
WESTERN CANADIAN COAL CORP.
Consolidated Financial Statements
For the Nine Months Ended
December 31, 2005

WESTERN CANADIAN COAL CORP.**CONSOLIDATED BALANCE SHEETS**

(Prepared without audit)

(Expressed in thousands of Canadian dollars)

	December 31, 2005	March 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 35,077	\$ 115,186
Accounts receivable	4,140	6,834
Inventory	22,272	8,831
Prepaid expenses	296	207
	<hr/> 61,785	<hr/> 131,058
Deferred financing costs	202	-
Deposits (Note 4)	9,943	1,128
Plant and equipment	11,512	2,355
Deferred development expenditures	87,662	15,261
Future income tax asset (Note 12)	5,030	-
	<hr/> \$ 176,134	<hr/> \$ 149,802
LIABILITIES		
Current liabilities		
Bank indebtedness	\$ -	\$ 2,844
Accounts payable and accrued liabilities	13,218	8,650
Current portion of asset retirement obligations (Note 5)	521	16
Current portion of capital lease obligations (Note 6)	1,706	172
	<hr/> 15,445	<hr/> 11,682
Asset retirement obligations (Note 5)	2,476	445
Capital lease obligations (Note 6)	6,548	521
	<hr/> 24,469	<hr/> 12,648
SHARE CAPITAL AND DEFICIT		
Share capital (Note 7)	159,744	156,929
Contributed surplus	4,056	1,755
Deficit	(12,135)	(21,530)
	<hr/> 151,665	<hr/> 137,154
	<hr/> \$ 176,134	<hr/> \$ 149,802

Nature and Continuation of Operations (Note 1)

Commitments and Contingencies (Note 16)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on Behalf of the Board of Directors:

"Gordon Bub"

Gordon Bub, Director

"Gary Livingstone"

Gary K. Livingstone, Director

WESTERN CANADIAN COAL CORP.**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

(Prepared without audit)

(Expressed in thousands of Canadian dollars, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004 (As restated)	2005	2004 (As restated)
Revenues	\$ 9,856	\$ -	\$ 48,500	\$ -
Cost of goods sold				
Cost of product sold	2,963	-	12,384	-
Transportation and other	2,924	-	14,791	-
Depletion, amortization and accretion	273	-	2,064	-
	6,160	-	29,239	-
Operating profit	3,696	-	19,261	-
Other expenses (income)				
General, administration and selling (Note 9)	2,612	2,259	9,517	4,746
Coal exploration (Note 10)	4,326	2,899	8,889	3,094
Interest expense	11	-	19	-
Other income	(1,941)	(179)	(3,623)	(218)
	5,008	4,979	14,802	7,622
Net income (loss) before tax	(1,312)	(4,979)	4,459	(7,622)
Income tax recovery (Note 12)	929	-	4,936	-
Net income (loss) for the period	(383)	(4,979)	9,395	(7,622)
Deficit, beginning of period as previously reported	(11,752)	(6,824)	(21,530)	(4,376)
Change in accounting policy	-	(6,377)	-	(6,182)
Deficit, beginning of period as restated	(11,752)	(13,201)	(21,530)	(10,558)
Deficit at end of period	\$ (12,135)	\$ (18,180)	\$ (12,135)	\$ (18,180)
Earnings (loss) per share				
Basic	\$ (0.00)	\$ (0.11)	\$ 0.12	\$ (0.18)
Diluted	\$ (0.00)	\$ (0.11)	\$ 0.11	\$ (0.18)
Weighted average common shares outstanding				
Basic	83,975,469	47,065,303	81,496,288	42,800,132
Diluted	83,975,469	47,065,303	84,835,163	42,800,132

The accompanying notes are an integral part of these consolidated financial statements.

WESTERN CANADIAN COAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Prepared without audit)

