

WESTERN CANADIAN COAL CORP.
Management's Discussion and Analysis

The following information, prepared as of June 25, 2009, should be read in conjunction with the audited consolidated financial statements of Western Canadian Coal Corp. (the "Company") for the year ended March 31, 2009, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated. The Company is listed under the symbol WTN on the Toronto Stock Exchange ("TSX") and the Alternative Investment Market of the London Stock Exchange ("AIM").

This discussion and analysis contains forward-looking statements. Please refer to the cautionary language on page 27.

Summary

The Company's financial position continued to strengthen as a result of strong cash flow from operations. Net income for the fourth quarter of fiscal 2009 was \$47.6 million or earnings per share of \$0.23, on a basic and diluted basis. For the year ended March 31, 2009, the Company earned net income of \$214.5 million or earnings per share of \$1.17 and \$1.14 on basic and diluted basis, respectively.

Income from mining operations increased to \$58.8 million in the fourth quarter of 2009. This compares to the loss from mining operations of \$15.2 million in the similar period of the previous year. The increase over the fourth quarter 2008 was achieved primarily as a result of higher coal prices realized from the current coal year contracts and favourable foreign exchange rates, which led to coal sales of \$111.7 million. These sales were 48% higher than in the same quarter a year ago.

Coal shipments for the fourth quarter 2009 were 346,000 tonnes or 60% lower than the same quarter of 2008. The average realized price of \$316 per tonne in the fourth quarter was 263% higher than the same quarter of 2008. Favourable exchange rates also added to the improved prices realized from the sale of the Company's coal in this quarter over previous quarters. The lower shipment levels were the result of lower production levels and customer orders being deferred into subsequent quarters.

Coal production for the fourth quarter 2009 was 501,000 tonnes or 28% lower than the same quarter of 2008. Cash costs in the fourth quarter 2009 were \$136 per tonne as compared to \$95 per tonne in the fourth quarter 2008. The increase in the fourth quarter 2009 over the same period a year ago was primarily due to higher stripping ratios.

The balance sheet of the company continues to strengthen. When comparing the March 31, 2009 financial position to the March 31, 2008 position, the Company's working capital position improved by \$218.0 million to a positive working capital position of \$145.6 million, which includes approximately \$75 million of cash in the bank. The Company's debt to shareholders' equity ratio has improved to 0.42 from 2.81 over the same period a year ago.

Cambrian Acquisition

On June 24, 2009, the Company's shareholders approved the acquisition of Cambrian Mining Plc (see May 20, 2009 and June 24, 2009 press release). The acquisition is expected to close on July 13, 2009. Upon closing, Western will issue approximately 89 million shares to Cambrian shareholders, 72.1 million shares of Western owned by Cambrian will be cancelled, \$29 million of Western's convertible debentures owned by Cambrian will be cancelled, Western's loan to Cambrian of \$40.6 million plus interest will be forgiven, and five days after closing, Western will redeem US\$ 27 million of Cambrian's notes.

The acquisition adds immediate value through the creation of a larger, stronger, and more diversified coal mining company. The new Western will have globally diversified operations in three key coal producing regions, product diversification with the inclusion of thermal coal, a more globally balanced sales program, an expansion of coal reserves and resources by 39% and 50%, 100% increase to current year coal production, significant cost savings, and will simplify the Company's corporate structure. (See "*Cambrian Acquisition Details*").

General

The Company's principal business is the production of metallurgical coal and the acquisition, exploration and development of additional coal properties, which has been primarily focused on favourably located, high-quality coal deposits in northeast British Columbia. The Company has developed a diversified coal asset base adjacent to or nearby existing infrastructure already established for the northeast coalfields, including rail, port, town and other facilities. The Company has the rights to two large multi-deposit coal property groups – the Wolverine and Brazion groups of properties, which include approximately 35,000 hectares located in northeastern British Columbia under license or lease. Additionally, the Company holds directly and indirectly a 50% interest in Belcourt Saxon Coal Limited Partnership, which owns two additional multi-deposit coal property groups - the Belcourt and Saxon groups of properties, which include more than 50,000 hectares under license held by Belcourt Saxon Coal Ltd., the general partner of Belcourt Saxon Coal Limited Partnership.

The Company's principal property assets are grouped as follows:

- (i) the Perry Creek, EB and Hermann open-pit deposits (collectively, the "Wolverine Operations") located within the Company's Wolverine group of coal properties; and
- (ii) the Brule mine and Willow Creek mine, which are open-pit mines located within the Company's Brazion group of coal properties.

Wolverine – Perry Creek Mine

The Company's Perry Creek and EB coal deposits (collectively, the "Wolverine project"), which include approximately 6,106 hectares under license or lease, are located within the Wolverine group of properties in northeastern British Columbia.

The technical report for the Perry Creek mine dated December 31, 2007 ("Technical Report on the Perry Creek Mine") prepared under the supervision of James McQuaid, P.Eng. for Marston Canada Ltd. and a Qualified Person as defined in NI 43-101, a copy of which is available under the company's profile on SEDAR at www.sedar.com, reported that proven reserves from Perry Creek are expected to provide 31.8 million tonnes of ROM coal. The total amount of saleable export coal contained within the proven reserves was estimated to be 20.4 million tonnes including 588,000 tonnes of oxidized coal at an estimated average preparation plant yield of 64%.

The Company has developed the Wolverine project as an open pit mine and has obtained an Environmental Assessment ("EA") Certificate and Mine Permit allowing for annual coal production from the properties of 3.0 million tonnes.

The Company developed the Perry Creek pit using an experienced mining contractor for the mining operations. Until May 18, 2009, the Perry Creek open-pit mine was being operated and managed by the contractor and the Company provided overall management and engineering support and operated the coal preparation plant. On May 18, 2009, the Company replaced the contractor with the direct hire of the work force to operate and manage the pit operations, which will eliminate contractor fees and thereby reduce costs.

Production statistics for the years ended March 31, 2009 and 2008 are summarized in the following table:

	For the year ended March 31, 2009	For the year ended March 31, 2008
Waste stripping.....	19,470,000 bank cubic metres	15,655,000 bank cubic metres
Run-of-mine coal mined.....	2,285,000 tonnes	2,891,000 tonnes
Clean coal produced.....	1,295,000 tonnes	1,880,000 tonnes
Product coal railed to port.....	1,273,000 tonnes	1,921,000 tonnes
Coal sales.....	1,226,000 tonnes	1,952,000 tonnes

For the year ended March 31, 2009, mining operations at the Perry Creek mine included total waste stripping of approximately 19,470,000 bank cubic meters and 1,295,000 tonnes of clean coal production, resulting in a 15.0:1 strip ratio compared to an average strip ratio of 8.3:1 for the previous year.

During the year ended March 31, 2009, the Wolverine preparation plant processed approximately 2,288,000 tonnes of run-of-mine coal for clean coal production of 1,295,000 tonnes, resulting in a processing yield of 57% compared to an average processing yield of 65% for the prior year. During the year ended March 31, 2009, 1,273,000 tonnes were railed to port and 1,226,000 tonnes of clean coal were shipped to major international steel mills.

