

Management's Discussion and Analysis of Financial Position and Results of Operations

General

The following information, prepared as of February 8, 2006, should be read in conjunction with the unaudited consolidated financial statements of Western Canadian Coal Corp. (the "Company") for the nine month period ended December 31, 2005, as well as the audited consolidated financial statements for the year ended March 31, 2005, 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 licences, with its primary focus being favourably located, high-quality coal deposits in northeast British Columbia that are amenable to low-cost mining techniques. 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 properties, which include approximately 35,000 hectares under lease or application. Additionally, the Company has a 50% interest in a limited partnership that owns two additional multi-deposit coal property groups - the Belcourt and Saxon properties, which include more than 50,000 hectares under lease or application. The Company's principal property assets are grouped geographically as follows:

- (i) the Dillon open-pit mine and the proposed Brule mine located within the Burnt River coal deposit area which form part of the larger Brazion group of coal properties; and
- (ii) the Perry Creek open-pit and underground deposits and EB open-pit deposit located within the Company's Wolverine group of coal properties.

The Company has demonstrated the economic viability of the Wolverine group of properties and the Dillon and Brule mines located on the Burnt River property through independent technical studies that have been publicly disclosed on SEDAR. The Company also possesses a number of other property assets located in northeast and southeast BC, which are at a less advanced stage of development.

Wolverine Properties

The Environmental Assessment ("EA") certificate for the Wolverine Project, covering the production of 1.6 million tonnes of clean metallurgical coal per annum on the Perry Creek and EB open-pit properties over a projected 11-year period, was received in January 2005. In early April 2005, the Company received approval from the BC government for a mining permit on the Perry Creek open-pit. Subsequently, in May 2005, the Company applied to the BC government to amend the permit to allow the Company to increase its annual coal production from 1.6 million tonnes to 2.4 million tonnes. At the end of November the Company announced new reserve figures for Perry Creek and EB open pits, increasing to 27.4 million tonnes of Proven and Probable metallurgical coal (previously 15.6 million tonnes) and 0.3 million tonnes of thermal coal (unchanged).

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

The Company has substantially completed the site earthworks for the construction of the Wolverine mine facilities. The concrete foundations for the coal preparation plant and the maintenance facilities were completed in November 2005. The concrete foundation for the dryer plant, breaker station and the load-out facility commenced in December and the expected completion is late February 2006. Installation of the structural steel for the coal preparation plant commenced early December and the first steel deliveries for the

dryer plant arrived in late December. The power-line installation by BC Hydro was completed and energized during the period. The main transformer station is under construction with the transformers having arrived on site in late December. As a result, the Company expects that power will be available on site by mid-February 2006. The majority of the process and dryer plant equipment has been ordered and deliveries began in December. The design of the load-out and rail system has been finalized and construction of the rail bed commenced early in November.

The mining contractor selected by the Company has been mobilized based on a letter of intent and pre-stripping is underway. The mining contractor and the Company are now finalizing an agreement which provides for contract mining services for a four year term, after which the Company will assume the mining operations. The open-pit mines will be operated and managed by the contractor and the Company will provide overall management and engineering and, on completion, will operate the coal preparation plant.

Based on the recent feasibility study, the total value of mining equipment necessary to conduct the mining and stripping operations at Wolverine is approximately \$83 million. It was initially expected that the mining contractor would provide the mining equipment. However, in order to reduce long term operating costs, the Company expects to lease and ultimately own the majority of the mining equipment. Equipment presently working on site includes a PC 3000 hydraulic excavator, five CAT 789 trucks, four D10T dozers, a 385 CAT excavator, a 992 CAT front-end loader and a 16H grader. In addition, a new Hitachi EX-3600 hydraulic excavator and five new Cat 785 haul trucks are currently being erected on site and will go to work in February.

Also based on the feasibility study completed, the Company expects an average cash cost during operations of US\$53/t in 2005 dollar terms using the current exchange rate. Pricing for this quality of coal for the 2005/2006 coal year exceeded US\$120 per tonne.

