

Interim Financial Statements of

**PHOENIX COAL INC.**

For the three and six months ended June 30, 2009  
*(Unaudited – Prepared by Management)*

**Management’s Comments on Unaudited Interim Financial Statements**

The accompanying unaudited interim financial statements of Phoenix Coal Inc. for the three and six months ended June 30, 2009 have been prepared by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

**PHOENIX COAL INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in U.S. Dollars)

	Note	June 30, 2009 <i>(unaudited)</i>	December 31, 2008
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents.....	7	\$ 17,694,780	\$ 40,525,609
Short-term investments .....	7	3,078,875	100,707
Trade accounts receivable .....	7	3,288,714	2,843,134
Coal inventories .....	2	—	452,558
Prepaid expenses and other current assets.....		1,046,986	470,506
Restricted cash, cash equivalents and certificates of deposit .....	7, 8	5,849,000	—
Assets held for sale .....	2	28,718,201	—
<b>Total current assets</b> .....		<u>59,676,556</u>	<u>44,392,514</u>
<b>Property, Plant and Equipment, net</b> .....	4	906,060	46,037,904
<b>Restricted Cash, Cash Equivalents and Certificates of Deposit</b> .....	7, 8	6,668,297	11,638,921
<b>Mining Rights, Mine Development Costs and Mineral Reserves,</b> net of accumulated amortization of nil as at June 30, 2009 and \$3,888,082 as at December 31, 2008.....	3	43,499,589	52,582,655
<b>Other Assets</b> .....		574,531	492,520
		<u>\$ 111,325,033</u>	<u>\$ 155,144,514</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Trade accounts payable and accrued liabilities .....		\$ 8,243,534	\$ 6,470,390
Vendor financing .....	3	3,000,000	—
Current portion of long-term debt .....	2, 6	—	6,532,045
Current portion of asset retirement obligations .....	5	2,300,000	1,958,000
Liabilities associated with assets held for sale.....	2	25,184,215	—
<b>Total current liabilities</b> .....		<u>38,727,749</u>	<u>14,960,435</u>
<b>Asset Retirement Obligations, less current portion</b> .....	5	38,070	2,366,000
<b>Long-term Debt, less current portion</b> .....	2, 6	—	14,641,745
<b>Other Long-term Liabilities</b> .....		436,189	482,743
<b>Shareholders' Equity</b>			
Share capital .....		171,817,981	171,817,981
Stock options and warrants .....	9	18,490,724	16,625,724
Accumulated deficit .....		<u>(118,185,680)</u>	<u>(65,750,114)</u>
		<u>72,123,025</u>	<u>122,693,591</u>
		<u>\$ 111,325,033</u>	<u>\$ 155,144,514</u>

*See accompanying notes to consolidated financial statements*

PHOENIX COAL INC.

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

For the Three and Six Months Ended June 30, 2009 and 2008

	Note	Three Months Ended		Six Months Ended	
		June 2009	June 2008	June 2009	June 2008
<b>Revenue</b> .....		\$ 17,320,379	\$ 21,326,102	\$ 35,292,271	\$ 39,821,562
<b>Cost and Expenses</b>					
Cost of sales .....		17,019,692	21,199,549	31,763,409	38,684,869
Selling expenses .....		1,852,362	2,074,001	4,008,043	4,144,935
General and administrative expenses .....	9	2,004,939	3,813,178	5,602,583	5,412,290
Depreciation and amortization .....		1,907,711	2,043,344	3,731,492	3,107,176
Write down of assets held for sale.....	2	38,920,000	—	38,920,000	—
Sales contract termination cost.....	10	—	—	3,000,000	—
		<u>61,704,704</u>	<u>29,130,072</u>	<u>87,025,527</u>	<u>51,349,270</u>
<b>Loss from operations</b> .....		(44,384,325)	(7,803,970)	(51,733,256)	(11,527,708)
<b>Other Income (Expense)</b>					
Interest expense, including accretion .....	2, 6	(424,723)	(2,765,589)	(784,625)	(5,124,968)
Interest income .....		21,789	14,060	98,478	26,721
Foreign currency (loss) gain.....		—	(103,710)	—	129,130
Other, net.....		(3,329)	(37,302)	(6,082)	(215,152)
		<u>(406,263)</u>	<u>(2,892,541)</u>	<u>(692,229)</u>	<u>(5,184,269)</u>
<b>Loss before income taxes</b> .....		(44,790,588)	(10,696,511)	(52,425,485)	(16,711,977)
Income taxes (benefit).....		10,081	(879)	10,081	(879)
<b>Net loss and comprehensive loss</b> .....		<u>\$(44,800,669)</u>	<u>\$(10,695,632)</u>	<u>\$(52,435,566)</u>	<u>\$(16,711,098)</u>
Basic and diluted loss per share .....		\$(0.30)	\$(0.25)	\$(0.35)	\$(0.42)
Weighted average number of common shares outstanding .....		150,045,552	42,036,051	150,045,552	39,868,745

See accompanying notes to consolidated financial statements

PHOENIX COAL INC.

