
WESTERN CANADIAN COAL CORP.
Consolidated Financial Statements
For the Nine Months Ended
December 31, 2006

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

(Unaudited)

(Expressed in thousands of Canadian dollars)

	December 31, 2006	March 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33,711	\$ 71,274
Restricted cash (Note 5)	15,276	9,375
Accounts receivable	16,758	6,013
Inventory	21,037	23,631
Prepays and other deposits	4,061	3,765
	90,843	114,058
Deferred financing costs	7,097	5,129
Deposits	9,877	6,575
Mineral property, plant and equipment	312,088	208,712
Future income tax asset	9,582	6,806
	\$ 429,487	\$ 341,280
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 14,438	\$ 39,643
Current income tax payable	525	286
Current portion of asset retirement obligations	-	549
Current portion of capital lease obligations	9,719	4,401
Current portion of convertible debentures (Note 6)	8,299	8,742
Current portion of long-term debt (Note 7)	22,156	-
	55,137	53,621
Asset retirement obligations	8,304	3,323
Capital lease obligations	37,932	18,161
Convertible debentures (Note 6)	108,738	104,436
Long-term debt (Note 7)	43,144	-
	253,255	179,541
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	182,552	159,744
Equity portion of convertible debentures	11,558	11,558
Contributed surplus	5,894	4,513
Deficit	(23,772)	(14,076)
	176,232	161,739
	\$ 429,487	\$ 341,280

Nature of Operations (Note 1), Commitments & Contingencies (Note 13), Subsequent Event (Note 15)

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

Approved on Behalf of the Board of Directors:

"John Byrne"

John Byrne, Director

"John R. Brodie"

John R. Brodie, FCA, Director

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

(Unaudited)

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
Revenues	\$ 48,676	\$ 9,856	\$ 89,361	\$ 48,500
Cost of goods sold				
Cost of product sold	30,049	2,963	45,920	12,384
Transportation and other	12,046	2,924	26,994	14,791
Depletion, amortization and accretion	4,700	273	6,448	2,064
	46,795	6,160	79,362	29,239
Operating profit	1,881	3,696	9,999	19,261
Other expenses (income)				
General, administration and selling (Note 10)	3,661	2,612	10,149	9,517
Coal exploration (Note 11)	2,310	4,326	6,317	8,889
Interest and financing fees on long-term debt	5,163	11	5,169	19
Abandoned transaction expense (Note 3)	54	-	674	-
Other expense (income)	765	(1,941)	(275)	(3,623)
	11,953	5,008	22,034	14,802
Net income (loss) before tax	(10,072)	(1,312)	(12,035)	4,459
Income taxes				
Current income tax expense	72	-	437	-
Future income tax recovery	(2,898)	(929)	(2,776)	(4,936)
	(2,826)	(929)	(2,339)	(4,936)
Net income (loss) for the period	(7,246)	(383)	(9,696)	9,395
Deficit, beginning of period	(16,526)	(11,752)	(14,076)	(21,530)
Deficit at end of period	\$ (23,772)	\$ (12,135)	\$ (23,772)	\$ (12,135)
Earnings (loss) per share				
Basic	\$ (0.08)	\$ (0.00)	\$ (0.11)	\$ 0.12
Diluted	\$ (0.08)	\$ (0.00)	\$ (0.11)	\$ 0.11
Weighted average common shares outstanding				
Basic	89,297,120	83,975,469	88,439,096	81,496,288
Diluted	89,297,120	83,975,469	88,439,096	84,835,163

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

WESTERN CANADIAN COAL CORP.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Expressed in thousands of Canadian dollars)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
CASH FLOWS FROM (USED IN):				
Operating Activities				
Net income (loss) for the period	\$ (7,246)	\$ (383)	\$ (9,696)	\$ 9,395
Items not involving cash and cash equivalents:				
Accretion, depletion and amortization	11,211	501	24,099	1,956
Future income tax recovery	(2,898)	(1,024)	(2,776)	(5,030)
Stock-based compensation	380	466	1,539	2,672
	1,447	(440)	13,166	8,993
Changes in non-cash working capital items:				
Restricted cash	(466)	-	(5,901)	-
Accounts receivable	(5,101)	(1,406)	(10,745)	2,694
Inventory	6,680	(8,643)	557	(13,970)
Prepaid expenses	3,226	294	(296)	(89)
Accounts payable and accrued liabilities	(10,491)	(1,974)	(25,205)	4,568
Current income tax payable	72	-	239	-
	(4,633)	(12,179)	(28,185)	2,196
Financing Activities				
Bank indebtedness	(2,778)	-	-	(2,844)
Deferred financing costs	61	(202)	(2,871)	(202)
Repayments on capital lease obligations	(4,185)	(1,986)	(9,732)	(2,074)
Net proceeds from sales-leaseback of equipment	8,635	-	8,635	-
Interest payment on convertible debenture	-	-	(4,726)	-
Proceeds from long term debt, net of issue costs	-	-	63,228	-
Net proceeds from Issue of shares	17,116	8	22,650	2,444
	18,849	(2,180)	77,184	(2,676)
Investing Activities				
Acquisition of mineral property, plant and equipment	(2,733)	(38,116)	(83,260)	(70,814)
Deposits	154	(5,766)	(3,302)	(8,815)
	(2,579)	(43,882)	(86,562)	(79,629)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	11,637	(58,241)	(37,563)	(80,109)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	22,074	93,318	71,274	115,186
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 33,711	\$ 35,077	\$ 33,711	\$ 35,077

