

WESTERN CANADIAN COAL CORP.
Management's Discussion and Analysis

The following information, prepared as of February 12, 2009, should be read in conjunction with the unaudited consolidated financial statements of Western Canadian Coal Corp. (the "Company") for the three and nine month periods ended December 31, 2008, as well as the audited consolidated financial statements for the year ended March 31, 2008, 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 18.

Summary

The Company's financial position continued to strengthen as a result of strong cash flow from operations. Net income for the third quarter of fiscal 2009 was \$62.5 million or earnings per share of \$0.30 and \$0.29, on a basic and diluted basis, respectively. For the nine month period ending December 31, 2008, the Company has earned net income of \$167.0 million or earnings per share of \$0.96 and \$0.84 on basic and diluted basis, respectively.

Income from mining operations increased to \$94.2 million in the third quarter of fiscal 2009. This compares to the loss from mining operations of \$7.9 million in the similar period of the previous year and income from mining operations of \$81.9 million in the second quarter of fiscal 2009. The increase over the third quarter of fiscal 2008 was achieved primarily as a result of higher coal prices realized from the current coal year contracts and favourable foreign exchange rates, which resulted in coal sales of \$176.6 million.

Coal shipments for the third quarter of fiscal 2009 were 513,000 tonnes or 26% lower than the same quarter of 2008 and 15% lower than the second quarter of fiscal 2009. The average realized price of \$344 per tonne in the current quarter was 330% higher than the same quarter of 2008 and 23% higher than the second quarter of 2009. All of the Company's coal sold in the third quarter of fiscal 2009 was sold at approximately US\$300 per tonne for hard coking coal and US\$248 per tonne for ultra low-volatile PCI ("ULV-PCI") coal. Favourable exchange rates also aided to the improved prices realized from the sale of the Company's coal in this quarter over previous quarters. The lower shipment levels are a result of lower production levels and customer orders being deferred into subsequent quarters. No customers have cancelled their current coal year contracts.

Coal production for the third quarter of fiscal 2009 was 609,000 tonnes or 22% lower than the same quarter of 2008 and 2% higher than the second quarter of 2009. Cash costs in the third quarter 2009 were \$146 per tonne as compared to \$131 and \$81 per tonne in the second quarter 2009 and third quarter 2008, respectively. While the Wolverine operation continues to struggle to release the coal, productivity (total bank cubic metres of materials handled per day) continues to improve. During the current quarter, total spending was lower than expected due to the 8-day production curtailment taken at the Wolverine and Brule mines over the December holidays; however cash costs per tonne have increased due to continued high stripping ratios. Brule continues to meet all productivity expectations.

Due to the global economic uncertainties, the near-term demand for metallurgical coal has declined which has resulted in a build-up of inventory levels in the industry. The Company has developed a cash preservation plan which includes reviewing for the remainder of fiscal 2009 and beyond, all discretionary capital expenditures, all non-discretionary spending to contain mining costs and deferring future projects. To date, this has resulted in suspension of development at the Willow Creek mine, reducing production levels at the Brule mine to an annual run-rate of 750,000 tonnes per year, and providing notice at the Wolverine operations to employees of a possible curtailment of operations after May 18, 2009. The Company has also given notice to its mine contractor that after May 18, 2009, the operations of the Wolverine mine will be conducted by the Company, further reducing costs. Future operating rates at the mines will be made once future coal prices and sale commitments have been established.

The balance sheet of the Company continues to strengthen. As at December 31, 2008 the Company's working capital position improved by \$183.0 million to a positive working capital position of \$110.7 million when compared to March 31, 2008. Also, the Company's debt to shareholders' equity ratio has improved to 0.51 from 2.81 during this period.