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

For the Six Months Ended June 30, 2009 and Year Ended December 31, 2008

	Note	Common Shares (unlimited authorized)		Stock Options and Warrants	Accumulated Deficit	Total
		Shares	Dollars			
<b>December 31, 2007</b> .....		37,701,440	\$ 22,426,771	\$ 1,458,884	\$ (33,109,913)	\$ (9,224,258)
Share capital contribution - common shares issued in payment of loan fees .....		408,163	510,204	—	—	510,204
Issuance of common shares to settle debt .....		8,668,000	10,276,682	—	—	10,276,682
Conversion of preferred shares, including accrued dividends, to common shares .....		39,386,270	48,922,722	—	—	48,922,722
Value of additional shares issued in payment of debt .....		—	808,258	—	(808,258)	—
Share-based compensation - options .....	9	—	—	260,000	—	260,000
Balances – pre merger, pre share issue, and prior to recording loss for the year .....		86,163,873	82,944,637	1,718,884	(33,918,171)	50,745,350
Marimba Capital Corp. equity balances pre-merger .....		2,320,000	347,514	48,120	(88,255)	307,379
Marimba Capital shares consolidated on the basis of 1 share for every 2.35 shares outstanding .....		(1,332,769)	—	—	—	—
Reverse takeover adjustment .....		—	(88,255)	—	88,255	—
Reverse takeover costs incurred .....		—	—	—	(408,000)	(408,000)
Issuance of common shares .....	1	62,857,160	97,784,678	—	—	97,784,678
Issuance of warrants .....	9	—	(8,077,145)	8,077,145	—	—
Issuance of broker options .....	9	—	(1,106,286)	1,106,286	—	—
Share-based compensation - options .....	9	—	—	5,675,289	—	5,675,289
Options and warrants exercised .....	9	37,288	12,838	—	—	12,838
Net loss .....		—	—	—	(31,423,943)	(31,423,943)
<b>December 31, 2008</b> .....		150,045,552	171,817,981	16,625,724	(65,750,114)	122,693,591
Share-based compensation – options .....	9	—	—	1,865,000	—	1,865,000
Net loss .....		—	—	—	(52,435,566)	(52,435,566)
<b>June 30, 2009</b> .....		150,045,552	\$ 171,817,981	\$ 18,490,724	\$ (118,185,680)	\$ 72,123,025

