



FOR IMMEDIATE RELEASE

**PHOENIX COAL REPORTS Q2 2009 RESULTS AND ANNOUNCES A
DEFINITIVE AGREEMENT FOR THE SALE OF ITS SURFACE MINING
ASSETS FOR APPROXIMATELY US\$30 MILLION**

LOUISVILLE, KY, August 14, 2009 – Phoenix Coal Inc. (TSX: PHC) (“Phoenix” or the “Company”), announced today that it has entered into a definitive agreement to sell the Company’s ongoing surface mining business and reserves primarily in Muhlenberg County, Kentucky (the “Assets”), to a significant privately-owned, Ohio-based coal producer (the “Acquirer”). Upon completion of the Transaction, Phoenix’s assets will include a significant cash position and the Gryphon Mining Complex (“Gryphon”). In addition, the Company announced its financial results for the second quarter ended June 30, 2009. Unless otherwise noted, all mineral reserves and mineral resources are expressed in imperial tons, and all financial information is expressed in U.S. dollars.

Sale of Surface Mining Assets

Subsequent to the end of the second quarter 2009, the Company entered into a definitive agreement for the Transaction with the Acquirer. The Assets included in the Transaction primarily consist of four operating surface mines, surface mining equipment, a preparation plant facility, the Island Dock barge loading facility, and coal properties containing the coal reserves of the surface mining business. As consideration, the Acquirer will pay Phoenix \$5.7 million in cash at closing and will assume all debt associated with the equipment being sold, reclamation liabilities for ongoing coal mining operations, coal sales contracts and other obligations associated with the Assets. The Company can potentially receive an additional \$1.0 million, upon satisfaction of certain post-closing obligations. The Acquirer will provide surety bonds for the assumed reclamation obligations which, upon transfer of the active mining permits, will replace Phoenix’s letters of credit, thereby freeing up approximately \$5.8 million of restricted cash of the Company. The Company estimates the total value of the Transaction to be approximately \$30 million, before any working capital adjustment. Completion of the Transaction is subject to certain closing conditions.

Upon closing the Transaction, targeted for September 30, 2009, Phoenix expects to have a cash balance of approximately \$23.7 million, reclamation liability of \$2.3 million, and vendor financing related to the Gryphon Mining Complex of \$3.0 million. Phoenix’s assets will also include Gryphon, which contains 68.4 million tons of proven and probable coal reserves and 46.4 million tons of measured and indicated coal resources.

“Phoenix had been committed to an aggressive growth strategy focused on the acquisition of operating mines and greenfield reserves in order to build the scale necessary to support long-term growth. However, the challenging economic environment, coupled with the downdraft in the coal market, hampered our ability to execute this strategy. In light of these issues, and in addition to other unexpected challenges we

encountered at our surface mining operations, the Board of Directors and Management believe it is in the best interest of shareholders to divest of these assets to a major coal producer with the scale necessary to run a profitable surface mining business,” said David Wiley, President and CEO of Phoenix Coal. “With the divestiture, we are now better positioned to take advantage of opportunities in the current market. We have a strong cash position, minimal liabilities, and nearly 70 million tons of proven and probable coal reserves at the Gryphon Mining Complex. We are currently engaged in advanced discussions with a number of qualified parties regarding the strategic options available to us with regard to Gryphon and the Company as a whole. Cormark Securities Inc., which we recently hired as financial advisors, together with Management and the Board, is evaluating options that include a joint venture to finance and operate the mine, the sale of the Gryphon reserve, or a merger of Phoenix with other operating entities.”

Cormark Securities Inc. has indicated that it will provide an opinion to Phoenix’s Board of Directors representing that the Transaction is fair to the Company’s shareholders, and the Company’s Board of Directors has unanimously determined that the Transaction is in the best interest of Phoenix and its shareholders.

Financial and Operational Review

As at June 30, 2009, Phoenix had \$20.8 million, or \$0.14 per share in cash, cash equivalents and short-term investments (C\$0.16 per share). In addition, the Company had \$12.5 million in restricted cash, cash equivalents and certificates of deposit as collateral for letters of credit for reclamation bonding.

During Q2 2009, Marshall Miller & Associates, Inc. (“MM&A”), an independent geological and engineering consulting firm headquartered in Bluefield, Virginia, completed a National Instrument 43-101 technical report on the Gryphon Mining Complex (the “TR”). Based on the report, the Company controls 68.4 million tons of proven and probable underground coal mineral reserves, 3.7 million tons of underground measured and indicated coal resources, and 0.2 million tons of underground inferred coal resources at the Gryphon Mining Complex. In addition to the underground coal, Phoenix controls 42.7 million tons of measured and indicated surface resource at Gryphon.

During the second quarter of 2009, the Company produced approximately 450,000 tons of saleable coal and purchased nearly 83,000 tons of saleable coal. For the six months ended June 30, 2009, the Company produced approximately 943,000 tons of saleable coal and purchased nearly 136,000 tons of saleable coal.

Production for the six months ended June 30, 2009 was negatively impacted by several factors, including permit delays, a devastating ice storm that hit Western Kentucky in late January, heavy rainfall during the second quarter 2009, and certain mine closing and opening issues.