The lower clean coal production for the year ended March 31, 2009 compared to the prior year was expected, because the operation was behind in waste removal in the prior year and catch up was required, hence the higher strip ratio. However, despite a 24% increase in waste stripping compared to the prior year, waste stripping was still lower than the Company's expectations as a result of productivity issues driven by a shortage of skilled people and failures on each of the major shovels. The coal release was correspondingly reduced.

Wolverine – EB Coal Deposit

The technical report dated November 26, 2007 for the EB mine (the "Revised Technical Report on the EB Project") prepared under the supervision of Edward Minnes, P.Eng., Senior Project Manager for Marston Canada Ltd. and a Qualified Person as defined in NI 43-101 which is available on SEDAR revised the EB estimate to 8 million tonnes of ROM coal. The total amount of saleable export coal produceable from the probable reserves of EB was estimated to be 4.9 million tonnes at an estimated average preparation plant yield of 61%. While mine planning is progressing, there is currently no timetable to commence production.

Wolverine - Hermann Coal Deposit

The Technical Report on the Hermann Project Feasibility Study dated December 12, 2007 (the "Hermann Project Technical Report") was prepared under the direction of Edward Minnes, P.E., Senior Project Manager for Marston Canada Ltd. and a Qualified Person as defined in NI 43-101, a copy of which is available under the Company's profile on the SEDAR website. This report identifies 10.7 million tonnes of proven and 3.6 million tonnes of probable ROM coal reserves (total 14.3 million tonnes), which are expected to provide 9.0 million tonnes of saleable coal product at an estimated coal preparation plant yield of 63%. While mine planning is progressing, there is currently no timetable to commence production.

Brazion – Brule Mine

The Brule mine is located within the Burnt River coal property approximately 45 kilometres south by road of the BC Rail mainline near Chetwynd, BC. An updated technical report on the Brule Mine entitled "Updated Technical Report on the Brule Coal Project" dated December 2007 (the "Brule Coal Project Technical Report") was prepared under the supervision of Edward Minnes, P.E., Senior Project Manager for Marston Canada Ltd. and a Qualified Person as defined in NI 43-101. A copy of the report is available under the Company's profile on the SEDAR website. As reported in the Brule Coal Project Technical Report, the Brule mine proven reserves are expected to provide 22.5 million tonnes of ROM coal over its life. The total amount of salable export coal contained within the proven reserves was estimated to be 21.1 million tonnes at an estimated average preparation plant yield of 92%.

In July 2006, the Company received an EA Certificate from the British Columbia Environmental Assessment Office for the Brule mine and in February 2007, the Company received a Mine Permit. These allow the Company to produce up to 2.0 million tonnes per annum of ultra-low volatile pulverized coal injection ("ULV-PCI") coal from the Brule mine, and approve the future development of a new coal rail load-out at Falling Creek Flats in the Pine River Valley, along with associated roads and power lines.

The Company has developed the Brule mine in a manner similar to its operation at the Dillon mine, where the reserve is now fully depleted. The Brule mine is being operated and managed by a mining contractor; however, the Company retains overall management and engineering responsibility for the project and for the operation of the Bullmoose load-out facility, which is being leased from Bullmoose Operating Corporation.

With its high caloric value, low ash content and volatile matter of approximately 14%, ULV-PCI coal from the Burnt River property is ranked as a premium PCI coal and has been sold to major international steel mills.

Production statistics for the years ended March 31, 2009 and 2008 are summarized in the following table:

	For the year ended March 31, 2009	For the year ended March 31, 2008
Waste stripping.....	5,557,000 bank cubic metres	4,267,000 bank cubic metres
Run-of-mine coal mined.....	1,264,000 tonnes	1,097,000 tonnes
Product coal to rail.....	1,059,000 tonnes	1,127,000 tonnes
Clean coal produced.....	1,027,000 tonnes	1,127,000 tonnes
Product coal to port	928,000 tonnes	1,127,000 tonnes
Coal sales.....	816,000 tonnes	1,091,000 tonnes

For the year ended March 31, 2009, mining operations at the Brule mine included total waste stripping of approximately 5,557,000 bank cubic meters and 1,027,000 tonnes of clean coal production, resulting in a 5.4:1 strip ratio compared to an average strip ratio of 3.8:1 for the previous year.

During the year ended March 31, 2009, the Company's higher than expected waste stripping was a result of the unexpected faulting in the South Blind Pit during the first quarter 2009. In order to address this issue, the Company modified its mining plan and concentrated on stripping in the unfaulted central and north areas of the Blind Pit and in Brule South to obtain coal release. The higher waste stripping put the Company back on target with production targets for the fiscal year. The fault has no material impact on the amount of reserves at the Brule mine.

Brazion - Willow Creek Mine

On May 6, 2008, the Company completed the acquisition of Falls Mountain Coal Inc. ("FMC") which owns the Willow Creek mine (see "*Acquisition – Falls Mountain Coal Inc.*"). The Willow Creek mine is an open-pit metallurgical coal mine located west of the town of Chetwynd in northeastern British Columbia. In addition to the Willow Creek mine, the Company acquired interests in certain adjacent or nearby coal properties. These properties, known as Pine Pass, Crassier Creek, Falling Creek and Fisher Creek are referred to collectively with the Willow Creek mine as the "Willow Creek Coal Properties". The coal properties associated with the Willow Creek mine are located within the Pine Pass area in the Peace River District of northeast British Columbia. The coal licenses flank the Pine River Valley approximately 45 kilometres west of Chetwynd, with the majority of the licenses situated on the south valley slope.

The Willow Creek coal deposit (the "Willow Creek Deposit") is the basis of the Willow Creek mine. A technical report on the Willow Creek Deposit entitled "Resource and Reserve Estimate for the Willow Creek Mine Property" dated November 19, 2007 (the "Willow Creek Project Technical Report") was prepared under the supervision of Robert J. Morris, P. Geo. and James H. Gray, P.Eng., principals of Moose Mountain Member Corp. and Qualified Persons as defined in NI 43-101. A copy of the report is available under the Company's profile on the SEDAR website.

The Willow Creek Project Technical Report reported that proven metallurgical coal reserves at the Willow Creek Deposit are expected to provide approximately 14.8 million tonnes of ROM coal and the probable metallurgical coal reserves at the Willow Creek Deposit are expected to provide 0.91 million tonnes of ROM coal.

Costs associated with FMC from April 1, 2008 to May 6, 2008 have been included as coal exploration as FMC was considered to be a variable interest entity. All costs subsequent to the acquisition date of May 6, 2008 and up to November 30, 2008 have been capitalized to mineral property, plant and equipment as pre-production costs.

On October 16, 2008, the Company announced that mining at the Willow Creek mine had commenced and commercial production of low-volatile PCI coal should be available for sale early in 2009. On November 26, 2008, the Company announced that despite a successful start-up of mining operations it was temporarily suspending the development of the Willow Creek mine due to the current global economic uncertainty impacting the demand for metallurgical coal. Future decisions on restarting mining operations and expansion plans at the mine and plant will be made once clarity on future coal prices become more visible and

satisfactory sale commitments can be made. From December 1, 2008, all costs are expensed as care and maintenance.