Supplementary cash flow information (Note 12).

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, 2006**

(Unaudited)

(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 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 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 ("TSX") 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% interest in 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 has an Environmental Assessment (EA) Certificate and a BC government mine permit which provide the potential to mine up to 2.0 million tonnes per annum (Mtpa) of pulverized coal injection ("PCI") coal at its Brule mine (located on the Burnt River property within the Brazion group). The Company also received an EA Certificate and a BC government open-pit mine permit for its Perry Creek mine (located within the Wolverine group) covering production of 2.4 Mtpa year of clean hard coking coal. The commissioning of the coal preparation plant and other facilities at the Perry Creek mine was completed during the second quarter of fiscal 2007. During October 2006, the Company reached its predetermined minimum level of mining/processing capacity and thus, determined that commercial production for accounting purposes was achieved effective October 1, 2006. All applicable costs ceased being capitalized from that date. The Company's other properties are at various stages of exploration and development.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") using standards for interim financial statements and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements except as noted below. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

Principles of Consolidation

These interim consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Western Coal Corp. and Wolverine Coal Ltd. ("Wolverine Coal"). Wolverine Coal was incorporated on July 10, 2006 under the Business Corporation Act (British Columbia). All title to and interests in the assets and operations of the Perry Creek mine were subsequently transferred to Wolverine Coal forming part of the lenders' security for the long-term debt (Note 7). Additionally, in accordance with CICA Handbook Section 3055, "Interests in Joint Ventures", these interim consolidated financial statements also include the Company's 50% proportionate share of the assets, liabilities, revenues and expenses of the Belcourt Saxon Coal Limited Partnership (the "Joint Venture") and Belcourt Saxon Coal Ltd. (the "Joint Venture's operator") All significant intercompany transactions and balances have been eliminated.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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.)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*Deferred Stripping*

Effective July 1, 2006, the company adopted CICA Emerging Issues Committee Abstract 160 (EIC-160) "Stripping Costs Incurred in the Production Phase of a Mining Operation" on a prospective basis. EIC-160 requires stripping costs to be accounted for as variable production costs to be included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case, the stripping costs would be capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs would be amortized on a unit of production basis over the proven and probable reserves to which they relate.

The prospective application of this standard permits the existing deferred stripping costs incurred in the production phase to be viewed as the opening balance of capitalized stripping costs and amortized on a unit of production basis over the remaining useful life of the mine.

Mineral Property, Plant and Equipment

Mineral property, plant and equipment include interest and financing costs relating to the construction of plant and equipment and operating costs net of revenues prior to the commencement of commercial production of new mines. Interest and financing costs are capitalized only for those projects for which funds have been borrowed. Interest capitalized prior to October 1, 2006, the date commercial production was determined to have commenced for the Perry Creek mine was \$6,286,000 (2005 – nil).

3. ABANDONED TRANSACTION - NEMI NORTHERN ENERGY & MINING INC.

During the first quarter of fiscal 2007, the Company entered into an agreement to enter into a business combination with NEMI such that NEMI would become a wholly-owned subsidiary of the Company (the "Arrangement Agreement").

During the second quarter of fiscal 2007, NEMI announced that it believed the Arrangement Agreement with the Company had been terminated and that it had entered into a letter of intent with Hillsborough Resources Limited ("Hillsborough") and Anglo Coal Canada Inc. ("Anglo Canada") to combine their respective north-eastern British Columbia metallurgical coal assets into a new entity formed by those parties (later named "Peace River Coal Limited Partnership"). The Company advised NEMI that its purported termination of the agreement was ineffective and requested that NEMI provide payment of the \$3.5 million break fee as required under the Arrangement Agreement. Accordingly, all previously deferred transaction costs and costs incurred in relation to this abandoned transaction were expensed during the quarter ended September 30, 2006. Subsequent costs have been expensed as incurred.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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.)