(Expressed in thousands of Canadian dollars)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2005	2004 (As restated)	2005	2004 (As restated)
CASH FLOWS FROM (USED IN):				
Operating Activities				
Net income (loss) for the period	\$ (383)	\$ (4,979)	\$ 9,395	\$ (7,622)
Items not involving cash and cash equivalents:				
Accretion	58	3	122	3
Depletion and amortization	443	482	1,834	503
Income tax recovery	(1,024)	-	(5,030)	-
Stock-based compensation	466	548	2,672	1,343
	(440)	(3,946)	8,993	(5,773)
Changes in non-cash working capital items:				
Accounts receivable	(1,406)	(593)	2,694	(812)
Inventory	(8,653)	(3,200)	(13,970)	(3,200)
Prepaid expenses	294	(105)	(89)	(109)
Accounts payable and accrued liabilities	(1,974)	3,105	4,568	4,892
	(12,179)	(4,739)	2,196	(5,002)
Financing Activities				
Bank indebtedness	-	-	(2,844)	-
Deferred financing costs	(202)	1,625	(202)	-
Repayments on capital lease obligations	(1,986)	-	(2,074)	-
Net proceeds from issue of shares	8	18,220	2,444	34,122
	(2,180)	19,845	(2,676)	34,122
Investing Activities				
Acquisition of plant and equipment	(14)	(1,564)	(245)	(1,842)
Deposits	(5,766)	(199)	(8,815)	(1,210)
Investments	-	(3,000)	-	(3,000)
Deferred development expenditures	(38,102)	(7,376)	(70,569)	(12,564)
	(43,882)	(12,139)	(79,629)	(18,616)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(58,241)	2,967	(80,109)	10,504
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	93,318	7,634	115,186	97
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 35,077	\$ 10,601	\$ 35,077	\$ 10,601

Supplementary cash flow information (Note 11)

The accompanying notes are an integral part of these consolidated financial statements.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

(All dollar amounts are stated in Canadian dollars unless otherwise indicated. Tables are expressed in thousands of Canadian dollars, except share and per share amounts.)

1. NATURE AND CONTINUANCE OF OPERATIONS

Western Canadian Coal Corp. (the "Company") was incorporated in the Province of British Columbia for the purpose of acquiring, exploring and developing coal mining properties for the international metallurgical coal markets. It is currently focused on bringing into production a high quality portfolio of assets in northeast BC, which will take advantage of the infrastructure already established for the northeast BC coalfields, including rail, port, town and other facilities. The Company is listed on the Toronto Stock Exchange and the Alternative Investment Market of the London Stock Exchange ("AIM").

The Company owns two large multi-deposit coal property groups – the Wolverine and Brazion properties, which include more than 35,000 hectares under lease or application, and holds a 50% limited partnership interest which owns two additional multi-deposit coal property groups - the Belcourt and Saxon properties, which include more than 50,000 hectares under lease or application. On July 27, 2005, the Company received an amended BC government mine permit to allow the Company to mine the Dillon mine coal deposit (located on the Burnt River property within the Brazion group) at the rate of 80,000 tonnes per month. In April 2005, the Company received another BC government open-pit mine permit for its Perry Creek mine (located within the Wolverine group). The Company has applied to the BC government to amend this permit to allow the Company to increase its permitted annual coal production from the currently approved annual production level of 1.6 million tonnes to 2.4 million tonnes. Commercial production at Wolverine is anticipated to start in July 2006, following the completion of construction of the coal preparation plant and related facilities. The Company's other properties are at various stages of exploration and development.

Cash on hand and cash flow from operations are not anticipated to be sufficient to fund the entire construction costs associated with the Wolverine project. As a result, the Company is seeking additional financing. The Company is continuing to work with its financial advisor in connection with the arrangement of debt financing for the Wolverine project and expects that the project financing will be completed by late March or early April 2006. As a bridge facility to the completion of the project financing, the Company is arranging a loan from its major shareholder, Cambrian Mining Plc, of up to \$30 million. In the event that additional funds are not raised as and when required, until such time as the funds are made available, the Company may be required to complete further equity financings or seek alternate funding sources to fund part of the Wolverine capital costs.

These consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto including the Company's Annual Report for March 31, 2005 and other public disclosure documents.

2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") using standards for interim financial statements and do not contain all of the information required for annual financial statements. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

Certain comparative figures have been reclassified to conform to the presentation adopted in 2005.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

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3. INTEREST IN JOINT VENTURE

On March 2, 2005, the Company acquired a 50% interest in the Belcourt Saxon Coal Limited Partnership (the "Limited Partnership"), a joint venture with NEMI Northern Energy & Mining Inc. ("NEMI"), formed for the exploration and development of the Belcourt and Saxon properties in northeast BC.