General

The Company's principal business is the production of high quality metallurgical coal and the acquisition, exploration and development of additional coal properties, with its primary focus being 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

Production statistics for the three and nine months ended December 31, 2008 and 2007 are summarized in the following table:

	Three months ended December 31, 2008	Three months ended December 31, 2007	Nine months ended December 31, 2008	Nine months ended December 31, 2007
Waste stripping	4,815,000 bank cubic metres	4,055,000 bank cubic metres	14,541,000 bank cubic metres	11,676,000 bank cubic metres
Run-of-mine coal mined	481,000 tonnes	683,000 tonnes	1,709,000 tonnes	2,260,000 tonnes
Clean coal produced	280,000 tonnes	480,000 tonnes	935,000 tonnes	1,491,000 tonnes
Product coal railed to port	296,000 tonnes	492,000 tonnes	926,000 tonnes	1,502,000 tonnes
Coal sales	318,000 tonnes	440,000 tonnes	949,000 tonnes	1,473,000 tonnes

During the three months ended December 31, 2008, the Wolverine preparation plant processed approximately 478,000 tonnes of run-of-mine coal for clean coal production of 280,000 tonnes, resulting in a processing yield of 59%. During the three months ended December 31, 2008, 296,000 tonnes were railed to port and 318,000 tonnes of clean coal were shipped to major international steel mills.

The lower clean coal production for the three and nine months ended December, 2008 compared to the corresponding prior year periods was expected, because the operation was behind in waste removal in the prior period and catch up was required. However, despite a 19% increase in waste stripping compared to the prior period, 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. As a result of the higher amount of waste rock to be removed, the coal release was correspondingly reduced. Coal production was also impacted by the shutdown of the mine for 8 days in December for the holiday break.

On January 6, 2009, given the uncertainty of coal sales and coal prices for the upcoming coal year, the Company announced that it had given notice to employees at the Perry Creek Mine that it may curtail operations effective May 18, 2009. The potential curtailment of operations is subject to market conditions for the next coal year. Notice was also given to the contractor at the Perry Creek Mine to terminate the mining operation contract. After May 18, 2009, mine operations will be carried out by the Company.

Brazion – Brule Mine

Production statistics for the three and nine months ended December 31, 2008 and 2007 are summarized in the following table:

	Three months ended December 31, 2008	Three months ended December 31, 2007	Nine months ended December 31, 2008	Nine months ended December 31, 2007
Waste stripping.....	1,691,000 bank cubic metres	1,102,000 bank cubic metres	4,792,000 bank cubic metres	3,003,000 bank cubic metres
Run-of-mine coal mined.....	386,000 tonnes	298,000 tonnes	1,001,000 tonnes	797,000 tonnes
Product coal to rail.....	310,000 tonnes	296,000 tonnes	854,000 tonnes	824,000 tonnes
Clean coal produced.....	329,000 tonnes	296,000 tonnes	885,000 tonnes	824,000 tonnes
Product coal to port.....	302,000 tonnes	333,000 tonnes	850,000 tonnes	831,000 tonnes
Coal sales.....	195,000 tonnes	253,000 tonnes	747,000 tonnes	705,000 tonnes

During the three month period ended December 31, 2008, the Company had higher waste stripping resulting in a higher strip ratio compared to plan. This was a result of the unexpected faulting in the South Blind Pit at the Brule Mine during the first quarter of fiscal 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 has 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.

On January 6, 2009, the Company, in response to current economic conditions, announced that it is planning to reduce operations at its Brule mine. The Brule mine expects to be operating at an annual run rate of approximately 750,000 tonnes per year effective at the end of January 2009. This is down from its current run rate of 1.3 million tonnes per year. The reduced operating rate is a result of rising inventory levels as some customers defer shipments through the next few months. With the current production curtailments taken by some customers, along with the uncertainty of the coal markets beyond April 2009, the Company has made these prudent decisions. The Company expects to operate in this fashion until the current economic uncertainty improves and the demand for coal becomes clearer. When the markets do improve, the Company has the flexibility to quickly increase operating rates and also pursue its growth plans.

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.*”). 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. Mine maintenance costs subsequent to November 30, 2008 are expensed as part of coal exploration and other mine costs.

On November 26, 2008, the Company announced that despite a successful start-up of the 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.

Belcourt-Saxon Coal Limited Partnership

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 (www.sedar.com). 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).

Market Outlook

All of the Company's current fiscal 2009 coal production is under contract for sale at approximately US\$300 per tonne for hard coking coal and US\$248 per tonne for its ULV-PCI coal. At the time of the fiscal 2009 coal price negotiations, the US/Canadian dollar exchange rate was at parity. In October 2008, the Company entered into foreign currency contracts totaling US\$338 million to help manage the uncertainty of foreign exchange fluctuations in the market. The contracts were for approximately 65% of the Company's remaining coal sales in fiscal 2009. The contracts mature each month through to April 2009. They are at an average rate of C\$1.2319 per US\$1.00. In January 2009, as a result of the lower than expected sale volumes for the fourth quarter, the Company closed US\$145 million of forward sale contract for a realized gain of C\$4.9 million. The remaining contracts of US\$74 million are at an average rate of C\$1.237 per US\$1.00 and mature monthly until April 2009.