Elsewhere on the Wolverine properties, definition drilling has been completed on the Hermann North deposit, and geological modeling is now underway. The Hermann North deposit currently has a Measured Resource of 7 million tonnes and an Indicated Resource of 36.2 million tonnes, as reported in a Technical Report filed in August 2001. The recently completed drilling program was designed to increase the confidence of the Hermann North deposit's resource estimate and provide a basis for mine planning and design. Production from the Hermann North deposit would provide additional feed to the Wolverine coal preparation plant.

On completion of the Wolverine project construction based on the accelerated construction schedule, the Company is expecting to produce approximately 1.5 million tonnes of hard coking coal during its fiscal year ended March 31, 2007. This coal will be for sale into the growing seaborne metallurgical coal markets. It is the Company's intent to increase production, following the start of production, from 2.4 million tonnes to 3.0 million tonnes per year from the Wolverine group of properties within 24 months. This increase will come from the inclusion of production from future mining activities at the nearby Hermann North deposit and the Perry Creek underground resource.

Burnt River Property – Dillon and Brule

The Dillon Mine produces an ultra low-volatile pulverized coal injection coal ("ULV-PCI") 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 has become one of the world's premium 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 Dillon is trucked

94 kilometres to the load-out which has access to a rail line built by BC Rail that runs through the Wolverine Valley. Part of the road haul from the Dillon Mine to the load-out 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 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 ("CN"). The coal is loaded on ships at Ridley Terminals for shipment to international steel mills.

In mid-2005, the Company received approval from the BC Ministry of Energy and Mines to increase its Dillon Mine production limit to a continuous rate of 80,000 tonnes per month. The increase in the mine production rate has allowed the Company to mine the Dillon deposit at an accelerated rate over two years and ensure an uninterrupted supply of product to its customers.

During September mining operations, the Company encountered an undefined fault in the southern end of the Dillon syncline. The net effect of the fault was a decrease in the coal reserves of approximately 188,000 tonnes, thereby revising the total reserves to 1.37 million tonnes, and increasing the associated waste stripping by approximately 1,154,000 cubic metres.

During the quarter ended December 31, 2005, the Company completed a coal reserve estimate for the Brule Mine (Brule and Blind deposits). Based on detailed mine designs and economic analysis developed for a recently completed feasibility study and technical report (filed on SEDAR) the Brule Proven Reserve is expected to provide 21.1 million tonnes of product PCI coal.

In November 2005, the Company filed for initial screening by the Provincial Government the EA Certificate application to mine PCI coal at a rate of 2 million tonnes per year for the Brule Mine project. Receipt of the EA Certificate is anticipated in mid-2006. Based on the feasibility study compiled by Sandwell Engineering, the Company estimates that the plant and facilities for the Brule Mine project will require a capital investment of approximately \$140 million and mining equipment of approximately \$60 million. Until the Company is satisfied that coal prices and transportation costs support the full development of the Brule Mine project, the Company plans to initially develop and operate the Brule property in a manner similar to the Dillon Mine and defer major capital expenditures. On this basis, the Company estimates production at the Brule Mine to be at a rate of up to 1 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 plant facilities. This would allow the Brule Mine project to be started in 2006, upon receipt of the necessary permits and would provide a continuity of production from the Burnt River properties following the depletion of the Dillon reserves in mid-2006.

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 continues to rise, as crude steel production expands in pace with buoyant economic growth, particularly in China, India and other developing countries. The global supply of hard coking coal has been slow to adjust to increased demand, with a scarcity of higher quality greenfield metallurgical coal properties available for economic development, hampered further by a shortage of large scale mining equipment. Additionally, rail and port capacity limitations are expected to continue well into 2007. Early settlements for hard coking coal prices for the 2006/2007 coal year are being reported between US\$105 to US\$115 per tonne. As a result of these supply-demand fundamentals, dominant hard coking coal exporting countries such as Australia and Canada are well positioned to meet long term demand for metallurgical coal.

