

Western Canadian Coal Corp.
Consolidated Financial Statements
For the Years Ended
March 31, 2009 and 2008

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements and related financial information are the responsibility of management and have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. These consolidated financial statements necessarily include amounts that reflect management's judgment and best estimates. Financial information contained elsewhere in this Annual Review is consistent with the consolidated financial statements.

The Company maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and safeguarding of its assets.

The Board of Directors, on the recommendation of the Audit Committee, approve the consolidated financial statements. The Audit Committee consists of three members, all of whom are independent. The Audit Committee reviews the consolidated financial statements with management and the independent auditors prior to submission to the Board of Directors for approval. The Audit Committee reviews interim consolidated financial statements with management and the independent auditors prior to their release to the public. The Audit Committee also has the duty to review critical accounting policies and significant estimates and judgments underlying the consolidated financial statements prepared by management, to recommend to the Board of Directors the independent auditors to be proposed to the shareholders for appointment, and to approve the fees of the independent auditors.

The independent auditors, PricewaterhouseCoopers LLP, have conducted an examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The report of the independent auditors is included in this Annual Report. The independent auditors have full and free access to the Audit Committee of the Company.

"John Hogg" _____

John Hogg
President and Chief Executive Officer

"Jeff Redmond"

Jeff Redmond
Director, Finance

June 25, 2009

Auditor's Report

To the Shareholders of Western Canadian Coal Corp.

We have audited the consolidated balance sheets of Western Canadian Coal Corp. as at March 31, 2009 and 2008 and the consolidated statements of operation and comprehensive income (loss), retained earnings (deficit) and cash flows for each of the years in the two year period ended March 31, 2009. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants
Vancouver, BC

Western Canadian Coal Corp.

Consolidated Balance Sheets

As at March 31

(Expressed in thousands of Canadian dollars)

	2009	2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 74,853	\$ 14,137
Restricted cash	-	4,608
Accounts receivable (Note 7)	39,270	11,418
Loan to related party (Note 8)	40,634	-
Inventory (Note 9)	62,376	24,173
Prepays and other deposits	810	216
	217,943	54,552
Deposits (Note 10)	19,079	12,189
Mineral property, plant and equipment (Note 11)	419,321	384,902
Other assets (Note 12)	5,994	1,681
	\$ 662,337	\$ 453,324
LIABILITIES		
Current liabilities		
Demand bank loan (Note 14)	\$ -	\$ 3,500
Accounts payable and accrued liabilities	29,539	41,142
Current income tax payable	17,994	403
Acquisition liability (Note 4)	-	26,137
Current portion of asset retirement obligations (Note 17)	1,009	1,012
Current portion of capital lease obligations (Note 18)	18,642	13,348
Current portion of convertible debentures (Note 19)	4,953	11,941
Current portion of royalty and other liabilities (Note 20)	167	1,490
Current portion of long-term debt (Note 15)	-	27,918
	72,304	126,891
Loan from related party (Note 16)	-	5,016
Asset retirement obligations (Note 17)	12,498	13,694
Capital lease obligations (Note 18)	29,154	40,173
Convertible debentures (Note 19)	61,729	140,411
Royalty and other liabilities (Note 20)	3,159	8,149
Future income tax liability (Note 28)	18,085	-
	196,929	334,334
SHAREHOLDERS' EQUITY		
Share capital (Note 21)	362,767	225,904
Equity portion of convertible debentures (Note 16 and 19)	6,560	14,166
Contributed surplus (Note 23)	15,467	12,838
Retained earnings (Deficit)	80,614	(133,918)
	465,408	118,990
	\$ 662,337	\$ 453,324

Commitments and contingencies (Note 31), Subsequent events (Note 33)

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 Comprehensive Income (Loss)

For the years ended March 31

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

	2009	2008
Revenues	\$ 586,093	\$ 252,489
Cost of goods sold		
Cost of product sold	207,745	180,165
Transportation and other	62,472	81,840
Depletion, amortization and accretion	27,994	31,123
	<u>298,211</u>	<u>293,128</u>
Income (loss) from mining operations	287,882	(40,639)
Other expenses (income)		
General, administration and selling (Note 24)	27,626	22,512
Coal exploration and other mine maintenance costs (Note 25)	6,432	4,811
Interest, accretion and financing fees on liabilities	22,649	27,262
Investment impairment	-	3,319
Terminated contract expense	-	2,590
Other income (Note 26)	(19,015)	(8,526)
	<u>37,692</u>	<u>51,968</u>
Net income (loss) before tax	250,190	(92,607)
Income tax expense (Note 28)		
Current income tax expense	17,573	-
Future income tax expense	18,085	13,380
	<u>35,658</u>	<u>13,380</u>
Net income (loss) and comprehensive income (loss) for the year	\$ 214,532	\$ (105,987)
Income (loss) per share		
Basic	\$ 1.17	\$ (0.95)
Diluted	\$ 1.14	\$ (0.95)
Weighted average common shares outstanding		
Basic	182,918,408	111,349,649
Diluted	187,944,002	111,349,649

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

Western Canadian Coal Corp.

Consolidated Statements of Retained Earnings (Deficit)
For the years ended March 31
(Expressed in thousands of Canadian dollars)

	2009	2008
Deficit, beginning of year as previously reported	\$ (133,918)	\$ (27,061)
Adoption of financial instruments standards	-	(870)
Deficit	(133,918)	(27,931)
Net income (loss) for the year	214,532	(105,987)
Retained earnings (Deficit), end of year	\$ 80,614	\$ (133,918)

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

Western Canadian Coal Corp.
Consolidated Statements of Cash Flows
For the years ended March 31
(Expressed in thousands of Canadian dollars)

	2009	2008
Cash flows from (used in):		
Operating Activities		
Net income (loss) for the year	\$ 214,532	\$ (105,987)
Items not involving cash and cash equivalents:		
Depletion, amortization and accretion	28,562	32,647
Stock-based compensation	940	4,957
Interest, accretion and financing fees on long-term debt	6,308	5,972
Inventory write-down	-	7,254
Investment impairment	-	3,319
Terminated contract expense	-	2,590
Gain on revaluation of royalty liability	(7,981)	-
Gain on fair value adjustment of investment	(1,255)	-
Unrealized foreign exchange loss (gain)	(1,124)	2,075
Other	44	-
Future income tax expense	18,085	13,380
	258,111	(33,793)
Changes in non-cash working capital items (Note 27)	(57,583)	20,816
	200,528	(12,977)
Financing Activities		
(Repayments) proceeds from demand bank loan	(3,500)	3,500
Repayments on capital lease obligations	(14,447)	(11,407)
(Repayments) proceeds from loan from related party, net of issue costs	(5,000)	4,988
Proceeds from convertible debenture, net of issue costs	-	39,575
Repayments on long-term debt and transaction costs	(27,918)	(47,083)
Proceeds from exercise of stock options	4,125	201
Proceeds from exercise of warrants	6,580	-
Proceeds from issue of shares, net of issue costs	-	42,780
	(40,160)	32,554
Investing Activities		
Issuance of loan to related party, net of drawdown fee	(40,003)	-
Acquisition of mineral property, plant and equipment	(52,148)	(33,037)
Deposits	(6,890)	(1,874)
Deferred transaction costs	(3,058)	-
Investment	-	(5,000)
	(102,099)	(39,911)
Effect of exchange rate change on cash and cash equivalents in US dollars	2,447	(801)
Net cash flows	60,716	(21,135)
Cash and cash equivalents, beginning of year	14,137	35,272
Cash and cash equivalents, end of year	\$ 74,853	\$ 14,137

Supplementary cash flow information (Note 27).

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

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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. The Company operates coal mines and develops new coal resources in northeast BC, which take advantage of the infrastructure already established for the northeast BC coalfields, including rail, port, town and other facilities.

2. Summary of significant accounting policies

(a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries, Western Coal Corp., Wolverine Coal Ltd. ("Wolverine Coal"), Falls Mountain Coal Inc., 1243770 Alberta Ltd., 0847918 B.C. Ltd. ("0847918") and Willow Creek Coal Partnership (the "Partnership"). 0847918 was incorporated on March 17, 2009. The Partnership was created on March 23, 2009 and is a partnership between the Company and 0847918.

In accordance with CICA Handbook Section 3055, "Interests in Joint Ventures", these consolidated financial statements 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 exploration expenditures prior to January 28, 2009 incurred by the Joint Venture to date have been charged to earnings. On January 28, 2009, the Company announced that a National Instrument 43-101 compliant technical report regarding the Belcourt coal property entitled "Technical Report Belcourt Project" had been completed. Costs related to the development of the Belcourt coal property subsequent to this date have been capitalized.

