

Western Canadian Coal Corp.
Consolidated Financial Statements
For the three and six months ended
September 30, 2008

(Unaudited)

Western Canadian Coal Corp.Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)
(Unaudited)

	September 30, 2008	March 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21,879	\$ 14,137
Restricted cash (Note 6)	1,046	4,608
Accounts receivable (Note 7)	52,578	11,418
Inventory (Note 8)	38,754	24,173
Prepays and other deposits	2,774	216
	117,031	54,552
Deposits	16,838	12,189
Mineral property, plant and equipment	406,513	384,902
Other assets (Note 9)	1,681	1,681
Future income tax asset (Note 16)	1,653	-
	\$ 543,716	\$ 453,324
LIABILITIES		
Current liabilities		
Demand bank loan	\$ -	\$ 3,500
Accounts payable and accrued liabilities	37,518	41,142
Current income tax payable	3,149	403
Acquisition liability (Note 3)	-	26,137
Current portion of royalty and other liabilities (Note 3)	1,589	1,490
Current portion of asset retirement obligations	865	1,012
Current portion of capital lease obligations	15,192	13,348
Current portion of convertible debentures (Note 11)	4,948	11,941
Current portion of long-term debt	-	27,918
	63,261	126,891
Loan from related party	5,248	5,016
Asset retirement obligations	13,886	13,694
Capital lease obligations	36,690	40,173
Convertible debentures (Note 11)	60,777	140,411
Royalty and other liabilities (Note 3)	8,964	8,149
	188,826	334,334
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	362,758	225,904
Equity portion of convertible debentures	6,639	14,166
Contributed surplus (Note 13)	14,959	12,838
Deficit	(29,466)	(133,918)
	354,890	118,990
	\$ 543,716	\$ 453,324

Commitments and contingencies (Note 19), Subsequent events (Note 21)

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

Approved on Behalf of the Board of Directors:

"John Byrne"
John Byrne, Director"John R. Brodie"
John R. Brodie, FCA, Director

Western Canadian Coal Corp.

Consolidated Statements of Operations and Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars, except per share data)
(Unaudited)

	Three months ended September 30,		Six months ended September 30,					
	2008	2007	2008	2007				
Revenues	\$	167,455	\$	67,852	\$	297,848	\$	122,066
Cost of goods sold								
Cost of product sold		56,448		47,014		109,513		82,167
Transportation and other		22,302		26,056		39,013		42,143
Depletion, amortization and accretion		6,796		8,312		14,437		15,259
		85,546		81,382		162,963		139,569
Income (loss) from mining operations		81,909		(13,530)		134,885		(17,503)
Other expenses (income)								
General, administration and selling (Note 14)		6,293		4,986		12,528		8,903
Coal exploration		385		1,006		948		1,805
Interest, accretion and financing fees on liabilities		6,828		6,211		16,587		11,878
Investment impairment		-		1,500		-		1,500
Terminated contract expense		-		2,590		-		2,590
Gains on forward exchange contracts		-		(1,741)		-		(11,204)
Other expenses (income)		(222)		1,206		(724)		568
		13,284		15,758		29,339		16,040
Net income (loss) before tax		68,625		(29,288)		105,546		(33,543)
Income tax (expense) recovery (Note 16)								
Current income tax recovery (expense)		(1,671)		85		(2,747)		-
Future income tax recovery (expense)		(22,207)		(14,663)		1,653		(13,380)
		(23,878)		(14,578)		(1,094)		(13,380)
Net income (loss) and comprehensive income (loss) for the period	\$	44,747	\$	(43,866)	\$	104,452	\$	(46,923)
Income (loss) per share								
Basic	\$	0.26	\$	(0.38)	\$	0.67	\$	(0.44)
Diluted	\$	0.24	\$	(0.38)	\$	0.61	\$	(0.44)
Weighted average common shares outstanding								
Basic		169,395,120		114,708,171		156,267,521		106,610,403
Diluted		184,446,337		114,708,171		171,414,824		106,610,403

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

Western Canadian Coal Corp.

