

WESTERN COAL CORP.

Management's Discussion and Analysis

The following information, prepared as of June 9, 2010, should be read in conjunction with the audited consolidated financial statements of Western Coal Corp. (the "Company") for the year ended March 31, 2010, 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 39.

Summary

For the year ended March 31, 2010, the Company achieved sales of \$438.6 million and earnings of \$40.8 million, or earnings per share of \$0.17 on a basic basis. On sales of \$136.6 million, the earnings for the fourth quarter of fiscal 2010 were \$11.2 million or earnings per share of \$0.04, on a basic basis.

Key points for fiscal 2010:

- Consolidated revenues of \$438.6 million were 25% lower than fiscal 2009. The lower revenues were mainly as a result of lower sales price driven by the global economic recession.
- Cash costs (cost of product sold plus transportation costs) were \$102 per tonne and \$72 per tonne for Canadian and US operations, respectively. Cash costs for the Canadian operations for fiscal 2009 were \$133 per tonne.
- Despite experiencing the global economic recession for much of the fiscal year, all operations were cash flow positive with fiscal 2010 cash from operations at \$82.9 million.
- Significant balance sheet strength with cash at year-end of \$136 million compared to total long-term debt and capital leases of \$48 million. All \$41 million of the convertible debentures as at March 31, 2010 were subsequently converted into common shares after year-end, with the exception of a cash redemption payment of \$317,435.
- The acquisition of Cambrian Mining Plc ("Cambrian") on July 13, 2009 has expanded and diversified the Company's coal platform.
- Keith Calder was appointed as President and Chief Executive Officer effective December 1, 2009.

Key points for fiscal fourth quarter:

- Consolidated revenues of \$136.6 million were 15% higher than fiscal third quarter, despite lower coal prices realized and a stronger Canadian dollar in relation to the US dollar.
- Cash costs (cost of product sold plus transportation costs) were \$99 per tonne and \$67 per tonne for Canadian and US operations respectively, both within previously provided guidance. Cash costs for the Canadian operations for the fourth quarter 2009 were \$1136 per tonne.
- Canadian Operations volumes were 94% higher than in fiscal third quarter, due in part to 260,000 tonnes that was intended to be shipped in the fiscal third quarter.
- Canadian Operations production volumes were 29% higher than in fiscal third quarter, reflecting stronger and improving coal markets.

- The fourth quarter results were negatively impacted by year-end accruals, adjustments and restructuring matters totalling \$7.0 million.
- Financial position remains strong with cash in excess of debt by nearly \$48 million.
- Western Coal was included in the S&P/TSX Composite Index on March 22, 2010.

About Western Coal Corp

The Company is a producer of high quality metallurgical coal from mines in northeast British Columbia and high quality metallurgical coal and low sulphur and compliant thermal coal from mines located in West Virginia. Western Coal also owns approximately 55% of Energybuild Group Plc (EBG: AIM) which produces high quality anthracite and metallurgical coal in South Wales (UK). Other interests owned include a 48% interest in Mandalay Resources Corporation (TSX.V: MND), 39% interest in Xtract Energy (XTR: AIM), and a 20% interest in NEMI Northern Energy & Mining (NNE.A: TSX). The Company is headquartered in Vancouver, BC, Canada. A description of the Company's properties is as follows:

Canadian Operations:

Wolverine – Perry Creek Mine

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

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

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

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

Wolverine – EB Coal Deposit

The technical report dated November 26, 2007 for the EB mine (the "Revised Technical Report on the EB Project") prepared under the supervision of Edward Minnes, P.Eng., Senior Project Manager for Marston Canada Ltd. and a Qualified Person as defined in NI 43-101 which is available on SEDAR revised

the EB estimate to 8.0 million tonnes of ROM coal. The total amount of saleable export coal produceable from the probable reserves of EB was estimated to be 4.9 million tonnes at an estimated average preparation plant yield of 61%. While mine planning is progressing, there is currently no timetable to commence production.

Wolverine - Hermann Coal Deposit

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

Brazion – Brule Mine

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

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

The Company has developed the Brule mine in a manner similar to its operation at the Dillon mine, where the reserve is now fully depleted. The Brule mine is being operated and managed by a mining contractor; however, the Company retains overall management and engineering responsibility for the project.