The Company's proportionate share of its interest in and results from its joint venture as presented by the Limited Partnership are as follows:

	December 31, 2005	March 31, 2005
Assets		
Cash	\$ 3,891	\$ 4,829
Due from the Company	-	3,000
Due from NEMI	-	2,000
Other current	433	15
Plant and equipment	39	36
Coal properties and deferred exploration expenditures	7,585	1,028
	<u>\$ 11,948</u>	<u>\$ 10,908</u>
Liabilities and Equity		
Current liabilities	\$ 1,240	\$ 56
Equity	10,708	10,852
	<u>\$ 11,948</u>	<u>\$ 10,908</u>

	Three months ended December 31,		Nine months ended December 31,	
	2005	2004	2005	2004
Expenses	<u>\$ 44</u>	<u>\$ -</u>	<u>\$ 144</u>	<u>\$ -</u>
Cash Flow				
Operating activities	121	-	635	-
Financing activities	-	-	5,000	-
Investing activities	(3,913)	-	(6,573)	-
Increase in cash and cash equivalents during the period	\$ (3,792)	\$ -	\$ (938)	\$ -
Cash and cash equivalents, beginning of period	7,683	-	4,829	-
Cash and cash equivalents, end of period	<u>\$ 3,891</u>	<u>\$ -</u>	<u>\$ 3,891</u>	<u>\$ -</u>

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

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3. INTEREST IN JOINT VENTURE (Continued)

The Company expenses coal exploration costs as incurred. To date exploration costs relating to the joint venture amount to \$9,372,000, including property acquisition costs of \$1,885,000 and coal property and deferred exploration expenditures of \$7,487,000. Of the \$7,487,000, \$6,459,000 was charged to operations for the period ended December 31, 2005. (Note 10)

Under royalty agreements applicable to certain properties within the joint venture, the joint venture is obligated to make royalty payments to various third parties based on the selling price upon delivery of all coal sales relating to those properties, ranging from 0.75% to 1.00%. In addition, the joint venture participants are entitled to a royalty equal to US \$0.50 per tonne of coal produced from that venturers contributed property.

4. DEPOSITS

Deposits as presented consist of the following:

	December 31, 2005	March 31, 2005
Restricted reclamation deposits (Note 4(a))	\$ 4,274	\$ 328
Equipment deposits (Note 4(b))	4,225	-
Other restricted deposits	1,444	800
	\$ 9,943	\$ 1,128

(a) In connection with the receipt of the open-pit mine permit for its Wolverine property and the commencement of ground clearing and earthworks, the Company provided the BC government with an initial reclamation security deposit of \$2,000,000. In November 2005, \$1,676,000 was provided as an additional reclamation security deposits for Wolverine on the start of pre-production stripping. Future installments of \$3,000,000 and \$300,000 are required to be made 12 months after the start of construction, and 24 months after the start of construction, respectively. The amounts may be adjusted for inflation, if the cumulative inflation from January 1, 2006 exceeds 10%. The Company's obligation for additional reclamation security deposits are described in Note 20, "Commitments", to the consolidated audited financial statements as at March 31, 2005.

(b) Equipment deposits represent deposits on certain mining equipment yet to be delivered as well as deposits paid to the Company's intended mining contractor for equipment supplied by the contractor.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

(All dollar amounts are stated in Canadian dollars unless otherwise indicated. Tables are expressed in thousands of Canadian dollars, except share and per share amounts.)

5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations relate to the restoration and closure of its mine properties. The asset retirement obligations have been recorded as liabilities at fair value, assuming a credit adjusted risk-free discount rate of 5% and an inflation factor of 2.5%. The amounts of the liabilities are subject to re-measurement during each reporting period.

The total undiscounted amounts of the estimated obligations are approximately \$4,527,000 and are expected to be incurred over a ten year period.

Asset retirement obligations as at and for the periods ended December 31, 2005 and March 31, 2005 are as follows:

	December 31, 2005	March 31, 2005
Balance, beginning of period	\$ 461	\$ -
Fair value of asset retirement obligation recorded during the period	2,415	450
Add: Accretion of liability component of asset retirement obligation	121	11
Balance, end of period	2,997	461
Less: current portion	(521)	(16)
Long-term portion of asset retirement obligation	\$ 2,476	\$ 445

6. CAPITAL LEASE OBLIGATIONS

The Company has certain equipment and plant under capital leases expiring in 2009 and at interest rates between 1.5% to 6.0%. Capital lease obligations as at and for the periods ended December 31, 2005 and March 31, 2005 are as follows:

	December 31, 2005	March 31, 2005
Balance, beginning of period	\$ 693	\$ -
Fair value of capital leases recorded during the period	9,635	722
Less: payments made during the period	(2,138)	(35)
Add: interest portion of payments	64	6
Balance, end of period	8,254	693
Less: current portion	(1,706)	(172)
Long-term portion of capital lease obligations	\$ 6,548	\$ 521