Consolidated Statements of Deficit
(Expressed in thousands of Canadian dollars)
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Deficit, beginning of period as previously reported	\$ (74,213)	\$ (30,988)	\$ (133,918)	\$ (27,061)
Adoption of financial instruments standards	-	-	-	(870)
Deficit	(74,213)	(30,988)	(133,918)	(27,931)
Net income (loss) for the period	44,747	(43,866)	104,452	(46,923)
Deficit, end of period	\$ (29,466)	\$ (74,854)	\$ (29,466)	\$ (74,854)

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

Western Canadian Coal Corp.
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)
(Unaudited)

	Three months ended September 30, 2008		Six months ended September 30, 2008			
Cash flows from (used in):						
Operating Activities						
Net income (loss) for the period	\$	44,747	\$ (43,866)	\$	104,452	\$ (46,923)
Items not involving cash and cash equivalents:						
Depletion, amortization and accretion		6,911	7,899		14,666	15,547
Stock-based compensation		268	77		433	365
Interest, accretion and financing fees on long-term debt		(1,287)	2,233		5,788	3,035
Abandoned transaction expense		-	615		-	-
Inventory write-down		-	2,803		-	2,803
Investment impairment		-	1,500		-	1,500
Terminated contract expense		-	2,590		-	2,590
Unrealized gains on foreign currency forward contracts		-	(801)		-	(801)
Unrealized foreign exchange loss (gain)		(828)	-		(591)	-
Future income tax expense (Note 16)		22,207	14,663		(1,653)	13,380
		72,018	(12,287)		123,095	(8,504)
Changes in non-cash working capital items (Note 15)		(14,347)	21,748		(65,632)	5,471
		57,671	9,461		57,463	(3,033)
Financing Activities						
Repayment of demand bank loan		(3,500)	-		(3,500)	-
Repayment of bridge financing		(29,613)	-		-	-
Repayments on capital lease obligations		(3,484)	(3,253)		(6,713)	(5,703)
Proceeds from advance from related party, net of issue costs		-	4,739		-	4,739
Repayments on long-term debt and transaction costs		-	(22,021)		(27,918)	(41,604)
Proceeds from exercise of stock options		-	104		4,125	104
Proceeds from exercise of warrants		3,591	-		6,580	-
Proceeds from issue of shares, net of issue costs		-	(28)		-	42,804
		(33,006)	(20,459)		(27,426)	340
Investing Activities						
Acquisition of mineral property, plant and equipment		(15,540)	(7,319)		(17,646)	(13,983)
Deposits		(3,729)	191		(4,649)	(82)
Investment (Note 9)		-	(5,000)		-	(5,000)
		(19,269)	(12,128)		(22,295)	(19,065)
Increase in cash and cash equivalents during the period		5,396	(23,126)		7,742	(21,758)
Cash and cash equivalents, beginning of period		16,483	36,640		14,137	35,272
Cash and cash equivalents, end of period	\$	21,879	\$ 13,514	\$	21,879	\$ 13,514

Supplementary cash flow information (Note 15). The accompanying notes are an integral part of these consolidated financial statements.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2008

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

(Unaudited)

1. Basis of presentation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using standards for interim financial statements and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements, except as described in Note 2. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

2. Adoption of new accounting standards and developments

(a) Inventories

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

(b) Financial instruments

Effective April 1, 2008, the Company adopted CICA Handbook sections 3862 "Financial Instruments – Disclosures" and 3863 "Financial Instruments – Presentation." These sections require additional disclosures relating to financial instruments presentation which are provided in note 5.

(c) Capital disclosures

Effective April 1, 2008, the Company adopted CICA Handbook section 1535 "Capital Disclosures." This section requires the Company to disclose its capital management strategies which are provided in note 18.

(d) 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.

(e) 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. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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3. Acquisition Falls Mountain Coal Inc.

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

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

Issuance of 18,740,898 common shares	\$	13,306
Issuance of 4,534,088 common shares		15,190
Transaction costs		125
Total purchase price	\$	28,621

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 at a deemed price of \$3.10 per share. 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.

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

The preliminary allocation of the total purchase consideration to the assets acquired and liabilities assumed is based upon the estimated fair values at the time of acquisition. The allocation is subject to change in fiscal 2009 as the valuation process is completed.