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

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. The Willow Creek mine is an open-pit metallurgical coal mine located near

Chetwynd, British Columbia. In addition to the Willow Creek mine, the Company acquired interests in certain adjacent or nearby coal properties. These properties, known as Pine Pass, Crassier Creek, Falling Creek and Fisher Creek are referred to collectively with the Willow Creek mine as the "Willow Creek Coal Properties."

A study has recently been completed, updating and increasing the reserves to 29.6 million tonnes of ROM coal. The technical report prepared under the supervision of Robert J. Morris, P. Geo. and James H. Gray, P.Eng., principals of Moose Mountain Member Corp. and Qualified Persons as defined in NI 43-101 is expected to be filed in June 2010.

The Willow Creek Project Technical Report reported that proven metallurgical coal reserves at the Willow Creek Deposit are expected to provide approximately 27.7 million tonnes of ROM coal and the probable metallurgical coal reserves at the Willow Creek Deposit are expected to provide 1.9 million tonnes of ROM coal.

The Company briefly started mining operations at the Willow Creek mine in fiscal third quarter 2009, but operations were subsequently put on care and maintenance due to the onset of the global recession. Due to the strong recovery in market conditions, the Willow Creek mine was restarted on June 4, 2010, almost 2 months earlier than originally planned. The mine will initially ramp up production to an annual run-rate of 0.5 million tonnes in fiscal 2011 and continuing to ramp up to 1.8 million tonnes by 2012.

From December 1, 2008 to March 31, 2010, all costs were expensed as care and maintenance.

Belcourt Saxon Coal Limited Partnership

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

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

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

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

- 15 years of production from defined reserves on the property

Sandwell Engineering Inc. prepared a feasibility study that is the basis of the Technical Report. Numerous consultant specialists as outlined in the Technical Report contributed to the study. Qualified Persons who are authors of the Technical Report include: Geology & Resources - John H. Perry, P. Geo (internal), and Robert J. Morris, P. Geo, Principal of Moose Mountain Member Corp., (independent) and Reserves - Jay Q.L. Horton, P. Eng., Senior Mining Engineer with Norwest Corporation (Independent).

The Partnership believes that both the Belcourt Group and the Saxon Group have the potential to support significant mining operations and intend to advance these properties to feasibility, with a view to developing a large-scale mining operation. Further studies will be required on the Saxon Group before a decision could be made on the development of the Belcourt and Saxon properties.

To March 31, 2010, the Company has contributed \$16,162,000 to the Partnership consisting of property valued at \$812,000 and \$15,350,000 of cash.

NEMI Northern Energy & Mining Inc.

The Company owns approximately 20% of NEMI Northern Energy & Mining Inc. which is listed on the TSX as "NNE.A". NEMI has a 12% interest in Peace River Coal Limited Partnership. Peace River Coal Limited Partnership operates a metallurgical coal mine in northeast BC and also owns other development properties in the region, including 50% of the Belcourt-Saxon Coal Limited Partnership with the Company.

US Operations:

West Virginia – Maple Coal

Located in the central Appalachia region of West Virginia, Maple Coal operates one underground mine (Eagle No.1) and a surface mine (Sycamore). Combined, the mines have the capacity to produce approximately 1,800,000 tonnes per year. The underground mine produces metallurgical coal sold to international and domestic steel makers. The surface mine produces thermal coal sold to electrical power plants in the USA.

The majority of the coal is processed at the Katie preparation plant before being delivered via truck to load out facilities on the Kanawha River. The plant has the capacity to handle 410 tonnes per hour of raw feed.

West Virginia – Gauley Eagle

Located in the central Appalachia region of West Virginia, the Gauley Eagle mines produce coal from one underground mine (Black Pearl) and a surface mine (Lower Muddlety). Combined, the mines have the capacity to produce approximately 1,300,000 tonnes per year of thermal and metallurgical coal. The underground mine produces metallurgical coal sold to international steel makers while the surface mine produces thermal coal sold to local power supply companies.