See accompanying notes to consolidated financial statements

**PHOENIX COAL INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Expressed in U.S. Dollars)**  
**(Unaudited)**

**For the Three and Six Months Ended June 30**

	Note	Three Months Ended		Six Months Ended	
		June 2009	June 2008	June 2009	June 2008
<b>Cash Flow From Operating Activities</b>					
Net loss		\$ (44,800,669)	\$ (10,695,632)	\$ (52,435,566)	\$ (16,711,098)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization		1,907,711	3,296,291	3,731,492	5,424,704
Loss on sale of property and equipment		1,730	37,202	1,730	214,057
Write down of assets held for sale	2	38,920,000	—	38,920,000	—
Interest rate swap		—	(120,501)	—	(15,160)
Foreign currency loss (gain)		—	103,710	—	(129,130)
Share-based compensation	9	6,000	2,151,277	1,865,000	2,291,277
Asset retirement obligations	5	73,404	47,283	(67,949)	94,566
Dividends accrued on preferred shares		—	703,344	—	1,467,165
Changes in non-cash operating assets and liabilities:					
Accounts receivable		2,218,434	209,615	(445,580)	297,558
Inventories		(304,825)	136,150	(425,283)	812,560
Prepaid expenses and other current assets		(469,097)	197,521	(576,480)	203,488
Trade accounts payable and accrued liabilities		(556,124)	(633,470)	1,773,144	2,315,908
<b>Net cash used in operating activities</b>		<b>(3,003,436)</b>	<b>(4,567,210)</b>	<b>(7,659,492)</b>	<b>(3,734,105)</b>
<b>Cash Flow From Investing Activities</b>					
Restricted cash, cash equivalents, and certificates of deposit	7, 8	(148,127)	122,900	(1,377,960)	86,425
(Payments for) proceeds from investments		(2,477,578)	153,100	(2,478,584)	153,100
Payments for other assets, principally mine development		(1,182,983)	(166,910)	(1,720,693)	(1,043,559)
Proceeds from sale of property and equipment		10,000	30,000	10,000	403,300
Payments for property and equipment	4	(986,315)	(179,366)	(1,851,441)	(214,512)
Net assets acquired in merger, prior to public offering		—	307,379	—	307,379
Acquisitions		—	(25,000,000)	—	(25,000,000)
Acquisition of mining rights	3	—	—	(3,307,259)	—
<b>Net cash used in investing activities</b>		<b>(4,785,003)</b>	<b>(24,732,897)</b>	<b>(10,725,937)</b>	<b>(25,307,867)</b>
<b>Cash Flow From Financing Activities</b>					
Principal payments on debt	2, 6	(75,901)	(202,407)	(167,152)	(400,984)
Proceeds from debt		—	4,891,890	—	4,891,890
Payments on equipment financing	2, 6	(2,010,172)	(1,236,536)	(4,231,694)	(2,022,231)
Line of credit		—	(3,050,000)	—	—
Reverse takeover costs incurred		—	(408,000)	—	(408,000)
Decrease in other long-term liabilities		(29,177)	(25,364)	(46,554)	(30,654)
Net proceeds from capital contributions	1	—	97,784,678	—	97,784,678
<b>Net cash (used in) provided by financing activities</b>		<b>(2,115,250)</b>	<b>97,754,261</b>	<b>(4,445,400)</b>	<b>99,814,699</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>		<b>(9,903,689)</b>	<b>68,454,154</b>	<b>(22,830,829)</b>	<b>70,772,727</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>		<b>27,598,469</b>	<b>2,699,947</b>	<b>40,525,609</b>	<b>381,374</b>
<b>Cash and Cash Equivalents, End of Period</b>		<b>\$ 17,694,780</b>	<b>\$ 71,154,101</b>	<b>\$ 17,694,780</b>	<b>\$ 71,154,101</b>
<b>Supplemental Disclosure:</b>					
Interest paid		\$ 409,723	\$ 803,398	\$ 769,625	\$ 1,218,152
<b>Non-Cash Investing and Financing Activities:</b>					
Vendor financing for equipment purchases		\$ 734,000	\$ 4,797,889	\$ 5,821,290	\$ 7,088,637
Vendor provided financing for acquisition of mining rights		\$ —	\$ —	\$ 3,000,000	\$ —

*See accompanying notes to consolidated financial statements*

## PHOENIX COAL INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended June 30, 2009 and 2008  
(Unaudited)

#### NOTE 1 — NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

*Basis of Presentation:* The accompanying interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements and accordingly do not include all disclosures required for annual financial statements. All monetary references expressed in these notes are references to United States dollars, except occasional references to Canadian dollar amounts, where the dollar amount is preceded by Cdn ("Cdn\$").

With the exception of new accounting pronouncements discussed in this note, these interim consolidated financial statements follow the same significant accounting policies and methods of application as the Company's audited annual consolidated financial statements for the year ended December 31, 2008 (the "Annual Financial Statements"). The interim consolidated financial statements should be read in conjunction with the Annual Financial Statements.

In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for these interim periods are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2009.

*Assets Held for Sale:* In the second quarter 2009, the Company initiated a process to consider various strategic opportunities, including, but not limited to, the sale of some or all of its coal mining assets and operations. As further discussed in Note 2, subsequent to the end of the second quarter 2009, the Company entered into a definitive agreement to sell substantially all of its surface coal mining assets. Pursuant to Canadian Institute of Chartered Accountants' ("CICA") Section 3475, Disposal of Long-Lived Assets and Discontinued Operations, and Emerging Issues Committee ("EIC") Abstract No. 161, Discontinued Operations, the Company has classified its surface mining assets and liabilities related to the pending sale, as assets and liabilities held for sale. The Company's underground coal mining assets do not meet the definition of assets held for sale, and therefore have not been classified as such in these financial statements. As the Company will not have substantial continuing operations subsequent to the sale, discontinued operations accounting has not been applied in these financial statements.