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

Reclamation deposits	\$	544
Mineral property, plant and equipment		40,428
Total assets acquired		40,972
Asset retirement obligation		(2,621)
Royalty and other liabilities		(9,730)
Total liabilities assumed		(12,351)
Net asset acquired	\$	28,621

Western Canadian Coal Corp.

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(Unaudited)

3. Acquisition Falls Mountain Coal Inc. (continued)

The fair value of 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 from the Willow Creek mine or Brule mine loaded for shipment 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. 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.

4. Interest in joint venture

The Company owns a 50% interest in the Belcourt Saxon Coal Limited Partnership (the "Joint Venture") formed for the exploration and development of the Belcourt and Saxon properties in northeast BC.

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

	September 30, 2008		March 31, 2008	
Cash and cash equivalents	\$	43	\$	78
Other current assets		4		8
Deposits		50		50
Mineral property, plant and equipment		16		20
Current liabilities		(34)		(60)
	\$	79	\$	96

Statement of Operations:	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
General, administration and selling	\$ 8	\$ (28)	\$ 15	\$ 59
Other income	-	-	-	-
Coal exploration	115	287	332	811
Net loss	\$ 123	\$ 259	\$ 347	\$ 870

Statement of Cash Flows:

Operating activities	\$ (290)	\$ (250)	\$ (562)	\$ (747)
Financing activities	330	223	525	573
Investing activities	1	(2)	2	(2)

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

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(Unaudited)

5. Financial instruments

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, deposits, other assets, accounts payable and accrued liabilities, loan from related party, royalty liability and convertible debentures. The carrying value of short-term financial assets and liabilities as presented in the consolidated balance sheets are reasonable estimates of fair values due to the relatively short periods to maturity and the commercial terms of these instruments. The carrying amount of non-current financial liabilities at September 30, 2008 is considered to be a reasonable estimate of fair value.

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

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

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

Financial Risk Management

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

Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, restricted cash, accounts receivables, investments and deposits. The Company deposits cash and cash equivalents, restricted cash balances and deposits with high credit quality financial institutions. The Company sells to large, well established customers. The Company also performs credit evaluations of its customers on an ongoing basis. The Company believes that it does not have a significant credit risk in relation to its accounts receivable.

The maximum credit risk that the Company is exposed to in relation to the financial instruments subject to credit risk is the carrying value of these balances. Subsequent to September 30, 2008, all trade accounts receivable balances had been collected.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2008

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

(Unaudited)

5. Financial instruments (continued)*Liquidity risk*

Liquidity risk is the risk that the Company will have difficulty meeting its obligations associated with its financial liabilities. To manage this risk, the Company maintains adequate cash and cash equivalent balances and monitors its cash flow forecasts. The Company's contractual undiscounted cash flow requirements for financial liabilities at September 30, 2008 were:

	Less than 1 year	1-3 years	4-5 years	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	37,518	-	-	37,518
Current income tax payable	3,149	-	-	3,149
Royalty liability	1,788	6,348	5,120	13,256
Loan from related party	-	6,588	-	6,588
Capital leases	17,911	31,042	9,555	58,508
Convertible debentures	5,321	78,929	-	84,250
	65,687	122,907	14,675	203,269

Foreign currency exchange rates

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

To minimize the risk exposure of foreign currency fluctuations on sales revenues, the Company may enter into forward exchange contracts to fix the rate at which future anticipated flows of US dollars are exchanged into Canadian dollars. As at September 30, 2008, the Company had no foreign currency derivatives outstanding (Note 21).

The Company's exposure to of US dollar on financial instruments as at September 30, 2008 is as follows:

	September 30, 2008 USD
Cash and cash equivalents	\$ 1,014
Restricted cash	983
Accounts receivable	46,744
Convertible debentures	(20)
	\$ 48,721

For each US\$0.01 strengthening of the US dollar against the Canadian dollar, net income would decrease \$487,000. There would be no impact on other comprehensive income.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2008

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

(Unaudited)

5. Financial instruments (continued)*Interest rates*

All of the Company's outstanding debt bears interest at fixed rates.