The current economic downturn has resulted in significant cutbacks in steel production on the part of our customers. This in turn has affected the short term demand for metallurgical coal, leading to production cutbacks at our operations. The Company believes the economic stimulus packages introduced by governments around the world will be beneficial to increased steel production and therefore increase the demand for metallurgical coal.

Subject to the world economies improving, in the longer term, the Company believes that the market fundamentals for metallurgical coal will provide substantial opportunity to further increase market diversity and market share. The Company's Wolverine hard coking coal is now firmly established as a blend component with the world's leading steel mills. The Company's Brule Mine ULV-PCI coal is consistently ranked in the top three PCI coals worldwide. These coals, in conjunction with highly efficient rail and port infrastructure with excess capacity, continue to provide the Company a strategic advantage to grow and diversify.

Guidance

The Company's Wolverine hard coking coal and Brule Mine ULV-PCI coals have been sold to major steel mills throughout Asia and Europe. Long term supply agreements have been concluded with top tier steel mills for the next three to five years.

For the fourth quarter of fiscal 2009, the Company expects to produce approximately 560,000 tonnes to 600,000 of coal and have sales of approximately 370,000 to 480,000 tonnes. The average sales price should be approximately US\$250 per tonne in the fourth quarter.

Acquisition – 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
Transaction costs		125,000
Total purchase price	\$	28,621,000

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 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.

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.

Proposed Transaction

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 (the "Proposal").

Under the Proposal, the acquisition may be effected by means of a scheme of arrangement or takeover offer (either, an "Offer"). Under the Proposal, holders of ordinary shares in Cambrian will receive 0.75 common shares in the Company's common shares for every 1 Cambrian share held.

The proposed business combination would result in a company with a diversified portfolio of assets, including:

- 100% ownership of three coal mines and two wash plants in North Eastern British Columbia (Canada) with reported production for the year ended 30 June 2008 of 2.8 million tonnes of metallurgical coal;
- 100% ownership of two coal mines and two wash plants in West Virginia (USA) with reported production for the year ended 30 June 2008 of 0.4 million short tons of metallurgical coal and 0.6 million short tons of thermal coal;
- The combined entity has future coal production potential of up to 10 million tonnes per annum from existing assets;
- 50.6% interest in Energybuild Group plc (AIM: EBG), an AIM traded company with reported production for the year ended 30 June 2008 of 0.1 million tonnes of thermal coal and sized coal in Wales (UK);
- 20% interest in NEMI Northern Energy & Mining Inc. (TSX: NNE.A);
- 100% ownership of a gold and antimony mine in Victoria (Australia) with reported production for the year ended 30 June 2008 of 7,550 ounces of gold and 920 tonnes of antimony; and
- 45% interest in Xtract Energy Plc (AIM: XTR), an AIM traded company which identifies and invests in a diversified portfolio of early stage energy sector technologies and businesses.

The making of any offer under the Proposal is subject to, *inter alia*, the following pre-conditions:

- (i) the satisfactory completion of confirmatory due diligence (including technical, legal, tax and financial) by the boards of both Cambrian and the Company on each other's respective assets;
- (ii) the refinancing of the existing indebtedness of the Cambrian group with Investec Bank (UK) Limited, to the Company's satisfaction;
- (iii) The Company and/or Cambrian (as the case may be) obtaining any consents required under any existing contractual arrangements or otherwise (including shareholder, regulatory and bank consents), to the Company's satisfaction;
- (iv) irrevocable undertakings to support and/or to accept any such offer in a form satisfactory to the Company being received in respect of not less than a percentage to be agreed between the Company and Cambrian of the issued share capital of Cambrian;
- (v) each Cambrian director providing an irrevocable undertaking in a form satisfactory to the Company, in respect of his or her shareholdings, to support and to accept any such offer;
- (vi) a unanimous recommendation from the Cambrian Board that Cambrian Shareholders accept any such offer; and

- (vii) since 30 June 2008, and save as otherwise disclosed prior to the date of this letter, no event, change or condition having occurred or become known to the Company where that would have or could be reasonably expected to have a material adverse effect on the business, assets, liabilities, trading or financial position, profitability or prospects of Cambrian.