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

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7. SHARE CAPITAL**Authorized:** Unlimited number of common shares without par value**Issued:**

	Number of Shares	Consideration
Balance, March 31, 2005	79,051,240	\$ 156,929
For cash received from the exercise of warrants	4,238,300	1,926
For cash received from the exercise of stock options	690,766	522
Transferred to share capital upon exercise of stock options	-	371
Other	-	(4)
Balance, December 31, 2005	83,980,306	\$ 159,744

8. STOCK-BASED COMPENSATION

During the nine month period ended December 31, 2005, the Company granted 1,340,000 stock options to employees, officers and directors (2004 – 2,035,000). During the nine months ended December 31, 2005, an amount of \$2,672,000 (2004 - \$1,343,360) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	Nine months ended	
	December 31, 2005	December 31, 2004
Assumptions:		
Risk-free interest rate (%)	3.32	3.95
Expected life (years)	5.0	5.0
Expected volatility (%)	71	91
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted (per option)	\$ 2.83	\$ 1.04

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

(All dollar amounts are stated in Canadian dollars unless otherwise indicated. Tables are expressed in thousands of Canadian dollars, except share and per share amounts.)

9. GENERAL, ADMINISTRATION AND SELLING

	Three months ended December 31,		Nine months ended December 31,	
	2005	2004	2005	2004
Schedule of expenses:				
Amortization	\$ 123	\$ 485	\$ 212	\$ 506
Consulting	125	211	692	346
Corporate communications	11	24	128	63
Listing and other regulatory fees	37	19	420	267
Insurance	104	53	183	54
Office and miscellaneous	129	116	350	255
Legal and audit	365	43	1,409	207
Rent and telecommunications	73	62	207	138
Sales and marketing	72	-	329	-
Salaries, benefits and other remuneration	982	527	2,610	1,216
Stock-based compensation (Note 8)	466	548	2,672	1,343
Travel and related expenses	125	171	305	351
	\$ 2,612	\$ 2,259	\$ 9,517	\$ 4,746

10. COAL EXPLORATION

	Three months ended December 31,		Nine months ended December 31,	
	2005	2004	2005	2004
Schedule of expenses:				
Belcourt and Saxon (Note 3)	\$ 3,913	\$ -	\$ 6,459	\$ -
Burnt River	-	2,272	884	2,272
Wolverine	337	378	1,392	549
Other	76	249	154	273
	\$ 4,326	\$ 2,899	\$ 8,889	\$ 3,094

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

(All dollar amounts are stated in Canadian dollars unless otherwise indicated. Tables are expressed in thousands of Canadian dollars, except share and per share amounts.)

11. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended		Nine months ended	
	December 31,		December 31,	
	2005	2004	2005	2004
Other information:				
Interest paid	\$ 11	\$ -	\$ 19	\$ -
Income and resource taxes paid	-	-	-	-
Non-cash investing and financing transactions:				
Capital lease obligation recognized for assets under capital lease	\$ 9,185	-	9,635	-
Asset retirement obligation recognized for future mine reclamation costs	805	-	2,415	357
Warrants issued to brokers for financing services	-	385	-	676

12. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 34.1% (2004 – 35.6%) to earnings before income taxes. The reasons for the differences and the related tax effects are as follows:

	December 31, 2005
Income before taxes	\$ 4,460
Tax at applicable rates	\$ 1,522
Non-capital loss not previously recognized	(3,676)
Finance expense	(364)
Differences between deferred exploration costs	829
Tax effect of depreciation and amortization in excess of capital cost allowance	776
Change in valuation allowance	(5,030)
Expenses not deductible	912
Current large corporations tax	95
Income tax recovery (expense)	\$ 4,936

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

(All dollar amounts are stated in Canadian dollars unless otherwise indicated. Tables are expressed in thousands of Canadian dollars, except share and per share amounts.)

12. INCOME TAXES (Continued)

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

	December 31, 2005	March 31, 2005
Future tax assets:		
Non-capital losses carried forward	\$ 1,134	\$ 2,724
Undeducted financing fees	1,876	-
Property and equipment	282	539
Coal properties and deferred exploration	2,429	4,384
	<u>5,721</u>	<u>7,647</u>
Valuation allowance	(691)	(7,647)
Net future tax asset	<u>\$ 5,030</u>	<u>\$ -</u>

The company has non-capital losses carried forward available to reduce future taxable income of approximately \$3,322,000 if unused, expire as follows:

2006	\$ 59
2007	80
2008	50
2009	169
2010	50
2011	3
2015	2,642
2016	269
	<u>\$ 3,322</u>

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

(All dollar amounts are stated in Canadian dollars unless otherwise indicated. Tables are expressed in thousands of Canadian dollars, except share and per share amounts.)