6. Restricted cash

Restricted cash as presented consist of the following:

	September 30, 2008	March 31, 2008
Funds held in escrow for interest on convertible debentures (Note 11)	\$ 1,046	\$ 3,523
Contingent support account	-	1,085
	\$ 1,046	\$ 4,608

7. Accounts receivable

Accounts receivable as presented consist of the following:

	September 30, 2008	March 31, 2008
Trade accounts receivable	\$ 49,404	\$ 7,914
Goods and services tax receivable	2,779	3,121
Other	395	383
	\$ 52,578	\$ 11,418

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2008

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

(Unaudited)

8. Inventory

Inventory as presented consists of the following:

	September 30, 2008		March 31, 2008	
Production inventory	\$	30,931	\$	16,948
Parts inventory		7,823		7,225
	\$	38,754	\$	24,173

For the three and six months ended September 30, 2008, the Company did not record any net realizable value adjustments nor were any previously recorded net realizable value provisions reversed in the current period.

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9. Other assets

The other assets balance at September 30, 2008 consisted of the Company's two Canadian third party non-bank asset-backed commercial papers with a total maturity value of \$5,000,000 and a net book value of \$1,681,000.

10. Bank debt

On July 30, 2008, the Company entered into a new credit facility. The credit facility includes a reducing revolving term credit facility in the amount of US\$25,000,000 and a revolving term credit facility in the amount of the lesser of US\$25,000,000 and the established borrowing base which is based on a percentage of trade accounts receivable and coal inventory. The reducing revolving term credit facility has a maturity date of July 29, 2010. As at September 30, 2008, the Company has the full amounts under these facilities available.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2008

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

(Unaudited)

11. Convertible debentures

Summary	September 30, 2008	March 31, 2008
\$125 million issuance, Maturity March 24, 2011	\$65,705	\$114,248
US\$40 million issuance, Maturity November 30, 2010	20	38,104
Balance, end of period	65,725	152,352
Less: Current Portion	(4,948)	(11,941)
	\$60,777	\$140,411

\$125 million issuance, Maturity March 24, 2011	September 30, 2008	March 31, 2008
Balance, beginning of period	\$114,248	\$111,127
Add: Accretion of liability component of debentures	929	3,121
Less: Conversion of convertible debentures	(49,472)	-
Balance, end of period	65,705	114,248
Less: Current Portion	(4,946)	(8,705)
	\$60,759	\$105,543

During the six month period ended September 30, 2008, \$50,052,000 of principle of the \$125,000,000 issuance of convertible debentures were converted into 13,513,000 common shares of the Company. \$49,472,000 of the convertible debenture liability was transferred to equity upon conversion.

US\$40 million issuance, Maturity November 30, 2011	September 30, 2008	March 31, 2008
Balance, beginning of period	\$38,104	\$ -
Face value of Convertible Debentures issued during the period	-	40,315
Less: Warrants	-	(1,352)
Less: Shareholders' equity component	-	(2,530)
Less: Transaction costs	-	(666)
Liability component of Subordinated Debentures	38,104	35,767
Add: Accretion of liability component of debentures	542	1,523
Add: Foreign exchange adjustment	(591)	1,000
Less: Conversion of convertible debentures	(38,035)	(186)
Balance, end of period	20	38,104
Less: Current Portion	(2)	(3,236)
	\$18	\$ 34,868

During the six month period ended September 30, 2008, US\$40,151,000 of principle of the US\$40,372,000 issuance of convertible debentures were converted into 53,039,620 common shares of the Company. \$38,035,000 of the convertible debenture liability was transferred to equity upon conversion.

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(Unaudited)

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

	Number of Shares	Consideration
Balance, March 31, 2008	116,334,906	\$ 225,904
Shares issued for acquisition of FMC (Note 3)	23,274,986	28,621
Transferred to share capital upon conversion of \$125 million convertible debentures	13,513,000	54,471
Transferred to share capital upon conversion of US\$40 million convertible debentures	53,039,620	40,564
For cash received from the exercise of warrants	2,024,655	6,580
Transferred to share capital upon exercise of warrants	-	161
For cash received from the exercise of stock options	1,526,268	4,125
Transferred to share capital upon exercise of stock options	-	2,332
Balance, September 30, 2008	209,713,435	\$ 362,758

Stock Options

A summary of the Company's stock options outstanding and the changes are as follows:

	Number of Options	Weighted Average Exercise Price Per Share
Balance, March 31, 2008	7,928,068	\$ 3.00
Forfeited	(190,200)	
Exercised	(1,526,268)	
Granted	-	
Balance, September 30, 2008	6,211,600	\$ 3.12

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

(Unaudited)

12. Share capital (continued)**Warrants**

A summary of the Company's warrants outstanding and the changes are as follows:

	Number of Shares Issuable pursuant to Warrants	Weighted Average Exercise price per Share
Balance, March 31, 2008	9,560,000	\$ 2.14
Issued (Note 17 (d))	4,000,000	
Exercised	(2,024,655)	
Balance, September 30, 2008	11,535,345	\$ 2.88

13. Contributed surplus

The following table summarizes the movements in contributed surplus:

	Six months ended September 30, 2008	Twelve months ended March 31, 2008
Balance, beginning of period	\$ 12,838	\$ 6,256
Fair value of stock based compensation recorded during the year	433	4,957
Transferred to share capital upon exercise of stock options	(2,332)	(95)
Fair value of warrants issued during the period	4,181	1,720
Transferred to share capital upon exercise of warrants	(161)	-
Balance, end of period	\$ 14,959	\$ 12,838

Western Canadian Coal Corp.

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

(Unaudited)

14. General, administration and selling

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Schedule of expenses:				
Salaries, benefits and other remuneration	\$ 2,117	\$ 1,692	\$ 4,193	\$ 3,279
Consulting	1,312	1,245	2,502	1,424
Sales and marketing	884	435	2,174	927
Legal and audit	492	438	818	664
Office and miscellaneous	496	393	763	819
Stock-based compensation	268	77	433	365
Travel and related expenses	261	143	394	312
Insurance	94	212	369	452
Rent and telecommunications	150	129	305	263
Amortization	115	148	229	287
Corporate communications	134	11	185	23
Exchange listings and other regulatory fees	(30)	63	163	88
	\$ 6,293	\$ 4,986	\$ 12,528	\$ 8,903

15. Supplementary cash flow information

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Other information:				
Interest paid	\$ 8,105	\$ 6,354	\$ 10,540	\$ 9,143
Non-cash investing and financing transactions:				
Capital lease obligation recognized for assets under capital lease	5,333	7,654	5,333	9,504
Acquisition of Falls Mountain Coal Inc.	1,349	-	2,483	-

As at September 30, 2008, the cash and cash equivalents balance consisted of cash balances held at Canadian financial institutions.

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2008

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

(Unaudited)

15. Supplementary cash flow information (continued)

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

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Restricted cash	\$ 819	\$ 10,000	\$ 3,562	\$ 10,000
Accounts receivable	3,906	(1,745)	(41,160)	(10,953)
Inventory	(9,380)	6,518	(15,858)	290
Prepaid expenses	919	4,396	(2,558)	277
Accounts payable and accrued liabilities	(13,923)	4,868	(12,364)	5,857
Accrued interest on convertible debenture	1,637	(2,204)	-	-
Current income tax payable	1,675	(85)	2,746	-
	\$ (14,347)	\$ 21,748	\$ (65,632)	\$ 5,471

16. Income taxes

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

	September 30, 2008	March 31, 2008
Future tax assets:		
Net operating loss carryforwards	\$ 6,462	\$ 24,556
Financing fees not yet deducted	3,091	3,176
Mineral property, property and equipment	578	16,695
Tax value of marketable securities in excess of book value	472	487
	10,603	44,914
Valuation allowance	(8,950)	(44,914)
Net future tax asset	\$ 1,653	\$ -

Western Canadian Coal Corp.

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

(Unaudited)

17. Related party transactions

- (a) 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 September 30, 2008, the Company paid \$289,000 to Cambrian for services provided under this agreement.
- (b) On September 24, 2009, Audley, which is advised by Audley Capital Advisors LLP, of which one of the Company's Directors is a partner, 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.
- (c) On September 23, 2008, Cambrian exercised 520,000 warrants with an exercise price of \$3.25 per warrant for cash proceeds of \$1,690,000. These warrants were issued to Cambrian as the fee for making the Loan from Related Party on September 14, 2007.
- (d) 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 convertible debenture issuance, the Company has issued warrants to purchase up to 4,000,000 common shares at a price of \$4.82 per share. These warrants can be exercised at any time prior to January 30, 2009. The bridge financing was subsequently repaid along with interest of \$584,000 and redemption fees of \$1,000,000.
- (e) On May 6, 2008, the Company issued 18,740,898 common shares to Cambrian in settlement of the first payment relating to the acquisition of FMC. On June 30, 2008, the Company issued 4,534,088 common shares to Cambrian to settle the deferred payment in relation to the acquisition of FMC (Note 3).