The Board of the Company reserves the right to:

- (i) vary the form and/or mix of consideration in respect of any such offer that may be made;
- (ii) waive any of the pre-conditions to the making of any such offer;
- (iii) (with the consent of the Panel of Takeovers and Mergers under UK legislation) apply additional pre-conditions to the making of any such offer; and
- (iv) structure any transaction to implement any such offer by way of a scheme of arrangement or a takeover offer.

The pre-conditions must be satisfied or waived before an Offer can be made.

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.

Results of Operations

Comparing the Quarter Ended December 31, 2008 to the Quarter Ended December 31, 2007

Revenues

For the three month period ended December 31, 2008, total sales revenues were \$176,561,000 from the sale of 513,000 tonnes of coal. The average price per tonne realized during the period was \$344 or US\$279.

For the three month period ended December 31, 2007, total sales revenues were \$55,132,000 from the sale of 693,000 tonnes of coal. The average price per tonne realized during the period was \$80 or US\$81.

The primary reason for the 220% increase in the Company's total revenues over the comparable period in the prior year is the increase in sales price realized and the strengthening of the US dollar although this was 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 in the three month period ended December 31, 2008 was \$1.23 compared to \$0.98 in the comparable period 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 three month period ended December 31, 2008 and 2007 are \$82,410,000 and \$63,064,000, respectively, or \$161/tonne and \$91/tonne, respectively.

Cost of product sold includes the open-pit mining costs, coal preparation and handling costs, general services and other costs as well as proportionate allocations of overhead. For the three month period ended December 31, 2008, the cost of product sold was \$59,510,000 or \$116/tonne. Cost of product sold during the three month period ended December 31, 2007 amounted to \$38,762,000 or \$56/tonne.

The per unit cost of product sold in the third quarter fiscal 2009 increased 108% as compared to the third quarter fiscal 2008. This 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. Lower coal production volume also is attributed to the mines being closed for 8 days during December 2008. Higher equipment rental costs, higher fuel and explosives costs and higher mining contractor costs also impacted the costs during the period.

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 three month period ended December 31, 2008, total transportation and other costs were \$15,252,000 or \$30/tonne. Transportation and other costs incurred during three month period ended December 31, 2007 were \$17,194,000 or \$25/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 and the implementation of the British Columbia Provincial Carbon Tax.

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 three month period ended December 31, 2008 are \$7,648,000 or \$15/tonne. Depletion, amortization and accretion expensed for the three month period ended December 31, 2007 amounted to \$7,108,000 or \$10/tonne. The increase in the period is 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 the last nine months of fiscal 2008.

Income (Loss) from Mining Operations

Income from mining operations for the three month period ended December 31, 2008 was \$94,151,000. This was the result of revenues from 513,000 tonnes of coal at an average price of \$344/tonne for total revenues of \$176,561,000, net of cost of goods sold of \$82,410,000 at an average cost of \$161/tonne.

Loss from mining operations for the three months ended December 31, 2007 was \$7,932,000. This was a result of sales of 693,000 tonnes at an average price of \$80/tonne, for total revenues of \$55,132,000, net of cost of goods sold of \$63,064,000 at an average cost of \$91/tonne.

General, Administration and Selling

(000's of Canadian dollars)	December 31, 2008	December 31, 2007	\$ Change	% Change
Salaries, benefits and other remuneration	\$ 2,357	\$ 1,603	\$ 754	47%
Sales and marketing	1,322	463	859	186%
Consulting	337	237	100	42%
Legal and audit	272	147	125	85%
Office and miscellaneous	127	155	(28)	(18)%
Travel and related expenses	378	216	162	75%
Stock-based compensation	226	144	82	57%
Insurance	111	310	(199)	(64)%
Rent and telecommunications	161	176	(15)	(9)%
Amortization	143	265	(122)	(46)%
Corporate communications	81	84	(3)	(4)%
Exchange listings and other regulatory fees	17	5	12	240%
	\$ 5,532	\$ 3,805	\$ 1,727	45%

General, administration and selling costs for the three month period ended December 31, 2008 increased by \$1,727,000 or 45% over the same period in 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. 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 the third quarter of fiscal 2009 when compared to fiscal 2008.