The majority of the coal is processed at the on-site Gauley Eagle preparation plant before being delivered via truck to the Cowen rail load out facility located on the CSX rail line or to the Kanawha River for barge loading. The plant has the capacity to handle 500 tonnes per hour of raw feed.

UK Operations:

The Company owns 55% of Energybuild Group Plc, which is listed on the AIM as “EBG”. Energybuild is a producer of deep and open cast mined premium anthracite coals. Energybuild is currently developing the Aberpergwm underground mine to provide access to large reserves located between the Neath and Dulais Valleys in Wales, United Kingdom. The Nant Y Mynydd open cast coal site produces high quality industrial fuel and high psv sand stone products. Further areas for potential opencast mine development within the Aberpergwm surface lease area have been identified. Further information can be found at www.energybuild.co.uk.

Through the acquisition of Cambrian, the Company also indirectly obtained, through Energybuild, a 50% interest in Energy Recovery Investments located in Wales.

Non-Core Assets

Xtract Energy Plc

Xtract Energy Plc (“Xtract”) is listed on the AIM as “XTR” and identifies and invests in a diversified portfolio of early stage energy sector technologies and businesses with growth potential. Its management teams work to achieve critical project milestones, to finance later development stages and to build and crystallise value for all shareholders and partners. Further information can be found at www.xtractenergy.co.uk.

On December 18, 2009, third party participants in a placing of common shares of Xtract which raised £1.2 million. As a result, the Company’s ownership position, formerly 45%, was reduced to 42%. As the shares issued under the placement were sold at a per share price less than the per share price of the Company’s investment, the Company recognized a dilution gain of \$117,000.

During the fourth fiscal quarter 2010, Xtract acquired additional interests in Extrem Energy and Elko Energy Inc. in exchange for common shares in Xtract, which further reduced the Company’s interest to 39.8%. The Company recognized a dilution gain of \$157,000.

Mandalay Resources Corporation

On November 30, 2009, the Company received 44,000,000 common shares of Mandalay Resources Corporation (“Mandalay”) as partial consideration for the disposal of AGD Mining Plc. Mandalay is a Canadian-based natural resource company with producing assets in Australia and exploration projects in Chile. It is focused on executing a roll-up strategy, creating critical mass by aggregating advanced or in-production gold, copper, silver and antimony projects in Australia and the Americas to generate near-term cash flow and shareholder value.

During February 2010, the Company exercised 4,000,000 warrants for the purchase of Mandalay common shares at an exercise price of \$0.31 per warrant. This increased the Company’s ownership

percentage to 48%.

Results of Operations

On July 13, 2009, the Company completed the acquisition of Cambrian Mining Plc (“Cambrian”), which is based in the United Kingdom. See “Acquisition – Cambrian Mining Plc”. The Company has consolidated the results of the operations of Cambrian from July 14, 2009.

In thousands of Canadian dollars unless otherwise noted		2010		2009
Financial Excerpts				
Revenues	\$	438,568	\$	586,093
Costs of goods sold		360,477		298,211
Income from mining operations		78,091		287,882
Other expenses		35,068		37,692
Net income		40,804		214,532
Earnings per share, basic	\$	0.17	\$	1.17
Earnings per share, diluted	\$	0.17	\$	1.14

The results of operations are reported in the following reportable segments:

Canadian Operations

In thousands of Canadian dollars unless otherwise noted		2010		2009
Financial Excerpts				
Revenues	\$	338,381	\$	586,093
Cost of goods sold		274,360		298,211
Income from mining operations		64,021		287,882
Production (tonnes):				
Hard coking coal		1,458,000		1,295,000
Low-vol PCI coal		667,000		1,027,000
Total Production		2,125,000		2,322,000
Sales (tonnes):				
Hard coking coal		1,521,000		1,226,000
Low-vol PCI coal		848,000		816,000
Total Sales		2,369,000		2,042,000
Per sales tonne:				
Coal price realized	\$	143	\$	287
Coal price realized (USD)	\$	131	\$	255
Cost of goods sold				
Cost of product sold	\$	74	\$	102
Transportation and other	\$	28	\$	31
Depletion, amortization and accretion	\$	14	\$	13
	\$	116	\$	147