For the three months ended June 30, 2009, the Company’s revenue decreased by 19% to \$17.3 million from \$21.3 million in the prior year comparative three-month period. For the six months ended June 30, 2009, Phoenix’s revenue decreased by 11% to \$35.3 million from \$39.8 million in the prior year six-month period. For the three months ended June 30, 2009, tons sold decreased 19% from 646,000 tons to 522,000 tons, and for the six months ended June 30, 2009, tons sold decreased 12% from 1.2 million tons to 1.1 million tons. The decrease in revenue was primarily attributable to a decrease in sales volume due to the year over year reductions in coal production previously discussed.

For the six months ended June 30, 2009, average revenue per ton sold increased to \$33.30 from \$33.02 in the same period in 2008. The increase of \$0.28 per ton resulted from shipments on several sales contracts which transitioned to 2009 contract pricing after fulfilling 2008 contract commitments. Additionally, due

to renegotiating a change in quality specifications with two customers, and deferring tons shipped to another customer with a higher quality requirement into 2010, the Company was able to ship a higher percentage of its sales on contracts which currently provide the highest base price realization of all its sales contracts.

Overall, the Company's cost of sales decreased by 20% to \$17.0 million in the second quarter 2009 from \$21.2 million in the similar period for 2008. Comparing the same periods on a cost per ton sold basis, cost of sales was \$32.62 versus \$32.80. For the six months ended June 30, 2009, cost of sales decreased from \$38.7 million in 2008 to \$31.8 million in 2009. Cost per ton sold for the six months ended June 30, 2009 was \$29.97 compared to \$32.07 in 2008 for a decrease of 7%.

General and administrative costs in the second quarter 2009 were \$2.0 million compared to \$3.8 million during the similar period in 2008. The primary variance between the 2009 and 2008 quarters is a non-cash charge to employee share-based compensation, which was \$6,000 in 2009 and \$2.2 million in 2008. General and administrative costs for the six months ended June 30, 2009 were \$5.6 million and \$5.4 million for the similar period in 2008.

As a consequence of the pending Transaction, at June 30, 2009, the assets and liabilities associated with the Company's surface mining business have been classified as current assets and current liabilities held for sale and shown separately on the balance sheet. Furthermore, effective June 30, 2009, the property, plant and equipment, mining rights, mine development costs and mineral reserves being sold have been written down to the amount expected to be realized from the Transaction, namely the cash to be received plus the amount of the liabilities being assumed by the purchaser on closing, less costs to sell. This resulted in a write down of assets held for sale in the amount of \$38.9 million in the three months ended June 30, 2009.

Net loss was \$44.9 million or \$0.30 per share for the second quarter 2009 and \$52.4 million or \$0.35 per share for the six months ended June 30, 2009, including the \$38.9 million write down of assets held for sale described above. As at August 14, 2009, the Company had 150.0 million common shares issued and outstanding.

Notice of Conference Call

Phoenix will host a conference call on August 17, 2009 at 8:30 a.m. ET to discuss the Transaction and the Company's fiscal Q2 2009 financial results. David Wiley, President and Chief Executive Officer, and Dustin Angelo, Chief Financial Officer, will co-chair the call. All interested parties can join the call by dialing 416-644-3428 or 1-800-590-1508. Please dial in 15 minutes prior to the call to secure a line. The conference call will be archived for replay until Friday, August 21, 2009 at 11:59 p.m. ET. To access the archived conference call, please dial 416-640-1917 or 1-877-289-8525 and enter the reservation code 213-117-73#.

A live audio webcast of the conference call will be available at www.phxcoal.com and www.newswire.ca. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. An archived replay of the webcast will be available for 365 days.

About Phoenix Coal Inc.

Phoenix Coal Inc. is an integrated mining company producing high sulphur, low chlorine, bituminous coal from the Illinois Basin. To address the increasing demand for energy in the Eastern United States as well

as in the export market, Phoenix Coal is pursuing production growth through the focused acquisition, consolidation, and extraction of coal assets. Phoenix Coal currently operates surface coal mines in Muhlenberg County, Kentucky and a barge loading facility on the Green River. Development plans for additional surface operations, as well as an underground mine, are underway. The Company's executive offices are located in Louisville, KY and its operational headquarters are stationed in Madisonville, KY. For additional information, visit www.phxcoal.com.

FORWARD-LOOKING STATEMENTS

Certain information set forth in this press release contains "forward-looking statements", and "forward-looking information" under applicable securities laws. Except for statements of historical fact, certain information contained herein constitutes forward-looking statements which include management's assessment of Phoenix's future plans and operations and are based on Phoenix's current internal expectations, estimates, projections, assumptions and beliefs, which may prove to be incorrect. Some of the forward-looking statements may be identified by words such as "expects" "anticipates", "believes", "projects", "plans", and similar expressions. These statements are not guarantees of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause Phoenix's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to: liabilities inherent in coal mine development and production; geological, mining and processing technical problems; Phoenix's inability to obtain required mine licenses, mine permits and regulatory approvals required in connection with mining and coal processing operations; dependence on third party coal transportation systems; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; changes in commodity prices and exchange rates; changes in the regulations in respect to the use of coal; the effects of competition and pricing pressures in the coal market; the oversupply of, or lack of demand for, coal; currency and interest rate fluctuations; various events which could disrupt operations and/or the transportation of coal products, including labor stoppages and severe weather conditions; the demand for and availability of rail, port and other transportation services; and management's ability to anticipate and manage the foregoing factors and risks. 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. Phoenix undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on forward-looking statements.

The TSX has neither approved nor disapproved of the contents of this press release.

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