Elgin Mining Inc.

Consolidated Financial Statements
December 31, 2010 and 2009

MANAGEMENT'S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS

All of the information in the management's discussion and analysis and accompanying consolidated financial statements of Elgin Mining Inc. is the responsibility of management. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where necessary, management has made judgments and estimates in preparing the consolidated financial statements, and such statements have been prepared within acceptable limits of materiality. The financial information contained elsewhere in the management's discussion and analysis has been reviewed to ensure that it is consistent with the consolidated financial statements.

Management maintains appropriate systems of internal control to give reasonable assurance that its assets are safeguarded, and the financial records are properly maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee, which is comprised of independent, non-executive Directors, meets with management and the external auditors to review the auditors' report and the consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

A firm of independent Chartered Accountants, appointed by the shareholders, audits the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provides an independent professional opinion thereon. The external auditors have free and full access to the Audit Committee with respect to their findings regarding the fairness of financial reporting and the adequacy of internal controls.

"Robert Buchan"
Robert Buchan
Chief Executive Officer
March 31, 2011

"Brian Morales"
Brian Morales
Chief Financial Officer
March 31, 2011

Independent Auditors' Report

To the Shareholders of **Elgin Mining Inc.**

We have audited the accompanying consolidated financial statements of Elgin Mining Inc., (formerly Phoenix Coal Inc.) which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Elgin Mining Inc. as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 31, 2011

("Signed") ERNST & YOUNG LLP
Chartered Accountants
Licensed Public Accountants

ELGIN MINING INC.
(FORMERLY PHOENIX COAL INC.)
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)

As at December 31

	Note	2010	2009
ASSETS			
Current assets			
Cash and cash equivalents	9	**$ 47,009,454**	$ 13,828,683
Marketable securities	9	**1,182,350**	-
Account receivable - other		**61,096**	47,369
Prepaid expenses and other current assets		**61,205**	286,272
Restricted cash and cash equivalents	2,5,9	**1,100,000**	6,788,467
Total current assets		**49,414,105**	20,950,791
Property plant and equipment, net	7	**-**	615,671
Restricted cash and cash equivalents	5,8,9,14	**2,534,926**	5,282,293
Mining rights, mine development costs, and mineral interests net of accumulated amortization of $nil in 2010 and 2009	3,4,6	**323,089**	22,739,143
Equity-accounted investment	4	**2,077,377**	-
Other assets		**8,000**	624,744
		$ 54,357,497	$ 50,212,642
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade accounts payable and accrued liabilities	9	**$ 902,155**	$ 929,381
Income taxes payable		**275,168**	56,551
Current portion of asset retirement obligations	8	**415,000**	1,454,700
Total current liabilities		**1,592,323**	2,440,632
Asset retirement obligations	8	**241,000**	723,300
Other long-term liabilities		**16,000**	396,461
		1,849,323	3,560,393
Non-controlling interest	4	**81,853**	-
Shareholders' equity			
Share capital	1,10	**33,125,676**	171,817,981
Stock options and warrants	11	**9,593,988**	19,209,566
Contributed surplus	11	**8,118,240**	-
Retained earnings (deficit)	1	**1,542,523**	(144,375,298)
Accumulated other comprehensive income		**45,894**	-
		52,426,321	46,652,249
		$ 54,357,497	$ 50,212,642
Commitments and contingencies	15		
Subsequent events	18		

See accompanying notes to the consolidated financial statements

Signed on behalf of the Board of Directors:

Robert Buchan (*signed*), Director   Robert Wardell (*signed*), Director

ELGIN MINING INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Expressed in U.S. Dollars)

For the Years Ended December 31

	Note		2010		2009
Revenue		**$**	**10,100**	$	58,753,744
Costs and expenses					
Operating costs			**263,756**		55,388,311
Selling expenses			**-**		5,863,681
General and administrative expenses	17		**6,093,362**		9,774,162
Depreciation and amortization			**16,686**		3,752,955
Loss on sale of surface mining assets	1, 2		**-**		36,417,038
Asset impairment write down	3		**-**		21,900,000
Sales contract termination cost	16		**-**		3,000,000
			6,373,804		136,096,147
Loss from operations			**(6,363,704)**		(77,342,403)
Other income (expense)					
Gain on sale of coal assets and investments	3, 4		**9,415,989**		-
Interest expense			**(15,517)**		(1,344,438)
Interest income			**207,802**		134,139
Unrealized foreign exchange gain on cash held in Canadian dollars	9		**1,314,599**		-
Unrealized gain on on marketable securities			**547,701**		-
Other, net			**168**		(15,931)
			11,470,742		(1,226,230)
Income (loss) before income taxes			**5,107,038**		(78,568,633)
Income tax (recovery) expense			**(1,261,465)**		56,551
Non-controlling interest			**18,440**		-
Net income (loss)		**$**	**6,350,063**	**$**	**(78,625,184)**
Net income (loss) per share - basic[(1)]	13	**$**	**0.13**	$	(1.57)
Net income (loss) per share - diluted[(1)]	13	**$**	**0.12**	$	(1.57)
Weighted average number of common shares outstanding - basic[(1)]	13		**50,718,887**		50,015,184
Weighted average number of common shares outstanding - diluted[(1)]	13		**51,711,450**		50,015,184

(1) Per share amounts have been restated to reflect the impact of the one-for-three consolidation of the issued and oustanding common shares of the Company that was approved by shareholders on April 28, 2010. See note 1.

See accompanying notes to the consolidated financial statements

ELGIN MINING INC.

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

For the years ended December 31, 2010 and 2009

	Note	Common shares		Stock options and Warrants	Contributed Surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total
		Shares	Dollars					
December 31, 2008		50,015,184	$ 171,817,981	$ 16,625,724	$ -	$ (65,750,114)	$ -	$ 122,693,591
Share-based compensation expense	11	-	-	2,583,842	-	-	-	2,583,842
Net loss		-	-	-	-	(78,625,184)	-	(78,625,184)
December 31, 2009		50,015,184	171,817,981	19,209,566	-	(144,375,298)	-	46,652,249
Stock options exercised	11	1,349,988	875,453	-	-	-	-	875,453
Warrants and Brokers' Option expiration, net of income taxes	11,12	-	-	(9,646,231)	8,118,240	-	-	(1,527,991)
Reduction of accumulated deficit	1	-	(139,567,758)	-	-	139,567,758	-	-
Comprehensive income		-	-	-	-	-	45,894	45,894
Share-based compensation expense			-	30,653		-	-	30,653
Net income		-	-	-	-	6,350,063	-	6,350,063
December 31, 2010		**51,365,172**	**$ 33,125,676**	**$ 9,593,988**	**$ 8,118,240**	**$ 1,542,523**	**$ 45,894**	**$ 52,426,321**

(1) Share amounts have been restated to reflect the impact of the one-for-three consolidation of the issued and oustanding common shares of the Company that was approved by shareholders on April 28, 2010. See note 1.