The Company reported a decrease of 42% in revenues from fiscal 2009 to fiscal 2010 due to a decrease in sales price and a strengthening Canadian dollar offset by a higher sales volume. The decrease in sales

price was a result of lower coal contract prices for fiscal 2010, which were US\$126 per tonne for hard coking coal and US\$90 per tonne for ultra-low volatile PCI (“ULV-PCI”) compared to US\$300 per tonne and US\$248 per tonne respectively for fiscal 2009. The reduction in prices were due to the global recession and were partly offset by 334,000 tonnes of carry-over tonnage of both ULV-PCI and hard coking coal, which were sold at fiscal 2009 prices. The decrease in sales price realized during the year was further negatively impacted by the weakening of the US dollar against the Canadian dollar. The average US dollar/Canadian dollar exchange rate for the year ended March 31, 2010 was \$1.09, compared to \$1.13 in the prior year. The sales volume for fiscal 2010 increased 327,000 or 16% compared to fiscal 2009 and was primarily due to the recovery from the global economic recession in the fourth quarter of fiscal 2010.

Production of hard coking coal increased 163,000 tonnes year on year as the demand for the Company’s hard coking coal increased towards the end of the fiscal year on the back of strengthening markets.

Production of ULV-PCI coal from the Brule mine decreased 360,000 tonnes when comparing the year ended March 31, 2010 to the year ended March 31, 2009. The Company ceased its coal mining and hauling activities at the Brule mine in mid-March 2009 in response to the downturn in the markets for PCI. In order to retain a core of qualified and experienced workers, the Company continued its waste stripping to expose coal. Having invested in the waste stripping in the first quarter, the Company recommenced coal hauling in mid-June 2009. The Company removed a gas pipeline in the Brule pit in December 2009, which was completed a month ahead of schedule and will extend the life of the mine.

The 21% decrease in the per unit costs of goods sold from \$147 per tonne during the year ended March 31, 2009 compared to \$116 per tonne during the current year is mainly attributable to the Wolverine mine. The Wolverine mine’s per unit cost of goods sold decreased 30%, which was a result of improvements in equipment availabilities, an increase in overall productivity, a significant decline in the stripping ratio, and the replacement of the mining contractor on May 18, 2009 with the direct hire of Western Coal employees to operate and manage the pit. A reduction in fuel costs and rail fuel surcharges also contributed to the decrease. The Brule mine’s per unit cost of goods sold increased 3% in fiscal 2010 as compared to fiscal 2009.

US Operations

In thousands of Canadian dollars unless otherwise noted	2010	2009
Financial Excerpts		
Revenues	\$ 85,613	\$ -
Cost of goods sold	72,736	-
Income from mining operations	12,877	-
Production (tonnes):		
Metallurgical coal	355,000	-
Thermal coal	608,000	-
Total Production	963,000	-
Sales (tonnes):		
Metallurgical coal	287,000	-
Thermal coal	604,000	-
Total Sales	891,000	-
Per sales tonne:		
Coal price realized	\$ 96	\$ -
Coal price realized (USD)	\$ 90	\$ -
Cost of goods sold		
Operating expenses	\$ 72	\$ -
Depletion, amortization and accretion	\$ 10	\$ -
	\$ 82	\$ -

On July 13, 2009, with the acquisition of Cambrian, the Company acquired the US coal operations, which consist of the Maple and Gauley Eagle coal properties, each operating an underground and surface mine. The results of the US coal operations are included in the Company's results from July 14, 2009.

Revenues from July 14, 2009 to March 31, 2010 are based on sales of 891,000 tonnes at a realized price of \$96 per tonne or US\$90 per tonne reflecting an average Canadian dollar/US dollar exchange rate of 1.07 during the period from acquisition to March 31, 2010.

Cost of goods sold for the same period reflects a unit cost of \$82 per tonne. Cost of goods sold, excluding depletion, amortization and accretion was \$72 per tonne which is in line with expected cash production costs.

