

WESTERN CANADIAN COAL CORP.

Management's Discussion and Analysis

Forward-looking Information

This management's discussion and analysis contains forward-looking information that may involve risks and uncertainties relating, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "goal", "plan", "intend", "estimate", "may", "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions, or statements about future events or performance. This management's discussion and analysis contains forward-looking information, included in, but not limited to the sections titled Market Outlook, Guidance, Changes in Accounting Policies and Risks and Uncertainties.

Shareholders and prospective investors are cautioned not to place undue reliance on forward-looking information. By its nature, such information involves assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual future events or results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

The forward-looking statements contained in this management's discussion and analysis are based, in part, upon certain assumptions made by the Company, including but not limited to, no material changes in commodity prices or costs of products sold; the continued strengths of various economies; the effects of competition and pricing pressures; the oversupply of, lack of demand for, the Company's products; currency and interest rate fluctuations; various events which could disrupt the Company's construction schedule or mining operations; the ability to obtain additional funding on favourable terms, if at all; the settlement of collective bargaining disputes by the Company's contractors on terms that are acceptable; no material increase in labour costs; no material variation in anticipated mining, energy or transportation costs; continued availability of and no material disruption in rail service and port facilities; and the Company's ability to anticipate and manage the foregoing factors and risks. Additionally, statements related to the quantity or magnitude of coal deposits are deemed to be forward-looking statements. The reliability of such statements is affected by, among other things, uncertainties involving geology of coal deposits; uncertainties of estimates of their size or composition; uncertainties of projections related to costs of production, the possibilities of delays in mining activities; changes in plans with respect to exploration, development projects or capital expenditures; and various other risks including those related to health, safety and environmental matters.

The Company cautions that the list of factors and assumptions set forth above is not exhaustive. Some of the risks, uncertainties and other factors which negatively affect the reliability of forward-looking information are discussed in the Company's public filings with the securities regulatory authorities, including its most recent management information circular, annual information form, quarterly reports, material change reports and news releases. Copies of Canadian public filings are available on SEDAR at www.sedar.com. For a further discussion of the assumptions, risks and uncertainties relating to forward-looking statements contained in this management's discussion and analysis also refer to the section entitled Risks and Uncertainties.

General

The following information, prepared as of June 29, 2006, should be read in conjunction with the audited consolidated financial statements of the Company for the year ended March 31, 2006, which are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are expressed in Canadian dollars unless otherwise indicated.

The Company's principal business is the acquisition, exploration and development of coal licenses, with its

primary focus being favourably located, high-quality coal deposits in northeast British Columbia. The Company has developed a diversified coal asset base adjacent to or nearby existing infrastructure already established for the northeast coalfields, including rail, port, town and other facilities. The Company owns two large multi-deposit coal property groups – the Wolverine and Brazion groups of properties, which include approximately 35,000 hectares located in northeastern British Columbia under license, lease or application. Additionally, the Company holds directly and indirectly a 50% interest in Belcourt Saxon Coal Limited Partnership, which owns two additional multi-deposit coal property groups - the Belcourt and Saxon groups of properties, which include more than 50,000 hectares under lease or application held by Belcourt Saxon Coal Ltd., the general partner of Belcourt Saxon Coal Limited Partnership. The Company’s principal property assets are grouped geographically as follows:

- (i) the Dillon open-pit mine (the “Dillon Mine”) and the Brule deposit (the “Brule Deposit”) which comprise the Burnt River coal deposit area which forms part of the larger Brazion group of coal properties; and
- (ii) the Perry Creek and EB open-pit deposits (collectively, the “Wolverine Project”) located within the Company’s Wolverine group of coal properties.

The Company has demonstrated the economic viability of the Wolverine Project, the Dillon Mine and the Brule Deposit through independent technical studies that have been publicly disclosed on SEDAR. The Company also owns or holds an interest in a number of other property assets located in northeast and southeast British Columbia which are at a less advanced stage of development.

Burnt River – Dillon Mine

The Dillon Mine is located within the Burnt River property, one of the Brazion group of properties, approximately 45 kilometers south by road of the BC Rail (“BCR”) mainline near Chetwynd, British Columbia. The Dillon Mine property had initial estimated saleable reserves of approximately 1.56 million tonnes, as described in the technical report on the Dillon Mine property entitled “Dillon Mine Coal Project” dated September 13, 2004 (the “Dillon Mine Coal Project Technical Report”) prepared under the supervision of Dennis N. Kostic, P.E., President and Chief Executive Officer of Weir International Mining Consultants and a Qualified Person as defined in National Instrument 43-101 – Standards of Disclosure for Mineral Projects (“NI 43-101”), a copy of which is available under the Company’s profile on the SEDAR website at www.sedar.com.

The Company submitted its original application for a small mine permit for the production of up to 240,000 tonnes per calendar year from the Dillon Mine on June 15, 2004. Approval was granted by the Government of British Columbia on September 8, 2004 and production at the Dillon Mine commenced in November 2004 with the first train being loaded at the Bullmoose load-out facility located near the town of Tumbler Ridge in early December 2004. Commercial production at the Dillon Mine was determined by the Company to have started on December 1, 2004 when the crushing equipment commenced operating at near capacity.

The Dillon Mine produces an ultra low-volatile pulverized coal injection (“ULV-PCI”) coal that requires no washing prior to shipment. ULV-PCI coal has become a major innovation in modern steelmaking technology, replacing up to 30% of the coke feed in the blast furnace, thereby significantly reducing steelmaking raw material costs. With its high calorific value, low ash level and volatility of less than 14%, Burnt River ULV-PCI coal has become one of the world’s premium pulverized coal injection (“PCI”) coals.

The Dillon Mine is operated and managed by a mining contractor; however, the Company retains overall management and engineering responsibility for the project and for the operation of the Bullmoose load-out facility, which is being leased from Bullmoose Operating Corporation. ULV-PCI coal from the Dillon Mine is trucked 94 kilometers to the load-out facility which has access to a rail line built by BCR that runs through the Wolverine Valley. Part of the road haul from the Dillon Mine to the load-out facility is on industrial-use roads which are subject to load restrictions during certain times of the year, particularly during spring break-up. Such road-bans have been allowed for in the Company’s production plans. The rail line, known as the Tumbler Ridge Branch Line, connects to Ridley Terminals within the Port of Prince Rupert, via the Canadian

National Railway Company. The coal is loaded on ships at Ridley Terminals for shipment to international steel mills.

On March 11, 2005, the Company applied to the Government of British Columbia to have the September 8, 2004 Dillon Mine permit amended. In July 2005, the Company received approval from the British Columbia Ministry of Energy and Mines to increase the Dillon Mine production limit to a continuous rate of 80,000 tonnes per month. The increase in the mine production rate has not increased the mine disturbance footprint or the total waste mined and allows the Company to mine the Dillon Mine deposit at an accelerated rate over two years.

Since the start of production, ULV-PCI coal from the Dillon Mine has met customer quality specifications and bettered the ash specification significantly. Average ash content for product coal has been 5.9% versus a contract specification of 7.5%.

During mining operations in September 2005, the Company encountered a previously undefined fault in the southern end of the Dillon Mine property syncline. The net effect of the fault was a decrease in the coal reserves on the Dillon Mine property of approximately 188,000 tonnes, thereby revising the total reserve to approximately 1.37 million tonnes. Production for the years ended March 31, 2005 and 2006 is summarized in the following table:

	Year ended March 31, 2005	Year ended March 31, 2006
Waste stripping	1,039,000 bank cubic metres	2,462,700 bank cubic metres
Run-of-mine coal mined	284,200 tonnes	721,220 tonnes
Product coal to rail	204,700 tonnes	745,700 tonnes
Coal sales	151,977 tonnes	548,402 tonnes

Demand for metallurgical coal, including PCI coal, was strong early in fiscal 2006 but weakened in the second half of the fiscal year. This is generally attributed to a number of steel mills overbuying in late 2004 and early 2005 to protect against the potential for supply disruptions, which did not occur, and to a slow down in steel production. As a result, high PCI inventory levels at customer facilities led to a rescheduling of some shipments into the first quarter of the fiscal year starting April 1, 2006. Accordingly, approximately 175,000 tonnes of coal originally scheduled for delivery in the fiscal year ending March 31, 2006 have been carried over into the fiscal year starting April 1, 2006.

On March 31, 2006, the Company suspended mining operations at the Dillon Mine due to the anticipated spring road weight restrictions on public roads. The suspension did not result in disruptions in supply of PCI coal to the Company's customers as over 190,000 tonnes in coal inventories had been accumulated at Ridley Terminals. The Company resumed the truck haul on May 8, 2006 and mining and crushing operations on May 19, 2006.

Accordingly, after accounting for production to March 31, 2006, the Company estimates that the remaining saleable reserve at the Dillon Mine is approximately 366,600 tonnes. With the resumption of mining operations, the Company expects the coal reserves of the Dillon Mine to be fully depleted by November 30, 2006. Waste removal within the Dillon Mine is near complete and remaining cash mining costs per tonne will be reduced accordingly for the remaining production.

Including the remaining reserve, approximately 671,600 tonnes of ULV-PCI coal from the Dillon Mine are available to be sold in the fiscal year ended March 31, 2007. Of the available product and including certain of the carryover tonnage from fiscal 2006, in excess of 300,000 tonnes of ULV-PCI coal from the Dillon Mine will be shipped in the quarter that ends June 30, 2006.