All significant intercompany transactions and balances have been eliminated.

(c) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on currently available information. Such estimates and assumptions may affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the year.

Significant areas where management's judgment is applied include asset and investment valuations, reserve determinations, production inventory quantities, plant and equipment lives, contingent liabilities, stock-based compensation, warrants, tax provisions and future tax balances, asset retirement obligations, convertible debentures and royalty and other liabilities. Actual results could differ from the estimates and assumptions used.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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. Summary of significant accounting policies (continued)*(c) Use of estimates (continued)*

Depreciation and depletion of capital assets are dependent upon estimates of useful lives of buildings and equipment, estimate of salvage values and reserve estimates, which are determined with the exercise of judgment. The assessments of any impairment of mineral property, plant and equipment are dependent upon estimates of fair value that take into account factors such as reserves, economic and market conditions and the useful lives of assets. Asset retirement obligations are recognized in the period in which they arise and are stated as the fair value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, mining plans, environmental laws and regulations and remediation practices.

(d) Financial instruments

Financial assets and liabilities on the balance sheet are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial instruments are initially recognized and subsequently measured based on their classification as held-for-trading, available-for-sale, held-to-maturity, loan and receivables and other financial liabilities.

The Company's financial instruments include cash and cash equivalents, accounts receivable, loan to related party, deposits, investments included in other assets, accounts payable and accrued liabilities, convertible debentures and royalty and other liabilities.

The Company's cash balances have been classified as held-for-trading and are recorded at fair value. Cash equivalents, which include banker's acceptances and term deposits, have been classified as available-for-sale and are recorded at fair value on the balance sheet with changes in the fair value of these instruments reflected in other comprehensive income and included in shareholders' equity on the balance sheet. Deposits have been classified as held-to-maturity and are recorded at amortized cost. Investments have been classified as held-for-trading and are recorded at fair value on the balance sheet with changes in the fair value of these instruments reflected through net income or loss.

All derivatives are recorded on the balance sheet at fair value. Mark-to-market adjustments on these instruments are included in net income or loss. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when the risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in net income or loss.

All other financial instruments including accounts receivable, loan to related party, accounts payable and accrued liabilities, convertible debentures, and royalty liability have been recorded at cost or amortized cost. Transaction costs incurred to acquire financial instruments are included in the underlying balance and the resulting difference between the fair value of the instrument and the adjusted balance is amortized using the effective interest rate method. Regular-way purchases and sales of financial assets are accounted for on the trade date.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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. Summary of significant accounting policies (continued)

(e) Cash and cash equivalents

Cash and cash equivalents include bank balances and highly liquid temporary money market instruments with initial maturities of three months or less.

(f) Inventory

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include contract mining costs, direct labour, operating materials and supplies, transportation costs, an applicable portion of operating overhead, including depreciation and depletion. Net realizable value is the expected difference between the average selling price for the finished product less the costs to get the product into saleable form and to the selling location.

Materials inventory consists of consumable parts and supplies which are valued at the lower of average cost and net realizable value. Net realizable value is actual cost less any provision for obsolescence.

(g) Mineral property, plant and equipment

Plant and equipment are recorded at cost; maintenance and repairs of a routine nature are expensed as incurred. The cost of the plant less its salvage value is amortized on a straight-line basis over its useful life. Equipment is depreciated on a declining balance basis or straight-line basis as appropriate. Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

Mine development costs include expenditures to acquire and develop identified mineral properties and reserves and net costs relating to production during the development phase. Depletion on producing properties is provided using a unit-of-production method based upon the adjusted proven and probable mineral reserve position of the mine at the beginning of the year. Development costs incurred to expand the capacity of operating mines, to develop new ore bodies or to develop mine areas substantially in advance of current production are capitalized and charged to operations on a unit-of-production method based upon proven and probable mineral reserves.

Exploration costs are charged to earnings in the year 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. Upon commencement of commercial production, these capitalized costs are charged to operations on a unit of production method based upon the proven and probable mineral reserves to which they relate. If the coal properties are abandoned or otherwise impaired, the related capitalized costs are charged to operations in the year in which the property becomes impaired or abandoned.

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 expense capitalized in fiscal 2009 relating to the development of the Willow Creek mine was \$1,175,000 (2008 - \$0).

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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. Summary of significant accounting policies (continued)*(h) Deferred stripping costs*

Stripping costs are accounted for as variable production costs which are included in the costs of inventory produced, unless the stripping activity has been shown to be a betterment of the mineral property, in which case, the stripping costs are capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs are amortized on a unit of production basis over the proven and probable reserves to which they relate.

(i) Long-lived assets

The Company monitors the recoverability of long-lived assets, based on factors such as current coal prices, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the year when it is determined that the carrying amount of the assets may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets less its related asset retirement obligation net of related future income taxes, exceeds the undiscounted estimate of future cash flows from the asset.

(j) Asset retirement obligations

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 as part of the carrying amount of the long-lived asset when incurred and amortized to earnings over the asset's estimated useful life. The asset retirement obligation is reviewed each reporting period and revised for changes in estimated future costs and regulatory requirements.

(k) Revenue recognition

Revenues from coal shipments are recognized at contracted or market prices when the risks and rewards of ownership pass to the customer and when collection is reasonably assured provided that persuasive evidence of a contract or other arrangement exists.

(l) Foreign currency translation

These consolidated financial statements are presented in Canadian dollars. Transactions in foreign currencies are initially recorded in Canadian dollars at exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year-end exchange rates. The resultant gain and loss is included in the consolidated statement of operations as part of the other expenses (income).

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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. Summary of significant accounting policies (continued)*(m) Stock-based compensation*

The Company has two stock-based compensation plans including one that was approved and adopted while the Company was a venture issuer and one that was approved and adopted following its listing on the TSX. The fair value method of accounting is used for valuing stock option grants. Compensation costs, attributable to stock options granted to employees, consultants or directors is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(n) Mineral exploration tax credits

The Company recognizes the benefits related to mineral exploration tax credits to which it is entitled in the period in which recoverability can be established and quantified.

(o) Future income taxes

Income taxes are recorded using the liability method of tax allocation. Future income tax assets and liabilities are determined based on temporary differences between the tax and accounting bases and are measured using the current, or substantively enacted, tax rates and laws expected to apply when these differences reverse. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

(p) Income (loss) per share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The Company applies the treasury stock method in calculating diluted earnings per share. Diluted earnings per share excludes all dilutive potential common shares if their effect is anti-dilutive.

3. Adoption of new accounting standards and developments*(a) Inventories*

Effective April 1, 2008, the Company adopted CICA Handbook section 3031 "Inventories." This section establishes standards for the measurement and disclosure of inventories. The adoption of this standard did not have a material impact on the Company.

(b) Financial instruments

Effective April 1, 2008, the Company adopted CICA Handbook sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation." These sections require additional disclosures relating to financial instruments presentation which are provided in note 6.

(c) Capital disclosures

Effective April 1, 2008, the Company adopted CICA Handbook section 1535 "Capital Disclosures." This section requires the Company to disclose its capital management strategies which are provided in note 30.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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. Adoption of new accounting standards and developments (continued)

(d) *Credit Risk and Fair Value of Financial Assets and Liabilities*

Effective January 20, 2009, the Company adopted CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. Adoption of this EIC did not have a significant effect on the company's financial statements.

(e) *Mining Exploration Costs*

Effective March 27, 2009, the Company adopted CICA issued EIC-174, "Mining Exploration Costs." The EIC provides guidance on the accounting and the impairment review of exploration costs. The application of this EIC did not have an effect on the company's financial statements.

(f) *Goodwill and intangible assets*

CICA Handbook section "Goodwill and Other Intangible Assets" was replaced by Section 3064 "Goodwill and Intangible Assets" that is effective for fiscal years beginning on or after October 1, 2008 and will be applicable to the Company commencing with its fiscal year beginning April 1, 2009. This standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. At the same time as the adoption of this standard, EIC-27, "Revenues and Expenditures in the Pre-operating Period," will be withdrawn. The Company is in the process of assessing the impact of applying these sections on its financial statements.

(g) *Business Combinations*

In January 2009, the CICA issued Section 1582, "Business Combinations" which replaces former guidance on business combinations. This section is effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. This section will be applicable to the Company commencing with its fiscal year beginning April 1, 2011. This standard harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards. The new section revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The Company is in the process of assessing the impact of applying these sections on its financial statements.

