital markets. At June 30, 2008, the Company had \$71.2 million of cash and cash equivalents.

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 various credit facilities which bear variable interest based on LIBOR. (This facility was retired on July 7, 2008.) There is a cash flow risk associated with the impact of changing interest rates or payments under the credit facilities.

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.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

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 interim consolidated financial statements. The following is a discussion of the critical accounting estimates used to determine the financial results of the Company.

Goodwill

Goodwill is tested annually for impairment. This impairment testing is based on estimated future discounted 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.

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.

Future Income Taxes

Phoenix is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years 2004 through 2007 remain open to examination for U.S. federal income tax and various state income tax matters.

The expense for income taxes includes federal and state income taxes currently payable or receivable 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.

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

Asset Retirement Obligations

The Company's asset retirement obligations ("ARO") primarily consists of estimates related to reclaiming surface land and support facilities at its mining operations in accordance with federal and state reclamation laws as defined by each mining permit. The ARO, calculated using estimates of the timing and amount of third party cash flows required for reclamation, is discounted to its present value using Phoenix's credit adjusted risk-free rate and the corresponding amount is recognized by increasing the carrying amount of mining related assets. The carrying amount is amortized over the life of the proven and probable coal reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to expense. Any change in the timing or amount of the cash flows subsequent to initial recognition results in a change in the asset and liability, which then impacts amortization and accretion charges. A progression of the reclamation liability recorded on the balance sheet is as follows:

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Balance at beginning of year	\$3,757,353	\$1,536,948
Acquisitions.....	---	821,000
Accruals.....	---	1,339,052
Accretion	94,566	60,353
Balance at end of year	<u>\$3,851,919</u>	<u>\$3,757,353</u>

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

Initial Adoption and Changes in Accounting Policies

All accounting policies adopted by the Company are in accordance with Canadian generally accepted accounting principles ("GAAP"). There were no changes in accounting policies during the 2007 fiscal year. The following financial reporting standards will be applicable to the Company in 2008.

Capital Disclosures and Financial Instruments – Disclosures and Presentation: On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

Capital Disclosures: Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in Note C to the interim consolidated financial statements.

Financial Instruments: Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook section in note H to the interim consolidated financial statements.

Phoenix Coal Inc.

Management, Discussion & Analysis

Three and Six Months Ended June 30, 2008

Inventories: Effective January 1, 2008, the Company adopted new accounting recommendations from the CICA, Handbook Section 3031, "Inventories", which supersedes the previously issued standard on inventory. The new standard introduces significant changes to the measurement and disclosure of inventory. The measurement changes include: the elimination of LIFO, the requirement to measure inventories at the lower of cost and net realizable value method, for inventories that are not ordinarily interchangeable and goods or services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosures of inventories have also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. This standard has had no material impact on the Company's consolidated financial statements.

Future Accounting Changes

Goodwill and Intangible Assets: The CICA has issued a new standard which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2009. Section 3064, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC-27, Revenues and Expenses during the pre-operating period. The Company is currently assessing the impact of this new accounting standard on its consolidated financial statements.

International Financial Reporting Standards ("IFRS"): In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 will be the changeover date for publicly listed companies to use IFRS, which will replace Canadian GAAP. The transition date is for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. This transition date will require the restatement for comparative purposes of amounts reported by the Company for the fiscal year ending December 31, 2010. The Company is currently assessing the impact of IFRS on its financial statements.

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. The Company's CEO and CFO have concluded, based on their evaluation as of June 30, 2008, 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

Phoenix Coal Inc.
Management, Discussion & Analysis
Three and Six Months Ended June 30, 2008

to the nature and size of the business to provide reasonable assurance regarding the reliability of financial reporting for the Company.

The Company's management, including the CEO and CFO, has assessed the design of the Company's internal control over financial reporting procedures. 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. 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.

Financial Instruments

In 2006, Phoenix entered into an interest rate swap transaction whereby the interest payments on an original notional dollar amount of \$7,000,000 are converted to a fixed rate of 8.10% compared to a variable rate of LIBOR re-measured on a quarterly basis. The notional amount decreases over the life of the swap agreement, which expires in December 2011. The notional amounts of the agreement were \$4,900,000 and \$5,483,333 at June 30, 2008 and December 31, 2007, respectively. Under the agreement, Phoenix pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

In 2006, management designated the interest rate swap agreement as a cash flow hedging instrument, and determined the agreement met the requirements for hedge accounting under GAAP. For 2006, the agreement was recorded at its fair value with subsequent changes in fair value included in comprehensive income. In August, 2007, the debt to which this swap was related was retired. As a result, the amount previously recorded in other comprehensive income was charged to interest expense and any future changes to the fair value of the swap will either increase or decrease interest expense as the contract no longer qualifies as an accounting hedge.

The value of the derivative was \$209,536 and \$224,696 at June 30, 2008 and at December 31, 2007, respectively and is included in accrued liabilities on the consolidated balance sheet. On July 15, 2008, the Company paid \$237,200 to terminate the derivative.