Burnt River – Brule Deposit

The Brule Deposit is also located within the Burnt River coal property. During fiscal 2006, the Company completed a coal reserve estimate for the Brule Deposit (Brule and Blind deposits). Detailed mine designs and economic analysis developed for a recently completed feasibility study and technical report on the Brule

Deposit entitled “Brule Coal Project of the Burnt River Property” dated October 27, 2005 (the “Brule Coal Project Technical Report”) were prepared under the supervision of Edward Minnes, P.E., Senior Project Manager for Marston Canada Ltd. and a Qualified Person as defined in NI 43-101. A copy of the report is available under the Company’s profile on the SEDAR website at www.sedar.com. As reported in the Brule Coal Project Technical Report, the Brule Deposit proven reserves are expected to provide 22.5 million tonnes of run-of-mine (“ROM”) coal. The total amount of salable export coal contained within the proven reserves is estimated to be 21.1 million tonnes at an estimated average preparation plant yield of 92% on a dry basis.

In November 2005, the Company filed for initial screening by the Government of British Columbia the Environmental Assessment (“EA”) Certificate application to mine PCI coal at a rate of two million tonnes per year for the Brule mine project. Receipt of the EA Certificate is anticipated in mid-2006. As reported in the Brule Coal Project Technical Report, the plant, facilities and mining equipment for the Brule mine project are estimated to require an initial capital investment of approximately \$212 million. Given current PCI prices and the capital investment requirement, the Company does not intend to proceed with the full development of the Brule mine project at this time. However, if the Company is satisfied that PCI coal prices and transportation costs will support the development of the Brule mine project and the necessary permits can be obtained, the Company will make a determination as to whether to proceed with plans to initially develop and operate the Brule mine project in a manner similar to the Dillon Mine and defer major capital expenditures. On this basis, the Company estimates production at the Brule mine project could be at a rate of up to one million tonnes per year. Work is being completed on identifying areas of high quality coal that can be accessed by a low stripping ratio that could be mined and processed using the existing Dillon Mine plant facilities. This would enable the Brule mine project to provide a continuity of production from the Burnt River properties following the depletion of the Dillon Mine reserves in late 2006.

Wolverine – Perry Creek and EB

The Company’s Perry Creek and EB coal deposits (collectively, the “Wolverine Project”) which include approximately 6,106 hectares under license, lease or application are located within the Wolverine group of properties located in northeastern British Columbia. The properties subject to the Wolverine Project have been subjected to extensive geological evaluation and mine planning both in the period prior to and following their acquisition by the Company in 2000. The technical report on the Wolverine Project dated March 16, 2006 (the “Wolverine Project Technical Report”) prepared under the supervision of Richard Marston, P.E., Principal Consultant of Marston Canada Ltd., and a Qualified Person as defined in NI 43-101, a copy of which is available under the Company’s profile on the SEDAR website at www.sedar.com, reported that proven metallurgical coal reserves at Perry Creek are expected to provide 35.8 million tonnes of ROM coal and the probable metallurgical coal reserves at EB are expected to provide 7.4 million tonnes of ROM coal. The total amount of salable export coal contained within the proven reserves is estimated to be 22.8 million tonnes, and the total amount of salable export coal contained within the probable reserves is estimated to be 4.9 million tonnes at an estimated average preparation plant yield of 64% on an as received basis.

The Company is currently developing an open-pit mine on the Wolverine group of properties. After extensive consultation work among the Company, its consultants, and the regulatory authorities and other stakeholders, an EA Certificate was granted covering production of 1.6 million tonnes per year of clean metallurgical coal from the Wolverine Project on January 19, 2005. A detailed mine permit application was submitted to the British Columbia Ministry of Energy and Mines in December 2004 and a mine permit was issued on March 31, 2005. Clearing for site preparation work began early in April 2005 and site construction earthworks were initiated in May 2005.

The open-pit mine plan was based on starting mining at the Perry Creek pit and subsequent concurrent operation of the EB pit. Plant optimization reviews in 2004 led to a planned increase in design capacity to 2.4 million tonnes per year of clean coal in order to maximize the benefits from the current high coal prices. An application for a revised EA Certificate and revised mine permit was submitted in May 2005 to allow the Company to increase its annual coal production from 1.6 million tonnes to 2.4 million tonnes. The Company received the revised EA Certificate on April 11, 2006 and is expecting the revised mine permit by mid-July.

The preparation plant was designed and is being built to handle 3.0 million tonnes of hard coking coal per annum; however, initial throughput will be 2.4 million tonnes. The capital costs for the Wolverine Project are estimated to be \$242 million, including pre-production stripping costs capitalized to the date of commercial production and contingencies, and excluding mining equipment. As of June 23, 2006, the capital costs are projected to be on budget and the construction completion date remains on schedule for July 2006.

The Company is developing the Perry Creek pit using an experienced mining contractor for the mining operations. The mining contractor selected by the Company has been mobilized and pre-stripping is underway. The mining contractor and the Company have entered into an agreement effective October 1, 2005 which provides for contract mining services for a four year term, after which the Company will assume the mining operations. The Perry Creek open-pit mine will be operated and managed by the contractor and the Company will provide overall management and engineering and will operate the coal preparation plant.

Based on the Wolverine Project Technical Report, the total value of the initial mining equipment necessary to conduct the mining and stripping operations at the Wolverine Project is approximately \$83 million. Of this amount, approximately \$75 million in mining equipment is currently on site with the balance expected in the first half of 2007. In order to reduce up front capital requirements, the Company is leasing and expects to ultimately own the majority of the mining equipment.

Also based on the Wolverine Project Technical Report, the Company expects a life-of-mine average cash cost during operations of US\$56 per tonne in 2005 dollar terms using an exchange rate of CDN\$1.1100 per US\$1.00. Pricing for the quality of coal expected to be produced from the Perry Creek pit exceeds US\$100 per tonne for the 2006/2007 coal year.

On completion of the Wolverine Project with construction based on the accelerated construction schedule, the Company is expecting to produce approximately 1.35 million tonnes of hard coking coal during its fiscal year ended March 31, 2007. It is the Company's intent to increase production from 2.4 million tonnes to 3.0 million tonnes per year from the Wolverine group of properties within 24 months after the completion of the Wolverine Project. The extra capacity would facilitate production from future mining activities at the nearby Hermann or EB deposits.

Market Outlook

A significant factor in the outlook for the Company is the price of metallurgical coal which is influenced by numerous factors beyond the Company's control, including international economic and political trends, fluctuations in currency, interest rates, competition, and improvements in mining and production methods. The global demand for hard coking (metallurgical) coal rose sharply in late 2004 and early 2005, as crude steel production expanded in pace with buoyant economic growth, particularly in China, India and other developing countries and due to anticipated disruptions of coal supply. The global supply of hard coking coal had been slow to adjust to increased demand, and shortages of large scale mining equipment and related parts, and together with rail and port capacity limitations which are expected to continue into 2007, resulted in record metallurgical coal prices for the 2005/2006 coal year. As a result, a number of steel mills over-contracted for the purchase of metallurgical coal in early 2005 in anticipation of a continuation of supply disruptions experienced in 2004. The coal production disruptions and supply disruptions were not material and the higher prices served to attract new investment in coal property developments. Additionally, in 2005, some steel mills reduced steel production in response to a developing oversupply of steel. As a result, coal inventories at customer facilities rose, which in turn, have caused shipments of coal to be delayed until these inventories can be reduced. These factors resulted in hard coking coal prices for the 2006/2007 coal year being settled at between US\$95 to US\$115 per tonne, down from the US\$125 per tonne level set for the 2005/2006 coal year.

Similarly, excessive ordering of PCI and semi-soft coals in 2005 along with the seasonal reduction in steel production caused inventories at steel plants to build. At the same time, thermal coal prices dropped to their lowest point in the year. As a result, low volatile PCI prices and a portion of semi-soft coal prices were settled at levels 30% below 2005 levels. More recently, however, demand and pricing for thermal coal has

rebounded somewhat and steel production has also increased. Consequently, the Company expects the balance of semi-soft coal settlements to be priced 5% to 15% higher than earlier settlements. The effect of this upward trend in thermal and semi-soft coal has created an imbalance in coal pricing between thermal, semi-soft and low volatile PCI coals, such that the relative price of PCI coal is expected to increase in the next coal year.

In the longer term, the Company believes that the market fundamentals for metallurgical coking coal will provide substantial opportunity to increase market diversity and market share. The Company believes that the combination of its high quality coal at Wolverine, utilizing an established rail and port infrastructure with significant excess capacity, will provide it the strategic advantage necessary to penetrate the growing metallurgical coal markets. The Company also believes that the market fundamentals for high quality low volatile PCI coal such as the Burnt River PCI coal will be sustained and the gap between low volatile PCI coal and premium hard coking coal will narrow. More mills like those in South Korea and Europe are increasing the ratio of PCI coal, which should improve demand and lead to prices more reflective of their value in reducing steel making input costs, than their relationship with lower quality coal.

Guidance

The Company's low-volatile-PCI coals have been sold to major steel mills in, China, Japan, Korea, Taiwan, and Europe, and the Company continues to secure coal supply agreements for its Wolverine hard coking coal in Asia, Europe, the Americas and most recently in India. The Company previously secured term purchase and sales agreements with Korea's POSCO for the supply of both hard coking coal and PCI coal. Recently two hard coking coal contracts were secured from the Japanese Steel Mills (JSM) and the Company's efforts in India were successful with the award of a 300,000 tonne tender to Steel Authority of India. The Company anticipates more sales in the future in the sub-continent region.