(h) *Consolidated Financial Statements*

In conjunction with the release of the new business combination standard, the CICA issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements." These standards are effective January 1, 2011, with early adoption permitted, and are applicable to the Company commencing with its fiscal year beginning April 1, 2011. These sections revise standards for the preparation of consolidated financial statements and the accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. The Company is in the process of assessing the impact of applying these sections on its financial statements.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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. Acquisition of Falls Mountain Coal Inc.

On May 6, 2008, the Company completed the acquisition of Falls Mountain Coal Inc. ("FMC") from Cambrian Mining plc ("Cambrian"), the Company's major shareholder. FMC owns the Willow Creek Mine. The Company acquired 100% of the outstanding shares of FMC.

The Company has accounted for the acquisition of FMC using the purchase method. The purchase consideration was funded with common shares as follows:

Issuance of 18,740,898 common shares	\$	13,306
Issuance of 4,534,088 common shares		15,190
Royalty liability		9,639
Transaction costs		125
Total purchase price	\$	38,260

The value of the 18,740,898 common shares was determined based on the average market price of the Company's common shares over the two day period before and after the terms were agreed to and announced.

Cambrian had the option to have the deferred payment of \$14,056,000 be paid in cash or by issuance of 4,534,088 common shares of the Company. On June 30, 2008, Cambrian elected to satisfy the deferred payment with the issuance of common shares, which were issued on this date. The value of the 4,534,088 common shares issued was determined as the value of the deferred payment of \$14,056,000 and the fair value of Cambrian's option to have the deferred payment satisfied with the issuance of common shares which was determined as \$1,134,000. The fair value of the option was determined using the Black Scholes model with a volatility of 59%, risk-free interest rate of 3.22% and expected life of 4 months.

The Willow Creek Loadout Royalty ("Royalty") that the Company assumed as part of the acquisition requires that payment of a minimum of \$2,000,000 and up to \$26,000,000 be paid to Pine Valley Mining Corporation on the basis of the tonnage of coal shipped through the FMC rail load-out facility. The Royalty is \$1.00 per tonne of coal loaded through the FMC rail load-out facility, escalating at 2% per annum to a maximum of \$1.50 per tonne. The Royalty was valued using the discounted future cash flow method based on the Company's best estimate of future coal shipments over the next 10 years, a discount rate of 20% and a probability factor of 65% for production three years and on from March 31, 2008 (Note 20).

At March 31, 2008, the Company had recognized an acquisition liability of \$26,137,000 as a result of the Company being the primary beneficiary of FMC in accordance with CICA Accounting Guideline 155 "Consolidation of Variable Interest Entities" which resulted in the Company consolidating the assets and liabilities of FMC at March 31, 2008 using the purchase method of accounting. The acquisition liability was subsequently settled with the issuance of common shares as described above.

The allocation of the total purchase consideration to the assets acquired and liabilities assumed is based upon the estimated fair values at the time of acquisition.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008(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. Acquisition of Falls Mountain Coal Inc. (continued)

The Company's allocation of the total purchase consideration to the estimated fair value of the acquired assets and liabilities assumed of FMC is as follows:

Reclamation deposits	\$	544
Mineral property, plant and equipment		40,428
Total assets acquired		40,972
Asset retirement obligation and other liabilities		(2,712)
Total liabilities assumed		(2,712)
Net asset acquired	\$	38,260

5. Interest in joint venture

The Company owns a 50% interest in the Belcourt Saxon Coal Limited Partnership (the "Joint Venture") 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 the Joint Venture as at and for the year ended March 31, 2009 and 2008 are as follows:

	2009		2008	
Cash and cash equivalents	\$	95	\$	78
Other current assets		9		8
Deposits		61		50
Mineral property, plant and equipment		182		20
Current liabilities		(177)		(60)
	\$	170	\$	96

	2009		2008	
General, administration and selling	\$	23	\$	103
Coal exploration		730		1,129
Net loss	\$	753	\$	1,232

Cash Flows

Operating activities		(641)		(1,261)
Financing activities		825		1,068
Investing activities		(167)		(2)
Increase in cash and cash equivalents during the year	\$	17	\$	(195)
Cash and cash equivalents, beginning of year		78		273
Cash and cash equivalents, end of year	\$	95	\$	78

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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. Interest in joint venture (continued)

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 venturer's contributed property.

6. Financial instruments

As at March 31, 2009, the carrying and fair value of financial instruments are as follow:

	Effective Annual Interest Rate	Fair Value	Carrying Amount
Financial Assets			
Cash and cash equivalents	n/a	\$ 74,853	\$ 74,853
Trade accounts receivable and other	n/a	35,330	35,330
Loan to related party	13.37%	40,634	40,634
Deposits	n/a	19,079	19,079
Investments	n/a	2,937	2,937
Financial Liabilities			
Accounts payable and accrued liabilities	n/a	29,539	29,539
Convertible debentures	9.68%	57,486	66,682
Royalty and other liabilities	n/a	7,375	3,326

Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using estimates and is calculated using market factors with similar characteristics and risk profiles. These amounts represent point in time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of judgment. The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments:

- The carrying value of accounts receivable, loan to related party, deposits and accounts payable and accrued liabilities are a reasonable estimate of fair value due to the relatively short periods to maturity and the commercial terms of these instruments.
- The fair value of the investment is determined using the discounted future cash flow method with a discount rate of 7.1%. The Company has assumed that a portion of its restructured notes will not be recoverable due to the nature of their underlying assets (Note 12(a)).
- The fair value of the convertible debentures is estimated using the closing market price of the convertible debentures at March 31, 2009.
- The fair value of the royalty and other liabilities is estimated using the Company's current cost of borrowing of 7.1%. The cash flows and probability factor remained unchanged.

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6. Financial instruments (continued)**Financial risk management**

The Company is exposed to credit risk, liquidity risk and market risk associated with its financial instruments.

Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, accounts receivables, loan to related party, investments included in other assets and deposits. The Company deposits cash and cash equivalents and deposits with large Canadian chartered banks. The Company sells to large, well established customers. The Company also performs credit evaluations of its customers on an ongoing basis. The Company believes that it does not have a significant credit risk in relation to its accounts receivable. The loan to related party is secured and therefore the Company believes that it does not have a significant credit risk in relation to this balance.

The maximum credit risk that the Company is exposed to in relation to the financial instruments subject to credit risk is the carrying value of these balances. Subsequent to March 31, 2009, all trade accounts receivable balances were collected.

Liquidity risk

Liquidity risk is the risk that the Company will have difficulty meeting its obligations associated with its financial liabilities. To manage this risk, the Company maintains adequate cash and cash equivalent balances and monitors its cash flow forecasts. The Company's estimated minimum contractual undiscounted cash flow requirements for financial liabilities at March 31, 2009 were:

	Less than 1 year	1-3 years	4-5 years	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	29,539	-	-	29,539
Royalty liability	200	600	400	1,200
Capital leases	19,674	28,043	5,882	53,599
Convertible debentures	5,320	76,283	-	81,603
	54,733	104,926	6,282	165,941

Western Canadian Coal Corp.

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6. Financial instruments (continued)*Market risk*

Foreign currency exchange rates

All sales revenues for the Company are denominated in US dollars. The Company may also become exposed to currency fluctuations on purchase of certain equipment or facilities for its new and existing mines which are denominated in US dollars. These potential currency risks could have a significant impact on the cost of developing its mines and on the profitability of the Company.

To minimize the risk exposure of foreign currency fluctuations on sales revenues, the Company may enter into forward exchange contracts to fix the rate at which future anticipated flows of US dollars are exchanged into Canadian dollars. The Company has entered into a series of forward exchange contracts to fix the rate at which future anticipated cash flows of US dollars are exchanged into Canadian dollars. As at March 31, 2009, these contracts included forward sales of US dollars at an average rate of 1.2294, in the aggregate amount of US\$47,000,000 from April 2009 to the end of June 2009. The unrealized loss recorded on these contracts at March 31, 2009 was \$1,501,000.

An additional series of forward exchange contracts were entered into subsequent to March 31, 2009, in the amount of US\$167,000,000 for the forward sales of US dollars at an average rate of 1.18 (Note 33 (f)).

The Company's exposure to US dollars on financial instruments as at March 31, 2009 is as follows:

	USD
Cash and cash equivalents	\$ 13,155
Accounts receivable	27,745
Foreign currency contracts	(47,000)
Convertible debentures	(20)
	\$ (6,120)

For each US\$0.01 strengthening of the US dollar against the Canadian dollar, net income would decrease \$61,000. There would be no impact on other comprehensive income.