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

## PHOENIX COAL INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Three and Six Months Ended June 30, 2009 and 2008 (Unaudited)

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

The acquisition of the shares of Phoenix was accounted for as an RTO transaction in accordance with guidance provided in EIC-10. As MCC did not qualify as a business for accounting purposes, the transaction was accounted for as a capital transaction of Phoenix.

#### *New Accounting Policies:*

*Goodwill and Intangible Assets:* The CICA has issued a new standard, CICA Section 3064, Goodwill and Intangible assets, which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets and is effective January 1, 2009. Concurrent with the introduction of this standard, the CICA withdrew EIC-27, Revenues and Expenses during the pre-operating period. This standard has had no material impact on the Company's consolidated financial statements.

*Financial Instruments:* The 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 June 30, 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 have attended IFRS training, have begun IFRS accounting policy development, and initiated development of an IFRS project timeline. Quantification of GAAP and IFRS differences has not yet been determined due to the need to evaluate internal data and make final policy choices and elections.

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

#### **NOTE 2 —ASSETS HELD FOR SALE**

Subsequent to the end of the second quarter 2009, the Company entered into a definitive agreement with a privately owned coal producer to sell substantially all of the operating assets and operations, including coal reserves, mining property, plant and equipment, mining rights, coal purchase contracts and coal sales contracts associated with its surface coal mining operations in Western Kentucky. All of the Company's current revenues are derived from these operations.

**PHOENIX COAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Six Months Ended June 30, 2009 and 2008  
(Unaudited)**

The consideration which will be received upon closing includes \$5.7 million in cash, assumption by the purchaser of all debt associated with the equipment being sold and the assumption of certain reclamation liabilities related to the coal reserves. In addition, the purchaser will replace the Company's letters of credit for assumed reclamation obligations, which, upon transfer of the active mining permits, will release the restrictions on approximately \$5.8 million of restricted cash and certificates of deposit. The Company can potentially receive an additional \$1.0 million, upon satisfaction of certain post-closing obligations. The closing of the transaction is subject to certain closing conditions, including closing conditions related to satisfying the purchaser as to the size and quality of the coal reserves.

As a consequence of the above, at June 30, 2009, the assets and liabilities associated with the sale of the Company's surface mining operations 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 on sale, 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 \$38,920,000 in the three months ended June 30, 2009.

Assets and liabilities held for sale on the consolidated balance sheet include the following amounts:

	<u><b>June 30, 2009</b></u>
<b>Current assets</b>	
Coal inventories .....	\$ 877,841
Property, plant and equipment, net .....	27,719,034
Other assets .....	121,326
	<u>\$ 28,718,201</u>
<b>Current liabilities</b>	
Asset retirement obligations .....	\$ 2,587,981
Term debt .....	22,596,234
	<u>\$ 25,184,215</u>

***Term Debt***

	<u><b>June 30, 2009</b></u>
Bank notes payable, interest at 5.50% to 8.90%. Payments are made in monthly installments. The loans are collateralized by various pieces of equipment and mature April 2010.....	\$ 66,810
Equipment notes payable, interest at 5.25% to 8.75%. Payments are made in monthly installments. The loans are collateralized by related assets with a net book value of \$31,258,000 as at June 30, 2009 and have maturity dates from August 2010 to March 2013. ....	22,529,424
Total term debt associated with assets held for sale .....	<u>\$ 22,596,234</u>

**NOTE 3 — ACQUISITIONS**

***Petersburg Coal Sublease***

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

A mineral reserve and mineral resource evaluation prepared in accordance with National Instrument 43-101 ("NI 43-101") of the Gryphon Mining Complex was prepared as at April 1, 2009 by an independent geological and engineering consulting firm. Based on the report, at the Gryphon Mining Complex the Company controls 68.4 million tons of proven and probable

**PHOENIX COAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Six Months Ended June 30, 2009 and 2008  
(Unaudited)**

coal mineral reserves, 3.7 million tons of underground measured and indicated coal resources, and 0.2 million tons of inferred coal resources.