The Company also concluded agreements with two European steel industry customers and a South American steel mill for the sale of Wolverine hard coking coal. Further negotiations are continuing for additional Wolverine hard coking coal contracts to other steel mills in the region, as well as in the North America market. As of June 29, 2006, the Company has secured sales commitments for approximately 880,000 tonnes, representing approximately 70% of its projected hard coking coal sales of 1.25 million tonnes for the coal year ended March 31, 2007. The Company is actively pursuing commitments for the remainder of the fiscal year's production and the Company's goal is to have all planned sales committed to contract by the end of August 2006. Should the balance of Wolverine's remaining hard coking coal be placed at prices similar to the commitments received to date, the average price to be realized for the current fiscal year on such sales would be approximately US\$100 per tonne.

As described in *Burnt River – Dillon Mine*, including production from the remaining reserve, approximately 671,600 tonnes of ULV-PCI coal from the Dillon Mine are available to be sold in the fiscal year ended March 31, 2007, including 175,000 tonnes of coal originally scheduled for delivery in the fiscal year ending March 31, 2006. Of the 671,600 tonnes of anticipated Dillon Mine ULV-PCI coal sales, in excess of 300,000 tonnes will be shipped in the quarter that ends June 30, 2006 at an average price of US\$83 per tonne. Sales of the remaining Dillon Mine ULV-PCI coal are expected to be at prices in the mid to high US\$60s per tonne.

As described in *Burnt River – Brule Deposit*, if the Company is satisfied that PCI coal prices and transportation costs will support the development of the Brule mine project and the necessary permits are obtained, the Company will make a determination as to whether to proceed with plans to initially develop and operate the Brule mine project in a manner similar to the operation at the Dillon Mine. On this basis, the Company estimates production at the Brule mine project could be at a rate of up to 1.0 million tonnes per year. Work is being completed on identifying areas of high quality coal that can be accessed by a low stripping ratio that could be mined and processed using the existing Dillon Mine plant facilities. This would enable the Brule mine project to provide a continuity of production from the Burnt River properties following the depletion of the Dillon Mine reserves in late 2006.

Interest in Joint Ventures

The Company has a 50% interest in the Belcourt Saxon Coal Limited Partnership (the "Partnership") which was formed in March 2005, with NEMI Northern Energy and Mining Inc. ("NEMI"). Pursuant to the Partnership Agreement, the Company transferred its Belcourt group of properties and contributed \$12 million to the capital of the Partnership as funding towards the first \$20 million of expenditures that are being incurred to update the feasibility reports and conduct the planned work programs. In addition to transferring the Saxon group of properties to the Partnership, NEMI contributed \$8 million to the capital of the Partnership.

The Saxon Group had extensive work programs carried out in the 1970s and early 1980s and feasibility reports were prepared which indicated the potential for large-scale surface coal mining operations. The Belcourt Group was extensively explored by previous license holders in the late 1970s and early 1980s, and more recently studied in 2000 by the Company. Both property groups are located approximately 85 kilometres southeast of Tumbler Ridge and significant improvement of the transportation infrastructure in the area will be required to realize the potential from their development.

Combined historical resource estimates of the four main potential surface mineable areas that fall within the Belcourt Group and the Saxon Group indicate that there may be in excess of 280 million tonnes of coal accessible to the Partnership. However, these historical estimates have not always conformed to the guidelines contained within GCS Paper 88-21 or National Instrument 43-101 and are not to be relied upon. The Partnership believes that both the Belcourt Group and the Saxon Group have the potential to support significant mining operations and intends to advance these properties to feasibility.

In accordance with CICA Handbook Section 3055 "Interests in Joint Ventures" the Company's consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues and expenses of the Partnership, as summarized in Note 3 thereto. The Company and NEMI transferred both property groups into the Partnership at fair market value. Upon consolidation, their values were adjusted back to their respective historical book values, and in accordance with the Company's accounting policy with respect to exploration and development costs, the Company's share of the book values of these properties has been expensed, as economically recoverable reserves have not yet been established for either property group.

During the year ended March 31, 2006, the Company entered into a joint venture agreement with Wasabi Energy Limited ("Wasabi"), to explore and develop the Lillyburt coal property located in southeastern British Columbia. Under the terms of the agreement, Wasabi has the right to earn up to 50% of the coal property by investing \$2.5 million by December 2008. More specifically, Wasabi will earn 5% in the joint venture for each \$250,000 expended. The Company will manage the exploration programs on behalf of the joint venture. (See "*Related Party Transactions*").

Proposed Business Combination with NEMI Northern Energy & Mining Inc.

On May 19, 2006 NEMI and the Company entered into a definitive arrangement agreement (the "Arrangement Agreement") to combine the two companies. The proposed transaction would result in NEMI becoming a wholly-owned subsidiary of the Company pursuant to a statutory plan of arrangement (the "Arrangement") under the *Business Corporations Act* (Alberta).

The terms of the Arrangement provide that NEMI shareholders will be entitled to receive 0.5555 of one share of the Company for each NEMI share held by them. Based on the average closing prices of NEMI and the Company on the Toronto Stock Exchange for the 30 trading days ending April 7, 2006, the consideration offered by the Company for each NEMI share represents a premium of approximately 29%. NEMI's

outstanding warrants, stock options and other convertible securities will be exchanged with securities of the Company with equivalent terms on the basis of the exchange ratio for NEMI shares under the Arrangement.

Upon completion of the Arrangement, the hard coking coal reserves and operations at NEMI's Trend property would be combined with Western's Burnt River pulverized coal injection coal and Wolverine hard coking coal reserves and operations. Additionally, the Company would control 100% of the Belcourt and Saxon properties in northeastern British Columbia.

In connection with the Arrangement, on April 10, 2006, the Company provided NEMI with a non-revolving trade support credit facility, which was amended on May 18, 2006 (as amended, the "Facility") in the aggregate amount of up to \$15 million. The Facility bears interest at a rate of 8% per annum on the outstanding balance. As of June 29, 2006, \$13.0 million of the amount available was drawn by NEMI under the Facility. NEMI has agreed to use its best efforts to obtain the consent of its existing lender in respect of the Facility and immediately thereafter to grant to the Company security over all of NEMI's assets as security for the Facility. The amounts owing under the Facility are repayable on July 15, 2006. In addition, it is an event of default under the Facility if NEMI is in breach of the terms of the Arrangement Agreement, or if NEMI conveys to the Company its intention not to proceed with the Arrangement.

The Arrangement remains subject to the receipt of the necessary approvals, including approval by NEMI's securityholders and receipt of the final order of the Court of Queen's Bench of Alberta and satisfaction of other closing conditions. The meeting of NEMI's shareholders, previously scheduled to take place on June 26, 2006, has been postponed to July 5, 2006.

The postponement of the meeting of NEMI securityholders was due to the fact that a condition precedent to the completion of the transaction relating to obtaining a material third party consent had not been satisfied at the time of the originally scheduled meeting. By reason of the consent being outstanding and on the basis of the Company's view of recent developments in NEMI's business, the Company notified NEMI that the non-fulfillment by NEMI of certain conditions in the Arrangement Agreement resulted in the Company not being obliged to proceed with the Arrangement until such conditions are fulfilled. As a result, NEMI postponed the meeting to permit NEMI and the Company to work towards satisfaction of the conditions.

Financial Overview and Selected Annual Information

The table below provides selected operating and financial information for the Company on a consolidated basis for each of the past three years ended March 31. Reporting currency for the Company is the Canadian dollar.

(000's of dollars, except tonnes, per tonne and per share data)	2006	2005	2004
Coal Production (tonnes)	721,000	284,000	Nil
Coal Sales (tonnes)	548,000	152,000	Nil
Average US \$ Coal Price (per tonne)	\$ 90.48	\$ 60.93	n/a

(000's of dollars, except tonnes, per tonne and per share data)	2006	2005	2004
Average CAD \$ Coal Price (per tonne)	\$ 108.67	\$ 74.66	n/a
Cost of Product Sold (per tonne)	\$ 31.00	\$ 21.44	n/a
Cost of Transportation (per tonne)	\$ 36.67	\$ 40.40	n/a
Working Capital (Deficiency)	\$ 60,437	\$ 119,376	\$ (1,336)
Total Revenues	\$ 59,594	\$ 11,347	\$ nil
Net Earnings (Loss) ⁽¹⁾	\$ 7,454	\$ (10,972)	\$ (2,625)
Net Earnings (Loss) per Share, Basic ^{(1), (2)}	\$ 0.09	\$ (0.22)	\$ (0.11)
Net Earnings (Loss) per Share, Diluted ^{(1), (2)}	\$ 0.09	\$ (0.22)	\$ (0.11)
Total Assets	\$ 341,280	\$ 149,802	\$ 2,042
Long-term Liabilities	\$ 125,920	\$ 966	\$ nil
Dividends declared	\$ Nil	\$ nil	\$ nil

(1) As there were no discontinued operations and extraordinary items in the years ended March 31, 2006, 2005 and 2004, earnings (loss) before discontinued operations and extraordinary items are the same as earnings (loss) for the year, in total and on a per-share and diluted per-share basis.

(2) For quarters with losses, the basic and fully diluted calculations of loss per share result in the same values due to the anti-dilutive effect of outstanding stock options and warrants.