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

18. Capital risk management

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

- to ensure that the Company will be able to continue as a going concern
- to maximize the return to shareholders.

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

Western Canadian Coal Corp.

Notes to Consolidated Financial Statements

For the three and six months ended September 30, 2008

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

(Unaudited)

19. Commitments and contingencies

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

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

The Company made royalty payments to the three individuals in the amount of \$453,000 representing the maximum amount which would result in them receiving an effective annual rate of interest not greater than 60% on the advances they made to the Company that formed consideration for the royalty. The Company has not recorded the additional amount which, if the claimants are successful, would as at September 30, 2008 exceed the limit of permissible payments by \$3,906,000.

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. The expectation is that the ruling will be handed down sometime in the period of 30 to 90 days following the hearing. While the Company believes its position is correct, the outcome is indeterminate at this time.

- (b) On June 10, 2008, the Company was served with a Writ of Summons and Statement of Claim which had been filed by Endeavour Financial International Corporation ("Endeavour"), as Plaintiff, in the Supreme Court of British Columbia on June 6, 2008, against Western Canadian Coal Corp. ("Company") and Cambrian Mining plc, ("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.

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For the three and six months ended September 30, 2008

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

(Unaudited)

19. Commitments and contingencies (continued)

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 \$1.5 million in respect of two Debt Transactions plus an amount representing the Black-Scholes valuation of options which were to be issued under the terms of the Debt Transaction engagement plus any success fees that Endeavour would be entitled to under the Debt Transaction up to April 24, 2009 and up to October 24, 2008 in respect of the M&A Transaction.

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

- (c) The Company has engaged a financial advisor in conjunction with the strategic review which includes a monthly work fee and a success fee if a transaction occurs.
- (d) In connection with the Company's mine permit for its Willow Creek property, the Company is required to provide additional reclamation security deposits of \$500,000 by November 30, 2008, \$1,250,000 by March 31, 2009, \$1,250,000 by January 31, 2010 and \$1,000,000 by January 31, 2011. These amounts may be adjusted for inflation, if the cumulative inflation rate from January 1, 2010 exceeds 10%.
- (e) 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.
- (f) Other commitments are noted elsewhere in these consolidated financial statements (Notes 3, 4, 10 and 11).

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

(Unaudited)

20. Segmented information

All of the Company's mining operations are conducted in Canada. However, the Company had no revenues from Canadian customers. The Company's revenues for the three and six month periods ended September 30, 2008 and 2007 are derived from coal sales to customers located in the following geographic areas:

	Three months ended September 30,		Six months ended September 30,	
	2008	2007	2008	2007
Asia	\$ 117,318	\$ 40,391	\$ 229,574	\$ 81,955
Europe	50,137	27,461	68,274	40,111
	\$ 167,455	\$ 67,852	\$ 297,848	\$ 122,066

For each of the three month period ended September 30, 2008 and 2007, there were three and four customers respectively, with each accounting for greater than 10% of revenues. For the six month period ended September 30, 2008 and 2007, there were three and four customers respectively, with each accounting for greater than 10% of revenues. The percentage of sales to these customers was 76% and 82% respectively for the three months ended September 30, 2008 and 2007. For the six months ended September 30, 2008 and 2007, the percentage of sales to these customers was 66% and 84% respectively.

21. Subsequent events

- (a) For the period of October 1, 2008 to November 13, 2008, \$10,000 of principle or 10 units of the \$125,000,000 convertible debenture have been converted into 2,500 common shares of the Company (Note 11).
- (b) Subsequent to September 30, 2008, 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. Such contracts include forward sales of US dollars at 1.2424, in the aggregate amount of US\$188,000,000 from November 2008 to the end of April 2009 and at 1.2188 in the aggregate amount of US\$150,000,000 for the same period.