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

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

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

**NOTE 4 — PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment consist of the following:

	June 30, 2009			December 31, 2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land.....	\$ 879,327	\$ —	\$ 879,327	\$ 1,474,574
Building and improvements .....	—	—	—	17,726
Preparation plant .....	—	—	—	2,737,352
Mining equipment .....	—	—	—	40,128,200
Loading and marine transport equipment .....	—	—	—	1,434,792
Office equipment.....	35,688	8,955	26,733	212,278
Vehicles.....	—	—	—	32,982
	\$ 915,015	\$ 8,955	\$ 906,060	\$46,037,904

Property, plant and equipment related to the Company's surface mining operations have been reclassified as current assets held for sale as at June 30, 2009 as further described in Note 2.

**NOTE 5 — 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.

**PHOENIX COAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Six Months Ended June 30, 2009 and 2008  
(Unaudited)**

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
Liabilities incurred.....	670,000
Accretion .....	146,805
Liabilities settled.....	<u>(214,754)</u>
Total asset retirement obligations as at June 30, 2009.....	4,926,051
Less current portion .....	2,300,000
Less asset retirement obligations associated with assets held for sale .....	<u>2,587,981</u>
	<u>\$ 38,070</u>

**NOTE 6 — DEBT**

Long-term debt consists of the following:

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Bank notes payable, interest at 5.50% to 8.90%. Payments are made in monthly installments. The loans are collateralized by various pieces of equipment and mature April 2010.....	\$ —	\$ 105,109
Equipment notes payable, interest at 5.25% to 8.75%. Payments are made in monthly installments. The loans are collateralized by related assets with a net book value of \$31,258,000 as at June 30, 2009 and have maturity dates from August 2010 to March 2013. ....	—	21,068,681
Total long-term debt .....	—	21,173,790
Less current portion .....	—	6,532,045
	<u>\$ —</u>	<u>\$ 14,641,745</u>

Long-term debt associated with the Company's surface mining operations has been reclassified as current liabilities associated with assets held for sale as at June 30, 2009 as further described in Note 2.

**NOTE 7 — FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS**

The Company has exposure to credit risk, liquidity risk, interest rate risk, and foreign currency risk. The Company's risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. Risk management strategies, as discussed below, are designed and implemented to ensure the Company's risks and the related exposure are consistent with its business objectives and risk tolerance.

*Credit Risk:* Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation.

The Company had invested approximately \$15,630,000 of its cash and cash equivalents (including restricted cash and investments) and short-term investments in a U.S. financial institution, which as at June 30, 2009, carried Standard and Poor's investment ratings on their deposits of A-2 to BBB+. As at June 30, 2009, approximately \$3,343,000 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.

## PHOENIX COAL INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Three and Six Months Ended June 30, 2009 and 2008 (Unaudited)

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 June 30, 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 \$36,579,666.

*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 June 30, 2009, the Company had \$20.8 million of cash, cash equivalents, and short-term investments.

*Interest Rate Risk:* Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's most significant interest rate risk arises from its short-term investments 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 June 30, 2009, the Company had no material financial instruments that were denominated in non U.S. currencies.

#### NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities including liabilities related to asset retirement obligations and financial obligations in connection with mining permits that are not reflected in the accompanying consolidated balance sheet. The Company does not anticipate any material losses as a result of these transactions. In accordance with Kentucky state law, the Company is required to post reclamation bonds to assure that reclamation work is completed. Outstanding reclamation bonds related to surface mining operations totaled approximately \$12.5 million as at June 30, 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 \$12,517,297 and 11,638,921 as at June 30, 2009 and December 31, 2008, respectively. Pursuant to the surface mining operation sale detailed in note 2, approximately \$5,849,000 of the Company's cash-collateralized reclamation bonds will be replaced by the purchaser. As a result, as at June 30, 2009, the Company has classified \$5,849,000 of the restricted cash and certificates of deposit as a current asset.

The Company leases certain office space under a long-term operating lease running through 2009. Future non-cancelable minimum lease commitments under this lease as at June 30, 2009, payable in 2009, totaled \$114,597. This lease is not related to the surface mining operations held for sale.

## PHOENIX COAL INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Three and Six Months Ended June 30, 2009 and 2008 (Unaudited)

A significant amount of the Company's surface and underground 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, June 30, 2009, the Company has executed purchase contracts for a total of 2,562,000 gallons to be delivered in 2009 and 2010 at a total cost of \$5,672,407, or an average weighted price of \$2.21 per gallon. These fuel contracts are exclusively related to the surface mining operations held for sale.