The 2006 fiscal year marked the first full year of commercial operations for the Company resulting in net earnings of \$7,454,000, including a future income tax recovery of \$6,520,000 and other income of \$4,549,000. There was no such income tax recovery in prior periods and other income in fiscal 2005 and 2004 were \$654,000 and \$11,000, respectively. The Company commenced commercial operations during the fourth quarter of fiscal 2005. Prior to that, the Company activities were solely exploration and development related, resulting in losses for the 2004 and 2005 fiscal years. With the formation of the Partnership in March 2005, the Company commenced recording significant exploration expenses related to the Belcourt and Saxon properties. The Company's share of coal exploration expenses from the Partnership were \$7,366,000 and \$2,102,000 in fiscal years ending March 31, 2006 and 2005 respectively.

The Company's operating results reflect the volumes and timing of such coal shipments, the net price realized in US dollars on such sales, the US/Canadian dollar exchange rate, and cost of production, transportation costs and depreciation and depletion. Sales volumes, the average realized US dollar and Canadian dollar prices are presented in the preceding table. Other factors influencing the general level of other expenditures in the annual results are the growth and its transition from a junior coal exploration company into a coal producer.

Pricing for the Company's products is primarily dependent upon the global demand for steel, which in turn is dependent upon several factors. Fiscal 2005 selling prices for Dillon's ULV-PCI coal reflect commitments made by the Company prior to the start of commercial production based on spot prices of PCI coal. Fiscal 2006 selling prices reflect the stronger demand early in 2005 which saw ULV-PCI prices rise to over US \$100 per tonne, and then decline as customers delayed shipments into the new coal year, as a result of their earlier overbuying and reductions in steel production. Commencing mid-way through fiscal 2006, cost of production at the Dillon Mine was adversely affected by the discovery of an undefined fault in the southern end of the Dillon syncline, which decreased the small reserve by 188,000 tonnes. The reduction, combined with an increase in associated waste, resulted in an increase to production costs of approximately \$14 per tonne.

The increase in total assets year over year reflects the significant fundraisings conducted by the Company, commencement of coal mining operations and the development and construction of the Wolverine Project. The Company's working capital as at March 31, 2006 decreased by approximately 50% over the prior year

resulting from the dedication of financial resources to the development of the Wolverine Project. Long term liabilities includes the long term portions of asset retirement obligations, capitalized mining equipment leases and the convertible debenture financing completed just prior to the completion of the 2006 fiscal year.

Results of Operations

Revenues

The Company mined 721,220 tonnes and realized FOB sales of 548,400 tonnes for total revenues of \$59,594,000 for the year ended March 31, 2006. The average selling price per tonne realized during the year was \$108.67 or US\$90.48. These sales comprised solely of PCI coal from the Dillon Mine, located within the Burnt River property.

During the year ended March 31, 2005, the Company mined 284,000 tonnes and realized FOB sales of 152,000 tonnes for total revenues of \$11,347,000. The average selling price per tonne realized during the 2005 year was \$74.66 or US\$60.93. Production of PCI coal at the Company's Dillon Mine commenced in the third quarter of fiscal 2005, and the Company's first commercial sale did not occur until the fourth quarter of fiscal 2005.

Cost of Goods Sold

Cost of product sold include the open-pit mining costs, coal preparation and handling costs, general services and other costs as well as proportionate allocations of overhead. For the year ended March 31, 2006, the cost of production was \$17,003,000 or \$31.00/tonne. As a percentage of sales, this amounted to approximately 28.5%. Cost of product sold during the year was adversely affected by the discovery during September of an undefined fault in the southern end of the Dillon syncline. This fault resulted in a decrease in the coal reserves of 188,000 tonnes and an increase in associated waste to be stripped of 1.15 million cubic meters. The impact of these factors and their affect on the life-of-mine strip ratio resulted in an overall increase in mining costs of approximately \$14/tonne commencing in the second quarter of the year. Cost of product sold during the year ended March 31, 2005 amounted to \$3,258,000 or \$21.44/ tonne, which was approximately 28.7% of sales.

Transportation and other costs include the coal haulage to the rail load-out, rail costs including surcharges, fuel allocations, port charges, as well as various surveying and agent fees incurred in loading vessels. For the year ended March 31, 2006 the total transportation and other costs were \$20,113,000 or \$36.67/tonne. As a percentage of sales this amounted to approximately 33.8%. Transportation and other costs incurred during the year ended March 31, 2005 amounted to \$6,140,000 or \$40.40/ tonne, which was approximately 54.1% of sales.

Depletion, amortization and accretion relate to the various capital expenditures required for mine development and production. These are primarily calculated on a unit of production basis with various pieces of equipment being charged on either a declining balance or straight-line basis. The accretion costs represent charges incurred on the asset retirement obligation. Total depletion, amortization and accretion charges for the year ended March 31, 2006 totalled \$3,180,000 or \$5.80/tonne. As a percentage of sales this amounted to 5.3%. Depletion, amortization and accretion expensed during the year ended March 31, 2005 amounted to \$1,374,000 or \$9.04/ tonne, which was approximately 12.1% of sales.

Operating Profit

Operating profit for the year ended March 31, 2006 amounted to \$19,298,000 or 32.3% of total sales. This was a result of sales of 548,400 tonnes at an average price of \$108.67 per tonne, for total revenues of \$59,594,000, net of cost of goods sold of \$40,296,000 at an average cost of \$73.48/ tonne.

Operating profit for the year ended March 31, 2005 amounted to \$575,000 or 5.1% of total sales. This was a result of sales of 152,000 tonnes at an average price of \$74.66 per tonne, for total revenues of \$11,347,000, net of cost of goods sold of \$10,772,000 at an average cost of \$70.88/ tonne.

Other Expenses

(000's of Canadian dollars)	2006	2005	\$ Change	% Change
Amortization	\$ 184	\$ 75	\$ 109	145.3%
Consulting	839	530	309	58.3%
Corporate communications	137	80	57	71.3%
Exchange listings and other regulatory fees	565	373	192	51.5%
Insurance	225	100	125	125.0%
Office and miscellaneous	483	393	90	22.9%
Legal and audit	1,948	500	1,448	289.6%
Rent and telecommunications	286	182	104	57.1%
Sales and marketing	468	205	263	128.3%
Salaries, benefits and other remuneration	3,886	1,823	2,063	113.2%
Stock-based compensation	3,130	1,931	1,199	62.1%
Travel and related expenses	387	511	(124)	(24.3%)
	\$ 12,538	\$ 6,703	\$ 5,835	87.1%

General, administration and selling costs for the year ended March 31, 2006 increased by \$5,835,000 or 87.1% to \$12,538,000 over the previous year's expenses. In general, the increase is due to the building of the necessary support systems for a larger, multi-operation company. Included in general, administration and selling costs were non-cash stock-based compensation charges of \$3,130,000 and \$1,931,000 for the years ended March 31, 2006 and 2005, respectively, recorded based on the fair value of new and previously granted options becoming vested. Other increases in general, administration and selling costs in the year ended March 31, 2006 over the prior year include: salaries and benefits which increased \$2,063,000 to \$3,886,000; and occupancy, insurance, telecommunications, regulatory, travel and other office expenses which in aggregate increased \$553,000 to \$2,267,000. The Company expects that salaries, benefits and other remuneration will further increase in fiscal 2007 as the Company continues to work towards attracting and retaining the appropriate personnel to achieve its goals; however, the increase is not expected to be in the same scale as the increase from fiscal 2005 to fiscal 2006. Selling and marketing costs increased \$263,000 over the prior year to \$468,000 while professional and consulting costs increased \$1,757,000 to \$2,787,000 for the year due to the costs incurred in resolving the transportation dispute with CN (see "Contingency") and other professional costs associated with the preparation of corporate disclosure documents, periodic interim reviews of financial statements, and contracts related to construction activities at Wolverine. The various consulting fees incurred during the year related to information technology, financial advisory services, executive and staff recruitment consultant services and various other outsourced services to assist in the Company's transition. The Company has worked towards internalizing the majority of these costs where practical.

Coal exploration expenditures for the year ended March 31, 2006, including the Company's proportionate share of expenses recorded by the Partnership of \$7,366,000, increased to \$10,343,000 from \$5,242,000 in the prior year, as shown in the following table. Coal exploration costs include property development expenditures, field programs, consultants, coal license and lease payments, engineering, environmental costs and other project administration expenses. Exploration costs are charged to earnings in the period in which they are incurred, except where these costs related to specific properties for which economically recoverable reserves have been established, in which case they are capitalized.

(000's of Canadian dollars)	2006	2005	\$ Change	% Change
Belcourt and Saxon	\$ 7,366	\$ 2,102	\$ 5,642	250.4%
Burnt River	884	2,272	(1,388)	(61.1%)
Wolverine	1,778	557	1,221	219.2%
Other	315	311	4	1.3%
	\$ 10,343	\$ 5,242	\$ 5,101	97.3%

Other income amounted to \$4,549,000 for the year ended March 31, 2006, an increase of \$3,895,000 over the prior year. The majority of other income consists of interest income earned on short term investments held by the Company, stumpage income, and foreign exchange gains earned during the year. The increase in other income is primarily attributable to the considerably higher cash and investment balances held throughout fiscal 2006 as a result of the \$115,000,000 private placement completed in February 2005. Also included in other income for the year ended March 31, 2006 is a gain of \$1,041,000 resulting from put and call option contracts, or costless collars, entered into by the Company to mitigate its exposure to currency fluctuations. (See "Financial Instruments") There were no such gains or losses in prior years' earnings (losses).