The supply-demand balance for low volatile PCI coal, semi-soft coal and thermal coal have been more unpredictable, with a short-term supply surplus influencing prices. Excessive ordering of PCI and semi-soft

coals in 2005, in tandem with a seasonal reduction in crude steel production has caused inventories of these coals to build at customer facilities. Additionally, the price of thermal coal reached a low for the year at the same time PCI and semi-soft coal inventories peaked. This has led to an overcorrection in pricing for low volatile PCI and semi-soft coals, with settlements in the mid to high US\$60's per tonne and the latter in the mid US\$50's per tonne.

Longer term, the Company 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.

Overall, given the forecasts for continued economic growth and steel demand in Asia, India and throughout the world, the Company anticipates the global steel industry will continue to be strong and that markets for metallurgical coal will stay robust.

Guidance

The Company has undertaken efforts to secure a number of long-term coal supply agreements with various international steel mills both for hard coking coal and PCI coal. The Company has finalized long-term purchase and sales agreements with POSCO for the supply of both hard coking coal from the Company's Wolverine Mine and PCI coal from the Burnt River property. The Company is in the process of concluding agreements with North American and European customers for the sale of Wolverine hard coking coal. The Company's low-volatile-PCI coals are being sold to major steel mills in Korea, China and Japan, as well as in Europe and South America.

The high PCI inventory levels at customer facilities have led to a rescheduling of shipments affecting most coal producers, with the shipment of some 2005/2006 priced coals being deferred until the first quarter of the next fiscal year. Accordingly, the Company anticipates that approximately 100,000 tonnes of coal scheduled for delivery in this fiscal year will be delivered during the first quarter of the next fiscal year and that its ultra-low PCI coal shipments for the current fiscal year will be between 625,000 and 675,000 tonnes.

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 will be required 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 May 2000 by the Company. The May 2000 study identified total metallurgical coal resources of approximately 141.0 million tonnes of high quality, hard coking coal. 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.

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 150 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. A recent review of the Saxon Group in February 2004 re-classified the historical resource estimates relating to Saxon East to 53.1 million tonnes of indicated, 55 million tonnes of inferred and 110 million tonnes of speculative resources and for Saxon South the report concluded that there were 67.5 million tonnes of inferred and 58 million tonnes of speculative resources.

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. Work is currently underway on the necessary engineering studies and environmental reviews including field programs designed to fully delineate the resources and conduct environmental baseline studies.

In accordance with CICA Handbook Section 3055 "Interests in Joint Ventures" the Company's consolidated interim 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 nine month period 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 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").

Results of Operations

Comparing the Quarter Ended December 31, 2005 to the Quarter Ended December 31, 2004

Revenues

The Company mined 145,917 tonnes of PCI coal from the Dillon Mine and realized FOB sales of 82,979 tonnes for total revenues of \$9,856,000 for the quarter ended December 31, 2005. The average selling price per tonne realized during the period was \$118.78 or US\$101.73 at an average foreign exchange rate of 1.1676. Fewer shipments during the quarter were due to higher customer inventories during 2005 and seasonal reductions in crude steel production. As commercial production did not commence until the third quarter of fiscal 2005 no revenues were recognized and no cost of goods sold was recorded for the three months ended December 31, 2004. Included in the Company's inventory at December 31, 2005 were 233,890 tonnes of PCI coal.

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 quarter ended December 31, 2005, cost of production was \$2,963,000 or \$35.71/tonne. As a percentage of sales, this amounted to approximately 30.1%. While the per-tonne cost of goods sold during the third quarter of 2006 was \$0.24 higher than the previous quarter the cash cost declined by \$1.16 per tonne of coal. Both quarters were adversely affected by the discovery of an undefined fault during September in the southern end of the Dillon syncline. The encountering of 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 and resulted in an increase in cash mining costs of approximately \$14/ tonne, as compared to the first quarter of fiscal 2006.

Transportation and other costs include the coal haul 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 quarter ended December 31, 2005, total transportation and other costs were \$2,924,000 or \$35.24/tonne. As a percentage of sales, this amounted to approximately 29.7%.