For the year ended March 31, 2009, the Company incurred demobilization costs of approximately \$3,174,000 for the various contractors at the Willow Creek mine, in addition to \$1,265,000 in care and maintenance costs for the facility and the machinery taken into the Company's possession at the Willow Creek mine. The Company will continue to incur costs of approximately \$160,000 per month for ongoing payments for contractor equipment debt servicing costs while the contractor attempts to sell the equipment. This equipment forms part of the equipment that the contractor at the Willow Creek mine leased and brought on site at the Company's request upon the commencement of mining at the Willow Creek mine in October 2008.

Interest in Joint Venture

The Company has a 50% interest in the Belcourt Saxon Coal Limited Partnership (the "Partnership") which was formed in March 2005. The Partnership interest includes interest in the Saxon Group and Belcourt Group.

The Saxon Group had extensive work programs carried out in the 1970s and early 1980s and feasibility reports were prepared which indicated the potential for large-scale surface coal mining operations. The Belcourt Group was extensively explored by previous license holders in the late 1970s and early 1980s, and more recently studied in 2000 by the Company. The Belcourt and Saxon property groups are located approximately 65 kilometres and 110 kilometres, respectively, southeast of Tumbler Ridge and significant improvement of the transportation infrastructure in the area will be required to realize the full development potential.

On January 29, 2009, the Company announced that the Belcourt-Saxon Coal Limited Partnership completed a National Instrument 43-101 compliant technical report ("Technical Report") regarding the Belcourt coal property. The report entitled "Technical Report Belcourt Project" and dated January 23, 2009 can be found in the Company's filings on SEDAR. Highlights of the report include:

- 86 million tonnes of Proven Reserves of metallurgical coal in two deposits, Belcourt North and Belcourt South.
- 167 million tonnes of Measured (including 2 million tonnes thermal) and 4 million tonnes of Indicated Resources among the two deposits
- Potential production of 4 million tonnes per year of saleable clean coal
- 15 years of production from defined reserves on the property

Sandwell Engineering Inc. prepared a feasibility study that is the basis of the Technical Report. Numerous consultant specialists as outlined in the Technical Report contributed to the study. Qualified Persons who are authors of the Technical Report include:

- Geology & Resources - John H. Perry, P. Geo (internal), and Robert J. Morris, P. Geo, Principal of Moose Mountain Member Corp., (independent);
- Reserves - Jay Q.L. Horton, P. Eng., Senior Mining Engineer with Norwest Corporation (Independent).

The Partnership believes that both the Belcourt Group and the Saxon Group have the potential to support significant mining operations and intend to advance these properties to feasibility, with a view to developing operations that can support a large-scale mining operation. However, given the uncertain economic times currently being encountered; the Partnership will carefully consider the timing of developing Belcourt-Saxon properties.

In accordance with CICA Handbook Section 3055 "Interests in Joint Ventures" the Company's audited consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues and expenses of the Partnership.

Market Outlook

All of the Company's current fiscal 2010 coal production is under contract for sale to international steel producers. Coal prices for fiscal 2010 are approximately US\$126 per tonne for hard coking coal and US\$90 per tonne for its ULV-PCI coal. Since coal deliveries during fiscal 2010 will include certain quantities of fiscal 2009 carryover tonnages, the average selling prices for coal to be delivered in fiscal 2010 are expected to be in the range US\$120 to US\$125 per tonne, which reflects pricing for both hard coking coal and ULV-PCI coal and carryover tonnages at fiscal 2009 prices.

The current economic downturn has resulted in significant cutbacks in steel production on the part of the Company's customers, in some cases as much as a 50% decrease from 2008 levels. This has affected the short term demand for metallurgical coal, leading to production cutbacks at the Company's operations. Despite the significant curtailments by the Company's customers, the Company has achieved coal sale prices that are the second highest on record, which speaks well to the quality of the Company's coal and the service provided to customers. The Company further expects that the economic stimulus packages introduced by governments including the US, Japan and China will lead to increased steel production and therefore increase the demand for metallurgical coal. Already in China, there is higher construction activity in the first calendar quarter of 2009, together with increased consumer spending in steel-based goods such as appliances and autos.

In the longer term, the market fundamentals for metallurgical coal are expected to continue to improve which will provide continued opportunity for the Company to increase market diversity and market share. The Company's Wolverine hard coking coal forms a key blend component with many of the world's leading steel mills, while the Brule mine ULV-PCI coal is consistently ranked among the top PCI coals worldwide. These high quality and high demand coals, in conjunction with the region's highly efficient rail and port infrastructure with excess capacity, continue to provide the Company a competitive advantage to continue to grow and diversify.

Guidance

The Company expects to produce approximately 1,800,000 tonnes of metallurgical coal from its two operating mines:

- Wolverine operations producing approximately 1,200,000 tonnes of hard coking coal
- Brule mine producing approximately 600,000 tonnes of ULV-PCI coal.

The increase in production levels is a result of increased demand from our customers. As a result, the Company now expects to ship approximately 2,200,000 tonnes of metallurgical coal which will consist of approximately 1,300,000 tonnes of hard coking coal and 900,000 tonnes of ULV-PCI. The Company has the flexibility to adjust production to respond to changes in demand for its coal.

The Company's Wolverine hard coking coal and Brule mine ULV-PCI coals have been sold to major steel mills throughout Asia and Europe, with long term supply agreements in place for the next three years.

With the stripping ratios in fiscal 2010 expected to be lower than in fiscal 2009, cash costs are expected to be approximately \$110 to \$115 per tonne.

Acquisition of Falls Mountain Coal Inc.

On May 6, 2008, the Company completed the acquisition of FMC from Cambrian Mining plc ("Cambrian"), the Company's major shareholder.

The purchase consideration was funded with common shares as follows:

Issuance of 18,740,898 common shares	\$	13,306,000
Issuance of 4,534,088 common shares		15,190,000
Royalty liability		9,639,000
Transaction costs		125,000
Total purchase price	\$	38,260,000

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.

Management of the Company believes that the Acquisition will provide certain benefits, including, among other things: (i) a reduction in capital costs for the Brule Mine; (ii) increased coal resources and production capacity; (iii) a higher production profile and stronger market presence for the Company; and (iv) improved management and administrative efficiency.

Cambrian Acquisition Details

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.

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.

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.

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.

Non-GAAP Financial Measures

This management discussion and analysis refers to certain financial measures, such as cash flow generated on coal sales which is not a measure recognized under GAAP in Canada and does not have a standardized meaning prescribed by GAAP. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other corporations. These measures have been derived from our financial statements, and applied on a consistent basis, because the Company believes they are of assistance in the understanding of the results of operations and financial position.

Cash costs is the term used by the Company to describe the cash production costs and consists of cost of product sold and transportation and other costs.

Cash flow generated on coal sales (see “*Liquidity and Capital Resources*”) is the term the Company uses to describe the cash that is generated from coal net of cost of product sold, transportation and other costs.