Net Income

Net income for the year ended March 31, 2006 was \$7,454,000 compared to a net loss of \$10,972,000 for the prior year. Net income for the 2006 fiscal year reflects: an operating profit of \$19,298,000; other expenses totalling \$18,364,000 including general, administrative and selling expenses, coal exploration expenses, including the Company's proportionate share of coal exploration expenses recorded by the Partnership of

\$7,366,000, offset by other income; and the recording of a future income tax recovery of \$6,520,000. The income tax recovery represents the unrecognized future income tax asset to be realized as a result of it being more likely than not that sufficient future taxable income will be available to utilize such tax assets, in accordance with CICA Handbook Section 3465 “Income Taxes”.

Capital Expenditures

During the year ended March 31, 2006, mineral property, plant and equipment increased to \$208,712,000 from \$17,616,000. At the Company’s Burnt River operation, investment of \$2,717,000 primarily related to the development of the Brule mine project, was offset by \$3,078,000 in depletion related to the Dillon operation, for a net decrease of \$361,000. For the year ended March 31, 2006, total capital expenditures related to the Wolverine Project amounted to \$193,792,000. Of this, \$111,205,000 relates to site infrastructure and mine development costs, and \$82,587,000 relates to plant and equipment and mine facilities at Wolverine, including \$45,370,000 in mining equipment of which approximately \$28 million is under capital lease. At Wolverine, total capital for plant, facilities and site infrastructure and mine development costs is anticipated to be \$242,000,000 and the total value of the initial mining equipment is anticipated to be \$83,000,000. For the next fiscal year, the Company is not anticipating any material expenditure on its other properties.

Summary of Quarterly Results (unaudited)

(000’s of dollars, except tonnes, per tonne and per share data)

	Fiscal year ended March 31, 2006				Fiscal year ended March 31, 2005			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter ⁽³⁾	Second Quarter ⁽³⁾	First Quarter ⁽³⁾
Coal Production (tonnes)	213,000	114,000	193,000	201,000	230,000	54,000	nil	nil
Coal Sales (tonnes)	142,000	83,000	155,000	168,000	152,000	nil	nil	nil
Average US \$ Coal Price (per tonne)	\$ 68.25	\$ 101.73	\$ 102.14	\$ 93.63	\$ 60.93	n/a	n/a	n/a
Average CAD \$ Coal Price (per tonne)	\$ 78.21	\$ 118.79	\$ 122.72	\$ 116.17	\$ 74.66	n/a	n/a	n/a
Cost of Product sold (per tonne)	\$ 32.53	\$ 35.71	\$ 36.61	\$ 22.11	\$ 21.44	n/a	n/a	n/a
Cost of Transportation (per tonne)	\$ 37.48	\$ 35.24	\$ 35.50	\$ 37.70	\$ 40.40	n/a	n/a	n/a
Total Revenues	\$ 11,094	\$ 9,856	\$ 19,129	\$ 19,515	\$ 11,347	\$ nil	\$ nil	\$ nil
Net Earnings (Loss) ⁽¹⁾	\$ (1,940)	\$ (383)	\$ 5,186	\$ 4,592	\$ (3,350)	\$ (4,979)	\$ (1,189)	\$ (1,454)
Net Earnings (loss) per share – Basic ^{(1), (2)}	\$ (0.03)	\$ -	\$ 0.06	\$ 0.06	\$ (0.05)	\$ (0.10)	\$ (0.03)	\$ (0.04)
Net Earnings (loss) per share – Diluted ^{(1), (2)}	\$ (0.03)	\$ -	\$ 0.05	\$ 0.05	\$ (0.05)	\$ (0.10)	\$ (0.03)	\$ (0.04)
Total Assets	\$ 341,280	\$ 176,134	\$ 169,956	\$ 159,116	\$ 149,802	\$ 35,143	\$ 18,240	\$ 11,807

(1) As there were no discontinued operations and extraordinary items in the years ended March 31, 2006, 2005 and 2004, earnings (loss) before discontinued operations and extraordinary items are the same as earnings (loss) for the year, in total and on a per-share and diluted per-share basis.

(2) For quarters with losses, the basic and fully diluted calculations of loss per share result in the same values due to the anti-dilutive effect of outstanding stock options and warrants.

- (3) For quarters ending December 31, 2004 and prior, figures have been restated to reflect the change in accounting policy regarding the capitalization of deferred development costs which was adopted by the Company for the quarter ended March 31, 2005.

The Company's quarterly results are reflective of the start of commercial sales from the Dillon Mine in the fourth quarter of fiscal 2005, the volumes and timing of such shipments, the net price realized in US dollars on such sales, the US/Canadian dollar exchange rate, and cost of production, transportation costs and depreciation and depletion. Sales volumes, the average realized US dollar and Canadian dollar prices are presented in the preceding table. Other factors influencing quarterly results are the growth and transition of the Company during the period from a junior coal exploration company into a coal producer.

The overall cost of sales for the Dillon Mine has stayed fairly consistent since the start of production. Since working out some early inefficiencies in the first quarter of commercial sales, the cost of transportation has remained relatively constant over the following four quarters. Cost of product sold in the second quarter of fiscal 2006 was adversely affected by the discovery, during September mining operations, of an undefined fault in the southern end of the Dillon syncline. The net result of the fault was a decline in the coal reserves of 188,000 tonnes and an increase in associated waste of 1,154,000 cubic metres. The overall affect on production costs was an increase of approximately \$14 per tonne. Subsequent quarters continued to reflect the impact of this factor on production costs. Concurrently, in the second quarter of fiscal 2006, the Company experienced a reduction in depletion and amortization of approximately \$7 per tonne, a result of the Brule Mine project having reached the feasibility stage, thereby increasing the coal reserve base for depletion and amortization of the Burnt River property.

As a result of the growth of the Company, general, selling and administrative costs increased over the eight quarter periods. These costs also included stock based compensation expense, which varied from quarter to quarter, and consulting expenses related to the AIM listing and graduation to the TSX, contract negotiations and settlements related to the Wolverine Project, as well as the final offer arbitration with CN over Dillon Mine freight rates. Other income in the quarters ending in the 2006 fiscal year included higher levels of investment income due to the large financing completed in the fourth quarter of fiscal 2005, and foreign exchange gains (losses) realized on the put and call options of \$(61,000), \$249,000, \$426,000 and \$427,000 in the first, second, third and fourth quarters, respectively, of fiscal 2006. There were no such exchange gains and losses on such instruments in the prior periods. With the formation of the Partnership in March 2005, the Company commenced recording significant exploration expenses related to the Belcourt and Saxon properties. The Company's share of coal exploration expenses from the Partnership were \$679,000, \$1,867,000, \$3,913,000 and \$907,000 in the first, second, third and fourth quarters, respectively, of fiscal 2006. For fiscal 2005, the Company's share of such expenses was \$2,102,000, all of which was recorded in the fourth quarter.

Commencing with the second quarter of fiscal 2006, the Company recorded income tax recoveries representing the unrecognized future income tax asset to be realized as a result of it being more likely than not that sufficient future taxable income will be available to utilize such tax assets, in accordance with CICA Handbook Section 3465 "Income Taxes". Accordingly, the second, third and fourth quarters of fiscal 2006 included future income tax recoveries of \$4,006,000, \$929,000 and \$1,585,000, respectively.

The increase in total assets over the eight quarter period reflects the significant fundraisings conducted by the Company, commencing in the fourths quarter of fiscal 2005 and 2006, and the development and construction of the Wolverine Project.

Financing Activities

During the year ended March 31, 2006, \$1,921,000 was raised pursuant to the exercise of 4,238,300 share purchase warrants and \$522,000 was raised pursuant to the exercise of 690,766 stock options. The Company also secured \$27,948,000 in capital lease facilities for production equipment currently being used at the Wolverine property.

During February 2006, the Company's major shareholder, Cambrian Mining plc ("Cambrian") provided the Company with a loan of up to \$30,000,000 as a bridge facility to the completion of the Convertible Debenture financing in the following month. The loan accrued interest at a rate of 2.8% above LIBOR per annum. Under the loan facility, \$20,000,000 was drawn down and subsequently repaid along with accrued interest of \$157,000 on March 23, 2006 from the proceeds of the Convertible Debenture financing.

On March 23, 2006, the Company issued 125,000 subordinated Convertible Debentures in denominations of \$1,000 for an aggregate principal amount of \$125,000,000. Proceeds to the Company, net of underwriter fees and expenses in the amount of \$5,380,000, were \$119,620,000. Cambrian subscribed for \$40,000,000 of the Convertible Debentures. Effective March 23, 2006, the Convertible Debentures commenced trading on the TSX under the symbol "WTN.DB". The subordinated Convertible Debentures bear interest at 7.5% per year, payable semi-annually, mature March 24, 2011, and are convertible into common shares of the Company at any time prior to their maturity at a conversion price of \$4.00 per common share. The convertible debentures are redeemable under certain conditions by the Company commencing March 24, 2009. An amount of \$9,375,000, representing the interest required to be paid by the Company on the Convertible Debentures until March 24, 2007, is being held in escrow in an interest bearing account and will be used to pay interest on the Convertible Debentures when due.