13. RELATED PARTY TRANSACTIONS

- (a) During the nine months ended December 31, 2005, 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 of 2008. The Company's major shareholder is also Wasabi's largest shareholder, holding approximately 22% of Wasabi.
- (b) During the nine months ended December 31, 2004, the Company incurred management and consulting fees of \$355,316 to companies controlled by directors or companies with common directors. During the nine months ended December 31, 2004, the Company incurred accounting, management, and investor relations fees of \$186,886 to companies controlled by former officers.

The transactions described above have been recorded at the exchange amount, which is the amount of consideration agreed upon by related parties.

14. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND UNITED STATES

Accounting practices under Canadian and United States GAAP, as they affect the Company, are substantially the same, except for the following:

(a) Asset Retirement Obligations

Effective April 1, 2004, the Company adopted the provisions of CICA Handbook Section 3110 for asset retirement obligations in relation to future mine site reclamation and closure costs. Under this standard, the Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The liability is measured at fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The fair value of the estimated asset retirement costs is capitalized and amortized to earnings over the asset's estimated useful life. The provisions under Canadian GAAP require that the provisions be applied retroactively.

Under US GAAP, the provisions of FASB Statement No. 143 were required to have been implemented on or after years beginning January 1, 2003. As the Company's initial asset retirement obligations relating to the restoration and closure of the Dillon and Wolverine mines only arose late in the year ended March 31, 2005, the Company has determined that there are no differences between the balance sheets at December 31, 2005 or the statement of operations for the period then ended, as prepared under US GAAP, as compared to those prepared under Canadian GAAP.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

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(b) Deferred Stripping

The Company has adopted industry practice in Canada of deferring stripping costs 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. EITF 04-06 "Accounting for Stripping Costs in the Mining Industry" requires stripping costs to be accounted as variable production costs that are considered a component of mineral inventory. As the standard is effective for financial statements issued for fiscal years beginning after December 15, 2005, with early adoption permitted, there are no differences between US GAAP and Canadian GAAP on accounting for deferred stripping costs for the period ending December 31, 2005. The Company is currently evaluating the impact of the new standard, but has not yet determined its impact on the consolidated interim financial statements of the Company.

(c) Hedging

Under US GAAP, FASB Statement No. 133 (SFAS 133) "Accounting for Derivative Instruments and Hedging Activities", all derivatives are recorded on the balance sheet at their fair value with changes in fair value recognized in earnings of the current period unless specific hedge accounting criteria are met. CICA Handbook Section 3865 "Hedges", whose adoption is optional, establishes standards for when and how hedge accounting may be applied. Management has 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. As a result, the Company has determined that there are no differences between the balance sheet as at December 31, 2005 or the statement of operations for the period then ended, as prepared under US GAAP, as compared to those prepared under Canadian GAAP.

(d) Comprehensive Income

Under US GAAP, comprehensive income is recognized and measured in accordance with FASB Statement No. 130 "Reporting Comprehensive Income". Comprehensive income includes all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income includes two components, net income and other comprehensive income. Other comprehensive income includes amounts that are recorded as an element of shareholder's equity but are excluded from net income as these transactions or events were attributable to changes from non-owner sources. These items include minimum pension liability adjustments, holding gains and losses on certain investments, gains and losses on derivative instruments and foreign currency gains and losses related to self-sustaining foreign operations. Comprehensive reporting guidelines under Canadian GAAP are required to be adopted for fiscal years 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 these consolidated interim financial statements.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

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(e) Deferred Development Expenditures

Under Canadian GAAP, development costs may be deferred where economically recoverable reserves have been established and are amortized over their estimated useful life. US GAAP requires exploration on mineral properties prior to the completion of a definitive feasibility study, which establishes proven and probably reserves, to be expensed as incurred. Accordingly, under US GAAP, development costs deferred under Canadian GAAP and relating to properties for which no proven and probable reserves have been established would be expensed as incurred, with retroactive effect.