UK Operations:

In thousands of Canadian dollars unless otherwise noted		2010		2009
Financial Excerpts				
Revenues	\$	11,920	\$	-
Cost of goods sold		9,926		-
Income from mining operations		1,994		-
Production (tonnes):				
		114,000		-
Sales (tonnes):				
		124,000		-
Per sales tonne:				
Coal price realized	\$	96	\$	-
Coal price realized (£)	£	62	£	-
Cost of goods sold	\$	80	\$	-

On July 13, 2009, with the Cambrian acquisition, the Company acquired a 50.6% interest in Energybuild Group Plc ("Energybuild") which owns the Aberpergwm underground mine and the Nant Y Mynydd open-cast coal site. 100% of the results of the UK coal operations are included in the Company's results from July 14, 2009. Energybuild's results also include its 50% portion of the operations of a tip processing joint venture. On December 16, 2009, the Company participated in Energybuild's equity fund raising which increased the Company's ownership to 54.7% ("*Acquisition – Energybuild Group Plc*"). The funds were raised to increase production capacity to approximately 750,000 tonnes per year.

Revenues from July 14, 2009 to March 31, 2010 reflect the sale of 124,000 tonnes at a realized price of \$96 per tonne or £62 per tonne at a foreign exchange rate of 1.54.

Cost of goods sold for the same period was \$80 per tonne. Cost of goods sold, excluding depletion, amortization and accretion was \$71 per tonne which is in line with the expected cash production costs.

AGD Mining Pty Ltd.

In thousands of Canadian dollars unless otherwise noted		2010		2009
Financial Excerpts				
Revenues	\$	2,654	\$	-
Cost of goods sold		3,455		-
Loss from mining operations		(801)		-

On July 13, 2009, the Company acquired the Costerfield gold and antimony mine based in Victoria, Australia, owned by AGD Mining Pty, Ltd ("AGD"), a wholly owned subsidiary of Cambrian. The results of this operation are included in the Company's results from July 14, 2009 until AGD was disposed on November 30, 2009. ("*Disposition – AGD Mining Pty Ltd.*").

Other expenses

Other expenses, for the years ended March 31, 2010 and 2009 include the following:

In thousands of Canadian dollars unless otherwise noted	2010	2009
General and administration	\$ 35,135	\$ 19,707
Sales and marketing	7,469	7,919
Coal exploration and other mine cost	4,805	6,432
Interest, accretion and financing fees on liabilities	14,109	22,649
Other (income)	(26,450)	(19,015)
Total other expenses	35,068	37,692

General and Administration

For the year ended March 31, 2010, general and administration costs have increased \$15,428,000, or 78%, over the prior year. Of this increase, \$9,675,000 relates to costs of the Cambrian group, which was acquired on July 13, 2009. The largest portion of these costs relate to salaries, benefits and other remuneration (\$6,304,000). The Company is continuing to review the integration of Cambrian to reduce general and administration costs in the future. To this end, the Company has recently significantly reduced the size of its London office. The Company also incurred \$2,006,000 of restructuring costs.

During the fiscal year, there was also an increase in non-cash stock based compensation of \$5,327,000 which resulted from stock options that were issued during fiscal 2010. These increases are partially offset by a decrease in consulting costs during the year ended March 31, 2010.

Sales and Marketing

For the year ended March 31, 2010, sales and marketing costs have decreased \$450,000 or 6% over the prior year. The decrease is due to a reversal of \$1,910,000 in relation to the Court of Appeal ruling on the Wolverine royalty sharing agreement which reduced the royalty to 0.375% from 0.625% of Wolverine sales and a decrease in the sales and marketing cost at the Canadian operations as a result of lower sales prices. These are partially offset by \$5,385,000 of sales and marketing costs of the US operations, which are based on a percentage of sales. US operation marketing costs are expected to continue on the same basis in the future.

Coal Exploration and Other Mine Costs

Coal exploration costs include property development expenditures, field programs, consultants, coal license and lease payments, engineering, environmental costs and other project administration expenses. Exploration costs are charged to earnings in the quarter in which they are incurred, except where these costs are related to specific properties for which economically recoverable reserves have been established, in which case they are capitalized. Other mine costs relate to the carrying costs of the Willow Creek mine while it is on care and maintenance.