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. On July 6, 2009 the Company executed an amendment to the Master Agreement (the "Amended Master Agreement") revising the annual purchase and sale tonnage commitments. The term of the Amended Master Agreement runs through the exhaustion of the reserves (the "Term"). During the Term of the Amended Master Agreement, by July 1 of each year, the Company and Covol will agree to the annual tonnage commitment (the "Commitment") that Covol will produce and that the Company will purchase for the next calendar year. For the calendar year 2010 the Commitment cannot be less than 360,000 tons and for subsequent years the Commitment cannot be less than 400,000 tons. The price to be paid by the Company for the coal fines is dependent on the price at which the fines are sold by the Company to its customer, but not less than \$24.50 per ton. Additionally, the Company has the first right of refusal to purchase any tons produced by Covol in excess of the Commitment, but up to 720,000 tons annually. This Master Agreement is exclusively related to the surface mining operations held for sale.

In June 2009, the Company entered into a coal supply agreement with an Illinois Basin producer to purchase 20,000 tons of coal per month from July 2009 through December 2009 at a purchase price of \$39.00 per ton. Upon mutual agreement of the parties to the coal supply agreement, the term of the agreement may be extended to December 31, 2010. This coal supply agreement is exclusively related to the surface mining operations held for sale.

As part of the Renfro Equipment Inc. acquisition in July 2008, the Company agreed that if, by July 31, 2010, it acquires at least 1.5 million reserve tons as defined by National Instrument 43-101 ("NI 43-101") due to the direct efforts of the sellers ("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 acquisition closing documents define a specific territory from which the Additional Reserves can be acquired. The acquisition of the Additional Reserves must be on terms and conditions acceptable to the Company in its sole, reasonable discretion. As at June 30, 2009, the sellers had provided several mineral leases to the Company. However, the analysis and drilling that is required to qualify these properties as reserve tons under the definition of NI 43-101 is in its early stages. Therefore, it is not yet probable that the sellers will deliver 1.5 million reserve tons to the Company, so no liability has been currently accrued on the consolidated balance sheet to the sellers. This commitment is exclusively related to the surface mining operations held for sale.

#### NOTE 9 — STOCK INCENTIVE PLAN AND WARRANTS

##### *2007 Stock Option Plan of MCC*

MCC adopted an incentive stock option plan in May 2007 (the "2007 Plan") which provides that the board of directors of the Company may from time to time, in its discretion, and in accordance with TSX requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms will be determined at the time of grant by the board of directors.

In 2007, upon closing of an initial public offering, MCC granted to its directors and officers options to acquire 150,000 shares at a price of Cdn\$0.25 per share, exercisable for a period of five years from August 28, 2007.

The 2007 Plan remains in force and options issued prior to the RTO will continue to be governed by the 2007 Plan; however due to the approval of the 2008 Plan (defined below), no further options will be issued pursuant to the 2007 Plan.

**PHOENIX COAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Six Months Ended June 30, 2009 and 2008  
(Unaudited)**

***2008 Stock Option Plan of the Company***

In connection with completion of the RTO, the Company adopted a new stock option plan (the “2008 Plan”) on May 20, 2008, which was effective upon the closing of the RTO.

The 2008 Plan is designed to advance the interests of the Company by encouraging employees, officers, directors and consultants to have equity participation in the Company through the acquisition of common shares. The current intention is to use the 2008 Plan for option grants to employees, officers, directors and consultants of the Company. Options granted under the 2008 Plan may be “incentive stock options” or “non-qualified stock options”. The 2008 Plan was approved by the shareholders of the Company in June 2008 and 13,500,000 common shares are reserved for issuance under the 2008 Plan.

The exercise price per common share is not to be less than the market price of the common shares at the time of the grant. The exercise period for each stock option is not to be more than ten years (five years in the case of an incentive stock option granted to a person who owns more than 10% of the issued and outstanding common shares). Options may be granted subject to vesting requirements.

Unless terminated earlier by the board of directors, the 2008 Plan will remain in effect until all options granted under the 2008 Plan have been exercised or forfeited, or have expired. However, no new options may be granted under the 2008 Plan more than 10 years from the date the Plan was originally adopted by the board of directors.

Phoenix had a stock incentive plan authorized by its board of directors in 2004 (the “2004 Plan”) to grant options to its employees (including officers), directors and consultants. Pursuant to the 2004 Plan, Phoenix could issue “non-statutory options” and “incentive stock options” to purchase common shares of Phoenix as well as “stock purchase rights”.

Stock options granted under the 2004 Plan were generally subject to vesting provisions of 25% at the end-of-year one from the date of grant and then evenly over the following 48 months. The options were granted at a price equal to 100% of the fair value of the Company’s common shares on the date of grant and have a ten-year term.