Interest rates

The Company's interest rate risk mainly results from the interest rate impact on the cash and cash equivalents balance which receive interest based on market interest rates. All of the Company's outstanding non-current financial instruments bear interest at fixed rates.

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Notes to Consolidated Financial Statements

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7. Accounts receivable

	2009	2008
Trade accounts receivable	\$ 34,690	\$ 7,914
Goods and services tax receivable	3,940	3,121
Other	640	383
	\$ 39,270	\$ 11,418

8. Loan to related party

	2009	2008
Balance, beginning of year	\$ -	\$ -
Loan advanced	40,767	-
Fee received	(764)	-
Net advance	40,003	-
Interest accrual	1,025	-
Foreign exchange adjustment	(394)	-
Balance, end of year	\$ 40,634	\$ -

On January 21, 2009, the Company provided a non-revolving loan facility on a secured basis (the "Loan") of US\$36,000,000 less the amount equivalent to the principal repaid under the loan from related party to Cambrian Investment Holdings Limited ("CIH"), a wholly-owned subsidiary of Cambrian (Note 16). The amount receivable under the Loan is US\$31,997,000.

CIH paid a fee of US\$600,000 in connection with the Loan which has been netted against the receivable balance in accordance with the Company's financial instruments accounting policy. The Loan accrues interest at a rate of 12% per annum until repayment and becomes payable in full on the earlier of (i) 90 days after the Company fails to obtain minority shareholder approval for the proposed business combination and (ii) December 31, 2009 (Note 33 (b) and (c)).

9. Inventory

	2009	2008
Production inventory	\$ 53,206	\$ 16,948
Parts inventory	9,170	7,225
	\$ 62,376	\$ 24,173

For the year ended March 31, 2009, the Company did not record any net realizable value adjustments nor were any previously recorded net realizable value provisions reversed in the current year.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

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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.)

10. Deposits

	2009		2008	
Restricted reclamation deposits (Note (a))	\$	15,833	\$	9,980
Other restricted deposits (Note (b))		3,246		2,209
	\$	19,079	\$	12,189

- (a) In connection with the mine permits for its Wolverine and Burnt River properties, the Company has provided the BC government with reclamation security deposits of \$13,540,000 (2008 - \$9,150,000). In connection with the mine permits for its Willow Creek property, the Company has provided the BC government with reclamation security deposits of \$2,090,000 (2008 - \$569,000). Reclamation security deposits of \$203,000 (2008 - \$261,000) have been provided in relation to the Company's other properties.

In connection with the Company's mine permit for its Wolverine property, the Company is required to provide additional reclamation security deposits of \$1,370,000 by December 31, 2010 and \$330,000 by December 31, 2012. If by December 31, 2009 the Company has not reclaimed 50 hectares of land, an additional security deposit of \$1,367,000 will be required. If by December 31, 2012, the Company has not reclaimed an additional 50 hectares of land, an additional security deposit of \$1,472,000 will be required.

The Company is required to provide additional reclamation security deposits on the Burnt River property of \$975,000 on December 31, 2009. These amounts may be adjusted for inflation, if the cumulative inflation rate from January 1, 2006 for the Wolverine property and from January 1, 2008 for the Burnt River property exceeds 10%.

In connection with the Company's mine permit for its Willow Creek property, the Company is required to provide additional reclamation security deposits. The original mine permit was amended on February 19, 2009 and requires the Company to provide additional reclamation security deposits of \$250,000 30 days after the resumption of pit operations, \$1,000,000 12 months after the resumption of pit operations, \$1,250,000 21 months after the resumption of pit operations and \$1,000,000 33 months after the resumption of pit operations. All other terms and conditions remain the same. These amounts may be adjusted for inflation, if the cumulative inflation rate from January 1, 2010 exceeds 10%.

- (b) Other restricted deposits include security deposits required by vendors.

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11. Mineral property, plant and equipment

2009	Cost	Accumulated Amortization	Net
Mine development	\$ 274,447	\$ 39,952	\$ 234,495
Plant, buildings and mine facilities	110,535	12,258	98,277
Equipment	118,001	31,452	86,549
	\$ 502,983	\$ 83,662	\$ 419,321

2008	Cost	Accumulated Amortization	Net
Mine development	\$ 227,724	\$ 27,573	\$ 200,151
Plant, buildings and mine facilities	107,668	6,671	100,997
Equipment	103,283	19,529	83,754
	\$ 438,675	\$ 53,773	\$ 384,902

Equipment include assets under capital leases with costs of \$110,255,000 (2008 - \$96,939,000) and accumulated amortization of \$28,060,000 (2008 - \$17,159,000). Depletion and amortization recorded during the year was \$29,846,000 (2008 - \$29,247,000).

12. Other assets

	2009	2008
Investment (Note (a))	\$ 2,937	\$ 1,681
Deferred transaction costs (Note 33 (b))	3,057	-
	\$ 5,994	\$ 1,681

- (a) The investment balance consists of the Company's restructured Canadian third party non-bank asset-backed commercial papers with a total maturity value of \$4,978,000 and a fair value of \$2,937,000. At the time of receipt of the restructured notes, the Company received retroactive interest payment on the original notes of \$137,000 which was included in the fair value of the original notes and not included as interest income.

There is no secondary market for these restructured notes as at March 31, 2009; therefore, the Company has determined the fair value of the restructured notes using the discounted future cash flows method. There is no certainty regarding the development of a secondary market for these notes and therefore the fair value reported may change materially in subsequent periods.

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13. Bank debt

On July 30, 2008, the Company entered into a new credit facility, which was subsequently amended in conjunction with the loan to related party (Note 8) and the repayment of the loan from related party (Note 16). The Company's credit facility consists of a revolving term credit facility in the amount of the lesser of US \$30,000,000 and the established borrowing base which is based on a percentage of trade accounts receivable and coal inventory. The revolving term credit facility has a maturity date of July 30, 2010. As part of this credit facility, the Company and the bank entered into a general security agreement over the Company's assets.

As at March 31, 2009, the Company has the full amounts under these facilities available.

14. Demand bank loan

On March 11, 2008, the Company obtained a demand non-revolving bridge loan in the amount of \$3,500,000 in order to provide liquidity for working capital purposes pending any possible long term solution to the current liquidity issues affecting the Company's Canadian third party non-bank asset-backed commercial paper (Note 12 (a)).

This loan was repaid in September 2008.

15. Long-term debt

	2009	2008
Project debt facility	\$ -	\$ 27,918
Less: current portion	-	(27,918)
	\$ -	\$ -

On August 18, 2006, the Company entered into a \$75,000,000 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 original facility had a 6.5 year term with the final principal repayment due on December 31, 2012.

Throughout fiscal 2008, the Company made several amendments to the terms of its project loan facility in connection with various waiver letters. As a result of these amendments, the Company made an additional \$17,083,000 in unscheduled principal prepayments, penalty payments of \$3,284,000 and incurred \$950,000 in financing fees. The Company was also required to set up a restricted cash account as a six month rolling interest reserve account of \$1,085,000.

As at March 31, 2008, the Company was in violation of certain of its credit agreement covenants. The Company elected not to obtain a waiver for these covenant violations and instead repaid the long-term debt on April 30, 2008.

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16. Loan from related party

On September 14, 2007, the Company received a loan from Cambrian for \$5,000,000 with a principal payment date of July 15, 2011. The loan was convertible at the option of Cambrian at a conversion price of \$0.75 per common share until the principal payment date. Interest accrued at 8.5% per year and is payable on the principal payment date.

The fee for making the loan was \$100,000 payable on the principal repayment date and 520,000 warrants to purchase new common shares in the capital of the Company at an exercise price of \$3.25 until September 30, 2008. These warrants were exercised on September 23, 2008.

The loan was accounted for in accordance with its substance and its component parts have been measured at their respective fair values at the time of issue. The liability component had been calculated as the present value of the stream of interest and principal payments discounted at a rate approximating the interest rate for a similar liability without a conversion feature, which was estimated to be 12%. The difference between the debt component of \$4,922,000 and the face value of the loan, in the amount of \$78,000 is classified as equity. Issuance costs related to the debt component of the loan were netted against the liability and are charged to earnings over the term to maturity. The debt component of the loan was accreted over the term to maturity, by charges to earnings for the year.

On January 21, 2009, the Company repaid the loan in full (Note 8).

17. 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 credit adjusted risk-free discount rates ranging from 4.2% to 7.66% 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 \$20,507,000 and are expected to be incurred over a thirteen year period.