Coal exploration and other mine maintenance costs for the fiscal year ended March 31, 2010 decreased \$1,627,000 from \$6,432,000 in the prior year. This decrease is a result of the Willow Creek mine being put on care and maintenance at the beginning of the third quarter of fiscal 2009. At this time, the Company incurred demobilization costs for the various contractors. The Company continued to incur

demobilization costs during the fiscal year relating to equipment acquired by the mine contractor. Care and maintenance expenses for the Willow Creek mine are expected to continue until the Company recommences production.

Interest, Accretion and Financing Fees on Liabilities

For the year ended March 31, 2010, interest, accretion and financing fees on liabilities were \$14,109,000 compared to \$22,649,000 for the year ended March 31, 2009. The decreases is due to the conversion into equity of some of the Company's convertible debentures and the repayment of certain liabilities during the prior fiscal year, resulting in lower debt levels, partially offset by interest on the debt assumed through the acquisition of Cambrian.

Other Income

In thousands of Canadian dollars unless otherwise noted	2010	2009
Royalty liability revaluation loss (gain) \$	4,893 \$	(7,981)
Unrealized (gain) loss on forward exchange contracts	(8,979)	1,501
Gain on disposal of subsidiary	(6,519)	-
Net foreign exchange gains	(6,655)	(11,061)
Gain on redemption of convertible debentures	(4,155)	-
Interest income	(3,122)	(2,269)
Gain on fair value adjustment of investments	(1,291)	(1,393)
Other (income) expenses	(622)	2,188
	(26,450)	(19,015)

For the year ended March 31, 2010, the Company recognized a revaluation loss on its royalty liability in the amount of \$4,893,000 compared to a gain of \$7,981,000 in the prior year as a result of changes to its life-of-mine plan and expected probabilities. The Company recognized an unrealized gain on its outstanding forward exchange contracts of \$8,979,000 and net foreign exchange gains of \$6,655,000 compared to an unrealized loss of \$1,501,000 and a net foreign exchange gain of \$11,061,000 in the prior year as a result of the weakening Canadian dollar. The gain on disposal of subsidiary relates to the Company's sale of AGD Mining Pty Ltd. to Mandalay Resources Corporation ("*Disposition – AGD Mining Pty Ltd*"). The gain on redemption of convertible debentures relates to the extinguishment of the Company's own convertible debentures acquired as part of the Cambrian acquisition. Interest income has increased due to the Company carrying higher cash balances during the fiscal year, while the gain on fair value adjustment of investments relates to revaluing its held-for-trading investments.

Non-Controlling Interests

For the year ended March 31, 2010, the Company recognized non-controlling interest loss of \$100,000 which relates to the remaining 45.3% interest in Energybuild not owned by the Company.

Equity Loss

For the year ended March 31, 2010, the Company recognized an equity loss of \$237,000, which reflects an estimate of the Company's share of the net income of Xtract and Mandalay to March 31, 2010.

Net Income

Net income for the year ended March 31, 2010 was \$40,804,000 compared to \$214,532,000 for the prior year. The current year's net income reflects: an income from mining operations of \$78,091,000; other expenses totalling \$35,068,000; non-controlling interest loss of \$100,000; equity loss of \$237,000; and an income tax expense of \$1,882,000.

The major impact on the net income for the year ended March 31, 2010 was the lower sales prices realized in fiscal 2010 compared to fiscal 2009.

Market Outlook

General

During the January to March 2010 quarter, emerging from the global economic recession, worldwide demand for metallurgical coal strengthened, while supply continued to be constrained, all of which, reinforced an increased recovery within the international steel sector. Following China's record coking coal imports of approximately 35 million tonnes in calendar year 2009, the first quarter of calendar 2010 saw a robust 10.9 million tonnes of coking coal imported into China to help meet China's surging demand for raw materials needed to meet the country's approximately 600 million tonnes of estimated crude steel production in 2010. Also during the calendar first quarter, major metallurgical coal supply disruptions occurred: adverse Queensland weather issues (cyclones and heavy rainfall), as well as serious mine accidents in China (Shanxi & Inner Mongolia) and in West Virginia, USA, further constraining supply.