Coal exploration and other mine costs

(000's of Canadian dollars)	December 31, 2008	December 31, 2007	\$ Change	% Change
Coal exploration	\$ 852	\$ 1,809	\$ (957)	53%
Care and maintenance costs	280	-	280	100%
Demobilization costs at the Willow Creek Mine	3,144	-	3,144	100%
	\$ 4,276	\$ 1,809	\$ 2,467	136%

Coal exploration and other mine costs for the three month period ended December 31, 2008, including the Company's proportionate share of expenses recorded by the Belcourt Saxon Coal Limited Partnership ("the Partnership") of \$295,000, increased to \$4,276,000 from \$1,809,000 in the same period in the prior fiscal year.

For the three months ended December 31, 2008, coal exploration costs consisted of \$295,000 for the Partnership and \$557,000 for other properties whereas in the prior comparable period, the costs consisted of \$191,000 for the Partnership, \$1,442,000 for the Willow Creek Mine and \$176,000 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. 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.

Care and maintenance costs for the three months ended December 31, 2008 were \$280,000 and relate to the carrying costs for the Willow Creek Mine. Previously, the costs at the Willow Creek Mine were being capitalized as pre-production costs.

Demobilization costs for the three months ended December 31, 2008 were \$3,144,000 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.

Interest, Accretion and Financing Fees on Liabilities

For the three month period ended December 31, 2008, interest, accretion and financing fees on liabilities was \$2,948,000 compared to \$5,491,000 in the same period in the prior fiscal year. This decrease is due to the conversion of the Company's convertible debentures and repayment of other liabilities.

Unrealized Gain on Forward Currency Contract

For the three month period ended December 31, 2008, the Company recorded \$3,403,000 of unrealized gains relating to its outstanding forward currency contracts. At December 31, 2007, the company did not have any forward currency contracts outstanding.

Other Income/Expense

Other income/expenses amounted to \$5,504,000 for the three month period ended December 31, 2008 as compared to other expense of \$2,226,000 in the prior year. Other income/expenses for the three month period ended December 31, 2008 consisted of \$5,379,000 of foreign exchanges gains and \$449,000 of interest income offset by \$252,000 of realized forward currency contract losses and \$72,000 of other

expenses. Other income/expenses for the three month period ended December 31, 2007 consisted of \$2,746,000 of realized forward exchange losses offset by \$229,000 of interest income and \$291,000 of miscellaneous income.

Net Income

Net income for the three month period ended December 31, 2008 was \$62,478,000 compared to a net loss of \$21,263,000 for the same period in the prior fiscal year. The net income reflects: an income from mining operations of \$94,151,000; other expenses totalling \$3,849,000 including general, administration and selling expenses; coal exploration and other maintenance costs; interest, accretion and financing fees on liabilities; other income; and an income tax expense of \$27,824,000 reflecting a current income tax income of \$12,042,000 and a future income tax expense of \$15,782,000.

Comparing the Nine Months Ended December 31, 2008 to the Nine Months Ended December 31, 2007

Revenues

For the nine month period ended December 31, 2008, total sales revenues were \$474,409,000 from the sale of 1,696,000 tonnes of coal. The average price per tonne realized during the period was \$280 or US\$255.

During the nine month period ended December 31, 2007, total sales revenues were \$177,198,000 from the sale of 2,178,000 tonnes of coal. The average price per tonne realized during the period was \$81 or US\$78.

The primary reason for the increase in the Company's total revenues over the comparable period in the prior year is the increase in sales price as a result of higher contracted sales prices and the strengthening of the US dollar offset by lower sales volumes. The average exchange rate of the US dollar in relation to the Canadian dollar in the nine month period ended December 31, 2008 was \$1.10 versus \$1.04 in the comparable nine month period ended December 31, 2007.

Cost of Goods Sold

Total cost of goods sold for the nine month period ended December 31, 2008 and 2007 were \$245,373,000 and \$202,633,000, respectively, or \$145/tonne and \$93/tonne, respectively.

For the nine month period ended December 31, 2008, the cost of product sold was \$169,023,000 or \$100/tonne. Cost of product sold during the nine month period ended December 31, 2007 was \$120,929,000 or \$56/tonne.