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in U.S. Dollars)

For the years ended December 31, 2010 and 2009

	Note	2010	2009
Net income		$ 6,350,063	$ (78,625,184)
Currency translation adjustments on self-sustaining operations and investments	4	45,894	-
Comprehensive income		**$ 6,395,957**	**$ (78,625,184)**

See accompanying notes to the consolidated financial statements

ELGIN MINING INC.

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

For the Years Ended December 31

		2010	2009
Cash flow from operating activities			
Net income (loss)		**6,350,063**	(78,625,184)
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Depreciation and amortization		**16,686**	3,752,955
Gain on sale of coal assets	4	**(8,792,177)**	-
(Gain) loss on disposal of property plant and equipment and other assets		**(623,812)**	11,579
Loss on sale of surface mining operations	2	**-**	36,417,038
Write down of assets held for sale	3	**-**	21,900,000
Future income tax recovery	12	**(1,527,991)**	-
Unrealized foreign exchange gain on cash held in Canadian dollars	9	**(1,314,599)**	-
Unrealized gain on marketable securities		**(547,701)**	-
Share-based compensation		**30,653**	2,583,842
Accretion expense		**150,720**	230,632
Adjustment to asset retirement obligations		**616,392**	106,313
Non-controlling interest		**18,440**	-
Changes in non-cash operating assets and liabilities			-
Accounts receivable		**(9,847)**	2,795,765
Inventories		**-**	200,202
Prepaid expenses and other current assets		**225,979**	(150,249)
Asset retirement expenditures	8	**(2,289,112)**	(564,964)
Trade accounts payable and accrued liabilities		**(130,432)**	(5,427,659)
Net cash used in operating activities		**(7,826,738)**	(16,769,730)
Cash flow from investing activities			
Restricted cash and cash equivalents		**8,935,834**	2,368,161
Proceeds from sale of coal assets, net of selling expenses	2, 3, 4	**32,187,707**	-
Purchases of investments and marketable securities		**(1,606,076)**	(2,470,000)
Proceeds from sale of investments and marketable securities		**1,629,733**	2,570,707
Purchase of equity-accounted investment and other assets	4	**(2,115,390)**	-
Purchaes of other assets, principally mine development and prepaid royalties	8	**-**	(2,979,545)
Proceeds from sale of surface mining operations, net of expenses of sale		**-**	4,632,361
Proceeds from sale of property and equipment		**88,572**	210,000
Asset acquisitions, net of cash acquired		**64,283**	-
Purchases of property and equipment		**-**	(1,367,393)
Acquisition of mining rights and mineral interests		**(177,138)**	(6,307,259)
Net cash provided by (used in) investing activities		**39,007,525**	(3,342,968)
Cash flow from financing activities			
Principal payments on debt		**-**	(209,025)
Payments on equipment financing		**-**	(6,288,921)
Decrease in other long-term liabilities		**(205,461)**	(86,282)
Proceeds from stock options exercised		**875,453**	-
Net cash provided by (used in) financing activities		**669,992**	(6,584,228)
Effect of exchange rate changes on cash held in Canadian dollars		**1,329,992**	-
Net increase (decrease) in Cash and Cash Equivalents		**33,180,771**	(26,696,926)
Cash and Cash Equivalents, beginning of year		**13,828,683**	40,525,609
Cash and Cash Equivalents, end of year		**$ 47,009,454**	$ 13,828,683
Supplemental disclosure:			
Interest paid		**$ 15,588**	$ 1,389,438
Non-cash investing and financing activities:			
Amount escrowed from sale of coal assets		**$ -**	$ 2,800,000
Vendor financing from equipment purchases		**$ -**	$ 6,629,614
Asset retirement obligations assumed by purchaser of surface mining operations		**$ -**	$ 2,764,276
Debt related to equipment assumed by purchaser of surface mining operations		**$ -**	$ 21,305,458

See accompanying notes to the consolidated financial statements

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

Shareholders' resolutions: At the April 28, 2010 annual shareholders' meeting, the Company's shareholders approved several resolutions that included (1) A special resolution authorizing the Company to file articles of amendment to change the name of the Company from Phoenix Coal Inc. to Elgin Mining Inc.; (2) A resolution to eliminate the accumulated deficit as at March 31, 2010 by applying it to the Company's share capital balance; (3) A special resolution to consolidate all of the issued and outstanding common shares of the Company on the basis of one post-consolidation common share for each three pre-consolidation common shares; and (4) An amendment to the 2008 Stock Option Plan increasing the number of common shares issuable under the plan from 13,500,000 shares to 15,500,000 shares (4,500,000 shares to 5,166,666 shares, on a post-consolidation basis). All share and per share amounts have been restated to reflect the share consolidation.

Nature of Operations: On September 30, 2009, Elgin Mining Inc. (formerly Phoenix Coal, Inc.) (the ―Company") sold substantially all of its surface mining operations (as described in note 2) and was thus engaged primarily in the development of its underground coal reserves in Western Kentucky, consisting of the ―Gryphon Reserves" and the ―Panama South Reserves", (together, the ―Gryphon Mining Complex"). The Company sold its Panama South Reserves in February 2010 (as described in note 4), and its Gryphon Reserves in May 2010 (also described in note 4). The Company's ongoing operations consist primarily of reclamation work performed at depleted surface mining locations and undertakings related to the transition of the Company from coal mining to other natural resource sectors.

Principles of Consolidation: These consolidated financial statements for the years ended December 31, 2010 and 2009 reflect the assets, liabilities and results of operations of the Company and its subsidiaries. Investments over which the Company has significant influence are accounted for using the equity method.

Basis of Presentation: The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (―GAAP"). 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$").

Use of Estimates: The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The assets and liabilities which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to, mining rights, mine development, mineral reserves, provision for income taxes, asset retirement obligations and share-based compensation.