Net proceeds from the \$115 million equity placement completed in February 2005 were used as planned, to provide funding for: additional environmental and regulatory permitting expenditures for the Brule mine; a portion of the funding for the anticipated construction and development costs of the Wolverine properties; the Company's commitment to the Belcourt-Saxon joint venture; and general working capital purposes.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the year ended March 31, 2006 resulted in a net decrease to cash of \$43,912,000. As at March 31, 2006, the Company's cash balance stood at \$71,274,000 (including the Company's share of the Partnership's cash of \$2,331,000) and working capital was \$60,437,000.

Prior to December 31, 2004, the Company had no operating revenues as commercial operations had only begun. To that date, the Company's sole source of operating working capital had been the equity markets. As such, the Company's capital resources were largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects. With the commencement of coal sales in January 2005, the Company began producing positive cash flow from the Dillon Mine. For the quarter ended March 31, 2005, the Dillon Mine generated cash flow of \$1,949,000 on coal sales of \$11,347,000, before depletion, amortization and accretion and working capital changes, and for the year ended March 31, 2006, the Dillon Mine generated cash flow of \$22,478,000 on coal sales of \$59,594,000. Cash flows generated from future shipments of ULV-PCI coal from the Dillon Mine, and from the Brule mine project, once permitted, will depend on volumes, settlement prices, exchange rates, the level of operating and transportation costs, and other factors noted throughout this MD&A, including the items identified under "*Risks and Uncertainties*".

An additional source of funds for the Company is from the exercise of outstanding options and share purchase warrants. Warrants exercised in June 2006 have provided an additional \$5,283,750 in proceeds to the Company. The Company also has a US\$15 million bank line to finance Export Development Canada insured trade receivables, none of which is utilized as at March 31, 2006.

Cash on hand and cash flow from the Company's Burnt River operations are not anticipated to be sufficient to fund the entire construction, commissioning and operating costs associated with the Wolverine Project. As a result, the Company is required to obtain additional financing. Along with the proceeds from the offering of Convertible Debentures completed in March 2006, the Company is in the process of arranging a debt facility to finance the balance of the construction, commissioning and operation of the Perry Creek project in what is expected to be a \$90,000,000 senior debt financing secured by the assets of the Wolverine

Project. The Company expects that the debt financing will be completed in July 2006. In the event that debt facility is not completed as and when required, the Company will need to seek alternative funding sources.

As of March 31, 2006, the Company's contractual obligations included:

<i>(000's of dollars)</i>	<i>Payments Due by Period</i>				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1 –3 years</i>	<i>4- 5 years</i>	<i>After 5 years</i>
Convertible Debenture	\$ 171,875	\$ 9,375	\$ 18,750	\$ 143,750	\$ Nil
Asset retirement obligation	9,369	45	1,527	2,731	5,066
Capital lease and equipment purchase obligations	51,095	18,533	18,377	14,185	Nil
Operating leases (premises & other)	1,898	1,175	583	140	Nil
Wolverine project commitments	47,800	47,800	Nil	Nil	Nil
Reclamation bond requirement	3,421	3,144	277	Nil	Nil
Other	1,073	413	220	220	220
Total Contractual Obligations	\$ 286,531	\$ 80,485	\$ 39,734	\$ 161,026	\$ 5,286

The Wolverine Project commitments in the above table include only contractual obligations entered into as of March 31, 2006. Total costs associated with the construction of the 3.0 million tonne per annum plant at Wolverine, including pre-production stripping and contingencies, are approximately \$242,000,000 and total mining equipment to be leased or purchased is approximately \$83,000,000. (See "*Wolverine – Perry Creek and EB*"). As at March 31, 2006, the Company is expecting that commitments beyond those set out in the above table will be entered into for the completion of the Wolverine site infrastructure and mine development costs of approximately \$45,000,000 and for mining equipment of approximately \$38,000,000.

Other commitments in the above table include the Company's Nominated AIM Advisor fee of approximately \$100,000 annually and the minimum fee payable to the Dillon Mine contractor for demobilization of operations and equipment upon completion of the mine contract. Additional commitments entered into by the Company subsequent to March 31, 2006 include the provision to NEMI of a non-revolving trade support credit facility in the aggregate amount of up to \$15,000,000. (See "*Proposed Business Combination with NEMI Northern Energy & Mining Inc.*")

Other commitments, including royalty commitments ranging from 0.75% to 1.0% of sales from certain coal properties of the Company and the joint venture, and a royalty of 1% of sales owing to a marketing agent on sales made to Japan and Taiwan, are described in the notes to the audited consolidated financial statements.

Off-Balance Sheet Arrangements

The only off-balance sheet arrangements, other than commitments described elsewhere in this MD&A, are the Company's foreign exchange hedging program and its trade receivables insurance program, both as more particularly described in the "*Financial Instruments*" section.

Fourth Quarter 2006

The Company mined 213,061 tonnes of PCI coal from the Dillon Mine and realized FOB sales of 142,000 tonnes for total revenues of \$11,094,000 for the quarter ended March 31, 2006. The average selling price per tonne realized during the period was \$78.21 or US\$68.25. Included in the Company's inventory at March 31, 2006 were 305,095 tonnes of PCI coal. Revenue for the quarter ended March 31, 2005 was \$11,347,000 realized on the FOB sales of 152,000 tonnes.

Cost of goods sold for the quarter ended March 31, 2006, including costs of product, transportation, and depletion, amortization and accretion charges totalled \$11,057,000 or approximately \$77.95/tonne for an operation profit of \$37,000. During the fourth quarter of 2005, cost of goods sold totalled \$10,309,000 or approximately \$67.83/tonne for an operation profit of \$1,038,000.

General, administration and selling costs increased by \$600,000, or 24.8%, to \$3,021,000 million for the quarter ended March 31, 2006 as compared to \$2,421,000 for the quarter ended March 31, 2005. In general, the increase was a result of the Company incurring added costs due to the building of the necessary support systems for a larger, multi-operation company.

Coal exploration expenditures for the three months ended March 31, 2006 decreased to \$ 1,454,000 from \$2,148,000 in 2005. Exploration costs are charged to earnings in the period in which they are incurred, except where these costs relate to specific properties for which economically recoverable reserves have been established, in which case they are capitalized. Exploration expenditures for the three months ended March 31, 2006, included the Company's proportionate share of expenses recorded by the Partnership of \$907,000 (2005 – \$2,102,000), relate to properties on which the capitalization criteria have not been met.

Other income amounted to \$926,000 for the three-month period ended March 31, 2006, an increase of \$490,000 over the same period ending March 31, 2005. The majority of other income consists of interest income earned on the significantly higher level of cash and short-term investments held by the Company and stumpage income earned during the period.

Net loss before tax for the quarter ended March 31, 2006 was \$3,525,000 compared to \$3,350,000 for the same period in the prior year. Net loss before tax for the fourth quarter of 2006 primarily reflects an operating profit of \$37,000, general, administration and selling costs of \$3,021,000, coal exploration of \$1,454,000, and other income of \$926,000. Net loss for the quarter ended March 31, 2006 was \$1,940,000 compared to \$3,350,000 for the same period in the prior year. Net loss for the fourth quarter of 2006 reflects the recording of a future income tax recovery of \$1,584,000.

Related Party Transactions

During the year ended March 31, 2006, the Company entered into a joint venture agreement with Wasabi to explore and develop the Lillyburt coal property located in south-eastern British Columbia. (See "Interest in Joint Ventures".) The Company's major shareholder, Cambrian, is also Wasabi's largest shareholder, holding approximately 22% of Wasabi.

During February 2006, Cambrian provided the Company with a loan of up to \$30,000,000 as a bridge facility to the completion of the Convertible Debenture financing. The loan accrued interest at a rate of 2.8% above LIBOR per annum. Under the loan facility, \$20,000,000 was drawn down and subsequently repaid along

with accrued interest of \$157,000 on March 23, 2006 from the proceeds of the Convertible Debenture financing.

Messrs. John Byrne and John Conlon are directors of the Company and of Coal International plc, which holds approximately 18.3% of the issued share capital of NEMI. (See "*Proposed Business Combination with NEMI Northern Energy & Mining Inc.*")

In March 2006, Cambrian subscribed to \$40,000,000 of the Company's \$125,000,000 Convertible Debenture financing. (See "*Financing Activities*".)

At March 31, 2006 and 2005, there were no accounts payable and accrued liabilities due to companies controlled by directors.

The transactions described above have been recorded at amounts which management has determined to approximate market terms.

Contingency

The Company has been named as a respondent in an application for judicial review filed by CN in the Federal Court of Canada ("Federal Court"). In its application CN is seeking declarations that (a) all sections of the Canada Transportation Act ("CTA") relating to final offer arbitration ("FOA") are inoperative, being in contravention of the Canadian Bill of Rights and (b) that the September 6, 2005 decision of an arbitrator made pursuant to the FOA provisions of the CTA in favour of the Company be set aside. The Attorney General of Canada, the Attorney General for each of the Provinces, the Canadian Transportation Agency and the arbitrator in the FOA hearing were served with notice of the Federal Court application as well.

The outcome of the case will have no impact on freight rates to be charged by CN for the transport of Wolverine hard coking coal to Ridley Terminals at the Port of Prince Rupert, as the Company and CN have recently entered into an agreement for the provision of such services. Should CN's application be successful, overall transportation costs for the transport of coal from the Dillon Mine could increase by an estimated 6% solely for the period July 2005 to July 2006.