3. ABANDONED TRANSACTION - NEMI NORTHERN ENERGY & MINING INC. (CONTINUED)

During the quarter ended December 31, 2006, the Company entered into an agreement with Anglo Coal, NEMI and Hillsborough, consenting to the transfer of NEMI's interest in the Joint Venture to Peace River Coal Limited Partnership and also setting forth the platform for advancing the work program and funding for the Belcourt and Saxon properties. The agreement also provides a mechanism whereby the break fee issue arising from the previously proposed combination of the Company and NEMI will be resolved quickly by reference to an independent expert rather than the courts. As at December 31, 2006, the Company has not recorded in its books any amounts relating to the break fee. Following this agreement, NEMI, Anglo Canada and Hillsborough completed their asset transfer agreement and NEMI's interest in the Joint Venture was transferred to Peace River Coal Limited Partnership.

The Company anticipates a resolution to the break fee issue during the first quarter of fiscal 2008.

4. INTEREST IN JOINT VENTURE

On March 2, 2005, the Company acquired a 50% interest in the Joint Venture, formed for the exploration and development of the Belcourt and Saxon properties in northeast BC. During the quarter ended December 31, 2006, NEMI's 50% interest in the Joint Venture was transferred to Peace River Coal Limited Partnership (Note 3). Following the transfer, each of the Company and Peace River Coal Limited Partnership contributed an additional \$950,000 cash in the Joint Venture.

The Company's proportionate share of its interest in and results from the Joint Venture, as presented by the Joint Venture, are as follows:

Balance Sheet:	December 31, 2006	March 31, 2006
Cash and cash equivalents	\$ 643	\$ 2,331
Deposits	50	100
Other current	44	493
Mineral property, plant and equipment	26	35
Current liabilities	(94)	(690)
	\$ 669	\$ 2,269

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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.)

4. INTEREST IN JOINT VENTURE (CONTINUED)

Statement of Operations:	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
General, administration and selling	\$ 50	\$ 78	\$ 204	\$ 223
Other income	-	(34)	(29)	(79)
Coal exploration (Note 11)	477	3,913	2,374	6,459
Net loss	\$ 527	\$ 3,957	\$ 2,549	\$ 6,603

Statement of Cash Flows:				
Operating activities	\$ (500)	\$ 121	\$ (2,638)	\$ 635
Financing activities	950	-	950	5,000
Investing activities	(54)	(3,913)	-	(6,573)

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 ventures' contributed property.

5. RESTRICTED CASH

Restricted cash as presented consist of the following:

	December 31, 2006	March 31, 2006
Funds held in escrow for Convertible Debentures (Note 6)	\$ 4,887	\$ 9,375
Contingent support account (Note 7)	10,000	-
Other	389	-
	\$ 15,276	\$ 9,375

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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.)

6. CONVERTIBLE DEBENTURES

	December 31, 2006	March 31, 2006
Balance – beginning of period	\$113,178	\$ -
Face value of Convertible Debentures issued during the period	-	125,000
Less: Shareholders' equity component	-	(12,070)
Liability component of Subordinated Debentures	113,178	112,930
Add: Accretion of liability component of debentures	8,585	248
Less: Interest payment	(4,726)	-
Balance – end of period	117,037	113,178
Less: Current Portion	(8,299)	(8,742)
	\$108,738	\$ 104,436

On March 24, 2006, the Company issued 125,000 subordinated Convertible Debentures in denominations of \$1,000 in the aggregate principal amount of \$125,000,000. The Convertible Debentures bear interest at a rate of 7.5% per annum payable semi-annually on September 24 and March 24 in each year commencing September 24, 2006 and mature on March 24, 2011. Holders may convert their Convertible Debentures into common shares at any time prior to their maturity at a conversion price of \$4.00 per common share, being a conversion rate of 250 common shares per \$1,000 principal amount of Convertible Debentures.

Commencing March 24, 2009, provided certain conditions are met, the Company may redeem all or a portion of the Convertible Debentures at a redemption price equal to the principal amount thereof plus accrued and unpaid interest thereon. Additionally, upon specified change of control events, holders of Convertible Debentures will have the option to require the Company to purchase all or any portion of the Convertible Debentures plus accrued and unpaid interest. The Convertible Debentures are unsecured and are subordinated to the other liabilities of the Company.