Sale of Surface Mining Operations: As further described in note 2, on September 30, 2009, the Company sold substantially all of its surface mining operations. At June 30, 2009, 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 had classified these surface mining assets and liabilities related to this sale, as assets and liabilities held for sale. Due to the classification of the property and equipment, mine development and mining rights as assets held for sale, no depreciation and amortization expense was recorded on these assets from July 1, 2009 to December 31, 2009. As the Company did not have substantial continuing operations after September 30, 2009, discontinued operations accounting has not been applied in these consolidated financial statements.

Financial Instruments: Financial instruments are classified into one of the following five categories: held for trading assets or liabilities, held to maturity investments, loans and receivables, available for sale financial assets or other financial liabilities. Held for trading financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available for sale financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method.

The Company's financial instruments consist of cash and cash equivalents (including restricted cash), marketable securities, accounts receivable, trade accounts payable and accrued liabilities, and other long-term liabilities. Cash and cash equivalents are classified as held for trading, and are measured at fair value at the balance sheet date. Marketable securities are classified as held for trading and are measured at fair value at the balance sheet date. Accounts receivable are designated as loans and receivables and accounted for at amortized cost. Trade accounts payable and accrued liabilities and other long-term liabilities are classified as other financial liabilities and accounted for at amortized cost. Transaction costs for financial instruments, other than held for trading, are included in the carrying value of the financial instrument. Income and expense related to financial instruments is included in the consolidated statement of operations and comprehensive income as interest income or interest expense.

Cash and Cash Equivalents: Cash and cash equivalents include demand deposits held with banks and highly liquid investments with remaining maturities of three months or less at acquisition date. For purposes of reporting cash flows, the Company considers all cash accounts that are not subject to withdrawal restrictions or penalties to be cash and cash equivalents.

Restricted Cash, Cash Equivalents, and Certificates of Deposit: Restricted cash balances include funds held in escrow from the sale of the surface mining operations, amounts used to collateralize letters of credit, or cash deposited with state agencies to secure reclamation bonds. At December 31, 2010, restricted cash of $1,100,000 is scheduled to be released from the escrow account by March 31, 2011 and $2,534,926 of the restricted cash relates to reclamation bonds and has been classified as a non-current asset.

Property, Plant and Equipment: Property, plant and equipment are stated at cost. The Company provides for depreciation on the straight-line basis with useful lives that range from 5 to 40 years, with mining equipment depreciated over a 10 year period. Depreciation expense for the years ended December 31, 2010 and 2009 was $16,686 and $3,752,955, respectively.

The cost of assets sold, retired, or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts. Expenditures for maintenance and repairs are charged to expense as incurred.

Exploration costs are incurred in gathering the information necessary to determine whether a particular property can become a commercially viable operating mine and include costs to determine whether a property adjacent to a property with Proven and Probable Reserves has Proven and Probable Reserves, whether Inferred Resources can be classified as Measured and Indicated Resources, or whether Measured and Indicated Resources can be converted to Proven and Probable Reserves. These costs are expensed as incurred. When it has been determined than an exploration property can be economically developed as a result of establishing Proven and Probable Reserves, costs incurred prospectively to develop the property and place it into commercial production are classified as development costs and capitalized as they are incurred until the asset is ready for its intended use.

Costs to acquire mineral properties as part of an asset acquisition are capitalized and represent the property‘s fair value at the time it was acquired.

Interest cost is capitalized for qualifying assets during the period in which the asset is being installed and prepared for its intended use. Capitalized interest cost is amortized on the same basis as the related asset. No interest costs were capitalized for the years ended December 31, 2010 and 2009.

Consistent with CICA Section 3063, Impairment of Long-Lived Assets, the Company evaluates long-lived assets for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. This impairment testing is based on estimated future undiscounted cash flows to be realized from the use of the long-lived asset. 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. During the year ended December 31, 2009, and as detailed in note 3, the Company recorded an impairment charge against certain of its underground coal mining assets. No impairment charges were recorded in 2010.

Mine Development Costs: Mine development costs represent the costs incurred to prepare future mine sites for mining and are amortized on the units-of-production method. Surface mining development cost amortization totaled $nil and $126,439 for the years ended December 31, 2010 and 2009, respectively.

Mining Rights: Mining rights, which are rights to mine coal properties acquired through coal leases, are recorded at cost and amortized on the units-of-production method. Surface mining rights amortization totaled $nil and $781,650 for the years ended December 31, 2010 and 2009, respectively.

Mineral Interests: Mineral interests, which the Company owns, are recorded at cost and are amortized as mining occurs and reserves are depleted on a units-of-production basis.

Equity-accounted investments: Long-term investments in equity securities over which the Company has significant influence are accounted for using the equity method with the initial investment accounted for at cost. When a decline in the fair value of an equity-accounted investment is considered other than temporary, the investment is written down to fair value.

Asset Retirement Obligations: CICA Handbook Section 3110, ―Asset Retirement Obligations," addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company's asset retirement obligation ("ARO") liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities in accordance with United States federal and state reclamation laws as defined by each mining permit.

Revenue Recognition: During 2009, the Company recognized revenue when all of the following criteria were met: (1) persuasive evidence of an arrangement existed, (2) delivery occurred or services have been rendered, (3) the seller's price to the buyer was fixed or determinable, and (4) collectability was reasonably assured. In the case of coal that is mined and sold, a specific sales contract is negotiated with each customer, which includes a fixed-price per ton, a delivery schedule, and terms of payment. There were no coal sales in 2010.

Royalty Expense: The majority of the coal that the Company mined was owned by other entities. The Company acquired the right to mine and sell the coal through various leases. These leases required the Company to pay a royalty to the owners of the land and the minerals being mined. Royalty expense for the years ended December 31, 2010 and 2009 was $nil and $2,688,647, respectively, and was included in selling expenses on the consolidated statement of operations and comprehensive income.

Income Taxes: Future income taxes are provided for temporary differences arising from differences between the financial statement and tax basis of assets and liabilities existing at each balance sheet date using substantively enacted tax rates expected to be in effect when the related taxes are expected to be paid or recovered.

Earnings (Loss) per Share: The Company uses the treasury stock method to compute the dilutive effect of options and warrants. Under this method the dilutive effect on earnings (loss) per share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. The Company also uses the ―if converted" method to compute the dilutive effect of any convertible debt. For loss per share, the dilutive effect has not been presented, as it would prove to be anti-dilutive. Basic and diluted earnings (loss) per common share is calculated using the weighted-average number of common shares outstanding during the year.