The increase in the current period's per unit cost of product sold over the comparable prior period is due to lower coal production volumes from the Company's Perry Creek Mine caused by higher strip ratios and chronic labour shortages, a lower coal yield experienced as described above and inflation in mining input costs. For the nine month period ended December 31, 2008, the Company also incurred higher equipment rental costs compared to the prior year.

Transportation and other costs for the nine month period ended December 31, 2008 were \$54,265,000 or \$32/tonne. Transportation and other costs incurred during the nine month period ended December 31, 2007 were \$59,337,000 or \$27/tonne.

The increase in per unit transportation costs resulted from an increase in contracted transportation costs and higher fuel prices. The increase can also be attributed to a significant increase in the rail fuel surcharge and the implementation of the British Columbia Provincial Carbon Tax.

Depletion, amortization and accretion charges for the nine month period ended December 31, 2008 are \$22,085,000 or \$13/tonne. Depletion, amortization and accretion expensed for the nine month period ended December 31, 2007 amounted to \$22,367,000 or \$10/tonne. The increase in the period is due to the additional depletion, amortization and accretion charges related to the Perry Creek Mine assets.

Income (Loss) from Mining Operations

Income from mining operations for the nine month period ended December 31, 2008 was \$229,036,000. This was the result of revenues from 1,696,000 tonnes of coal at an average price of \$280/tonne for total revenues of \$474,409,000, net of cost of goods sold of \$245,373,000 at an average cost of \$145/tonne.

Loss from mining operations for the nine month period ended December 31, 2007 was \$25,435,000. This was the result of revenues from 2,178,000 tonnes of coal at an average price of \$81/tonne for total revenues of \$177,198,000, net of cost of goods sold of \$202,633,000 at an average cost of \$93/tonne.

Other Expenses

General, administration and selling costs for the nine month period ended December 31, 2008 increased by \$5,352,000 or 42% to \$18,060,000 over the same period in the prior fiscal year. The increase is primarily due to an increase in salaries, benefits and other remuneration of \$1,668,000 and sales and marketing increase of \$2,106,000 as previously discussed. The increase can also be attributed to an increase in consulting expense of \$1,178,000 due to the Company hiring various consultants in connection with the strategic review and process improvement at the Perry Creek Mine.

Coal exploration and other maintenance costs for the nine month period ended December 31, 2008, including the Company's proportionate share of expenses recorded by the Partnership of \$627,000, increased to \$5,224,000 from \$3,614,000 in the same period in the prior fiscal year. 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. New charges in the period included care and maintenance costs relating to the carrying costs for the Willow Creek Mine of \$280,000 and demobilization costs of \$3,144,000 relating to the cost the Company incurred as part of the temporary suspension of the development of the Willow Creek Mine.

For the nine month period ended December 31, 2008, interest, accretion and financing fees on liabilities were \$19,535,000 compared to \$17,369,000 in the same period in the prior fiscal year. This increase was a result of interest, accretion and financing fees charges relating to new debt that was not in place at December 31, 2007. These included charges relating to the Company's new finance facility entered into during the nine month period ended December 31, 2008 as well as charges relating to the short term financing in the quarter ended June 30, 2008.

The Company recorded impairment on its asset-backed commercial paper of \$1,500,000 during the nine month period ended December 31, 2007. No charge was recorded during the nine month period ended December 31, 2008.

The Company recorded an expense of \$2,590,000 during the nine month period ended December 31, 2007 in relation to the terminated sale contracts. No charge was recorded during the nine month period ended December 31, 2008.

For the nine month period ended December 31, 2008, the Company recorded \$3,403,000 of unrealized gains relating to its outstanding forward currency contracts. At December 31, 2007, the company did not have any forward currency contracts outstanding.

Other income amounted to \$6,228,000 for the nine month period ended December 31, 2008, as compared to other income of \$8,410,000 in the prior year. Other income for the period ended December 31, 2008 consisted of interest income of \$1,011,000, foreign exchange gains of \$5,202,000, forward currency contract realized losses of \$252,000, gain on fair value adjustment of embedded derivatives of \$332,000 and other expenses of \$65,000. Other income for the period ended December 31, 2007 consisted of \$7,051,000 of realized forward exchange gains on transactions and on foreign currency contracts, \$1,257,000 in interest and \$102,000 in miscellaneous income.