Asset retirement obligations as at and for the years ended March 31, 2009 and 2008 are as follows:

	2009	2008
Balance, beginning of year	\$ 14,706	\$ 10,120
Settlement of obligations during the year	(423)	(101)
Fair value of asset retirement obligation recorded during the year	750	4,078
Change arising from revisions to timing of estimated cash flows	(2,297)	-
Accretion of liability component of asset retirement obligation	771	609
Balance, end of year	13,507	14,706
Less: Current portion	(1,009)	(1,012)
Long-term portion of asset retirement obligation	\$ 12,498	\$ 13,694

The asset retirement obligations are supported by reclamation deposits totaling \$15,630,000 (Note 10 (a)).

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18. Capital lease obligations

The Company has certain equipment under capital lease expiring in 2013 and at interest rates between 0% to 8.89%. Capital lease obligations for the years ended March 31, 2009 and 2008 are as follows:

	2009		2008	
Balance, beginning of year	\$	53,521	\$	45,547
Fair value of capital leases recorded during the year		9,272		19,459
Change in fair value of embedded derivatives		(550)		(78)
Payments made during the year		(17,943)		(14,865)
Interest portion of payments		3,496		3,458
Balance, end of year		47,796		53,521
Less: Current portion		(18,642)		(13,348)
Long-term portion of capital lease obligations	\$	29,154	\$	40,173

Future minimum lease payments under capital leases by year and in aggregate are as follows:

For the years ending March 31,	2010	\$	19,674
	2011		16,844
	2012		11,199
	2013		5,882
	2014		-
Total minimum lease payments			53,599
Amounts representing interest			(5,803)
Present value of minimum lease payments			47,796
Less: current portion			(18,642)
		\$	29,154

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19. Convertible debentures

Summary	2009	2008
\$125 million issuance, maturity March 24, 2011	\$ 66,656	\$ 114,248
US\$40 million issuance, maturity November 30, 2010	26	38,104
Balance, end of year	66,682	152,352
Less: Current portion	(4,953)	(11,941)
Long-term portion of convertible debentures	\$ 61,729	\$ 140,411

\$125 million issuance, Maturity March 24, 2011	2009	2008
Balance, beginning of year	\$ 114,248	\$ 111,127
Accretion of liability component of debentures	1,786	3,121
Interest payable	104	-
Conversion of convertible debentures	(49,482)	-
Balance, end of year	66,656	114,248
Less: Current portion	(4,950)	(8,705)
Long-term portion of convertible debenture	\$ 61,706	\$ 105,543

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, the Company may redeem all or a portion of the convertible debentures at a redemption price equal to the principal amount plus accrued and unpaid interest thereon, provided that the weighted average trading price of the Company's common shares on the TSX for the 30 consecutive trading days ending on the fifth trading day preceding the day prior to which the redemption notice is given, is at least 125% of the Conversion Price.

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 at a price equal to 105% of the principal amount of the convertible debentures to be purchased, plus accrued and unpaid interest. The Company may, at its option and subject to certain conditions, elect to satisfy its obligation to repay the principal amount of the convertible debentures, plus accrued and unpaid interest, upon redemption or maturity, by issuing freely-tradeable common shares. The number of common shares a holder will receive in respect of each convertible debenture will be determined by dividing the principal amount of the convertible debentures plus accrued and unpaid interest thereon by 95% of the current market price of the common shares on the date fixed for redemption or the maturity date, as the case may be.

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19. Convertible debentures (continued)

The convertible debentures are unsecured and are subordinated to the other liabilities of the Company. However, the trust indenture under which the convertible debentures are issued provides that the Company will not incur indebtedness secured by the Wolverine assets, other than capital leases, which when added to the convertible debentures, exceeds \$215,000,000.

The convertible debentures are being accounted for in accordance with their substance and are presented in these consolidated financial statements in their component parts, measured at their respective fair values at the time of issue. The liability component has been calculated as the present value of the stream of interest and principal payments discounted at a rate approximating the interest rate for a similar liability without a conversion feature. The difference between the debt component of \$112,930,000 and the face value of the convertible debentures, net of issue costs of \$512,000, in the amount of \$11,558,000 is classified as equity. Issuance costs related to the debt component of the Convertible debentures are net against the liability component and charged to earnings using the effective interest rate method. The debt component of the convertible debentures is accreted over the term to maturity, by charges to earnings for the year.

During the year ended March 31, 2009, \$54,062,000 of principal of the \$125,000,000 issuance of convertible debentures were converted into 13,515,500 common shares of the Company. \$49,482,000 of the convertible debenture liability was transferred to equity upon conversion. The outstanding face value of this convertible debenture at March 31, 2009 was \$70,938,000.

US\$40 million issuance, Maturity November 30, 2010	2009	2008
Balance, beginning of year	\$ 38,104	\$ -
Face value of convertible debentures issued during the year	-	40,315
Warrants	-	(1,352)
Shareholders' equity component	-	(2,530)
Transaction costs	-	(666)
Liability component of convertible debentures	38,104	35,767
Accretion of liability component of debentures	542	1,523
Foreign exchange adjustment	(585)	1,000
Conversion of convertible debentures	(38,035)	(186)
Balance, end of year	26	38,104
Less: Current portion	(3)	(3,236)
Long-term portion of convertible debenture	\$ 23	\$ 34,868

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19. Convertible debentures (continued)

On November 30, 2007 the Company issued a private placement of 40,372 unsecured convertible debentures in denominations of US\$1,000 in the aggregate principal amount of US\$40,372,000. The convertible debentures bear interest at a rate of 8.5% per annum payable semi-annually on May 31 and November 30 in each year commencing May 31, 2008 and mature on November 30, 2010. Holders may convert their convertible debentures into common shares at any time prior to their maturity at a conversion price of \$0.75 per common share, being a conversion rate of 1,321 common shares per US\$1,000 principal amount of convertible debentures. The convertible debentures are not redeemable by the Company prior to maturity.

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 at a price equal to 105% of the principal amount of the convertible debentures to be purchased, plus accrued and unpaid interest.

The convertible debentures are being accounted for in accordance with their substance and are presented in these consolidated financial statements in their component parts, measured at their respective fair values at the time of issue. The fair value of the liability component has been calculated as the present value of the stream of interest and principal payments discounted at a rate approximating the interest rate for a similar liability without a conversion feature while the fair value of the equity component was determined as the difference between the fair value of the debt component and face value of the convertible debenture. The fair values of the liability, equity and warrant components have been pro-rated based on the consideration received. Issuance costs related to the debt component of the convertible debentures are netted against the liability portion and charged to earnings using the effective interest rate method. The debt component of the convertible debentures is accreted over the term to maturity, by charges to earnings for the year.

In conjunction with the convertible debenture issuance, the Company has issued warrants to purchase up to 4,240,000 common shares at a price of \$0.75 per share. These warrants can be exercised at any time prior to November 30, 2010. The fair value of the warrants was determined using the Black Scholes model with a volatility of 94%, risk-free interest rate of 3.84% and expected life of 2 years.

During the year ended March 31, 2009, US\$40,150,000 of principal of the US\$40,372,000 issuance of convertible debentures were converted into 53,039,620 common shares of the Company. \$38,035,000 of the convertible debenture liability was transferred to equity upon conversion. The outstanding face value of this convertible debenture at March 31, 2009 was US\$20,465 (Canadian equivalent of \$25,786).

20. Royalty and other liabilities

As part of the acquisition of Falls Mountain Coal Inc. (Note 4), the Company assumed the Willow Creek Loadout Royalty, which it recorded at fair value. This financial instrument was designated as "Other Liabilities" and is recorded at amortized cost.

For each reporting period, the Company must reassess the value of this liability. At March 31, 2009, the Company has reassessed the expected cash flows based on the updated life-of-mine model for the Willow Creek mine at March 31, 2009 and revised the probability factor from 65% to 50% based on current economic climate. As a result of this reassessment, the Company recorded a gain of \$7,981,000 at March 31, 2009 representing the change in expected cash flows and accretion (Note 26).