Share-based Compensation: The Company uses the fair value method for options, warrants and restricted stock granted. The fair value of stock options and warrants is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options and warrants. The fair value of the restricted stock is determined to be the equivalent of the Company's common shares' trading price on the date of the grant. The fair value of the instruments granted is amortized over this vesting period.

Foreign Currency Translation:

Foreign Currency Balances and Transactions: The Company translates monetary assets and liabilities at the rate of exchange in effect at the balance sheet date and non monetary assets and liabilities at historical exchange rates. Revenues and expenses denominated in foreign currencies are translated at rates prevailing at the dates of the related transactions.

Self-sustaining Foreign Operations: Self-sustaining foreign operations are translated using the exchange rate in effect at year-end for assets and liabilities. Expenses and cash flows are translated using the average exchange rate over the period in which the expenses were incurred and the cash flows were generated. For the year ended December 31, 2010, assets and liabilities were translated using a Canadian dollar to US dollar exchange rate of $1.01 and expenses and cash flows were translated at an average Canadian dollar to US dollar exchange rate of $0.99.

Reclassifications: Certain of the 2009 figures have been reclassified to conform to the 2010 financial statement presentation.

Future Accounting Changes:

Business Combinations, Consolidated Financial Statements and Non-controlling interests: CICA Section 1582 amends standards for the measurement, presentation and disclosure of a business combination, which is effective for a business combination on or after January 1, 2011. The standard requires the additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. The impact of Section 1582 is expected to have a material impact on how prospective business combinations are accounted for.

Additionally, as part of the application of Section 1582, companies will be required to adopt CICA Handbook Section 1601 ‗Consolidated Financial Statements'' and 1602 ‗Non-controlling interests''. These sections will require that non-controlling interest be presented as part of shareholders' equity on the balance sheet and the controlling parent to present 100 percent of the subsidiary's results in the statement of operations with an allocation between controlling and non-controlling interest. The standards are effective as of January 1, 2011, with early adoption permitted. The Company has chosen not to early adopt these standards

International financial reporting standards ("IFRS"): On January 1, 2011, the Company will begin reporting under IFRS, which will replace Canadian GAAP for publicly accountable enterprises. The Company will report under IFRS for interim and annual periods beginning on January 1, 2011, with comparative information for 2010 restated under IFRS. IFRS requires the Company to make certain accounting policy choices and could materially impact the Company's reported financial position and results of operations.

NOTE 2 — SALE OF SURFACE MINING OPERATIONS

On September 30, 2009, the Company sold substantially all of its operating assets and operations associated with its surface coal mining operations in Western Kentucky, including coal and supplies inventories, coal reserves and related prepaid royalties, mining property, plant and equipment, mining rights, coal purchase contracts and coal sales contracts. All of the Company's recurring revenues were derived from these operations.

The consideration received under the terms of the agreement (―Acquisition Agreement") for the surface mining operations included cash, assumption by the purchaser of all debt associated with the equipment being sold and the assumption of certain asset retirement obligations. Asset retirement obligations related to surface mining operations whose reserves had been depleted as at September 30, 2009 were not included in the sale. The Company was entitled to potentially receive an additional $500,000 of cash consideration if, by June 30, 2010, it satisfied certain post-closing obligations (―2010 Fee"). These conditions were satisfied in January 2010 and the $500,000 in cash consideration was placed in escrow and reported in the consolidated statement of operations as a gain on sale of coal assets.

In addition, upon completion of the regulatory transfer of the acquired mining permits, the purchaser was required to replace the Company's letters of credit for assumed reclamation obligations. By June 30, 2010, all acquired mining permits had been transferred to the purchaser and the Company's bonding had been returned.

With respect to the cash consideration, $5.1 million was received by the Company in 2009, and $2.8 million was placed in escrow. The 2010 Fee initially was not earned and placed in escrow until January 2010. Subject to the indemnification provisions of the Acquisition Agreement, the escrowed funds were released to the Company with one third of the escrowed balance released on March 31, 2010, one half of the remaining escrowed balance was released on October 1, 2010, and the balance of the escrowed funds of $1.1 million will be released March 31, 2011.

Consideration received from the sale and the related loss on sale is as follows:

Proceeds from sale:		
Cash consideration received	$	5,123,096
Cash placed in escrow		2,800,000
Asset retirement obligations assumed by the purchaser		2,764,276
Debt related to equipment assumed by the purchaser		21,305,458
		31,992,830
Net book value of assets sold and expenses of sale:		
Working capital components including coal and supplies inventories and prepaid royalties		718,641
Property and equipment		49,953,795
Mine development, mining rights and mineral reserves		17,246,697
Expenses of sale		490,735
		68,409,868
Loss on sale of surface mining operations	$	36,417,038

NOTE 3 — IMPAIRMENT OF GRYPHON MINING COMPLEX

As at December 31, 2009, the Company was evaluating strategic alternatives for its Gryphon Mining Complex, including a possible sale to a third party. During the review of these alternatives, market value evidence indicated that the carrying value of the Gryphon Reserves exceeded their fair value and thus an impairment of these assets was warranted. As a result, the Company recorded an impairment loss of $21.9 million on the assets related to its Gryphon Reserves.

The assets deemed impaired and the related impairment charge recorded at December 31, 2009 were as follows:

	Original Carrying Value	Impairment Charge	Post Impairment Carrying Value
Land	$ 874,920	$ (399,000)	$ 475,920
Mining rights and mine development Costs	43,595,143	(21,356,000)	22,239,143
Prepaid royalties	317,631	(145,000)	172,631
	$ 44,787,694	$ (21,900,000)	$ 22,887,694

A similar impairment analysis was performed on the Company‘s Panama South Reserves. No impairment was indicated. As detailed in note 5, the Company sold its Panama South Reserves in February 2010, and in March 2010, entered into a definitive agreement to sell its Gryphon Reserves.

NOTE 4 — OTHER ACQUISITIONS AND DISPOSITIONS

Sale of Panama South Reserves

In February 2010, the Company sold its Panama South Reserves to a major U.S. coal producer for $10 million in cash.

Consideration received from the sale and the related gain is as follows:

Proceeds from sale:		
Cash consideration received	$	10,000,000
Net book value of assets sold and expenses of sale:		
Mining rights		500,000
Prepaid royalties		433,342
Expenses of sale		246,293
		1,179,635
Gain on sale of coal assets	$	8,820,365

Sale of Gryphon Reserves

In May 2010, the Company sold its Gryphon Reserves to a major U.S. coal producer for $23 million in cash.