Net Income / Loss

Net income for the nine month period ended December 31, 2008 was \$166,930,000 compared to a net loss of \$68,186,000 for the same period in the previous fiscal year. Net income for the nine month period ended December 31, 2008 period reflects: an income from mining operations of \$229,036,000; other expenses

totalling \$33,188,000 including general, administrative and selling expenses; coal exploration and other maintenance costs; and interest, accretion and financing fees on liabilities; and an income tax expense of \$28,918,000 reflecting a current income tax expense provision of \$14,789,000 and a future income tax expense of \$14,129,000.

Capital Expenditures

During the nine month period ended December, 2008, mineral property, plant and equipment, net of accumulated depletion and amortization, increased to \$425,973,000 from \$384,902,000 as at March 31, 2008.

For the nine month period ended December 31, 2008, capital expenditures of \$18,495,000 were incurred relating to the Wolverine Operations, of which the majority relates to the acquisition of equipment. For the nine month period ended December 31, 2008, capital expenditures of \$4,337,000 were incurred in relation to mine development costs at the Company's Brule Mine. At the Company's Willow Creek Mine, capital expenditures of \$37,707,000 were incurred in relation to mine development costs and an additional \$2,483,000 was added to the Willow Creek mineral property, plant and equipment balance as part of the preliminary purchase price allocation.

The Company is closely monitoring the current global economic situation and the Company is reviewing its fiscal 2010 production profile and capital programs in light of the volatility.

Summary of Quarterly Results (unaudited)

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

	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Coal Production (tonnes)	609,000	598,000	614,000	696,000	776,000	737,000	798,000	552,000
Coal Sales (tonnes)	513,000	600,000	583,000	865,000	693,000	856,000	629,000	474,000
Average US \$ Coal Price (per tonne)	\$279	\$268	\$221	\$87	\$81	\$76	\$78	\$79
Average CAD \$ Coal Price (per tonne)	\$344	\$279	\$224	\$87	\$80	\$79	\$86	\$93

Per Unit Cost of Goods Sold:

Cost of Product sold (per tonne)	\$116	\$94	\$91	\$68	\$56	\$55	\$56	\$ 59
Cost of Transportation (per tonne)	\$29	\$37	\$29	\$26	\$25	\$30	\$26	\$ 27
Depletion, amortization and accretion (per tonne)	\$15	\$11	\$13	\$10	\$10	\$10	\$11	\$ 10

Summary:

Total Revenues	\$176,561	\$167,455	\$130,393	\$75,291	\$55,132	\$67,852	\$54,214	\$ 44,760
Net Income (Loss) ⁽¹⁾	\$62,478	\$44,747	\$59,705	\$(37,801)	\$(21,263)	\$(43,866)	\$(3,057)	\$ (3,289)
Net Income (loss) per share – Basic ^{(1), (2)}	\$0.30	\$0.26	\$0.42	\$(0.33)	\$(0.18)	\$(0.38)	\$(0.03)	\$ (0.03)
Net Income(loss) per share – Diluted ^{(1), (2)}	\$0.29	\$0.24	\$0.27	\$(0.33)	\$(0.18)	\$(0.38)	\$(0.03)	\$ (0.03)
Total Assets	\$628,648	\$543,716	\$532,017	\$453,324	\$436,539	\$412,135	\$463,526	\$445,305

- (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 Brazion property 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. Other factors influencing quarterly results are the continued growth and transition of the Company over the past eight quarter periods from a coal exploration company into a coal producer.

The increase in the Company's net income from the quarter ended March 31, 2008, over the past 3 quarters is a result of the significant increase in the coal sales price as a result of higher contracted sales prices and the strengthening of the 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 December 31, 2008 as a result of higher cash and trade receivables which are a function of higher coal prices in fiscal 2009, a higher inventory balance and the costs incurred relating to the development of the Willow Creek Mine.

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. 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 December 31, 2008, 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.

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 nine months ended December 31, 2008, \$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.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the nine month period ended December 31, 2008 resulted in a net increase to cash of \$63,296,000. As at December 31, 2008, the Company's cash balance stood at \$77,433,000 (including the Company's share of the Partnership's cash of \$51,000) and working capital was \$110,691,000. The increase in the coal prices for fiscal 2009 is the primary reason for the Company's working capital levels.