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

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21. Share capital**Authorized:** Unlimited number of common shares without par value**Issued:**

	Number of Shares	Consideration
Balance, March 31, 2007	96,727,740	\$ 182,629
For cash received from a private placement of shares	19,200,000	42,780
Transferred to share capital upon conversion of convertible debentures	266,666	199
For cash received from the exercise of stock options	140,500	201
Transferred to share capital upon exercise of stock options	-	95
Balance, March 31, 2008	116,334,906	225,904
Shares issued for acquisition of FMC (Note 4)	23,274,986	28,621
Transferred to share capital upon conversion of \$125 million convertible debentures	13,515,500	54,480
Transferred to share capital upon conversion of US\$40 million convertible debentures	53,039,620	40,564
For cash received from the exercise of stock options	1,526,268	4,125
Transferred to share capital upon exercise of stock options	-	2,332
For cash received from the exercise of warrants	2,024,655	6,580
Transferred to share capital upon exercise of warrants	-	161
Balance, March 31, 2009	209,715,935	\$ 362,767

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21. Share capital (continued)**Stock options**

A summary of the Company's stock options outstanding and the changes for the years ended March 31, 2009 and 2008 is as follows:

	Directors and Officers	Employees and Other	Number of Options	Weighted Average Exercise Price Per Share
Balance at March 31, 2007	1,625,000	3,241,068	4,866,068	\$ 3.12
Forfeited	-	(757,500)	(757,500)	4.02
Exercised	(45,000)	(95,500)	(140,500)	1.43
Granted	2,120,000	1,840,000	3,960,000	3.10
Balance at March 31, 2008	3,700,000	4,228,068	7,928,068	\$ 3.00
Forfeited	-	(363,400)	(363,400)	3.25
Expired	(60,000)	-	(60,000)	0.80
Exercised	(110,000)	(1,416,268)	(1,526,268)	2.70
Granted	-	100,000	100,000	1.21
Balance at March 31, 2009	3,530,000	2,548,400	6,078,400	\$ 3.12

The Company has two stock option plans, one approved and adopted while the Company was a venture issuer (the "2004 Plan") and one approved and adopted following the Company's listing on the Toronto Stock Exchange (the "2005 Plan"). As at March 31, 2009, 220,000 options (2008 – 1,205,068 options) remain issued pursuant to the 2004 Plan of which all have vested (2008 - all options vested). No new options can be granted under the 2004 Plan and options granted under 2004 Plan prior to the adoption of the 2005 Plan will survive until exercise, lapse or termination in accordance with the provisions of the 2004 Plan.

Pursuant to the terms of the 2005 Plan, the maximum number of common shares issuable will be a number equal to 10% of the issued and outstanding common shares on a non-diluted basis at any time. The exercise price of the options granted under the 2005 Plan is determined by the board of directors of the Company provided that such exercise price is not less than the market price on the date of grant of such options or such other minimum price as may be required by the TSX. Options granted pursuant to the 2005 Plan will have a term of up to five years and will vest as determined by the board of directors of the Company. As at March 31, 2009, 5,858,400 options (2008 – 6,723,000 options) are issued pursuant to the 2005 Plan. Of these, 4,281,066 options (2008 – 4,149,333 options) have vested with the remaining options vesting 20% on each of the four anniversary dates following the date of grant.

The options currently outstanding are exercisable at prices ranging from \$0.62 to \$6.20 at various dates up to March 19, 2014.

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21. Share capital (continued)**Stock options (continued)**

Options to acquire common shares have been granted and are outstanding at March 31, 2009 as follows:

Number of Stock Options Outstanding	Number of Stock Options Exercisable	Option Exercise Price	Expiry Date
25,000	25,000	1.50	August 29, 2009
120,000	120,000	2.50	October 5, 2009
75,000	75,000	3.30	November 12, 2009
470,000	376,000	5.40	July 28, 2010
60,000	60,000	6.10	July 28, 2010
180,000	180,000	6.20	July 28, 2010
560,000	440,000	2.26	September 7, 2011
190,000	190,000	1.95	November 28, 2011
616,000	312,000	2.02	March 5, 2012
500,000	500,000	2.25	November 30, 2012
570,000	268,000	2.53	February 20, 2013
2,612,400	1,935,066	3.37	March 28, 2013
50,000	10,000	1.80	October 30, 2013
50,000	10,000	0.62	March 19, 2014
6,078,400	4,501,066		

Warrants

The Company's warrants outstanding at March 31, 2009 and 2008 and the changes for the years then ended are as follows:

	Number of Shares Issuable pursuant to Warrants	Weighted Average Exercise price per Share
Balance at March 31, 2007	-	\$ -
Issued	9,560,000	2.14
Exercised	-	-
Expired	-	-
Balance at March 31, 2008	9,560,000	\$ 2.14
Issued	4,000,000	4.82
Exercised	(2,024,655)	3.25
Expired	(4,000,000)	4.82
Balance at March 31, 2009	7,535,345	\$ 1.84

Western Canadian Coal Corp.

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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.)

22. Stock-based compensation

During the year ended March 31, 2009, the Company granted 100,000 (2008 – 3,960,000) stock options to employees. During the year ended March 31, 2009, an amount of \$940,000 (2008 - \$4,957,000) 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:

	2009	2008
Assumptions:		
Risk-free interest rate (%)	2.20	3.43
Expected life (<i>years</i>)	2.7	3.2
Expected volatility (%)	125	98
Expected dividend	Nil	Nil
Results:		
Weighted average fair value of options granted (<i>per option</i>)	\$ 0.83	\$ 1.88

23. Contributed surplus

The following table summarizes the movements in contributed surplus for the years ended March 31, 2009 and 2008:

	2009	2008
Balance, beginning of year	\$ 12,838	\$ 6,256
Fair value of stock based compensation recorded during the year	940	4,957
Transferred to share capital upon exercise of stock options	(2,332)	(95)
Transferred to share capital upon exercise of warrants	(161)	-
Fair value of warrants issued during the year	4,182	1,720
Balance, end of year	\$ 15,467	\$ 12,838

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008(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.)

24. General, administration and selling

	2009	2008
Salaries, benefits and other remuneration	\$ 9,581	\$ 6,137
Sales and marketing	7,919	2,395
Consulting	3,121	2,859
Legal and audit	1,810	1,400
Office and miscellaneous	985	1,285
Stock-based compensation (Note 22)	940	4,957
Travel and related expenses	936	756
Rent and telecommunications	610	591
Insurance	601	1,063
Amortization	567	703
Corporate communications	300	131
Exchange listings and other regulatory fees	256	235
	\$ 27,626	\$ 22,512

25. Coal exploration and other mine maintenance costs

	2009	2008
Demobilization costs at the Willow Creek mine	\$ 3,174	-
Care and maintenance costs	1,265	-
Belcourt and Saxon coal exploration (Note 5)	730	1,129
Other coal exploration	726	724
Willow Creek coal exploration	537	2,958
	\$ 6,432	\$ 4,811

26. Other income

	2009	2008
Other expenses	\$ 2,188	\$ 119
Unrealized loss on forward exchange contracts	1,501	-
Foreign exchange gains	(11,061)	(6,799)
Royalty liability revaluation gain (Note 20)	(7,981)	-
Interest income	(2,269)	(1,846)
Gain on fair value adjustment of investment (Note 12 (a))	(1,393)	-
	\$ (19,015)	\$ (8,526)

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

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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.)

27. Supplementary cash flow information

	2009	2008
Other information:		
Interest paid	\$ 13,245	\$ 15,854
Non-cash investing and financing transactions:		
Capital lease obligation recognized for assets under capital lease	\$ 9,272	\$ 19,459
Acquisition of Falls Mountain Coal Inc.	\$ 2,358	\$ 35,776

As at March 31, 2009, the cash and cash equivalents balance consisted of cash balances held at Canadian financial institutions.

Changes in non-cash working capital items consisted of the following:

	2009	2008
Restricted cash	\$ 4,608	\$ 5,392
Accounts receivable	(27,865)	3,804
Loan to related party	(908)	-
Inventory	(37,044)	(4,806)
Prepaid expenses	(594)	1,775
Accounts payable and accrued liabilities	(13,371)	14,786
Current income tax payable	17,591	(135)
	\$ (57,583)	\$ 20,816

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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.)

28. Income taxes

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 30.63% (2008 – 33.72%) to earnings before income taxes. The reasons for the differences and the related tax effects are as follows:

	2009		2008	
Income (loss) before taxes	\$	250,190	\$	(92,607)
Expense (Recovery) at applicable rates	\$	76,621	\$	(31,223)
Change in future income tax asset net of valuation allowance		(50,149)		41,823
Expenses not deductible		618		2,780
Provincial mineral taxes		8,568		-
Income tax expense (recovery)	\$	35,658	\$	13,380

	2009		2008	
Future tax assets:				
Net operating loss carryforwards	\$	14,070	\$	24,556
Financing fees not yet deducted		1,844		3,176
Mineral property, property and equipment		-		16,695
Reserves		666		-
Tax value of marketable securities in excess of book value		-		487
		16,580		44,914
Valuation allowance		-		(44,914)
Net future tax asset	\$	16,580	\$	-
Future income tax liability:				
Mineral property, plant and equipment	\$	(34,665)	\$	-
Net future income tax liability	\$	(18,085)	\$	-

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

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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.)