Financial Overview and Selected Annual Information

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

(000's of dollars, except tonnes, per tonne and per share data)	2009	2008	2007
Coal Production (tonnes)	2,322,000	3,007,000	1,331,000
Coal Sales (tonnes)	2,042,000	3,043,000	1,410,000
Average US \$ Coal Price (per tonne)	\$ 255	\$ 81	\$ 83
Average CAD \$ Coal Price (per tonne)	\$ 287	\$ 83	\$ 95
Cost of Product Sold (per tonne)	\$ 102	\$ 59	\$ 52
Cost of Transportation (per tonne)	\$ 31	\$ 27	\$ 28
Working Capital	\$ 145,639	\$ (72,339)	\$ 18,534
Total Revenues	\$ 586,093	\$ 252,489	\$ 134,121
Net Earnings (Loss)	\$ 214,532	\$ (105,987)	\$ (12,985)
Net Earnings (Loss) per Share, Basic	\$ 1.17	\$ (0.95)	\$ (0.14)
Net Earnings (Loss) per Share, Diluted	\$ 1.14	\$ (0.95)	\$ (0.14)
Total Assets	\$ 662,337	\$ 453,324	\$ 438,575
Long-term Liabilities	\$ 124,625	\$ 207,443	\$ 190,130
Dividends declared	\$ Nil	\$ Nil	\$ Nil

The Company's operating results reflect the volumes and timing of coal shipments, the net price realized in US dollars on such sales, the US/Canadian dollar exchange rate, and cost of production, transportation costs and depreciation, depletion and accretion. Sales volumes, the average realized US dollar and Canadian dollar prices are presented in the preceding table.

The 2009 and 2008 fiscal years reflect a full twelve months of operations from the Perry Creek and Brule mines. The 2007 fiscal year reflects the completion of construction of the Perry Creek mine and commencement of commercial production mid-year. The Dillon mine was depleted in September 2006, and concurrently, the Company decided to proceed with the Brule mining operation which reached commercial production during the fourth quarter of fiscal 2007.

For fiscal 2009, the Company recorded an income from mining operations of \$287,882,000 and a net income of \$214,532,000 on sales revenues of \$586,093,000. The fiscal 2009 net income includes general, administration and selling costs of \$27,626,000, coal exploration and other mine maintenance costs of \$6,432,000, interest, accretion and financing fees on liabilities of \$22,649,000, unrealized loss on foreign exchange contracts of \$1,501,000, other income of \$20,516,000 and an income tax expense of \$35,658,000. The income tax expense consisted of a current income tax expense of \$17,573,000 and a future income tax expense of \$18,085,000.

For fiscal 2008, the Company recorded a loss from mining operations of \$40,639,000 and a net loss of \$105,987,000 on sales revenues of \$252,489,000. The fiscal 2008 net loss includes general, administration and selling costs of \$22,512,000, coal exploration of \$4,811,000, interest, accretion and financing fees on liabilities of \$27,262,000, an investment impairment write-down of \$3,319,000, a terminated contract expense of \$2,590,000 and other income of \$8,526,000. During the second quarter of fiscal 2008, the Company wrote off all previously recognized future income tax assets of \$13,380,000. In accordance with CICA Handbook Section 3465 “Income Taxes”, a future income tax asset can only be realized as a result of it being “more

likely than not” that sufficient future taxable income will be available to utilize such future income tax assets. The Company’s historical operating history must be used to assess the “more likely than not” criteria and therefore a valuation allowance was recorded in the second quarter of fiscal 2008 to write off the previously recorded future income tax assets.

For fiscal 2007, the operating income from mining operations and net loss for the year was \$8,890,000 and \$12,985,000 respectively on sales revenues of \$134,121,000. The 2007 net income included a net income tax recovery of \$6,574,000 and other income of \$2,871,000.

The increase in total assets year over year reflects the significant fundraisings conducted by the Company for the development and construction of the Perry Creek and Brule mines as well as the acquisition of the Willow Creek mine in fiscal 2009. Total assets have increased significantly from fiscal 2008 to fiscal 2009 as a result of higher cash and trade receivables which are a function of higher coal prices in fiscal 2009, the issuance of the loan to related party, a higher inventory balance and the costs incurred relating to the development of the Willow Creek mine. The Company’s working capital as at March 31, 2009 increased by \$217,978,000 over the prior year resulting from the higher coal prices and a weaker Canadian dollar in relation to the US dollar as well as the repayment of various current liability balances during fiscal 2009.

Long-term liabilities year over year reflect the exercise of convertible debentures, repayment of the demand loan, repayments on capital lease obligation, repayment of the loan from related party and the repayment of the long-term debt during fiscal 2009. In fiscal 2008, the Company obtained financing through the issue of the demand loan, the US\$40,372,000 convertible debenture and the loan to related party. The Company also made principal repayments on its long term debt.

Results of Operations

Revenues

For the year ended March 31, 2009, revenues were \$586,093,000 from the sale of 2,042,000 tonnes of coal. The average price per tonne realized during the period was \$287 or US\$255.

For the year ended March 31, 2008, total sales revenues were \$252,489,000 from the sale of 3,043,000 tonnes of coal. The average price per tonne realized during the period was \$83 or US\$81.

The primary reason for the 132% increase in the Company’s total revenues over the prior year is the increase in sales price realized and the strengthening of the US dollar offset by a lower sales volume. The increase in sales price is a result of higher coal contract prices. The average exchange rate of the US dollar in relation to the Canadian dollar for the year ended March 31, 2009 was \$1.12 compared to \$1.03 in the prior year.

Cost of Goods Sold

Total cost of goods sold including cost of product sold, transportation and other costs and depletion, amortization and accretion for the year ended March 31, 2009 and 2008 are \$298,211,000 and \$293,128,000, respectively, or \$146 per tonne and \$96 per tonne, respectively.

Cost of product sold includes open-pit mining costs, coal preparation and handling, general services and other costs as well as proportionate allocations of overhead. For the year ended March 31, 2009, the cost of product sold was \$207,745,000 or \$102 per tonne. Cost of product sold during the year ended March 31, 2008 amounted to \$180,165,000 or \$59 per tonne.

The 73% increase in the year’s per unit cost of product sold over the prior year is due to lower coal production volumes from the Company’s Perry Creek mine caused by higher stripping ratios, chronic labour shortages and a lower coal yield experienced as a result of the areas being mined. Higher equipment rental costs, higher fuel and explosives costs and higher mining contractor costs also impacted the costs during the year.

Transportation and other costs include the coal haul to the rail load-out, rail costs including surcharges and fuel allocations, port charges, as well as various surveying and agent fees incurred in loading vessels. For the year ended March 31, 2009, total transportation and other costs were \$62,472,000 or \$31 per tonne. Transportation and other costs incurred during year ended March 31, 2008 were \$81,840,000 or \$27 per tonne. The cost per unit has increased due to an increase in contract transportation rates and higher fuel

costs. The increase can also be attributed to a significant increase in the rail fuel surcharge. Transportation and other costs are also affected by the blend of coals produced as the coal from the Brule mine includes coal haul costs whereas coal from the Perry Creek mine does not.