For the nine month period ended December 31, 2008, the Company had positive cash flow of \$251,121,000 on coal sales of \$474,409,000 before depletion, amortization and accretion and working capital changes, while for the nine month period ended December 31, 2007, a cash flow deficit of \$3,068,000 on coal sales of \$177,198,000. 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, 2008.

As of December 31, 2008, the Company's contractual obligations including principal and interest:

(000's of dollars)	Payments Due by Year				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Convertible debentures	\$ 84,260	\$ 5,321	\$ 78,939	\$ -	\$ -
Advance from related party*	6,588	-	6,588		
Capital lease and equipment purchase obligations	58,036	18,916	31,696	7,424	-
Operating leases (premises & other)	1,035	505	530	-	-
Reclamation bond requirement	6,175	2,225	3,620	330	-
Minimum Willow Creek Loadout Royalty	1,900	200	400	400	900
Other	950	510	220	220	-
Total Contractual Obligations	\$158,944	\$ 27,677	\$ 121,993	\$ 8,374	\$ 900

* Refer to details of subsequent early repayment below.

Other commitments, including royalty commitments ranging from 0.75% to 1.0% of sales from certain coal properties of the Company and the joint venture, and a royalty of 1% of sales owing to a marketing agent on sales made to Japan and Taiwan, are described in the notes to the audited consolidated financial statements for the year ended March 31, 2008.

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 from the Willow Creek mine or Brule mine loaded for shipment through the FMC rail load-out facility.

In connection with the Company's mine permit for its Willow Creek property, the Company is required to provide additional reclamation security deposits of \$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%.

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.

On January 21, 2009, the Company provided a non-revolving loan on a secured basis (the "Loan") in the principal amount of US\$36 million 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 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 is had received from Cambrian on September 14, 2007.

In conjunction with the Loan to Cambrian and the repayment of the loan from related party, the Company's credit facility was amended to reduce the reducing term credit facility to nil from US\$25,000,000 and to increase the revolving term credit facility to US\$30,000,000 from US\$25,000,000.

Off-Balance Sheet Arrangements

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

Related Party Transactions

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 December, 2008, the Company paid \$364,000 to Cambrian for services provided under this agreement.

During the period ended December 31, 2008, the Company paid directors fees and reimbursed director's expenses totalling \$159,000 to companies related by common directors or officers.

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.

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.

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.

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.

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. The Company has not recorded the additional amount which, if the claimants are successful, would as at December 31, 2008 exceed the limit of permissible payments by \$5,096,000.

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. While the Company believes its position is correct, the outcome is indeterminate at this time.

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 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.

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.

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.

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 5 to the interim consolidated financial statements.

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 to the interim consolidated financial statements.

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.

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.

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. These critical accounting estimates include the impairment loss on the ABCP, impairment assessment of mineral property, plant and equipment, recognition of deferred tax assets, calculations relating to convertible debentures, asset retirement obligations, warrants, stock based compensation and going concern. The Company's accounting policies are described in Note 2 to the consolidated financial statements for the most recent fiscal year ending March 31, 2008. 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, restoration and post-closure costs, and accounting for income and mining taxes. Refer to the Annual MD&A for a description of critical accounting estimates affecting the Company's consolidated financial statements.

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 December 31, 2008 these contracts included forward sales of US dollars at 1.2424, in the aggregate amount of US\$136,000,000 from January 2009 to the end of April 2009 and at 1.2188 in the aggregate amount of US\$106,000,000 for the same period.

Subsequent to December 31, 2008, for the period of January 2009 to April 2009, the Company closed US\$145 million of forward sales contracts for an unrealized gain of \$4,900,000.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. Issued and outstanding shares include 209,715,935 common shares as at February 12, 2009. Outstanding options and warrants as at February 12, 2009 are as follows:

Security	Number	Exercise price	Expiry date
Stock Options	60,000	\$0.80	February 15, 2009
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	560,000	\$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	2,612,400	\$3.37	March 28, 2013
Warrants	4,240,000	\$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.

At any time prior to the maturity of the remaining 20,465 Convertible Debentures due November 30, 2010, 27,047 common shares are issuable at a conversion price of \$0.75 per common share.

Internal Controls over Financial Reporting

Management is 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.

During the nine month period ended December 31, 2008, 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 in the Annual MD&A for the year ended March 31, 2008.

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 or filings.