Capacity utilization in the steel industry is increasing with Asia and South America remaining at near full capacity while European and US steel mills are at 70-80% operating levels. Steel prices have risen during the latter part of the calendar first quarter due mainly from large increases in iron ore and coking coal spot prices, but also due to increased demand for steel products. Coal price settlements for the period commencing April 1, 2010 to June 30, 2010 were US\$200 per tonne (FOB) for hard coking coal and \$170 per tonne (FOB) for ULV-PCI coal, which is an increase of 59% and 89%, respectively over the 2010 annual prices. The traditional annual benchmark coal pricing system has been replaced with a quarterly pricing system.

The calendar first quarter has also seen increased metallurgical coke export prices as well as scrap steel prices, which are positive indicators of strong future demand for metallurgical coal.

Canadian Operations

With the increased demand for high quality metallurgical coals, the Company's Canadian coal products are well positioned. Supply disruptions and record vessel queues on the east coast of Australia have reinforced the benefit of diversifying supply to metallurgical coal producers from Canada. The Company's Wolverine hard coking coal forms a key coke oven blend component with many of the world's leading steel mills, while the Brule mine ULV-PCI coal is consistently ranked among the top PCI coals worldwide. Many steel mills throughout the world are actively increasing ULV-PCI usage in their blast furnaces to reduce costs and also due to coke shortages in many regions. These high quality coals, in conjunction with highly efficient and under-utilised rail and port infrastructure in northern British

Columbia, continue to provide the Company a competitive advantage to continue to grow and diversify its customer base.

US Operations

The Maple and Gauley Eagle coal mines are located in the central Appalachian region of West Virginia. The increased demand for metallurgical quality coals has also benefitted the Company's West Virginia operations as the US economy begins to slowly improve and steel demand starts to increase. This has enabled the Company to sell some of its premium thermal coal from Gauley Eagle into the high-vol metallurgical coal market, while at Maple, metallurgical coal production capacity is being reviewed in an attempt to meet increased demand.

UK Operations

Current expansion plans are in progress at the Aberpergwm underground colliery, to exploit the large reserves located between the Neath and Dulais valleys and thereby increase production of premium quality anthracite for use mainly in the steel sector. Energybuild's current major customers are an energy plant and steel mill within 40km of the mine. There is a diverse spread of potential customers for Aberpergwm's high quality anthracite. In addition Energybuild operates a small open cut site to produce quality industrial fuel. The company has identified further areas for potential opencast mine development within the Aberpergwm surface lease area.

Guidance

Nearly all of the Company's current fiscal 2011 coal production is under contract for sale to international steel producers. Coal prices for the Company's Canadian operations for the first quarter of fiscal 2011 are approximately US\$200 per tonne for hard coking coal and US\$170 per tonne for its ULV-PCI coal. Price talks are underway for the West Virginia and Wales operations, but are expected to follow the market trends for increased coal prices across all products.

The metallurgical coal price talks for the next quarter (July 1, 2010 to September 30, 2010) are expected to realize higher prices, due to ongoing tight supply, strong demand and high current spot prices. Recent contract prices for hard coking coal are reportedly US\$225 per tonne (FOB).

The Company's coal settlement prices for the April-June quarter 2010 are the second highest on record, and the same as competitor's premium hard coking coal prices. In addition, a high proportion of the Company's contracts are now on a long-term volume basis with six of these customers ranked within the top ten steel mills in the world. The quality of the Company's coal products and the service provided to customers are also factors in the strong market positioning that the Company now enjoys. Considerable interest in the Company's expansion plans has been shown by all of the Company's existing customers as well as new potential buyers.

In the longer term, the market fundamentals for metallurgical coal are expected to continue to improve which will provide continued opportunity for the Company to increase market diversity and market share. China, India, and South America remain the driving forces from a demand point of view.

Both of the Company's metallurgical coal products from Canada, as well as West Virginia's coking and thermal coal products have established market acceptance and are well placed to meet the ongoing worldwide demand. Similarly in Wales, customer demand is expected to exceed availability of the premium Aberpergwm anthracite. Overall, being an independent, growing and diversified coal producer with high quality products has provided a very positive outlook for the Company.