Depletion, amortization and accretion represent charges to costs of goods sold from 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 a declining balance method. The accretion costs represent charges incurred on the asset retirement obligation. Total depletion, amortization and accretion charges for the quarter ended December 31, 2005 totalled \$273,000 or \$3.29/tonne. As a percentage of sales this amounted to 2.8%.

Operating Profit

Operating profit for the quarter ended December 31, 2005 amounted to \$3,696,000 or 37.5% of total sales. This was a result of sales of 82,979 tonnes at an average price of \$118.78 per tonne, for total revenues of \$9,856,000, net of total costs of goods sold of \$6,160,000 at an average cost of \$74.24 per tonne.

Other Expenses

General, administration and selling costs increased by \$353,000, or 15.6%, to \$2,612,000 for the quarter ended December 31, 2005 as compared to \$2,259,000 for the quarter ended December 31, 2004. Included in general, administration and selling costs were non-cash stock-based compensation charges of \$466,000 and \$548,000 for the quarters ended December 31, 2005 and 2004, respectively. Other increases in general, administration and selling costs in the quarter ended December 31, 2005 over the prior year's period include: salaries and benefits which increased \$455,000 to \$982,000; occupancy, insurance, telecommunications, regulatory, travel, other office expenses which, in aggregate, increased \$44,000 to \$466,000; and selling and marketing costs which increased \$72,000 from nil in the prior year. Professional and consulting costs increased \$236,000 to \$490,000 for the quarter due to financial advisory services, professional costs associated with preparing corporate disclosure documents, periodic interim reviews of financial statements, and contract analysis and preparation related to construction activities at Wolverine.

Coal exploration expenditures for the three months ended December 31, 2005 increased to \$4,326,000 from \$2,899,000 in 2004. Such costs represent property development expenditures incurred, including field programs, consultants, coal license and lease payments, engineering, environmental costs and certain other project administration expenses. 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-month period, including the Company's proportionate share of expenses recorded by the Partnership of \$3,913,000 (2004 – nil), relate to properties on which the capitalization criteria have not been met.

Other income amounted to \$1,941,000 for the three-month period ended December 31, 2005, an increase of \$1,762,000 over the same period ending December 31, 2004. 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

Net loss for the quarter ended December 31, 2005 was \$383,000 compared to \$4,979,000 for the same period in the prior year. Net loss for the third quarter of 2006 reflects an operating profit of \$3,696,000, other expenses of \$5,008,000 as described above, including the Company's proportionate share of coal exploration expenses recorded by the Partnership of \$3,913,000, and the recording of an income tax recovery of \$929,000.

Comparing the Nine Month Period Ended December 31, 2005 to the Nine Month Period Ended December 31, 2004

Revenues

The Company mined 508,159 tonnes and realized FOB sales of 406,546 tonnes for total revenues of \$48,500,000 for the nine-month period ended December 31, 2005. The average selling price per tonne realized during the period was \$119.30 or US\$98.17 at an average foreign exchange rate of 1.2152. Commercial production did not commence until the third quarter of fiscal 2005. Therefore, no revenues were recognized and no cost of goods sold was recorded for the nine months ended December 31, 2004.

Cost of Goods Sold

Cost of product sold included such expenses as costs for open-pit mining, coal preparation and handling, general services and other costs as well as proportionate allocations of overhead. For the nine-month period ended December 31, 2005 the cost of production was \$12,384,000 or \$30.46/tonne. As a percentage of sales this amounted to approximately 25.5%. Cost of product sold in the nine-month period was adversely affected by the decline in the coal reserves of 188,000 tonnes, the associated increase in waste of 1,154,000 cubic metres, and an adjustment to deferred stripping costs in the second quarter as a result of the overall increase in the life-of-mine strip ratio.

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 nine-month period ended December 31, 2005 the total transportation and other costs were \$14,791,000 or \$36.38/tonne. As a percentage of sales this amounted to approximately 30.5%.

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 a declining balance method. The accretion costs represent charges incurred on the asset retirement obligation. Total depletion, amortization and accretion charges for the nine-month period ended December 31, 2005 totalled \$2,064,000 or \$5.08/tonne. As a percentage of sales this amounted to 4.3%.