Consideration received from the sale and the related loss is as follows:

Proceeds from sale:		
Cash consideration received	$	23,000,000
Net book value of assets sold and expenses of sale:		
Mining rights		21,052,441
Mine development		1,190,653
Prepaid royalties		191,175
Land		527,919
Expenses of sale		566,000
		23,528,188
Loss on sale of coal assets	$	(528,188)

In addition to the consideration paid, the purchaser was also contractually obligated to replace the Company's reclamation bonding associated with the Gryphon Reserves in the amount of $572,600. Upon completion of the regulatory transfer of the acquired permits, the bonding was replaced, which released the restrictions on restricted cash.

Investment in Auracle Resources Ltd.

On November 25, 2010, the Company acquired 1.8 million common shares of Auracle Resources Ltd. (―Auracle") by way of a share purchase agreement with certain shareholders of Auracle at a price of $0.02 per common share. The Company also acquired 10 million units (―Units") of Auracle by way of a private placement at a price of $0.20 per Unit. Each Unit consists of one common share of Auracle and one share purchase warrants (―Warrants"). Each Warrant entitles the Company to acquire one common share until November 25, 2011 at an exercise price of $0.30 per common share. Total consideration for the investments was approximately Cdn$2.0 million.

The Company owns approximately 37% of Auracle and the investment is considered an equity-accounted investment as the Company has significant influence based on its ownership percentage.

Acquisition of Silver Reef Resources Ltd.

On November 12, 2010, the Company acquired 89% of the issued and outstanding shares of Silver Reef Resources Ltd. (―Silver Reef"), by way of a private placement. The purchase price was approximately Cdn$1.9 million. The acquisition was accounted for as an asset acquisition. In addition to the cash acquired, the acquisition resulted in an increase in mineral interests of $145,300 and non-controlling interest of $62,000 at the acquisition date. See note 6 for additional details.

Silver Reef is a private company with options to acquire a 100% interest in several properties located in Nevada, which Silver Reef is currently exploring for silver, gold, and base metal deposits. Silver Reef has commissioned National Instrument 43-101 compliant technical reports on four of the properties. To earn the 100% interest, Silver Reef must make payments of Cdn$1,250,000, of which Cdn$175,000 has been paid and incur exploration expenditures of Cdn$7,500,000 by August 2013. It is anticipated that Silver Reef will raise the funds required through additional private placements.

The results of Silver Reef Resources Ltd. were consolidated from November 12, 2010. Subsequent to December 31, 2010, the Company's ownership interest was reduced to 68% as a result of additional shares issued by Silver Reef by way of private placements.

Pact Resources LLC and 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 the Gryphon Reserves. Under the terms of the sublease, the Company paid $6,000,000 to Petersburg and assumed $192,178 in liabilities. The Company also incurred transaction costs related to the sublease of $115,081, bringing the total cost of the sublease to $6,307,259.

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

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

As detailed above, the Company sold its Panama South Reserves in February 2010, and in May 2010, entered into a definitive agreement to sell its Gryphon Reserves.

NOTE 5 —RESTRICTED CASH

	2010	2009
Balance at beginning of year	$ 12,070,760	$ 11,638,921
Amount released related to the sale of surface mining operations	(2,200,000)	—-
Amount escrowed due to sale of surface mining operations	—	2,800,000
Amount released related to reduction of bonding requirements	(6,235,834)	(2,368,161)
Total asset retirement obligations	3,634,926	12,070,760
Less current portion	1,100,000	6,788,467
	$ 2,534,926	$ 5,282,293

NOTE 6 — MINING RIGHTS, MINE DEVELOPMENT COSTS AND MINERAL RESERVES

Mining rights, mine development costs and mineral reserves for the Company's active and developmental mining locations consist of the following:

	December 31, 2010	December 31, 2009
Operations in development where the Company was not currently mining:		
Mining rights and mineral interests	$ 323,089	$ 21,552,440
Mine development costs related to underground coal reserves	—	1,186,703
	$ 323,089	$ 22,739,143

Mineral interests as at December 31, 2010 consist of mineral interests resulting from the acquisition of Silver Reef, which . See note 4 for additional details

NOTE 7 — PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consists of the following at December 31:

	2010		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ —	$ —	$ —
Office equipment	—	—	—
Vehicles	—	—	—
	$ —	$ —	$ —

	2009		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 518,574	$ —	$ 518,574
Office equipment	133,565	56,905	76,660
Vehicles	20,783	346	20,437
	$ 672,922	$ 57,251	$ 615,671

As described in note 2, the Company sold substantially all of its surface mining assets on September 30, 2009 and in 2010 disposed of the remaining office equipment and vehicles.

NOTE 8 — 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, which ranged from 6.50% to 7.20% at December 31, 2010 and 6.62% to 8.71% at December 31, 2009. Total estimated undiscounted future cash spending related to the ARO liabilities totaled $731,100 at December 31, 2010, with spending estimated to occur from 2011 to 2014. Total estimated undiscounted future cash spending related to the ARO liabilities totaled $2,414,000 at December 31, 2009.

Prior to the sale of its surface mining operations, the Company recorded an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset were recognized in the period in which the liability was incurred. The ARO asset was amortized on the units-of-production method over its expected life and the ARO liability is still 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 were recognized at the appropriate credit-adjusted risk-free rate. The Company also recognized an obligation for contemporaneous reclamation liabilities incurred as a result of its former surface mining activities. Contemporaneous reclamation consisted primarily of grading, topsoil replacement, and revegetation of backfilled pit areas. Following the sale of the surface mining operations, adjustments to the ARO obligations resulting from changes in estimates are expensed.

A progression of the reclamation liability recorded on the consolidated balance sheet is as follows:

	2010	2009
Balance at beginning of year	$ 2,178,000	$ 4,324,000
Liabilities incurred	616,392	964,608
Accretion	150,720	230,632
Liabilities assumed by purchaser of surface mining operations	—	(2,764,276)
Liabilities settled	(2,289,112)	(576,964)
Total asset retirement obligations	656,000	2,178,000
Less current portion	415,000	1,454,700
	$ 241,000	$ 723,300

NOTE 9 — 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 the 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 invests its cash and cash equivalents and short-term investments in U.S. and Canadian financial institutions, which at December 31, 2010, carried Standard and Poor‘s investment ratings on their short-term deposits of A-2 and AA-. The Company has not experienced any losses on its deposits with these financial institutions. At December 31, 2010, the Company invested approximately Cdn$40.0 million (December 31, 2009 - $nil) in Banker‘s Acceptances. Additionally, at December 31, 2010, $1,182,350 had been invested in marketable securities (December 31, 2009 - $nil).