Upon completion of the RTO, each Phoenix stock option was cancelled and extinguished and the holder received a replacement option of the Company to purchase that number of common shares of the Company equal to the number of shares of Phoenix common shares issuable under the Phoenix option with no change in the exercise price of such options due to the nature of the exchange rate between United States dollars and Canadian dollars. These replacement options are governed by the terms of the 2008 Plan.

**PHOENIX COAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Six Months Ended June 30, 2009 and 2008  
(Unaudited)**

Information regarding stock option activity under the Plans follows:

**2007 MCC Plan and 2008 Company Plan**

	<u>2009 Activity</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
<b>Options Denominated in Canadian Dollars</b>		
Balance, December 31, 2008 .....	4,410,830	Cdn\$0.83
Granted .....	6,500,000	Cdn 0.30
Voluntarily surrendered and cancelled .....	(900,000)	Cdn 1.75
Cancelled .....	(25,000)	Cdn 1.75
Cancelled and replaced .....	(337,000)	Cdn 1.75
Replacement options, including 208,000 previously issued in U.S. dollars .....	545,000	Cdn 0.30
Forfeited.....	(535,000)	Cdn 1.75
Options outstanding as at June 30, 2009.....	<u>9,658,830</u>	<u>Cdn\$0.27</u>
Options exercisable as at June 30, 2009 .....	<u>3,253,641</u>	<u>Cdn\$0.27</u>
<b>Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)</b>		
Balance, December 31, 2008 .....	5,311,000	\$0.98
Voluntarily surrendered and cancelled .....	(3,300,000)	1.25
Cancelled and replaced (in Canadian dollars).....	(208,000)	1.25
Forfeited.....	(403,000)	0.96
Options outstanding as at June 30, 2009.....	<u>1,400,000</u>	<u>\$0.32</u>
Options exercisable as at June 30, 2009 .....	<u>1,176,892</u>	<u>\$0.31</u>
	<u>2008 Activity</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
<b>Options Denominated in Canadian Dollars</b>		
Balance, December 31, 2007 .....	150,000	Cdn\$0.25
Consolidated at 1:2.35, pursuant to RTO.....	(86,170)	
Balance after consolidation.....	63,830	Cdn 0.59
Granted .....	9,397,000	Cdn 1.32
Voluntarily surrendered and cancelled .....	(5,050,000)	Cdn 1.75
Options outstanding as at December 31, 2008.....	<u>4,410,830</u>	<u>Cdn\$0.83</u>
Options exercisable as at December 31, 2008 .....	<u>1,498,340</u>	<u>Cdn\$0.82</u>
<b>Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)</b>		
Balance, December 31, 2007 .....	6,749,000	\$0.87
Granted .....	1,000	1.25
Exercised .....	(25,438)	0.25
Forfeited.....	(1,413,562)	0.43
Options outstanding as at December 31, 2008.....	<u>5,311,000</u>	<u>\$0.98</u>
Options exercisable as at December 31, 2008 .....	<u>2,986,495</u>	<u>\$0.89</u>

## PHOENIX COAL INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Three and Six Months Ended June 30, 2009 and 2008 (Unaudited)

Compensation cost of stock option grants is recognized straight-line over the options' vesting periods. Compensation expense related to stock options for the six months ended June 30, 2009 and 2008 was \$1,865,000 and \$2,291,277, respectively. In March 2009, certain officers of the Company voluntarily surrendered, and the board of directors concurrently cancelled, 4,200,000 options that had been previously issued to them, of which 2,075,849 were fully vested at the surrender date. The voluntary surrender was not accompanied by a concurrent grant of a replacement award or other consideration to these officers. This surrender caused an acceleration of the related compensation costs under CICA Handbook Section 3870. Had these officers not voluntarily surrendered these options, the related compensation expense for the six months ended June 30, 2009 would have decreased by approximately \$1,295,000.

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

Under the terms of the 2008 Plan, the sale of the surface mining assets and associated liabilities described in note 2 could, depending on the final valuation of the sale, cause all options outstanding under the 2008 Plan to become fully vested and result in any unrecognized compensation expense to be charged to the statement of operations on the date of sale. As at June 30, 2009 the unrecognized expense related to these options totaled approximately \$720,000.

The options' fair value was determined using the Black-Scholes option-pricing model. Expected volatilities are based on comparable company historical share price movement and other factors. The cost relating to the stock-based compensation plans is included in general and administrative expenses in the accompanying consolidated statements of operations.