Operating Profit

Operating profit for the nine-month period ended December 31, 2005 amounted to \$19,261,000 or 39.7% of total sales. This was a result of sales of 406,546 tonnes at an average price of \$119.30 per tonne, for total revenues of \$48,500,000, net of cost of goods sold of \$29,239,000 at an average cost of \$71.92 per tonne.

Other Expenses

General, administration and selling costs increased by \$4,771,000 or 100.5% to \$9,517,000 for the nine-month period ended December 31, 2005. Included in general, administration and selling costs were non-cash stock-based compensation charges of \$2,672,000 and \$1,343,000 for the nine-month periods ended December 31, 2005 and 2004, respectively. Other cost increases in general, administration and selling costs in the nine-month period ended September 30, 2005 over the prior year's period included: salaries and benefits which increased \$1,395,000 to \$2,610,000; and occupancy, insurance, telecommunications, regulatory, travel and other office expenses which in aggregate increased \$402,000 to \$1,465,000. Selling and marketing costs increased \$329,000 from nil in the prior year while professional and consulting costs increased \$1,549,000 to \$2,101,000 for the nine month period due to the costs incurred in resolving the transportation dispute with CN (*see Contingency*) and other professional costs associated with preparing corporate disclosure documents, periodic interim reviews of financial statements, and contract analysis and preparation related to construction activities at Wolverine.

Coal exploration expenditures for the nine-month period ended December 31, 2005, including the Company's proportionate share of expenses recorded by the Partnership of \$6,459,000, increased to \$8,889,000 from \$3,094,000 in the same period prior year.

Other income amounted to \$3,623,000 for the nine-month period ended December 31, 2005, an increase of \$3,405,000 over the same period ending December 31, 2004. The majority of other income consists of interest income earned on the significantly higher level of cash, short-term investments held by the Company, and stumpage income earned during the period.

Net Income

Net income for the nine-month period ended December 31, 2005 was \$9,395,000 compared to a net loss of \$7,622,000 for the same period in 2004. Net income during the nine-month period ended December 31, 2005 reflects an operating profit of \$19,261,000, other expenses of \$14,802,000 as described above, including the Company's proportionate share of coal exploration expenses recorded by the Partnership of \$6,459,000, and the recording of an income tax recovery of \$4,936,000. 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 nine-month period ended December 31, 2005, the Company incurred deferred development expenditures of approximately \$72,401,000 net of depletion charges. Total deferred development expenditures incurred during the nine-months ended December 31, 2005 on Burnt River amounted to \$2,129,000 less \$1,398,000 in depletion charges for a net increase of \$731,000. Total deferred development expenditures incurred during the nine-months ended December 31, 2005 on the Wolverine group of properties amounted to \$71,670,000.

During the period ended December 31, 2005, the Company increased its investment in plant and equipment by \$9,865,000. Of these additions, \$9,668,000 relates to the capitalized value of capital leases added during the nine-month period ended December 31, 2005.

Summary of Quarterly Results (unaudited)

(000's of dollars, except per share data; restated where applicable)

	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Total Revenues	\$9,856	\$19,129	\$19,515	\$11,347	\$ nil	\$ nil	\$ nil	\$ nil
Net Earnings (Loss)	(\$383)	\$5,186	\$4,592	(\$3,350)	(\$4,979)	(\$1,189)	(\$1,453)	(\$1,079)
Net Earnings (loss) per share – Basic ⁽¹⁾	\$0.00	\$0.06	\$0.06	(\$0.05)	(\$0.10)	(\$0.03)	(\$0.04)	(\$0.03)
Net Earnings (loss) per share – Diluted ⁽¹⁾	\$0.00	\$0.06	\$0.05	(\$0.05)	(\$0.10)	(\$0.03)	(\$0.04)	(\$0.03)
Total Assets	\$176,134	\$169,956	\$159,116	\$149,802	\$35,143	\$ 18,240	\$11,807	\$2,042

⁽¹⁾ For quarters ending March 31, 2005 and prior, the basic and fully diluted calculations result in the same values due to the anti-dilutive effect of outstanding stock options and warrants.