At December 31, 2010, the total fair value of assets subject to credit risk, including cash and cash equivalents (including restricted cash and marketable securities was $51,887,826. At December 31, 2009, the total fair value of assets subject to credit risk was $25,946,812.

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. At December 31, 2010, the Company had $49,291,804 in cash, cash equivalents, marketable securities and short-term restricted cash. At December 31, 2009, the Company had approximately $20.6 million of cash, cash equivalents, short-term investments, and short-term restricted cash.

The following are the maturities, excluding interest payments, reflecting undiscounted future cash disbursements of the Company's financial liabilities based on years ending December 31:

	2011	2012 and later
Trade accounts payable and accrued liabilities	$ 902,155	$ —
Income taxes payable	275,168	—
Other long-term liabilities	—	16,000
	$ 1,177,323	$ 16,000

Interest Rate Risk: Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's most significant interest rate risk arises from its investments in marketable securities and cash equivalents. However, the maturity on these instruments is generally less than ninety days, thereby mitigating the exposure to the impact of changing interest rates. The Company's long-term debt consisted of only fixed rate notes and was assumed by the purchaser of its surface mining operations.

The following represents the hypothetical annual future interest income that would be earned on the Company's cash and cash equivalents (including restricted cash and investments) and short-term investments, and the effect of a 1% change in the interest rates on these investments. The calculation uses the weighted-average interest rates realized on these assets, which was 0.80% at December 31, 2010, and the balances of the investments at December 31, 2010.

Annualized Income Earned Using:	
Interest rates in effect at December 31, 2010	$ 392,713
Interest rates with a 1% decrease in rates	—
Interest rates with a 1% increase in rates	883,179

Currency Risk: As at December 31, 2010, the Company's functional currency was the U.S. dollar. 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, particularly the Canadian dollar. The results of the Company's operations are subject to currency transaction risk. As at December 31, 2010, the Company had approximately $44.4 million of cash, cash equivalents and short-term investments denominated in Canadian dollars (December 31, 2009 - $nil), which translated into $44.6 million (December 31, 2009 - $nil). For the year ended December 31, 2010 an unrealized gain on foreign currency translation of approximately $1.3 million recorded in the statement of operations. Had the Canadian dollar weakened by 10 per cent relative to the US dollar, the unrealized foreign currency translation on the statement of operations would have decreased by $3.9 million.

Fair Values: The following are the fair values and the respective carrying values of the Company's financial instruments at December 31, 2010 and 2009:

	2010		2009	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Cash and cash equivalents	$ 47,009,454	$ 47,009,454	$ 13,828,683	$ 13,828,683
Marketable securities	1,182,350	1,182,350	—	—
Accounts receivable	61,096	61,096	47,369	47,369
Restricted cash	3,634,926	3,634,926	12,070,760	12,070,760
Trade accounts payable and accrued liabilities	902,155	845,693	929,381	929,381
Income taxes payable	275,168	275,168	56,551	56,551
Other long-term liabilities	16,000	16,000	396,461	396,461

At December 31, 2010 and 2009, the fair values of cash and cash equivalents (including restricted cash and investments), short-term investments, marketable securities, accounts receivable, and trade accounts payable and accrued liabilities approximated their carrying values because of the short-term nature of these instruments. The fair value of other long-term liabilities also approximated its carrying value.

The fair value hierarchy for established by CICA Handbook Section 3862 – Financial Instruments – Disclosures ("Section 3862") establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborate by observable market data or other means. Level 3 inputs are unobservable. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The Company's held for trading marketable securities were classified as Level 1 as the fair value of the securities was determined based on a market approach reflecting the closing price of the securities at the balance sheet date. The closing price is a quoted market price obtained from the exchange that is the principal active market for the particular security.

NOTE 10 — SHARE CAPITAL AND CAPITAL MANAGEMENT

Share capital

The Company is authorized to issue an unlimited number of common shares. The issued and outstanding common shares consist of the following:

	Common shares	
	Shares	**Dollars**
December 31, 2008	50,015,184	$ 171,817,981
	-	-
December 31, 2009	50,015,184	171,817,981
Stock options exercised	1,349,988	875,453
Reduction of accumulated deficit	-	(139,567,758)
December 31, 2010	**51,365,172**	**$ 33,125,676**

At the April 28, 2010 annual shareholders' meeting, the Company's shareholders approved several resolutions that included a resolution to eliminate the accumulated deficit as at March 31, 2010 by applying it to the Company's share capital balance; and a special resolution to consolidate all of the issued and outstanding common shares of the Company on the basis of one post-consolidation common share for each three pre-consolidation common shares. This share consolidation is reflected in the shares noted in the table above.

Share capital

Due to the change in the Company's operations, the Company's capital currently consists of cash and cash equivalents, including restricted cash. The Company's primary objectives when managing capital are to safeguard the Company's ability to redeploy its cash into assets in the natural resource sector and ensure its future cash expenditures can be met.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size and stage of the Company is reasonable. The Company is not subject other externally imposed capital requirements with the exception of cash that has been restricted to cover the requirements of the asset retirement obligations.

NOTE 11 — STOCK INCENTIVE PLAN AND WARRANTS

2007 Stock Option Plan

An incentive stock option plan in was adopted in May 2007 (the "2007 Plan") which provided 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.

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

2008 Stock Option Plan of the Company
In 2008, the Company adopted a revised stock option plan (the ―2008 Plan") on May 20, 2008.

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 shares reserved for issuance under the 2008 Plan was increased to 15,000,000 in 2010.

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 and is in accordance with TSX Venture requirements. 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.