(f) Stock-based Compensation

Statement of Financial Accounting Standards No. 123 ("SFAS 123") requires that stock-based compensation be accounted for based on a fair value methodology. Statement of Financial Accounting Standards No. 148 ("SFAS 148") provides for transitional rules for companies who adopt the fair value method of accounting for stock-based compensation related to stock options. Effective April 1, 2003, the Company voluntarily adopted the fair value method of accounting for stock-based compensation for Canadian GAAP purposes and applied the standard prospectively. Effective April 1, 2003, the Company also adopted the transitional provision of SFAS 148 for US GAAP purposes and applied the standard prospectively. As a result, there is no difference in stock-based compensation expense between Canadian and US GAAP for the nine month periods ended December 31, 2005 and 2004.

(g) Accounting for Interests in Joint Ventures

Under US GAAP, interests in joint ventures are generally required to either be consolidated or accounted for by the equity method. However, interests in unincorporated joint ventures in the natural resource industry may be accounted for by proportionate consolidation, as under Canadian GAAP. As the Company's 50% interest in the Belcourt Saxon Coal Limited Partnership is held through an unincorporated joint venture, there is no difference between US GAAP and Canadian GAAP on accounting for this joint venture interest.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

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(All dollar amounts are stated in Canadian dollars unless otherwise indicated. Tables are expressed in thousands of Canadian dollars, except share and per share amounts.)

Effect of Differences in GAAP on Financial Statements

The differences in the application of US GAAP would have the following material effects on the financial statements of the Company:

Consolidated Statements of Operations

	Three months ended December 31,		Nine Months Ended December 31,	
	2005	2004	2005	2004
Net Income (Loss) under Canadian GAAP	\$ (383)	\$ (4,979)	\$ 9,395	\$ (7,622)
Addback:				
Depletion of deferred development costs	188	346	1,711	346
Deduct:				
Deferred development costs	(38,102)	(7,376)	(70,569)	(12,564)
Net Loss under US GAAP	\$ (38,297)	\$ (12,009)	\$ (59,463)	\$ (19,840)
Basic and fully diluted loss per share under US GAAP	\$ (0.46)	\$ (0.26)	\$ (0.73)	\$ (0.46)

Consolidated Statements of Deficit

	Nine months ended December 31,	
	2005	2004
Deficit in accordance with Canadian GAAP	\$ (12,135)	\$ (18,180)
Deduct: Cumulative effect of adjustment for differences in accounting for deferred development expenditures	(87,662)	(12,564)
Deficit in accordance with US GAAP	\$ (99,797)	\$ (30,744)

Consolidated Balance Sheets

	As at	
	December 31, 2005	March 31, 2005
Total Assets in accordance with Canadian GAAP	\$ 176,134	\$ 149,802
Deduct: Cumulative effect of adjustment for differences in accounting for deferred development expenditures	(87,662)	(15,261)
Total Assets in accordance with US GAAP	\$ 88,472	\$ 134,541

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Nine Months Ended December 31, 2005**

(Prepared without audit)

(All dollar amounts are stated in Canadian dollars unless otherwise indicated. Tables are expressed in thousands of Canadian dollars, except share and per share amounts.)

15. SEGMENTED INFORMATION

All of the Company's mining operations are conducted in Canada. The Company's revenues for the nine-month period ended December 31, 2005 are derived from coal sales to customers located in South Korea, Luxembourg, Japan and China in the amounts of \$26,654,000, \$13,302,000, \$5,773,000 and \$2,771,000 respectively, with all customers but the Chinese representing greater than 10% of total revenues. The Company had no revenues from Canadian customers.

There were no revenues in the nine months ended December 31, 2004.

16. COMMITMENTS AND CONTINGENCIES

- (a) The Company has been named as a respondent in an application for judicial review filed by the Canadian National Railway Company ("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 Canadian Transportation Agency and the arbitrator in the FOA hearing have been served with notice of the Federal Court application as well.

The Company views CN's application as being without merit and has retained counsel to respond to the application. 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. Consequently, overall transportation costs could increase by an estimated 6%. The Company is providing for rail freight services in these financial statements based on the decision of the arbitrator.

- (b) As at December 31, 2005, the Company is committed to approximately \$61.5 million in construction expenditures related to Wolverine. Subsequent to December 31, 2005, mining equipment valued at approximately \$17.1 million arrived at the Wolverine site and is to be transferred to the Company under terms of capital lease agreements.

The Company has made equipment deposits of \$4.2 million on certain mining equipment yet to be delivered and on equipment supplied by its intended mining contractor (Note 4). As at December 31, 2005, the Company's remaining obligation in relation to the purchase of these pieces of equipment is approximately \$19.8 million.

- (c) Other contingencies and commitments are included in the notes to the audited consolidated financial statements for the year ended March 31, 2005.