28. Income taxes (continued)

The company has non-capital losses carried forward available to reduce future taxable income of approximately \$47,295,000 which if unused, expire as follows:

2010	\$	50
2011		3
2015		80
2026		289
2027		1,041
2028		39,467
2029		6,365
		<hr/>
	\$	47,295

29. Related party transactions

- (a) On June 28, 2007, Cambrian subscribed for 2,450,000 units for aggregate gross proceeds of \$5,757,500 of the private placement. Each unit consisted of one common share of the Company and one-quarter of one common share purchase warrant.
- (b) On September 14, 2007, Cambrian extended a loan of \$5,000,000 to the Company. The terms of the loan were subsequently amended (Note 16). As a fee for making the Loan from Related Party, Cambrian was issued 520,000 warrants with an exercise price of \$3.25 per warrant. On September 23, 2008, Cambrian exercised these 520,000 for cash proceeds of \$1,690,000. On January 21, 2009, the Company repaid the loan from related party with a principal balance of \$5,000,000 (Note 8) along with interest of \$575,000.
- (c) On November 30, 2007, Audley European Opportunities Master Fund ("Audley"), which is advised by Audley Capital Advisors LLP, of which one of the Company's Directors is a partner, subscribed for 30,000 convertible debentures with a face value of US\$30,000,000 (Note 19). In conjunction with the convertible debenture issuance, the Company has issued warrants to purchase up to 4,240,000 common shares at a price of \$0.75 per share. These warrants can be exercised at any time prior to November 30, 2010. On September 24, 2008, Audley, exercised US\$10,279,000 of principal of the US\$40,372,000 convertible debenture for issuance of 13,579,048 common shares. Accrued interest of US\$282,000 was paid upon conversion. On September 29, 2008, Audley exercised US\$20,000,000 of principal of the US\$40,372,000 convertible debentures for issuance of 26,420,951 common shares. Accrued interest of US\$571,000 was paid upon conversion.
- (d) During the period ended September 30, 2008, the Company entered into an agreement for Cambrian to provide services as required through to August 1, 2008. The Company paid \$364,000 to Cambrian for services provided under this agreement.
- (e) During the year ended March 31, 2009, the Company paid fees and reimbursed expenses totaling \$405,000 to companies related by common directors or officers of the Company.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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.)

29. Related party transactions (continued)

- (f) On April 29, 2008, Audley provided the Company bridge financing in the amount of US\$30,000,000. A drawdown fee of \$300,000 was paid to Audley. In conjunction with the bridge financing, the Company has issued warrants to purchase up to 4,000,000 common shares at a price of \$4.82 per share which expired January 30, 2009. The bridge financing was subsequently repaid along with interest of \$584,000 and redemption fees of \$1,000,000.
- (g) On May 6, 2008, the Company issued 18,740,898 common shares to Cambrian in settlement of the first payment relating to the acquisition of FMC. On June 30, 2008, the Company issued 4,534,088 common shares to Cambrian to settle the deferred payment in relation to the acquisition of FMC (Note 4).
- (h) On January 21, 2009, the Company provided a non-revolving loan facility on a secured basis (the "Loan") of US\$36,000,000 less the amount equivalent to the principal repaid under the loan from related party to CIH, a wholly-owned subsidiary of Cambrian (Note 8 and 16). The principal amount receivable under the Loan is US\$31,997,000. CIH paid a fee of US\$600,000 in connection with the Loan. To March 31, 2009, the Company has accrued interest receivable of US\$736,000.

The transactions described above have been recorded at their exchange amounts, which management believes to be representative of commercial terms.

30. Capital risk management

The Company defines its capital as shareholders' equity, consisting of share capital, equity portion of convertible debentures, contributed surplus and deficit. The Company's objectives when managing its capital are:

- to ensure that the Company will be able to continue as a going concern;
- to ensure compliance with debt covenants; and
- to maximize the return to shareholders.

To assist in the management of the Company's capital, the Company prepares an annual budget, which is approved by the Board of Directors. Actual results are reviewed against the budget monthly.

The Company's credit facility contains the following covenants:

- a tangible net worth greater than or equal to the aggregate of 80% of tangible net worth as at March 31, 2008 plus 50% of positive net income for each quarter thereafter;
- an interest coverage ratio greater than or equal to 2.50:1.00 calculated as rolling earnings before interest, taxes, depletion and amortization ("EBITDA") divided by the rolling interest expense; and
- a leverage ratio less than or equal to 3.00:1.00 calculated as total debt divided by rolling EBITDA.

Tangible net worth is defined as share capital, equity portion of convertible debentures, contributed surplus and retained earnings. Rolling EBITDA is defined as EBITDA for the most recent quarter plus the previous three quarters. Rolling interest expense is defined as gross interest expenses for the most recent quarter plus the previous three quarters.

As at March 31, 2009, the Company was in compliance with all of the above covenants.

Western Canadian Coal Corp.

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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.)

31. Commitments and contingencies

- (a) On March 21, 2005, the Company filed a Petition in the Supreme Court of British Columbia to have the Court set aside a Royalty Sharing Agreement ("RSA"), dated March 31, 2000, entered into between the Company and three individuals, two of whom are former directors and officers of the Company. The Company's petition was dismissed on February 20, 2006 and an appeal was filed on March 24, 2006.

On October 11, 2006, the Company notified the respondents that the Company was abandoning its appeal but was not altering its position that the RSA was granted in consideration for advances made to the Company and that as such the three individuals were not entitled to receive any royalty payment that represents interest in excess of 60% per annum as provided in section 347 of the Criminal Code of Canada.

The Company made royalty payments to the three individuals in the amount of \$453,000 representing the maximum amount which would result in them receiving an effective annual rate of interest not greater than 60% on the advances they made to the Company that formed consideration for the royalty.

During 2007, the royalty holders initiated Petitions against the Company in the Supreme Court of British Columbia to obtain certain rulings from the court relating to whether the Company is obliged to make further payments to them pursuant to the terms of the RSA. The principal question at issue in the Petitions filed by the three claimants is the construction of the RSA and in particular a declaration that the royalty provided for does not constitute interest within the meaning of Section 347 of the Criminal Code.

During the week of September 15, 2008 the royalty holders petitions were heard in the Supreme Court of British Columbia and the Judge hearing the matter reserved judgment.

On March 10, 2009, the Company reached a settlement agreement with one of the claimants. Under the terms of the settlement, the financial terms of the which remain confidential, in consideration for the settlement amount, the claimant provided the Company with a waiver and full release in respect of any further claims in relation to the RSA and executed an assignment transferring his 37.5% share of any royalty that may come due under the RSA to the Company.

On April 1, 2009, the Court rendered a decision in the remaining claimants petition to the effect that the royalty under the RSA was not a charge paid or payable for the advancing of credit and therefore does not constitute interest within the meaning of Section 347 of the Criminal Code. On April 30, 2009, the Company filed an appeal in respect of the April 1 decision in order to preserve the Company's appeal rights while it investigates the possibility of a right of appeal based on an error in law by the judge. While the Company believes its position is correct, the outcome is indeterminate at this time. To allow for the potential liability in the event the Company's position is incorrect, the Company has accrued the amounts that would be payable under the RSA to March 31, 2009 in the amount of \$3,636,000 and is reported as part of sales and marketing costs in the Company's General, administration and selling costs (Note 24).

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

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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.)

31. Commitments and contingencies (continued)

- (b) On June 10, 2008, the Company was served with a Writ of Summons and Statement of Claim which had been filed by Endeavour Financial International Corporation ("Endeavour"), as Plaintiff, in the Supreme Court of British Columbia on June 6, 2008, against the Company and Cambrian as defendants, alleging misconduct by the defendants in relation to two engagement letters entered into between the Company and the Plaintiff. The engagement letters related to the provision of services related to debt transactions in a letter dated June 27, 2007, the "Debt Transactions" and services related to merger and acquisition transactions in a letter dated August 7, 2007, the "M&A Transactions". Endeavour has alleged that the Company and Cambrian engaged in misconduct under the terms of the Debt Transaction engagement and the M&A Transaction engagement that gave rise to a right by Endeavour to terminate the engagement letters.

Endeavour has claimed damages arising from the termination of the engagement letters amounting to success fees that it allegedly would have earned had the engagements not been terminated in the amount of US\$1.5 million in respect of two Debt Transactions plus an amount of US\$397,000 representing the Black-Scholes valuation of options which were to be issued under the terms of the Debt Transaction engagement plus any success fees that Endeavour would be entitled to under the Debt Transaction up to April 24, 2009 and up to October 24, 2008 in respect of the M&A Transaction.