The background of the application is as follows: following the expiration of the contract between the Company and CN for the provision of rail freight services, and the inability of the parties to reach a new agreement, the Company submitted the matter of its rates and conditions to FOA under the CTA and on September 6, 2005, an arbitrator appointed by the Canadian Transportation Agency issued a decision in favour of the Company. The FOA process is a critical mechanism under the CTA that allows shippers to dispute rates charged by a carrier such as CN. The CTA provides that the decision of the arbitrator on a FOA is final and binding on the parties.

The Company views CN's application as being without merit and has retained counsel to respond to the application. The Attorney General of Canada, the Attorney General for the Province of British Columbia and the Canadian Transportation Agency have responded to the application and will take an active role in support of the legislation. While it is unclear what the final outcome will be, should CN's application be successful, the Company assumes that the rail freight rates CN will seek to impose will be higher than those currently in place under the FOA award. The Company is providing for rail freight services in its financial statements based on the decision of the arbitrator.

Proposed Transactions

Proposed transactions include the proposed business combination with NEMI (see "*Proposed Business Combination with NEMI Northern Energy & Mining Inc.*") and the proposed debt facility to finance the balance of the construction, commissioning and operation of the Wolverine Mine project in what is expected to be a \$90 million senior financing secured by the assets of the Wolverine Project (see "*Liquidity and*

Capital Resources”).

Changes in Accounting Policies

There are no changes in accounting policies impacting the consolidated financial statements for the year ended March 31, 2006.

Critical Accounting Estimates

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ from results based on these estimates. These estimates and assumptions are also affected by management’s application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management. Management’s critical accounting estimates are applied in the accounting for the impairment of mineral property, plant and equipment and other assets such as investments, restoration and post-closure costs, and accounting for income and mining taxes.

Mineral Property, Plant and Equipment

The Company capitalizes the development costs of mining projects commencing when economically recoverable reserves as shown by an economic study are believed to exist. Upon commencement of production, these costs are written off over the life of the mine based on proven and probable reserves. The determination of the extent of reserves is a complex task in which a number of estimates and assumptions are made. These involve the use of geological sampling and models as well as estimates of future costs. New knowledge derived from further exploration and development of the ore body may also affect reserve estimates. In addition, the determination of economic reserves depends on assumptions on long-term commodity prices and in some cases, exchange rates.

The Company reviews and evaluates mineral property, plant and equipment for impairment on an ongoing basis. The expected undiscounted future cash flows from an asset are estimated in a ceiling test. These future cash flows are developed using assumptions that reflect the long-term operating plans for an asset given management’s best estimate of the most probable set of economic conditions. Commodity prices used reflect market conditions at the time the model is developed. These models are updated from time to time and lower prices are used should market conditions deteriorate. Inherent in these assumptions are significant risks and uncertainties. In management’s view, based on assumptions which management believes to be reasonable, a reduction in the carrying value of plant and equipment is not required as at March 31, 2006. Changes in market conditions, reserve estimates and other assumptions used in these estimates may result in future write-downs.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization of capital costs are dependent upon the estimated useful lives of buildings and equipment and reserve estimates, each of which are determined with the exercise of good judgement.

Inventory

Inventories are valued at the lower of net realizable value and either average cost or actual cost, depending on the type of inventory. The net realizable value is an estimate based on various factors such as economic and market conditions and may be adjusted with future changes to selling prices.

Asset Retirement Obligations

The amounts recorded for asset retirement costs are based on estimates included in closure and remediation plans. These estimates are based on engineering studies of the work that is required by environmental laws, or public statements by management which result in an obligation, the timing of cash flows and the credit-adjusted risk-free rate or rates on which the estimated cash flows have been discounted. These estimates also include an assumption on the rate at which costs may inflate in future periods. Actual results could differ from these estimates. The asset retirement liability on the Company's consolidated balance sheet is recorded at its fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The fair value of the asset retirement cost is capitalized as part of the carrying amount of the long-lived asset when incurred and amortized to earnings (loss) over the asset's estimated useful life. The estimates on which these fair values are calculated require extensive judgement about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws, and regulations and remediation practices.

Deferred Stripping Costs

The Company has adopted the industry practice of deferring stripping costs. Under this practice, the amount charged to inventory, and ultimately to cost of sales, is subject to management's ability to estimate the stripping ratio over the life of the mine. Any changes in this estimate could have a material effect on the financial statements.

Recent Accounting Pronouncements

Deferred Stripping Costs

The Company has adopted the industry practice in Canada of deferring stripping which permits mining costs associated with waste rock removal in excess of the life-of-mine average to be deferred and charged to operations on a basis of the average stripping ratio for the life of the mine. A similar practice is also common in the United States. In March 2006, the Emerging Issues Committee of the CICA issued EIC-160 "Stripping Costs Incurred in the Production Phase of a Mining Operation" which requires stripping costs to be accounted as variable production costs to be included in inventory, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs would be capitalized. The consensus reached in this Abstract should be applied retroactively, but earlier adoption is encouraged. The Company is currently evaluating the impact of the new pronouncements, but has not yet determined their impact on its consolidated financial statements.

Financial Instruments

CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement" establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Company will be required adoption of Section 3855 for its fiscal year beginning on or after October 1, 2006, with earlier adoption permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Company has evaluated this pronouncement and has determined that it will not have a material impact on its consolidated financial statements.

Hedging

CICA Handbook Section 3865 “Hedges” establishes standards for when and how hedge accounting may be applied. Specifically, hedge accounting is applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in net income in a different period than gains, losses, revenues and expenses on the hedged item. Adoption of Section 3865 is optional. The Company has also determined that the derivative instruments currently in place do not meet the requirements of Section 3865 to qualify them as hedges. Accordingly, such instruments that do not qualify for hedge accounting are required to be marked-to-market with changes in their fair value recognized as unrealized gain and losses in the financial statements.

Other Comprehensive Income

CICA Handbook Section 1530 “Comprehensive Income” establishes standards for including all changes in assets and liabilities through the statement of income as “other comprehensive income”. The Company will be required to adoption Section 3855 for its fiscal year beginning on or after October 1, 2006, with earlier adoption permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Company has determined, however, that there are no other comprehensive income items affecting the financial statements for the years ended March 31, 2006 and 2005.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities, various commitments including capital lease obligations, and Convertible Debentures. The fair values of these financial instruments approximate their carrying values. In management's opinion, the Company is not exposed to significant interest rate or credit risk arising from these financial instruments, with the exception of accounts receivables denominated in US dollars, on which the Company could be exposed to a foreign exchange risk. As the majority of the operating costs are incurred in Canadian dollars and revenues are denominated in US dollars, exchange rate movements can have a significant impact on operating results and profitability. To manage its exposure to currency fluctuations, the Company has entered into put and call option contracts, commonly referred to as a costless collar. The US dollar put options offer downside protection against the Canadian dollar strengthening while the US dollar call options limit participation as a result of the Canadian dollar weakening. Outstanding put and call options as at March 31, 2006 are for US \$6,000,000 for April 2006 with a floor of 1.1700 and a ceiling of 1.1930. Subsequent to March 31, 2006, the Company entered into a series of additional put and call contracts in the amounts of US\$3,000,000 per month from July to September 2006 and US\$12,000,000 per month from October 2006 to February 2007, each having a floor of 1.100 and a ceiling of 1.1298. For the year ended March 31, 2006, the Company recorded gains of \$1,041,000 in its statement of operations as a result of these instruments. As at March 31, 2006, there are no deferred and unrecognized gains and losses as a result of these instruments.

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivables. In order to manage this risk, the Company deposits cash and cash equivalents with high credit quality financial institutions. The Company uses available export trade credit insurance to provide security for non-payment for coal sales by customers. The Company has entered into an arrangement with Export Development Canada and its bank for the transfer of the insurance and sale of the accounts receivable from coal sales at the Company's discretion, subject to a maximum outstanding at any one time of US \$15 million. The arrangement allows the Company to receive cash for its accounts receivable more quickly, and to shorten the period of time during which foreign exchange rate movements may impact the Canadian dollar value of the accounts receivables.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. Issued and outstanding shares include 87,516,574 common shares as at June 29, 2006 for a net consideration of \$165,048,166. Outstanding options as at June 29, 2006 are as follows:

Security	Number	Exercise price	Expiry date
Stock Options	180,000	\$0.35	February 13, 2007
Stock Options	100,000	\$0.35	December 4, 2007
Stock Options	40,000	\$0.35	September 19, 2008
Stock Options	140,000	\$0.80	February 15, 2009
Stock Options	40,000	\$1.20	May 16, 2009
Stock Options	250,000	\$1.38	May 16, 2009
Stock Options	250,000	\$1.59	May 16, 2009
Stock Options	120,000	\$1.49	August 23, 2009
Stock Options	265,168	\$1.50	August 29, 2009
Stock Options	140,000	\$2.50	October 5, 2009
Stock Options	165,000	\$3.30	November 12, 2009
Stock Options	50,000	\$4.92	December 6, 2009
Stock Options	115,000	\$6.10	March 15, 2010
Stock Options	550,000	\$5.40	July 28, 2010
Stock Options	190,000	\$6.10	July 28, 2010
Stock Options	300,000	\$6.20	July 28, 2010
Stock Options	300,000	\$5.40	July 28, 2010

There are no warrants outstanding as of June 29, 2006. At any time prior to the maturity of the 125,000 Convertible Debentures on March 24, 2011, 31,250,000 common shares are issuable at a conversion price of \$4.00 per common share. (See “*Financing Activities*”). In addition, pursuant to the Arrangement, if completed, the Company would issue 31,638,054 common shares for NEMI’s 56,954,192 issued and outstanding common shares, and each of NEMI’s outstanding options and warrants, totalling 7,362,072, would be exchanged for 4,089,631 options or warrants of the Company at exercise prices per share equal to the exercise price per NEMI share divided by 0.5555. (See “*Proposed Business Combination with NEMI Northern Energy & Mining Inc.*”)

Disclosure Controls and Procedures

Pursuant to the requirements of Multilateral Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*, management of the Company, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2006 and has concluded that such disclosure controls and procedures provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in such legislation.