Depletion, amortization and accretion relate to the various capital expenditures required for mine development and production. These are primarily calculated on a unit of production basis with various pieces of equipment being charged on either a declining balance or straight-line basis. The accretion costs represent charges incurred on the asset retirement obligation.

Depletion, amortization and accretion charges for the year ended March 31, 2009 are \$27,994,000 or \$14 per tonne. Depletion, amortization and accretion expensed for the year ended March 31, 2008 amounted to \$31,123,000 or \$10 per tonne. The increase in the year is due to the additional depletion, amortization and accretion charges related to the Perry Creek mine assets that were acquired, brought into production or commissioned throughout fiscal 2008.

Income (Loss) from Mining Operations

Income from mining operations for the year ended March 31, 2009 was \$287,882,000. This was the result of revenues from 2,042,000 tonnes of coal at an average price of \$287 per tonne for revenues of \$586,093,000, net of cost of goods sold of \$298,211,000 at an average cost of \$146 per tonne.

Loss from mining operations for the year ended March 31, 2008 was \$40,639,000. This was a result of sales of 3,043,000 tonnes at an average price of \$82 per tonne, for total revenues of \$252,489,000, net of cost of goods sold of \$293,128,000 at an average cost of \$96 per tonne.

General, Administration and Selling

(000's of dollars)	2009	2008	\$ Change	% Change
Salaries, benefits and other remuneration	\$ 9,581	\$ 6,137	\$ 3,444	56%
Sales and marketing	7,919	2,395	5,524	231%
Consulting	3,121	2,859	262	9%
Legal and audit	1,810	1,400	410	29%
Office and miscellaneous	985	1,285	(300)	(23)%
Stock-based compensation	940	4,957	(4,017)	(81)%
Travel and related expenses	936	756	180	24%
Rent and telecommunications	610	591	19	3%
Insurance	601	1,063	(462)	(43)%
Amortization	567	703	(136)	(19)%
Corporate communications	300	131	169	129%
Exchange listings and other regulatory fees	256	235	21	9%
	\$ 27,626	\$ 22,512	\$ 5,114	23%

General, administration and selling costs for the year ended March 31, 2009 increased by \$5,114,000 or 23% over the prior fiscal year. The increase is primarily due to an increase in salaries, benefits and other remuneration and sales and marketing costs. The increase in salaries, benefits and other remuneration expenses are based on changes to the Company's compensation programs, which includes the implementation of an annual incentive plan for which an accrual of \$1,351,000 was made at March 31, 2009 as well as the implementation of a retention program in September 2008 due to the tight employment market at the time. Sales and marketing expenses, which are a function of coal sales, have increased due to the higher sales price received on the Company's coal in during fiscal 2009 when compared to fiscal 2008. Sales and marketing costs have also increased due to an accrual for the Wolverine Royalty Sharing agreement in the amount of \$3,636,000 which is to allow for the potential liability in the event the Company's position is incorrect (See "*Contingencies*"). These are offset by a decrease in stock based compensation expense. Stock based compensation expense decreased as a result of fewer stock options being issued in the current fiscal year compared to the prior fiscal year.

Coal exploration and other mine maintenance costs

(000's of Canadian dollars)	2009	2008	\$ Change	% Change
Demobilization costs at the Willow Creek Mine	\$ 3,174	\$ -	\$ 3,174	100%
Care and maintenance costs	1,265	-	1,265	100%
Belcourt and Saxon coal exploration	730	1,129	(399)	(35)%
Other coal exploration	726	724	2	0%
Willow Creek coal exploration	537	2,958	(2,421)	(82)%
	\$ 6,432	\$ 4,811	\$ 1,621	34%

Coal exploration and other mine maintenance costs for the year ended March 31, 2009, including the Company's proportionate share of expenses recorded by the Belcourt Saxon Coal Limited Partnership ("the Partnership") of \$730,000, increased to \$6,432,000 from \$4,811,000 in the prior fiscal year.

Demobilization costs for the year ended March 31, 2009 were \$3,174,000 and relate to the cost the Company incurred for the demobilization of various contractors as part of the temporary suspension of the development of the Willow Creek mine.

Care and maintenance costs for the year ended March 31, 2009 were \$1,265,000 and relate to the carrying costs for the Willow Creek mine subsequent to the November 30, 2008 announcement of the temporary suspension of the Willow Creek mine. Previously, the costs at the Willow Creek mine were being capitalized as pre-production costs.

Coal exploration costs include property development expenditures, field programs, consultants, coal license and lease payments, engineering, environmental costs and other project administration expenses. Exploration costs are charged to earnings in the quarter in which they are incurred, except where these costs related to specific properties for which economically recoverable reserves have been established, in which case they are capitalized.

For the year ended March 31, 2009, coal exploration costs consisted of \$730,000 for the Partnership, \$726,000 for other properties and \$537,000 for the Willow Creek mine whereas in the prior year, the costs consisted of \$1,129,000 for the Partnership, \$2,958,000 for the Willow Creek mine and \$724,000 for other properties. The decrease in coal exploration costs for the Willow Creek mine relate to the acquisition of FMC and the capitalization of all costs subsequent to the acquisition as it is moved from the development stage to production stage.

Interest, Accretion and Financing Fees on Liabilities

For the year ended March 31, 2009, interest, accretion and financing fees on liabilities was \$22,649,000 compared to \$27,262,000 in the prior fiscal year. The cash portion of interest expense, penalties and deferred finance fees was \$15,791,000 for the year ended March 31, 2009 compared to \$20,772,000 for the prior fiscal year. This decrease is due to lower liability levels during fiscal 2009 as a result of the conversion of the Company's convertible debentures and repayment of other liabilities. In fiscal 2008, the Company paid penalty fees relating to its long-term debt which were not incurred in fiscal 2009.

Other Income

Other income amounted to \$19,015,000 for the year ended March 31, 2009 as compared to other income of \$8,526,000 in the prior year. Other income for year ended March 31, 2009 consisted of \$11,061,000 of foreign exchanges gains (including \$4,766,000 of foreign exchange gains realized on foreign currency contracts), \$1,501,000 unrealized loss on forward currency contracts, \$7,981,000 royalty liability revaluation gain, \$2,269,000 of interest income, \$1,393,000 gain on fair value adjustment of investment and \$2,188,000 of other expenses. The royalty liability revaluation gain resulted from the Company reassessing the expected cash flows under the royalty liability 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 the current economic climate.

Other income for the year ended March 31, 2008 consisted of \$6,799,000 of realized foreign exchange gains, \$1,846,000 of interest income and \$119,000 of miscellaneous expense.

Realized foreign exchange gains increased due to the weakening of the Canadian dollar compared to the US dollar, which affects the US dollar sales of the Company. The royalty liability revaluation gain resulted from the Company revaluing its royalty liability which is based on the tonnage that is processed through the Willow Creek load-out. Interest income has increased due to the Company carrying higher cash balances during the year as well as accruing interest income on the loan to related party. The gain on fair value adjustment of investment resulted from the revaluation of the restructured Canadian third party non-bank asset-backed commercial paper.