On July 17, 2008, the Company filed a Statement of Defence denying all allegations and stating that Endeavor is not entitled to a success fee of any kind, nor is it entitled to any damages or further remunerations and asked that the action be dismissed with costs. The liability of the Company, if any, associated with this claim is indeterminate at this point.

- (c) The Company entered into a contract with Mitsui Matsushima Co. Ltd. ("Mitsui") on May 18, 2001, pursuant to which the Company appointed Mitsui as its exclusive sales and marketing agent for the sale of the Company's coal to customers in Japan and Taiwan. Mitsui has full authority to negotiate and, subject to consent by the Company, conclude sales of the coal on the best commercial terms Mitsui reasonably considers to be achievable in the circumstances. For its services, the Company will pay Mitsui a commission of 1% of the sales price at the loading port of all coal sold to customers in the territory. The agreement will remain in effect unless and until the Company terminates it due to Mitsui becoming insolvent or commencing liquidation proceedings or for failure of Mitsui to perform a material term of the agreement.
- (d) The Company has engaged a financial advisor in conjunction with the strategic review which includes a success fee if a transaction occurs (Note 33 (b)).
- (e) Other commitments are noted elsewhere in these consolidated financial statements (Notes 4, 5, 6, 10, 13, 17, 18, 19, 20, 28 and 33).

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

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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.)

32. 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 years ended March 31, 2009 and 2008 are derived from coal sales to customers located in the following geographic areas:

	2009		2008	
Asia	\$	517,819	\$	173,474
Europe		68,274		79,015
	\$	586,093	\$	252,489

For each of the years ended March 31, 2009 and 2008, there were three and four customers respectively, with each accounting for greater than 10% of revenues. The percentage of sales to these customers was 65% and 66% respectively for the years ended March 31, 2009 and 2008.

33. Subsequent events

- (a) On April 8, 2009, one of the RSA claimants (Note 31 (a)) filed a Garnishing Order before Judgment. The Company has paid \$3,716,000 representing the aforementioned amount plus interest, into a trust account to be held pending a decision on an appeal filed by the Company.
- (b) On December 23, 2008, the Company and Cambrian reached an agreement in principle in respect of certain key terms for the possible acquisition by the Company of the whole of the issued and to be issued ordinary share capital of Cambrian.

On May 20, 2009, the Company entered into a combination agreement (the "Combination Agreement") with Cambrian to effect, among other things, the acquisition by the Company of all of the issued and outstanding ordinary shares of Cambrian by way of a scheme of arrangement (the "Scheme of Arrangement") under Section 899 of the United Kingdom *Companies Act 2006*, involving a reduction of the capital of Cambrian under Section 135 of the United Kingdom *Companies Act 1985*. Pursuant to the terms of the Combination Agreement, all of the issued and outstanding ordinary shares of Cambrian will be exchanged for Common Shares of the Company on the basis of a ratio of 0.75 Common Shares of the Company for each ordinary share of Cambrian. If the Scheme of Arrangement becomes effective, Cambrian will become a wholly-owned subsidiary of the Company (the "Combination").

In addition, any ordinary shares of Cambrian issued to holders of options to acquire ordinary shares of Cambrian ("Cambrian Options"), warrants to acquire ordinary shares of Cambrian ("Cambrian Warrants") and Cambrian Notes (as defined below) on the exercise of such options or warrants or conversion rights in respect of the Cambrian Notes, as applicable, after the effective date of the Combination will not be included in the Scheme of Arrangement and therefore such holders of Cambrian Options, Cambrian Warrants and Cambrian Notes will not be bound by the Scheme of Arrangement. The amendments to the articles of association of Cambrian proposed at the meeting of the Cambrian shareholders to be held on June 23, 2009 (the "Cambrian General Meeting") provide that any person acquiring ordinary shares of Cambrian after the effective date will be required to transfer them to Cambrian on the basis that they will receive the same number of Common Shares of the Company to which they would have been entitled had they held ordinary shares of Cambrian that were subject to the Scheme of Arrangement, subject to rounding down, as fractions of Common Shares of the Company will not be issued.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

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33. Subsequent events (continued)

It is expected that the Scheme of Arrangement will become effective by close of business in the United Kingdom on or about July 13, 2009. The Scheme of Arrangement is subject to satisfaction or waiver of certain conditions, including the approval of Cambrian shareholders by the passing of a resolution approved by a majority in number of the Cambrian shareholders voting, representing at least 75% of the value of the ordinary shares of Cambrian voting at the Cambrian General Meeting and the approval of the shareholders of the Company, other than Cambrian, the Audley Fund and their affiliates and associate, of an ordinary resolution to approve the Combination that was considered at the special meeting of the Company held on June 24, 2009.

On June 23, 2009, the requisite majority of the shareholders of Cambrian approved the Scheme of Arrangement and on June 24, 2009, the shareholders of the Company approved the Combination.

The Scheme of Arrangement and the related reduction of capital must be sanctioned by the High Court of Justice in England and Wales and will only become effective upon delivery to the Registrar of Companies in England and Wales of a copy of the order sanctioning the Scheme of Arrangement and, in relation to the reduction of capital, the registration of such order by the Registrar of Companies in England and Wales.

- (c) On May 20, 2009, the Company entered into an agreement (the "Noteholder Agreement") with Cambrian and the holders of the \$27 million convertible notes of Cambrian (the "Cambrian Notes"), pursuant to which the Company agreed that, conditional upon (i) a written resolution being duly passed by the holders of the Cambrian Notes amending certain conditions of the Cambrian Notes, and (ii) the Scheme of Arrangement becoming effective, the Company will, or will procure that Cambrian or another member of the Company and its subsidiary, redeem the Cambrian Notes in full together with interest thereon to, but excluding, the date of such redemption in accordance with the amended conditions of the Cambrian Notes by not later than five business days from the date when the Scheme of Arrangement becomes effective.

Under the terms of the Noteholder Agreement, the holders of the Cambrian Notes have agreed that such redemption will constitute a full and final discharge of Cambrian's obligations to redeem the Cambrian Notes as amended. In the Noteholder Agreement, the parties have also agreed that interest under the CIH Loan shall accrue but shall be payable to the Company only once the Cambrian Notes have been redeemed in full or, if the Scheme of Arrangement has not become effective by August 21, 2009, on August 21, 2009, whichever is earlier.

The Company has also agreed that it will not exercise any of its enforcement rights including, without limitation, the acceleration of the payment of indebtedness, the calling of an event of default or the enforcement of any guarantee or security in respect of the CIH Loan against Cambrian or any of its subsidiaries as a result of Cambrian agreeing to or effecting the amendments to the conditions of the Cambrian Notes agreed with the holders of the Cambrian Notes. In addition, the Company has given certain customary representations, warranties and covenants in the Noteholder Agreement.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

As at March 31, 2009 and 2008

(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.)

33. Subsequent events (continued)

On or about May 20, 2009, all of the holders of the Cambrian Notes signed a written resolution modifying and amending certain conditions of the Cambrian Notes, satisfying the first condition to the Noteholder Agreement. In particular, the holders of the Cambrian Notes agreed to extend the maturity date of the Cambrian Notes from May 23, 2009 to August 21, 2009 and to increase the interest rate payable for the period between May 23, 2009 and August 21, 2009 (the "Extension Period") to 15% per annum, payable monthly in arrears on June 23, 2009, July 23, 2009 and at maturity on August 21, 2009 (or on the date of redemption, if earlier, in accordance with the amended conditions of the Cambrian Notes). Cambrian also agreed to certain additional customary covenants of a standard nature throughout the Extension Period which restrict Cambrian and its Subsidiaries from undertaking certain transactions without the consent of the holders of the Cambrian Notes including incurring new indebtedness, declaring dividends, creating new security interests, entering into transactions with affiliates, merging with any Person other than the Company, or selling all or substantially all of its assets.

- (d) For the period of April 1, 2009 to June 25, 2009, US\$20,465 of principle of the US\$40,372,000 convertible debenture have been converted into 27,034 common shares of the Company (Note 19).
- (e) For the period of April 1, 2009 to June 25, 2010, 1,590,000 warrants expiring November 30, 2010 (Note 21) have been exercised.
- (f) Subsequent to March 31, 2009, the Company entered into a series of forward exchange contracts to fix the rate at which future anticipated cash flows of US dollars are exchanged into Canadian dollars. Such contracts include forward sales of US dollars at an average rate of 1.18, in the aggregate amount of US\$167,000,000 from June 2009 to the end of April 2010.