Multilateral Instrument 52-109 defines "disclosure controls and procedures" as "controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure."

Risks and Uncertainties

The exploration and development of natural resources are highly speculative in nature and are subject to significant risks. The risk factors which should be taken into account in assessing the Company's activities include, but are not necessarily limited to, those set out below. These risks are not intended to be presented in any assumed order of priority. Any one or more of these risks could have a material effect on the Company and should be taken into account in assessing the Company's activities.

Competition

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other mining companies, many of which have greater financial resources than the Company, for the acquisition of coal claims, leases and other coal interests as well as for the recruitment and retention of qualified employees and other personnel.

Exploration, development and operating risks

The exploration for and development of coal deposits involves significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate. Few properties which are explored are ultimately developed into producing mines. There can be no guarantee that the estimates of quantities and qualities of coal disclosed will be available to extract. With all mining operations there is uncertainty and, therefore, risk associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Coal exploration is speculative in nature and there can be no assurance that any coal discovered will result in an increase in the Company's resource base.

The Company's operations will be subject to all of the hazards and risks normally encountered in the exploration, development and production of coal. These include unusual and unexpected geological formations, rock falls, seismic activity, flooding and other conditions involved in the extraction of material, any of which could result in damage to, or destruction of, mines and other producing facilities, damage to life or property, environmental damage and possible legal liability. Although precautions to minimize risk will be taken, operations are subject to hazards that may result in environmental pollution, and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

Additional funding requirements

Substantial additional funds for the establishment of the Company's current and future planned mining operations will likely be required. No assurances can be given that the Company will be able to raise the additional funding that may be required for such activities, should such funding not be fully generated from operations. Coal prices, environmental rehabilitation or restitution, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological results are all factors which will have an impact on the amount of additional capital that may be required. To meet such funding requirements, the Company may be required to undertake additional equity financing, which would be dilutive to Shareholders. Debt financing, if available, may also involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company or at all. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion, forfeit its interest in some or all of its properties and licenses, incur financial penalties or reduce or terminate its operations.

Project development, expansion targets and operational delays

There can be no assurance that the Company will be able to manage effectively the expansion of its operations or that the Company's current personnel, systems, procedures and controls will be adequate to support the Company's operations. The Company's open-pit mines are expected to be operated and managed by contractors. Any failure of management to effectively manage the Company's growth and development could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's operational targets are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Company's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets with a consequent material adverse impact on the business, operations and financial performance of the Company.

The locations of all of the Company's current activities dictate that climatic conditions have an impact on operations and, in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is, therefore, possible that exploration and mining activity levels might fluctuate. Unscheduled interruptions in the Company's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

Volatility of coal prices

The market price of coal is volatile and is affected by numerous factors that are beyond the Company's control. These include international supply and demand, the level of consumer product demand, international economic trends, currency exchange rate fluctuations, the level of interest rates, the rate of inflation, global or regional political events and international events as well as a range of other market forces. Sustained downward movements in coal market prices could render less economic, or uneconomic, some or all of the coal extraction and/or exploration activities to be undertaken by the Company.

Marketability

The marketability of the coal owned by the Company, or which may be acquired or discovered by the Company, will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of coal markets and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of coal and environmental protection. A combination of one or more of these factors may result in the Company not receiving an adequate return on invested capital.

Governmental regulations and processing licenses and permits

The activities of the Company are subject to Government approvals, various laws governing prospecting, development, land resumptions, production taxes, labour standards and occupational health, mine safety, toxic substances and other matters, including issues affecting local, First Nations and Aboriginal populations. Activities of the Company are also subject to various laws and regulations relating to the protection of the environment. Although the Company believes that its activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing operations and activities of exploration and mining, or more stringent implementation thereof, could have a material adverse impact on the business, operations and financial performance of the Company. Further, the mining licenses and permits issued in respect of its projects may be subject to conditions which, if not satisfied, may lead to the revocation of such licenses. In the event of revocation, the value of the Company's investments in such projects may decline.

Limited operating history

The Company has one property producing positive cash flow and its ultimate success will depend on its ability to continue to generate cash flow from this and other properties in the future. The Company has earned limited profits to date and there is no assurance that it will do so in the future. Significant capital investment will be required to achieve commercial production from the Company's existing projects and from successful exploration efforts. There is no assurance that the Company will be able to raise the required funds to continue these activities.

Reserve and resource estimates

The Company's reported coal reserves and resources are only estimates. No assurance can be given that the estimated coal reserves and resources will be recovered or that they will be recovered at the rates estimated. Coal reserve and resource estimates are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Coal reserve and resource estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of coal, as well as increased production costs or reduced recovery rates, may render certain coal reserves and resources uneconomic and may ultimately result in a restatement of reserves and/or resources. Moreover, short-term operating factors relating to the coal reserves and resources, such as the need for subsequent development of ore bodies and the processing of new or different ore grades, may adversely affect the Company's profitability in any particular accounting period.

Environmental regulation and liability

The Company's activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in the jurisdiction in which it operates. Such regulations typically cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour regulations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. Environmental legislation and permitting are likely to evolve in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, a heightened degree of responsibility for companies and their directors and employees and potentially greater financial and economic burdens.

Uninsured risks

The Company, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. Furthermore, the Company may incur a liability to third parties (in excess of any insurance cover) arising from negative environmental impacts or any other damage or injury.

Dependence on key personnel

The Company is dependent upon its current executive management team. Whilst it has entered into contractual arrangements with the aim of securing the services of these personnel on a longer-term basis, the retention of their services cannot be guaranteed. The loss of any key executive or managers of the Company may have an adverse effect on the future of the Company's business. The Company competes with numerous other companies for the recruitment and retention of qualified employees and contractors.

Dependence on major customers and suppliers of products and services

The coal industry is characterized by a relatively small number of customers worldwide. For the years ended March 31, 2006 and 2005, the Company recorded revenues from coal sales to two major customers, each representing in excess of 10% of total revenues. Although the Company expanded its customer base throughout the 2006 fiscal year, the Company still expects future revenues to be derived from a relatively small number of customers. A loss of, or a significant reduction in, purchases by any one of the Company's largest customers could have a material adverse impact on the financial performance of the Company.

Substantially all of the Company's coal is exported to port facilities by one rail for which there are limited alternatives. Additionally, all of the Company's export sales are loaded through one port facility, for which there are limited cost-effective alternatives. The cost of securing additional facilities and services of this nature could significantly increase transportation and other costs. An interruption of rail or port services could significantly limit the Company's ability to operate and to the extent that alternate sources of transportation of port and rail services are available, it could increase transportation and port costs significantly. Further, the vagaries of the shipping industry could affect the Company's revenues as a result of delays of ocean vessels and could significantly affect the Company's costs and relative competitiveness against the supply of coal from other markets.

The recent growth in global mining activities has created a demand for mining equipment and related supplies that is currently in excess of supply. As a result, future operations could be adversely affected if the Company or its contractors encounter difficulties obtaining equipment, tires and other supplies on a timely basis. If the Company was unable to secure the necessary mining equipment on a timely basis, expansion activities, construction projects currently underway, production and productivity, and costs could be materially affected.

Currency risk

The Company's revenues from operations are received in United States dollars while most of its operating expenses are incurred in Canadian dollars. Whilst it has taken certain steps to help mitigate foreign currency fluctuations, there is no assurance it the activities or products are or will continue to be effective. Accordingly, the inability of the Company to obtain or to put in place effective hedges could materially increase exposure to fluctuations in the value of the Canadian dollar relative to the US dollar. This could adversely affect the Company's financial position and operating results.

Litigation

Legal proceedings may arise from time to time in the course of the Company's business. There have been a number of cases where the rights and privileges of mining and exploration companies have been the subject of litigation. The Company cannot preclude that such litigation may be brought against the Company in future from time to time or that it may be subject to any other form of litigation.

Health and safety

The Company's activities are and will continue to be subject to health and safety standards and regulations. Failure to comply with such requirements may result in fines and/or penalties being assessed against the Company.

Directors' and officers' conflicts of interest as a result of their involvement with other natural resource companies

Certain of the Company's directors and officers are directors and officers of other natural resource or mining-related companies. These associations may give rise to conflicts of interest from time to time, and as a result of such conflicts of interest, the Company may miss opportunities to participate in certain transactions which may have a material adverse effect on the Company's financial position.

Other Information

Additional information related to the Company, including the Company's Annual Information Form, is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.westerncoal.com. The Company cautions that information contained on, or accessible through these websites is current only as of the date of such information and may be superceded by subsequent events of filings. The Company undertakes no obligation to update publicly or otherwise revise any information including forward-looking information, whether as a result of new information, future events or such other factors that affect this information except as required by law.