Included in the restricted cash are funds held in escrow for the Convertible Debentures, representing the interest required to be paid on the Convertible Debentures on March 24, 2007 (Note 5).

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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.)

7. LONG-TERM DEBT

	December 31, 2006	March 31, 2006
Project debt facility	\$ 65,300	\$ -
Less: current portion	22,156	-
	\$ 43,144	\$ -

On August 18, 2006, the Company closed a \$75 million project loan facility, with a syndicate of banks, to be used for the completion of construction and start-up of the Perry Creek mine project. The facility has a 6.5 year term with the first principal repayment date on June 30, 2007 and the final principal repayment due on December 31, 2012. In addition to the scheduled principal repayments, the facility provides for mandatory principal prepayments of 75% of excess cash flows to December 31, 2007 and 55% thereafter until the facility is repaid in full.

The Company may make draws in the form of a bankers' acceptance loan or a prime rate based loan. The prime loan interest rate is prime plus 1.50%, and the bankers' acceptance loan rate is the prevailing CDOR rate plus 2.5%. Upon achieving commercial production and meeting certain operating performance benchmarks (the "Completion Test"), anticipated in calendar 2007, the interest rate margin on the prime rate based loans and bankers' acceptance loans reduce to 1.0% and 2.0% respectively. A standby fee of 0.75% will be charged on any undrawn portion of the facility. The loan may be repaid at anytime without penalty. Subsequent to December 31, 2006 the Company drew the remaining \$9.7 million available under the facility.

All of the Perry Creek mine assets held by Wolverine Coal are pledged as security for the senior debt facility. Additionally, until the Perry Creek mine has achieved the Completion Test, the parent company, Western Canadian Coal Corp., has provided a guarantee of such amounts outstanding under the facility.

The Company has established a separate restricted cash account of \$10.0 million, referred to as the contingent support account ("CSA"), to fund any Perry Creek mine project cost overruns or increased start-up operating costs. The CSA (Note 5) will be released to fund such overruns or upon achieving the Completion Test.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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.)

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

	Number of Shares	Consideration
Balance, March 31, 2006	83,980,306	\$ 159,744
For cash received from a private placement of shares (Note (a))	8,777,066	17,115
For cash received from the exercise of warrants	3,519,600	5,279
For cash received from the exercise of stock options	270,768	255
Transferred to share capital upon exercise of stock options	-	159
Balance, December 31, 2006	96,547,740	\$ 182,552

(a) On December 15, 2006, the Company completed a non-brokered private placement with its major shareholder, Cambrian Mining plc, of 8,777,066 common shares at \$1.95 per share for gross proceeds of \$17,115,000. This increases Cambrian Mining plc's holding to 47.5% of the issued and outstanding common shares of the Company. The net proceeds from the placement will be used to fund the production start-up for the Company's Brule mine property, to fund the Company's share of the continuing exploration on the Belcourt Saxon properties, to fund additional regulatory permitting for certain of the Company's other properties, and for general working capital.

9. STOCK-BASED COMPENSATION

During the nine month period ended December 31, 2006, the Company granted 1,120,000 stock options to employees, officers and directors (2005 – 1,340,000). During the nine months ended December 31, 2006, an amount of \$1,539,000 (2005 - \$2,672,000) 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,	
	2006	2005
Assumptions:		
Risk-free interest rate (%)	4.05	3.32
Expected life (years)	4.49	5.0
Expected volatility (%)	68	71
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted (per option)	\$1.09	\$2.83

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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.)

10. GENERAL, ADMINISTRATION AND SELLING

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
Schedule of expenses:				
Salaries, benefits and other remuneration	\$ 1,212	\$ 982	\$ 3,601	\$ 2,610
Sales and marketing	792	72	1,158	329
Stock-based compensation (Note 9)	380	466	1,539	2,672
Travel and related expenses	206	125	598	305
Consulting	187	125	555	692
Office and miscellaneous	137	129	486	350
Amortization	126	123	397	212
Rent and telecommunications	201	73	411	207
Legal and audit	193	365	616	1,409
Insurance	102	104	322	183
Corporate communications	19	11	125	128
Exchange and other regulatory fees	106	37	341	420
	\$ 3,661	\$ 2,612	\$ 10,149	\$ 9,517

11. COAL EXPLORATION

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2006	2005	2006	2005
Schedule of expenses:				
Wolverine - Hermann	\$ 1,802	\$ 337	\$ 3,743	\$ 1,392
Belcourt and Saxon (Note 4)	477	3,913	2,374	6,459
Other	31	76	200	154
Burnt River	-	-	-	884
	\$ 2,310	\$ 4,326	\$ 6,317	\$ 8,889