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.

Financing Activities

During the nine-month period ended December 31, 2005, \$1,925,000 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. No other financing activities were conducted during the nine months ended December 31, 2005, however, during the quarter ended March 31, 2005, the Company completed an underwritten private placement of 18,852,460 units at a price of \$6.10 per unit for aggregate gross proceeds of \$115 million. In connection with the private placement, the Company paid underwriters' fees of \$4,375,000 and incurred share issue costs of \$287,339.

During the nine months ended December 31, 2004, the Company completed three financings. In April 2004, the Company closed a non-brokered private placement of 1,500,000 units at a price of \$1.00 per unit for gross proceeds of \$1,500,000, of which \$300,000 had been received in subscriptions as at March 31, 2004. In June 2004, the Company closed a private placement of 8 million units at \$1.25 per unit. This placement consisted of 4,800,000 subscription receipts at a price of \$1.25 per subscription receipt, and 3,200,000 units at a price of \$1.25 per unit for aggregate gross proceeds of \$10,000,000. Each subscription receipt was converted into a unit for no additional consideration.

In connection with its application for admission to trading on AIM, the Company arranged two concurrent private placements, including a non-brokered private placement of 8,399,999 shares of the Company at a price of \$1.75 per share for total proceeds of \$14,699,998 and a brokered private placement of 3,028,572 shares at a price of \$1.75 per share for total proceeds of \$5,300,001. As part of the non-brokered private placement, the Company's major shareholder, Cambrian Mining Plc ("Cambrian") of London, UK, subscribed for 5,714,285 shares for total proceeds of \$9,999,999.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the nine-month period ended December 31, 2005 resulted in a net decrease to cash of \$80,109,000. As at December 31, 2005, the Company's cash balance stood at \$35.1 million (including the Company's share of the Partnership's cash of \$3.9 million) and working capital was \$46.4 million.

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 \$1.9 million on coal sales of \$11.3 million, before depletion, amortization and accretion and working capital changes, and for the nine-month period ended December 31, 2005, the Dillon Mine generated cash flow of \$21.3 million on coal sales of \$48.5 million. Cash flows generated from future shipments of Dillon ULV-PCI will depend on volumes, settlement prices, exchange rates, the level of operating costs, and other factors noted throughout this MD&A, including the items identified under "Risks and Uncertainties" in the Annual MD&A.

An additional source of funds for the Company is from the exercise of outstanding options and share purchase warrants. Warrants currently in-the-money and expiring in June 2006 are expected to provide an additional \$5.3 million. With one mine in commercial production, other forms of working capital have become available, including a US\$15 million bank line to finance Export Development Canada insured trade receivables, none of which is utilized as at December 31, 2005.

Cash on hand, cash flow from operations and cash from in-the-money warrants, 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 financing facility to the completion of the project financing, the Company is arranging a loan from its major shareholder, Cambrian, of up to \$30 million. In the event that additional funds are not raised as and when required, until such time as 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.

As of December 31, 2005, 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>
Long-term debt	Nil	Nil	Nil	Nil	Nil
Asset retirement obligation	\$ 9,392	\$ 21	\$ 610	\$ 2,178	\$ 6,583
Capital lease and equipment obligations	46,334	17,090	18,182	11,062	Nil
Operating leases (premises & other)	1,982	914	830	238	Nil
Wolverine project commitments	61,500	61,500	Nil	Nil	Nil
Reclamation bond requirement	3,421	3,144	277	Nil	Nil
Other	1,843	523	440	440	440
Total Contractual Obligations	\$ 124,472	\$ 83,192	\$ 20,339	\$ 13,918	\$ 7,023

The Wolverine project commitments in the above table include only contractual obligations entered into as of December 31, 2005 and do not include the lease commitments for mining equipment arriving on site subsequent to quarter end. 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 million and total mining equipment to be leased or purchased is approximately \$83 million.