As at June 30, 2009, the following stock options were outstanding:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
585,000	\$0.25	April 2015
465,000	0.25	December 2015
335,000	0.50	May 2016
15,000	1.25	March 2017
63,830	Cdn 0.59	August 2012
2,550,000	Cdn 0.18	November 2018
6,345,000	Cdn 0.30	March 2019
<u>700,000</u>	Cdn 0.30	May 2019
<u>11,058,830</u>		

#### ***Phoenix Warrants***

As part of the fee structure related to Phoenix's preferred share offering in August 2007, the underwriter received warrants to purchase 1,780,000 shares of the preferred shares of Phoenix at \$1.25 per share. The warrants expire 24 months following the date Phoenix consummates an initial public offering of its common shares. The warrants' total value of \$462,800 was determined using the Black-Scholes option pricing model. Assumptions used in the model were a risk free interest rate of 4.76%, dividend yield of 6.50%, and expected volatility of .40. The value of the warrants was charged to share capital. On June 27, 2008, under the terms of a broker agreement, the warrants were converted to warrants to purchase common shares of the Company at \$1.25 per common share and expire in June 2010.

#### ***Company Warrants***

Under the terms of the Offering, 31,428,580 warrants were issued to the purchasers of the common shares offered. The warrants entitle the holder to purchase one common share for each warrant held at a price of Cdn\$2.25 per share. The warrants expire in June 2010. The warrants total value of \$8,077,145 was determined by the underwriter of the Offering. The value of the warrants was charged to share capital.

**PHOENIX COAL INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Three and Six Months Ended June 30, 2009 and 2008  
(Unaudited)**

Information regarding the warrant activity follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Phoenix Warrants</b>		
Balance, December 31, 2007 .....	—	\$ —
Converted preferred warrants to common warrants.....	1,780,000	1.25
Warrants outstanding and exercisable as at June 30, 2009 and December 31, 2008 .....	1,780,000	<u>\$1.25</u>
<b>Warrants Denominated in Canadian Dollars</b>		
<b>Company Warrants</b>		
Balance, December 31, 2007 .....	100,000	Cdn\$0.25
Consolidated at 1:2.35, pursuant to RTO.....	(57,447)	
Balance after consolidation.....	42,553	Cdn 0.59
Exercised .....	(11,850)	Cdn 0.59
Warrants issued with new common shares .....	31,428,580	Cdn 2.25
Warrants outstanding and exercisable as at June 30, 2009 and December 31, 2008 .....	31,459,283	<u>Cdn\$2.25</u>

As at June 30, 2009 the following warrants were outstanding:

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

Total cash received from options and warrants exercised during the six months ended June 30, 2009 and the year ended December 31, 2008 totaled nil and \$12,838, respectively.

**Broker Options**

Under the terms of the Offering, the agents received Brokers' Options entitling the agents to purchase in the aggregate 2,514,286 Brokers' Units. Each Broker Unit entitles the agent to purchase one common share for Cdn\$1.75 per share and one half warrant entitling the agent to purchase one additional common share for each full warrant at Cdn\$2.25 per share. The Brokers Options expire in June 2010 and are all exercisable at June 30, 2009. The options total value of \$1,106,286 was determined using the Black-Scholes option pricing model. Assumptions used in the model were a risk free interest rate of 3.99%, no dividend yield, and expected volatility of .40. The value of the options was charged to share capital as a cost of the Offering.

**NOTE 10 — SALES CONTRACT TERMINATION**

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

PHOENIX COAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended June 30, 2009 and 2008  
(Unaudited)

NOTE 11 — 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 six months ended June 30, 2009 and 2008:

	Six Months Ended	
	2009	2008
Expenses:		
Consulting fees.....	\$ —	\$ 156,000
Rent and miscellaneous.....	—	32,925
Accounts receivable .....	—	16,858
Accounts payable .....	—	3,741

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.

NOTE 12 — SUBSEQUENT EVENTS

On July 28, 2009, the Company executed an amendment to a coal sales contract with one of its customers. Under the original terms of the contract, shipments to this customer were for 11,500 BTU quality coal and scheduled to be completed by December 31, 2009. The amendment terms extend the period of time to fulfill the contracted tonnage shipments to December 31, 2012 and decrease the minimum BTU guarantee to 11,400 BTU for coal shipped in 2009 and 2010.