Information regarding stock option activity under the Plans follows:

2007 MCC Plan and 2008 Company Plan

	2010 Activity	
Options Denominated in Canadian Dollars	**Number of Options**	**Weighted Average Exercise Price**
Balance, December 31, 2009	3,118,942	Cdn$0.82
Granted	150,000	Cdn 1.42
Exercised	(1,349,988)	Cdn 0.67
Forfeited	(27,682)	Cdn 0.90
Options outstanding as at December 31, 2010	1,891,272	Cdn$0.97
Options exercisable as at December 31, 2010	1,791,272	Cdn$0.95

Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)	**Number of Options**	**Weighted Average Exercise Price**
Balance, December 31, 2009	461,667	$0.93
Forfeited	(8,336)	0.75
Options outstanding as at December 31, 2010	453,331	$0.93
Options exercisable as at December 31, 2010	453,331	$0.93

	2009 Activity	
Options Denominated in Canadian Dollars	**Number of Options**	**Weighted Average Exercise Price**
Balance, December 31, 2008	1,470,276	Cdn$2.49
Granted	2,166,666	Cdn 0.90
Voluntarily surrendered and cancelled	(300,000)	Cdn 5.25
Cancelled	(8,333)	Cdn 5.25
Cancelled and replaced	(112,333)	Cdn 5.25
Replacement options, including 69,333 previously issued in U.S. dollars	181,666	Cdn 0.90
Forfeited	(279,000)	Cdn 3.69
Options outstanding as at December 31, 2009	3,118,942	Cdn$0.82
Options exercisable as at December 31, 2009	3,118,942	Cdn$0.82

Options Denominated in U.S. Dollars (2004 Plan Options Replaced with 2008 Plan Options)	**Number of Options**	**Weighted Average Exercise Price**
Balance, December 31, 2008	1,770,333	$2.94
Voluntarily surrendered and cancelled	(1,100,000)	3.75
Cancelled and replaced (in Canadian dollars)	(69,333)	3.75
Forfeited	(139,333)	2.91
Options outstanding as at December 31, 2009	461,667	$0.93
Options exercisable as at December 31, 2009	461,667	$0.93

Compensation cost of stock option grants is recognized straight-line over the options‘ vesting periods. Compensation expense related to stock options for the years ended December 31, 2010 and 2009 was $30,653 and $2,583,842, respectively. For the year ended December 31, 2009, under the terms of the 2008 Plan, and as approved by the board of directors, the sale of the surface mining assets and associated liabilities described in note 2 caused all options outstanding under the 2008 Plan to become fully vested and all unrecognized compensation expense was charged to the consolidated statement of operations and comprehensive loss. Had this accelerated vesting not occurred, the 2009 stock compensation expense would have decreased by approximately $529,000.

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 which totaled approximately $1,441,000. Additionally, in March 2009, the board of directors cancelled and replaced 545,000 stock options that had been previously issued to various production and administrative personnel. These options had originally been granted in 2007 and 2008, with vesting periods ranging from 3 years to 5 years, and exercise prices ranging from $1.25 to Cdn$1.75. The replacement options have an exercise price of Cdn$0.30.

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

	2010	2009
Weighted average fair value per share of options granted	$0.55 per share	$0.24 per share
Assumptions (weighted average):		
Risk-free interest rate	2.48%	2.73%
Expected dividend yield	0.00	0.00
Expected volatility	0.40	0.40
Expected option life (in years)	5.00	10.00

As at December 31, 2010, the following stock options were outstanding:

Number of Options	Exercise Price	Expiration Date
194,999	$0.75	April 2015
146,666	$0.75	December 2015
111,666	$1.50	May 2016
21,276	Cdn $1.77	August 2012
1,653,330	Cdn $0.90	March 2019
66,666	Cdn $0.90	May 2019
150,000	Cdn $1.42	November 2014
2,344,603		

Of the Cdn$1.42 grant, 50,000 options of the 150,000 are exercisable.

Phoenix Warrants and Company Warrants

As part of the fee structure related to Phoenix's preferred share offering in August 2007, the underwriter received warrants ("Phoenix Warrants") to purchase 1,780,000 shares of the preferred shares of Phoenix at $1.25 per share. The warrants' total value of $462,800 was determined using the Black-Scholes option pricing model and 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 expired in June 2010.

Under the terms of the Offering, 31,428,580 warrants ("Company 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 expired 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.

Information regarding the warrant activity follows:

Phoenix Warrants	**Number of Warrants**	**Weighted Average Exercise Price**
Balance, December 31, 2009	1,780,000	$ 1.25
Expired	(1,780,000)	(1.25)
Warrants outstanding and exercisable as at December 31, 2010	—	$ —

Warrants Denominated in Canadian Dollars Company Warrants	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2009	31,428,580	Cdn$2.25
Warrants expired	(31,428,580)	Cdn 2.25
Warrants outstanding and exercisable as at December 31, 2010	—	$ —

Total cash received from options and warrants exercised during the years ended December 31, 2010 and 2009 totaled $875,453 and nil, respectively.

Upon expiry, the Company reclassified the value of the Phoenix Warrants, Company Warrants and Brokers' Options from "stock options and warrants" to "contributed surplus" in the shareholders' equity section of the balance sheet.

Broker Options

In 2008, Broker's options were issued entitling the agents to purchase in the aggregate 2,514,286 Brokers' Units. Each Broker Unit entitled 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 expired in June 2010.

As a result of the expiry of warrants and Broker options, the Company transferred $8,118,240, net of income taxes of $1,527,991 to contributed surplus.

NOTE 12 — INCOME TAXES

The components of income tax expense for the years ended December 31 are as follows:

	2010	2009
Current	$266,526	$ 56,551
Future	(1,527,991)	—
	$(1,261,465)	$ 56,551

The Company's income tax provision in 2010 consists of benefit of utilization of tax losses not previously recognized offset to some extent by state taxes in the United States. In 2009, the tax provision consists principally of state taxes.

A reconciliation of the differences between the statutory U.S. federal income tax expense (benefit) and the Company's effective tax expense at December 31 is as follows:

	2010		2009	
	Tax Amount	Effective Rate	Tax Amount	Effective Rate
Federal tax benefits at statutory rates	$ 1,789,401	35.0%	$ (27,518,814)	35.0%
State income tax benefits, net of federal benefit	450,579	8.8%	(2,773,956)	3.6%
Permanent items:				
Share-based compensation	11,832	0.2%	997,363	(7.3%)
Utilization of tax losses not previously recognized	(1,527,991)	(29.9)%	-	-
Other permanent items	84,296	1.6%	61,947	(0.1%)
Total current year permanent items	(1,431,863)	(28.1%)	1,059,310	(11.4%)
Change in valuation allowance attributable to current year activity	(2,069,582)	(40.5%)	29,290,011	(27.2%)
Income tax (recovery) expense	$ (1,261,465)	(24.7%)	$ 56,551	0.0%

The (recovery) 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.