Other commitments in the above table include the Company's Nominated AIM Advisor fee of approximately \$110,000 annually, remaining aggregate fees payable to the Company's financial advisor of \$212,000, and the minimum fee payable to the Dillon Mine contractor for demobilization of operations and equipment upon completion of the mine contract.

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 for the year ended March 31, 2005.

Related Party Transactions

During the nine-month period ended December 31, 2005, there were no related party transactions. For the nine-month period 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.

As at December 31, 2005, other than directors' fees, there were no accounts payable and accrued liabilities due to directors or companies controlled by directors.

The Company entered into a joint venture agreement with Wasabi to explore and develop the Lillyburt coal property located southeastern British Columbia. (See "*Interest in Joint Ventures*"). Wasabi is a junior energy exploration company that is publicly traded on the Australian Stock Exchange and has offices in Western Australia. The Company's major shareholder is also Wasabi's largest shareholder, holding approximately 22% of Wasabi.

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 Canadian Transportation Agency and the arbitrator in the FOA hearing have been served with notice of the Federal Court application as well.

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. 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.

The Company is also of the opinion that if the Federal Court finds CN's position to be correct, the effects of the decision would also apply to other shippers in circumstances similar to those of the Company, thus altering the dynamics of the market for the provision of transportation services across Canada. Accordingly, the Company anticipates that the Federal Government as well as a number of shippers and shipping associations will take an active role and interest in this case.

Changes in Accounting Policies

There are no changes in accounting policies impacting the consolidated interim financial statements for the nine-months ended December 31, 2005. Refer to the Annual MD&A for a description of changes in accounting policies affecting the Company's consolidated audited financial statements for the year ended March 31, 2005.

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.

Critical Accounting Estimates

In preparing financial statements, management is required 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. The Company's accounting policies are described in Note 2 to the consolidated financial statements for the most recent fiscal year ended March 31, 2005. The accounting estimates considered to be significant to the Company include the accounting for the impairment of property, plant and equipment and other assets such as investments, inventory valuation including deferred stripping costs, restoration and post-closure costs, as well as accounting for income and mining taxes. Refer to the Annual MD&A for a description of critical accounting estimates affecting the Company's consolidated audited financial statements.

Recent Accounting Pronouncements

There are no recent accounting pronouncements impacting the current consolidated financial statements for the nine-months ended December 31, 2005, except as disclosed in the Annual MD&A for the year ended March 31, 2005.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities and various commitments, including capital lease obligations. 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 implemented a foreign exchange hedging program. As at December 31, 2005, the Company has outstanding a series of put and call option contracts, commonly referred to as a costless collar, to minimize the risk exposure to foreign currency. The US dollar put options offer downside protection against the Canadian dollar strengthening above US \$0.855 while the US dollar call options limit participation as a result of the Canadian dollar weakening below US \$0.838. Outstanding put and call options as at December 31, 2005 are for US \$10 million in January and US \$5 million in each of February and March 2006. As at December 31, 2005 and for the period then ended, there are no gains or losses recorded in statement of operations, nor any 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 83,980,306 common shares as at February 8, 2006 for a net consideration of \$159,743,764. Outstanding options, warrants, and convertible securities as at February 8, 2006:

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	298,503	\$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
Warrants	3,522,500	\$1.50	June 16, 2006
Warrants	9,426,225	\$7.00	February 9, 2006

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 in the Annual MD&A. 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.

Forward-looking Information

This MD&A may contain forward-looking statements that may involve risks and uncertainties. Such statements relate to the Company's expectations, intentions, plans and beliefs. As a result, actual future events or results could differ materially from those suggested by the forward-looking statements. Readers are referred to the documents filed by the Company on SEDAR, specifically the most recent Annual Report which identifies important risk factors that could cause actual results to differ from those contained in the forward-looking statements. Such risk factors include, but are not limited to, changes in commodity prices; strengths of various economies; the effects of competition and pricing pressures; the oversupply of, or lack of demand for, the Company's products; currency and interest rate fluctuations; various events which could disrupt operations; the Company's ability to obtain additional funding on favourable terms, if at all; 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 information 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.

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.