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2006	2005	2006	2005
Other information:				
Interest paid	\$ 1,935	\$ 11	\$ 8,015	\$ 19
Non-cash investing and financing transactions:				
Capital lease obligation recognized for assets under capital lease	\$ 18,477	\$ 9,185	\$ 34,821	\$ 9,635
Asset retirement obligation recognized for future mine reclamation costs	-	805	4,078	2,415

13. COMMITMENTS AND CONTINGENCIES

- (a) As at December 31, 2006, the balance of the costs to complete the construction of the Perry Creek mine is estimated to be \$27 million. At this time the Company has committed to approximately \$3 million of the estimated costs to complete.
- (b) The Company has entered into a long-term port services agreement which requires that the Company deliver a specified minimum volume by March 31, 2007 or pay for the difference thereon. The Company expects it will be able to achieve this minimum volume requirement.
- (c) In March 2005, the Company commenced legal proceedings to determine the validity of a royalty sharing agreement (the "RSA"), which was entered into by former management of the Company with two former directors and one of their business associates. By its terms, the RSA provides for the payment of a royalty of 1% of the price for all product tonnes of coal produced from specified properties. Former management granted the royalty to themselves and their business associate in consideration of up to \$80,000 in loans they made to the Company in the Spring of 2000. The loans were substantially repaid by a shares-for-debt issuance in July 2000 with the balance being paid in cash by May 2001.

The Company considers that the royalty represents a return on these loans. Based on the Company's assessment of the matter and its interpretation of Section 347 of the Criminal Code of Canada, it would therefore be illegal for the Company to pay, or for the royalty holders to receive, a return which exceeds 60% per annum (compounded) for the period during which the loans were outstanding. The Company expects that sales from the Perry Creek Mine in the third and fourth quarters of fiscal 2007 will result in payments under the RSA aggregating amounts would reach the limit of permissible payment, after which any further obligation under the RSA would be illegal and unenforceable.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED DECEMBER 31, 2006**

(Unaudited)

(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. COMMITMENTS AND CONTINGENCIES (CONTINUED)

To December 31, 2006, the Company made payments of \$398,000 representing full payment to two of the individuals party to the RSA based on their respective advances to the Company and the maximum allowed under Section 347 of the Criminal Code of Canada to the third individual based on his advances to the Company. The Company has not recorded the amount which it believes would exceed the limit of permissible payments, which at December 31, 2006 is \$8,800.

Subsequent to December 31, 2006, one of the parties to the RSA filed a petition in the Supreme Court of British Columbia seeking a declaration that amounts paid pursuant to the RSA do not constitute interest within the meaning of Section 347 of the Criminal Code of Canada. The Company believes its position is supported by the RSA agreement and will respond accordingly.

- (d) To minimize the risk exposure of foreign currency fluctuations on sales revenues, the Company has entered into put and call option contracts, commonly referred to as costless collars. 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 December 31, 2006 are for US\$12,000,000 for each of January and February 2007 with a floor of 1.100 and a ceiling of 1.1298. As at December 31, 2006, the Company has recorded in its Statement of Operations an unrealized loss of \$854,000, as a result of these instruments.
- (e) Other commitments and contingencies are included in the notes to the audited consolidated financial statements for the year ended March 31, 2006 and elsewhere in these consolidated interim consolidated financial statements (Notes 4, 6 and 7).

14. SEGMENTED INFORMATION

All of the Company's mining operations are conducted in Canada. However, the Company had no revenues from Canadian customers. The Company's revenues for the periods ended December 31, 2006, and 2005 are derived from coal sales to customers located in the following geographic areas:

	Three Months Ended December 31		Nine Months Ended December 31	
	2006	2005	2006	2005
Asia	\$ 46,504	\$ 4,327	\$ 81,158	\$ 35,198
Europe	2,172	5,529	8,203	13,302
	\$ 48,676	\$ 9,856	\$ 89,361	\$ 48,500

For the three and nine months ended December 31, 2006, there were four and three customers respectively, each of which accounted for greater than 10% of revenues. The percentage of sales from these customers was 88% and 67% respectively.

WESTERN CANADIAN COAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED DECEMBER 31, 2006

(Unaudited)

(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. SUBSEQUENT EVENT

Subsequent to December 31, 2006, the Company entered into a series of forward exchange contracts to fix the rate at which future anticipated flows of US dollars are exchanged into Canadian dollars. Such contracts include forward sales of US dollars at 1.1721, in the amounts of US \$12,000,000 in March 2007, and US \$15,000,000 per month from April through December 2007.