The future tax assets and liabilities recognized in the consolidated balance sheet are comprised of the following at December 31:

	2010	2009
Future tax assets:		
Net operating loss carry forwards	$ 41,683,446	$ 35,801,671
Share-based compensation	18,228	18,228
Asset retirement obligations	253,216	460,884
Mining rights	—	8,453,400
Compensation expense	—	36,786
Other	—	—
	41,954,890	44,770,969
Future tax liabilities:		
Mine development costs	—	(655,434)
Mining rights	—	—
Royalty expense	—	(210,457)
Tax over book depreciation	—	(47,630)
Unrealized gain on marketable securities	(718,848)	—
Other	(10,387)	(18,421)
	(729,235)	(931,942)
Total	41,255,655	43,839,027
Valuation allowance	(41,255,655)	(43,839,027)
Net future taxes	$ —	$ —

As a result of losses from operations, management has recorded a valuation allowance against the total net future tax asset as they do not believe it is more likely than not these assets will be realized. At December 31, 2010, the Company had available net operating loss (NOL) carry forwards, to reduce future taxable income of approximately $107,988,000 expiring through 2031. The future benefit of these NOL carry forwards may be limited on an annual basis and in total under Section 382 of the United States Internal Revenue Code as a result of prior ownership changes and depending on the extent of future ownership changes contemplated by the Company. As a result of its valuation allowance, the Company has not currently recognized any benefit for these losses in its consolidated financial statements.

Net Operating Loss Carryovers (20 year carryover):

	Loss	Expiring In	Amount
Expiring	2004	2025	$ 305,000
	2005	2026	1,860,000
	2006	2027	6,094,000
	2007	2028	19,347,000
	2008	2029	35,107,000
	2009	2030	28,537,000
	2010	2031	16,738,000
			$ 107,988,000

NOTE 13 — EARNINGS (LOSS) PER SHARE

The following table details the weighted average number of outstanding common shares for the purposes of computing basic and diluted earnings (loss) per common share for the year ended December 31:

	2010	2009
Weighted average shares outstanding - basic………………	**50,718,887**	50,015,184
Dilutive effect of share options………………………………..	**992,563**	-
Weighted average shares outstanding - diluted…………….	**51,711,450**	50,015,184
Net income (loss)………………………………………………..	**$ 6,350,063**	$ (78,625,184)
Net income (loss) per share - basic……………………………	**$ 0.13**	$ (1.57)
Net income (loss) per share - diluted…………………………	**$ 0.12**	$ (1.57)

Dilutive stock options were determined using an average share price of Cdn$1.32 for the year ended December 31, 2010 and $nil for the year ended December 31, 2009. A total of 282,942 options and 33,208,580 warrants were excluded as they were out-of-the-money. As a result of the loss in 2009, there is no dilutive effect of options and warrants in that year.

NOTE 14 — MAJOR CUSTOMERS

For the years ended December 31, 2010 and 2009, the Company's concentration of major customers was as follows:

	2010	2009
Number of primary customers	—	4
Percentage of coal sales	—	98%
Accounts receivable due at year end...	—	—

The Company has never experienced non-payment from any of these customers.

NOTE 15 — 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 Company owned reclamation operations totaled approximately $3.8 million and $6.3 million as at December 31, 2010 and 2009, respectively. These bonds are secured by letters of credit, cash, certificates of deposit or surety bonds. The surety bonds and letters of credit are collateralized by cash. The restricted cash and certificates of deposit collateralizing the reclamation bonds on the consolidated balance sheet totaled $2,534,926 and $9,270,700 as at December 31, 2010 and 2009, respectively.

The Company had future commitments to purchase fuel, coal, and pay fees for the delivery of certain coal reserves to a third party. These commitments were assumed by the purchaser under the terms of the Acquisition Agreement.

The Gryphon Reserves are controlled through leasing arrangements and non-cancellable royalty lease agreements under which future minimum lease payments are due. As described in note 4, the Company sold the Gryphon Reserves to a major U.S. coal producer for $23 million in cash and those lease agreements were no longer the obligation of the Company. However, the buyer of the Gryphon Reserves did not assume three consulting arrangements that provide for future payments to third parties based on the sale of coal from specific tracts within the Gryphon Reserves. If the coal that is subject to the consulting arrangements were mined and sold, two of the consulting agreements would require the Company to pay 2% of the gross sales price for coal sold from the tracts associated with those agreements and the other agreement would require the Company to pay $0.05 per ton for coal sold from the tracts associated with that agreement. Because of the uncertainty regarding the timing, volume and dollar amount of future coal sales, it is not possible as of the balance sheet date to quantify the liability, if any, with any degree of accuracy. The Company does not believe that the present value of the future payments, if any, pursuant to these arrangements would be material.

NOTE 16 — 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 and comprehensive income. Under the terms of the Acquisition Agreement described in note 2, this coal supply agreement was transferred to the purchaser.

NOTE 17 — EMPLOYEE BENEFITS, EMPLOYEE TERMINATION BENEFITS AND EXECUTIVE PAYMENTS

The Company had a retirement savings trust plan in effect for substantially all full-time employees. The Plan contained a deferred salary arrangement under IRC Section 401(k). Under the deferred salary arrangement, employees can contribute up to 100% of their earnings and the Company may match a portion of the employee contributions. As a result of the sale of the surface mining operations the majority of employees were terminated and during 2010, the assets under the plan were paid out. At December 31, 2010 the Plan had no assets. For the year ended December 31, 2009, the Company charged to operations approximately $540,000 for plan contributions.

The Company incurred termination benefits for the retention of certain administrative personnel. These benefits totaled approximately $150,000 for the year ended December 31, 2010 and are included in general and administrative expenses in the consolidated statement of operations and comprehensive income.

Upon closing of the sale of the Gryphon Reserves, the Company sold substantially all of its assets. Pursuant to employment agreements with the former CEO, the former COO and the CFO of the Company (the "Contracted Officers"), the sale of the Gryphon Reserves, the surface mining operations in September 2009 and the Panama South Reserves in February 2010 caused the Contracted Officers to be entitled to a total change of control payments of approximately $3.1 million. The Board of Directors approved the payments to these officers in March 2010. The former CEO received his payment in March 2010 and the former COO and the CFO received their payments in April 2010. The change of control payments were included in general and administrative expenses in the consolidated statement of operations and comprehensive income for the year ended December 31, 2010.

NOTE 18 — SUBSEQUENT EVENTS

On March 31, 2011, the Company entered into an option agreement (―Agreement”) with Lincoln Mining Corporation (―Lincoln”), granting it the exclusive right and option to acquire up to a 60% undivided interest in each of Lincoln's Oro Cruz