Net Income

Net income for the year ended March 31, 2009 was \$214,532,000 compared to a net loss of \$105,987,000 for the prior fiscal year. The net income reflects: an income from mining operations of \$287,882,000; other expenses totalling \$37,692,000 including general, administration and selling expenses; coal exploration and other maintenance costs; interest, accretion and financing fees on liabilities; unrealized loss on foreign exchange contracts; other income; and an income tax expense of \$35,658,000 reflecting a current income tax income of \$17,573,000 and a future income tax expense of \$18,085,000.

Summary of Quarterly Results (unaudited)

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

	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Coal Production (tonnes)	501,000	609,000	598,000	614,000	696,000	776,000	737,000	798,000
Coal Sales (tonnes)	346,000	513,000	600,000	583,000	865,000	693,000	856,000	629,000
Average US \$ Coal Price (per tonne)	\$256	\$279	\$268	\$221	\$87	\$81	\$76	\$78
Average CAD \$ Coal Price (per tonne)	\$323	\$344	\$279	\$224	\$87	\$80	\$79	\$86
<u>Per Unit Cost of Goods Sold:</u>								
Cost of Product sold (per tonne)	\$112	\$116	\$94	\$91	\$68	\$56	\$55	\$56
Cost of Transportation (per tonne)	\$24	\$29	\$37	\$29	\$26	\$25	\$30	\$26
Depletion, amortization and accretion (per tonne)	\$17	\$15	\$11	\$13	\$10	\$10	\$10	\$11
<u>Summary:</u>								
Total Revenues	\$111,684	\$176,561	\$167,455	\$130,393	\$75,291	\$55,132	\$67,852	\$54,214
Net Income (Loss) ⁽¹⁾	\$47,602	\$62,478	\$44,747	\$59,705	\$(37,801)	\$(21,263)	\$(43,866)	\$(3,057)
Net Income (loss) per share – Basic ^{(1), (2)}	\$0.23	\$0.30	\$0.26	\$0.42	\$(0.33)	\$(0.18)	\$(0.38)	\$(0.03)
Net Income(loss) per share – Diluted ^{(1), (2)}	\$0.23	\$0.29	\$0.24	\$0.27	\$(0.33)	\$(0.18)	\$(0.38)	\$(0.03)
Total Assets	\$662,337	\$628,648	\$543,716	\$532,017	\$453,324	\$436,539	\$412,135	\$463,526

(1) As there were no discontinued operations and extraordinary items in quarters shown, earnings (loss) before discontinued operations and extraordinary items are the same as earnings (loss) for the quarters shown, in total and on a per-share and diluted per-share basis.

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

The Company's quarterly results are reflective of the start of commercial production and sales from two separate mines: the Perry Creek mine within the Wolverine property in the third quarter of fiscal 2007 and the Brule mine on the Burnt River property of the Brazion property group in the fourth quarter of fiscal 2007. Fluctuations in quarterly results reflect the volumes and timing of coal shipments, the net price realized in US dollars on such sales, the US/Canadian dollar exchange rate, and costs of production, transportation costs and depreciation and depletion. Sales volumes, the average realized US dollar and Canadian dollar prices are presented in the preceding table.

The increase in the Company's net income from the quarter ended March 31, 2008 to March 31, 2009 is a result of the significant increase in the coal sales price as a result of higher contracted sales prices and the strengthening US dollar.

The increase in total assets over the eight quarter period reflects the significant financing activities conducted by the Company, the development and construction of the Perry Creek and Brule mines and the acquisition of the Willow Creek mine. Total assets decreased from June 30, 2007 to September 30, 2007 due to the repayment of the long-term debt and the write off of the Company's future income tax asset. Total assets increased from September 30, 2007 to December 31, 2007 as a result of capital asset additions, while total assets increased from December 31, 2007 to March 31, 2008 as a result of the Falls Mountain Coal Inc. preliminary purchase price allocation (See "Acquisition – Falls Mountain Coal Inc."). Total assets increased from March 31, 2008 to March 31, 2009 as a result of higher cash and trade receivables which are a function of higher coal prices in fiscal 2009, the issuance of the loan to related party, a higher inventory balance and the costs incurred relating to the development of the Willow Creek mine.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the year ended March 31, 2009 resulted in a net increase to cash of \$60,716,000. As at March 31, 2009, the Company's cash balance stood at \$74,853,000 and working capital was \$145,639,000. Working capital levels have increased over the prior year as a result of an increase in the coal prices for fiscal 2009 as well as higher inventory levels.

For the year ended March 31, 2009, the Company had positive cash flow generated on coal sales of \$315,876,000 from its Perry Creek and Brule mines of \$586,093,000 before depletion, amortization and accretion and working capital changes, while for the year ended March 31, 2008, a cash flow deficit of \$9,516,000 on coal sales of \$252,489,000. Cash flows generated from future shipments of ULV-PCI coal and hard coking coal will depend on volumes, settlement prices, exchange rates, the level of operating and transportation costs and other factors noted throughout this MD&A, including the items identified under "Risks and Uncertainties" in the Company's MD&A for the year ended March 31, 2009.

As of March 31, 2009, the Company's contractual obligations including principal and interest:

<i>(000's of dollars)</i>	Payments Due by Year				
	Total	Less than 1 year	1 – 3 years	4- 5 years	After 5 years
Convertible debentures	\$ 81,603	\$ 5,320	\$ 76,283	\$ -	\$ -
Capital lease obligations	53,599	19,674	28,043	5,882	-
Operating leases (premises & other)	2,806	1,096	1,335	255	120
Reclamation bond requirement	6,175	2,345	2,830	1,000	-
Minimum Willow Creek Loadout Royalty	1,900	200	400	400	900
Other	950	510	220	220	-
Total Contractual Obligations	\$147,033	\$ 29,145	\$ 109,111	\$ 7,757	\$ 1,020

Other commitments, including royalty commitments ranging from 0.75% to 1.0% of sales from certain coal properties of the Company and the joint venture are described in the notes to the audited consolidated financial statements for the year ended March 31, 2009.

The Willow Creek Loadout Royalty ("Royalty") that the Company has assumed as part of the acquisition of Falls Mountain Coal Inc. requires a minimum payment 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 Willow Creek rail load-out facility.

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%.

Operating Activities

For the year ended March 31, 2009, the Company generated \$200,528,000 from operating activities compared to cash used in operating activities of \$12,977,000 in the prior year. The increase in cash generated from operations is due to the increase in the coal sales price in fiscal 2009 compared to fiscal 2008.

Financing Activities

Demand loan

On September 26, 2008, the Company repaid its demand loan of \$3,500,000.

Bank debt

On July 30, 2008, the Company entered into a new credit facility, which was subsequently amended in conjunction with the issuance of the loan to related party and the repayment of the loan from related party. 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 at March 31, 2009, the Company has the full amounts under these facilities available.

Bridge financing

On April 30, 2008, the Company obtained short-term bridge financing for US\$30,000,000 from Audley European Opportunities Master Fund Limited ("Audley"). The bridge financing was used to repay the long-term debt outstanding at March 31, 2008 and to accelerate the expansion plans of the Willow Creek mine.

The bridge financing was subsequently repaid on July 31, 2008.

Capital leases

During the fiscal year ended March 31, 2009, the Company entered into eight capital lease arrangements for approximately \$9,272,000 in production equipment. Repayments on capital lease obligations for the year ended March 31, 2009 were \$14,447,000.

Loan from related party

On January 21, 2009, the Company repaid the loan from related party in the amount of \$5,000,000 in conjunction with the issuance of the loan to related party.

Long-term debt

On April 30, 2008, the Company repaid its long-term debt of \$27,918,000 which was outstanding at March 31, 2008.

Equity

During the year ended March 31, 2009, \$4,125,000 was raised pursuant to the exercise of 1,526,268 stock options and \$6,580,000 was raised pursuant to the exercise of 2,024,655 warrants.

Investing Activities

Loan to related party

On January 21, 2009, the Company provided a non-revolving loan on a secured basis (the "Loan") in the principal amount 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. The loan principal is US\$31,997,000.

The Loan was used to repay CIH's existing indebtedness under a financing facility with Investec Bank (UK) Limited.

CIH paid a fee to the Company of US\$600,000 in connection with the Loan. The Loan shall accrue interest at a rate of 12% per annum until repayment and shall become payable in full on the earlier of (i) 90 days after the delivery of a written notice from the Company to CIH that the Company has failed to obtain the necessary approvals of its shareholders for the proposed business combination and (ii) December 31, 2009.

In addition, under the terms of the Loan, the amount repayable under the Loan has been reduced by the entire amount owing to Cambrian under a \$5,000,000 loan from related party which was received from Cambrian on September 14, 2007.

Capital Expenditures

During the year ended March 31, 2009, mineral property, plant and equipment, net of accumulated depletion and amortization, increased to \$419,321,000 from \$384,902,000 as at March 31, 2008.

For the year ended March 31, 2009, capital expenditures of \$18,337,000 were incurred relating to the Wolverine Operations, of which the majority relates to the acquisition of equipment. For the year ended March 31, 2009, capital expenditures of \$4,686,000 were incurred in relation to mine development costs at the Company's Brule mine. At the Company's Willow Creek mine, capital expenditures of \$38,067,000 were incurred in relation to mine development costs and an additional \$2,358,000 was added to the Willow Creek mineral property, plant and equipment balance as part of the preliminary purchase price allocation.

In light of the current economic situation, the Company has significantly reduced its planned capital expenditures for fiscal 2010 to approximately \$3,000,000 to \$4,000,000. Cash flow from operations is expected to fund the fiscal 2010 capital expenditures program. The Company is closely monitoring the current economic situation and will continue to review its capital programs in light of the volatility.

Deposits

During the year ended March 31, 2009, additional reclamation deposits of \$5,886,000 were made in conjunction with amendment to mine permits and additional security deposits required by vendors were made for \$1,004,000.

Deferred transaction costs

During the year ended March 31, 2009, \$3,057,000 in deferred transactions costs were incurred in relation to proposed transaction with Cambrian (See "*Proposed Transaction*").

Off-Balance Sheet Arrangements

The Company has not entered into any off-balance sheet financing arrangements.

Fourth Quarter 2009

For the quarter ended March 31, 2009, total sales revenues were \$111,684,000 from the sale of 346,000 tonnes of coal. The average sales price was \$323 or US\$256 per tonne. Revenues for the quarter ended March 31, 2008 of \$75,291,000 were realized on sales of 865,000 tonnes of coal with an average price of \$87 or US\$87 per tonne.

Cost of goods sold for the quarter ended March 31, 2008, including costs of product, transportation, and depletion, amortization and accretion charges totalled \$52,838,000 or approximately \$153 per tonne for an income from mining operations of \$58,846,000. During the fourth quarter of 2008, cost of goods sold totalled \$90,495,000 or approximately \$105 per tonne for a loss from mining operations of \$15,203,000. Cost of goods sold for the quarter ended March 31, 2009 have increased compared to the prior period due to less coal produced during the period at the Company's Perry Creek mine caused by higher stripping ratios and a lower coal yield experienced as a result of the areas being mined. Transportation and other costs have decreased due to the change in the volumes of coal sold from the Perry Creek and Brule mines between the three month ended March 31, 2009 and 2008. Depletion, amortization and accretion charges increased due to the additional depletion, amortization and accretion charges related to the Perry Creek mine assets that were acquired or brought into production or commissioned during fiscal 2008.

General, administration and selling costs decreased by \$238,000, or 2%, to \$9,566,000 for the quarter ended March 31, 2009 as compared to \$9,804,000 for the quarter ended March 31, 2008. The decrease is primarily related to the decrease in the stock based compensation expense. Stock based compensation expense decreased as a result of fewer stock options being issued in the fourth quarter of the current fiscal year compared to the comparable period in the prior fiscal year. This was offset by an increase in sales and marketing costs due to an accrual for the Wolverine Royalty Sharing agreement which is to allow for the potential liability in the event the Company's position is incorrect

Coal exploration and other mine costs for the three months ended March 31, 2008 of \$1,208,000 were consistent with costs in fiscal 2008 totalling \$1,198,000. Exploration costs are charged to earnings in the period in which they are incurred, except where these costs relate to specific properties for which economically recoverable reserves have been established, in which case they are capitalized. Care and maintenance costs relate to the carrying costs of the Willow Creek mine.

Interest, accretion and deferred financing fees on long-term debt decreased to \$3,114,000 compared to \$9,893,000 in 2008. In the fourth quarter of fiscal 2008 penalty fees were incurred by the Company and an adjustment to the accretion of the long-term debt was made as a result of the change in its estimated life. Similar charges were not incurred in fiscal 2009. This balance has also decreased due to the conversions of convertible debentures throughout fiscal 2009 as well as the repayment of other liabilities during the year.

For the quarter ended March 31, 2009, the Company recorded \$1,501,000 of unrealized losses as a result of mark to market adjustment relating to its outstanding forward currency contracts. At March 31, 2008, the company did not have any forward currency contracts outstanding.

Other income amounted to \$10,885,000 for the three-month period ended March 31, 2009, an increase of \$10,769,000 over the year ended March 31, 2008 of \$116,000. The increase mainly relates to the royalty revaluation gain of \$7,981,000 and the gain on fair value adjustment of the investment of \$1,393,000 recorded during the quarter ended March 31, 2009. In the fourth quarter of fiscal 2008, the Company recorded an investment impairment of \$1,819,000 relating to its ABCP.

Net income for the quarter ended March 31, 2009 was \$47,602,000 compared to a net loss of \$37,801,000 for the comparable period in the prior fiscal year. The net income reflects: an income from mining operations of \$58,846,000; other expenses totalling \$4,504,000 including general, administration and selling expenses; coal exploration and other maintenance costs; interest, accretion and financing fees on liabilities; unrealized loss on foreign currency contracts; other income; and an income tax expense of \$6,740,000.

Related Party Transactions

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.

On September 14, 2007, Cambrian extended a loan of \$5,000,000 to the Company. The terms of the loan were subsequently amended. 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 along with interest of \$575,000.

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. 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.

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. As of March 31, 2009, the Company paid \$364,000 to Cambrian for services provided under this agreement.

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.

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.

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.

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. 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.

Contingency

Royalty Sharing Agreement

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. Subsequent to March 31, 2009, 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.

Endeavour Financial International Corporation

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.

Other Information

Effective, July 1, 2008 the British Columbia Provincial government implemented a carbon tax on almost all fossil fuels. The carbon tax is assessed on fossil fuels used in British Columbia and is based on \$10 per tonne of carbon dioxide emission equivalent. This charge will increase by \$5 per tonne each year until 2012 when it will reach \$30 per tonne. Based on the Company's expected fuel use for fiscal 2010, the Company expects to pay carbon tax of approximately \$1,000,000.

It has also been indicated by the British Columbia Provincial government that it plans to implement a cap and trade mechanism to further reduce greenhouse gas emissions. This tax will be integrated with the carbon tax to avoid double taxation. The Company will monitor this legislation as it is developed.

Changes in Accounting Policies

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.

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.

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.

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.

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.

Future Accounting Pronouncements

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.

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 this section on its financial statements.

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.

International financial reporting standards (IFRS)

In February 2008 the Canadian Accounting Standards Board ("AcSB") announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and will be applicable to the Company commencing with its fiscal year beginning April 1, 2011. The transition date of April 1, 2011 for the Company will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011.

The Company has developed an implementation timeline detailing key milestones in the conversion process and will continue to invest in training and additional resources. The Company will continue to develop its conversion plan to ensure a timely conversion in fiscal 2012. While the Company has begun assessing the adoption of IFRS for 2011 and preparing an IFRS conversion plan, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Critical Accounting Estimates

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

the impairment of mineral property, plant and equipment and other assets such as investments, 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.

Mineral Property, Plant and Equipment

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

The Company reviews and evaluates mineral property, plant and equipment for impairment on an ongoing basis. The expected undiscounted future cash flows from an asset are estimated in a ceiling test. These future cash flows are developed using assumptions that reflect the long-term operating plans for an asset given management's best estimate of the most probable set of economic conditions. Commodity prices used reflect market conditions at the time the model is developed. These models are updated from time to time and lower prices are used should market conditions deteriorate. Inherent in these assumptions are significant risks and uncertainties. In management's view, based on assumptions which management believes to be reasonable, a reduction in the carrying value of plant and equipment is not required as at March 31, 2009. Changes in market conditions, reserve estimates and other assumptions used in these estimates may result in future write-downs.

Depreciation, Depletion and Amortization

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

Inventory

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

Asset Retirement Obligations

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

Stock Based Compensation and Warrants

The amounts recorded for stock based compensation and warrants are based on the Black-Scholes model which incorporates the Company's current share price, the stock option strike price, the risk-free interest rate, the expected life term of the options, the expected volatility, and the expected dividend rate.

Financial Instruments

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.

Subsequent to March 31, 2009, the Company entered into a series of forward exchange contracts for the forward sales of US dollars at an average rate of 1.1800, in the aggregate amount of US\$167,000,000 from June 2009 to the end of April 2010.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. Issued and outstanding shares include 211,332,969 common shares as at June 25, 2009. Outstanding options and warrants as at June 25, 2009 are as follows:

Security	Number	Exercise price	Expiry date
Stock Options	25,000	\$1.50	August 29, 2009
Stock Options	120,000	\$2.50	October 5, 2009
Stock Options	75,000	\$3.30	November 12, 2009
Stock Options	470,000	\$5.40	July 28, 2010
Stock Options	60,000	\$6.10	July 28, 2010
Stock Options	180,000	\$6.20	July 28, 2010
Stock Options	530,000	\$2.26	September 7, 2011
Stock Options	190,000	\$1.95	November 11, 2011
Stock Options	616,000	\$2.02	March 5, 2012
Stock Options	500,000	\$2.25	November 30, 2012
Stock Options	570,000	\$2.53	February 20, 2013
Stock Options	2,561,200	\$3.37	March 28, 2013
Stock Options	50,000	\$1.80	October 30, 2013
Stock Options	50,000	\$0.62	March 19, 2014
Warrants	2,650,000	\$0.75	November 30, 2010
Warrants	3,295,345	\$3.25	June 28, 2012

At any time prior to the maturity of the remaining 70,938 Convertible Debentures due March 24, 2011, 17,734,500 common shares are issuable at a conversion price of \$4.00 per common share.

Disclosure Controls and Internal Controls over Financial Reporting

Management has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Company's Board and Audit Committee. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at March 31, 2009 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The control framework used to design the Company's internal control over financial reporting is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has evaluated the effectiveness of design and operation of the Company's internal controls over financial reporting as at March 31, 2009. Based on the result of this assessment, management has concluded that the Company's internal controls over financial reporting are effective.

During the year ended March 31, 2009, there have been no material changes in the Company's internal control over financial reporting.

Risks and Uncertainties

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

Competition

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

Exploration, development and operating risks

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

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

Additional funding requirements

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

Project development, expansion targets and operational delays

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

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

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

Volatility of coal prices

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

Marketability

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

Governmental regulations and processing licenses and permits

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

Operating history

The Company has two mines which both produced positive cash flow for the year ended March 31, 2009. The Company's ultimate success will depend on its ability to continue to generate cash flow from these and other properties in the future. There is no assurance that the Company will generate profits in the future. In order to fund costs associated with development of the Company's properties and to meet future obligations, the

Company may be required to obtain additional financing. There is no assurance that the Company would be able to raise the required funds to continue these activities.

Reserve and resource estimates

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

Environmental regulation and liability

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

Uninsured risks

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

Dependence on key personnel

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

Dependence on major customers and suppliers of products and services

The coal industry is characterized by a relatively small number of customers worldwide. For the years ended March 31, 2009 and 2008, the Company recorded revenues from coal sales to three and four major customers respectively, each representing in excess of 10% of total revenues. Although the Company expanded its customer base throughout the 2009 fiscal year, the Company still expects future revenues to be derived from a relatively small number of customers. A loss of or a significant reduction in purchases by any one of the Company's largest customers could have a material adverse impact on the financial performance of the Company.

Substantially all of the Company's coal is exported to port facilities by one railway for which there are limited alternatives. Additionally, all of the Company's export sales are loaded through one port facility, for which there are limited cost-effective alternatives. The cost of securing additional facilities and services of this nature could significantly increase transportation and other costs. An interruption of rail or port services could significantly limit the Company's ability to operate and to the extent that alternate sources of transportation of port and rail services are available, it could increase transportation and port costs significantly. Further, the

vagaries of the shipping industry could affect the Company's revenues as a result of delays of ocean vessels and could significantly affect the Company's costs and relative competitiveness against the supply of coal from other markets.

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

Currency risk

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

Litigation

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

Health and safety

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

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

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

Forward-looking Information

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

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

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

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

Other Information

Additional information related to the Company, including the Company's Annual Information Form, is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.westerncanadiancoal.com. The Company cautions that information contained on, or accessible through these websites is current only as of the date of such information and may be superseded by subsequent events of filings.