Canadian Operations

For the fiscal year ended March 31, 2011, the Company expects to produce between 3.6 and 3.8 million tonnes of metallurgical coal from its three operating mines in Canada. This consists of the Wolverine operations producing 1.7 to 1.8 million tonnes of hard coking coal, the Brule mine producing 1.4 to 1.5 million tonnes of ULV-PCI coal, and the Willow Creek mine producing approximately 0.5 million tonnes of ULV-PCI coal.

The Company expects to ship between 3.7 to 3.9 million tonnes of metallurgical coal in fiscal 2011, which will consist of 1.8 to 1.9 million tonnes of hard coking coal and 1.9 to 2.0 million tonnes of ULV-PCI. This guidance is dependent upon the continued demand from the Company's customers, clean coal production at the mines, rail service and vessel arrivals.

Expected cash cost of production (FOB) at the Canadian operations is \$94 to \$99 per tonne for the fiscal 2011.

The Company has entered into foreign currency contracts totaling US\$241 million as at March 31, 2010 to help manage the uncertainty of foreign exchange fluctuations in the market. The contracts mature each month through to March 2011. They are at an average rate of C\$1.0228 per US\$1.00. Subsequent to March 31, 2010, the Company entered into a series of forward exchange contracts to fix the rate at which future anticipated cash flows of US dollars are exchanged into Canadian dollars. Such contracts include forward sales of US dollars at an average rate of 1.0015 in the aggregate amount of US\$120,000,000 from October 2010 to the end of March 2011.

US Operations

For the fiscal year ended March 31, 2011, the Company expects to produce 1.6 to 1.8 million tonnes of coal from its mines in West Virginia. This consists of the 0.7 to 0.8 million tonnes of metallurgical coal and 0.9 to 1.0 million tonnes of thermal coal.

The Company expects to ship between 1.7 to 1.9 million tonnes of coal in fiscal 2011, which will consist of 0.8 to 0.9 million tonnes of metallurgical coal and 0.9 to 1.0 million tonnes of thermal coal. This guidance is dependent upon the continued demand from the Company's customers, clean coal production at the mines, rail service and vessel arrivals.

Expected cash cost of production (FOB) at the West Virginia operations is US\$68 to US\$72 per tonne for the fiscal 2011.

UK Operations

The Company expects to produce and sell 0.3 million tonnes of coal in fiscal 2011.

Non-GAAP Financial Measures

This management discussion and analysis refers to certain financial measures, such as cash flow generated from sales which is not a measure recognized under Canadian GAAP 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 flow generated from sales (see “*Liquidity and Capital Resources*”) is the term the Company uses to describe the cash that is generated from sales net of cost of goods sold, excluding depletion, amortization and accretion, excluding the effect of changes in working capital.

Financial Overview and Selected Annual Information

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

(000's of dollars, except tonnes, per tonne and per share data)	2010	2009	2008
Coal Production (tonnes)	3,202,000	2,322,000	3,007,000
Coal Sales (tonnes)	3,384,000	2,042,000	3,043,000
Average CAD \$ Coal Price (per tonne)	\$ 130	\$ 287	\$ 83
Operating expenses (per tonne)	\$ 94	\$ 133	\$ 86
Working Capital	\$ 109,037	\$ 145,639	\$ (72,339)
Total Revenues	\$ 438,568	\$ 586,093	\$ 252,489
Net Income (Loss)	\$ 40,804	\$ 214,532	\$ (105,987)
Net Income (Loss) per Share, Basic	\$ 0.17	\$ 1.17	\$ (0.95)
Net Income (Loss) per Share, Diluted	\$ 0.17	\$ 1.14	\$ (0.95)
Total Assets	\$ 856,629	\$ 662,337	\$ 453,324
Long-term Liabilities	\$ 95,603	\$ 124,625	\$ 207,443
Dividends declared	\$ Nil	\$ Nil	\$ Nil

The Company's operating results reflect the volumes and timing of coal shipments, the net price realized in US dollars and Pound Sterling on such sales, exchange rates, and operating expenses and depreciation, depletion and accretion. Sales volumes, the average realized Canadian dollar prices are presented in the preceding table.

The fiscal 2010 year reflects a full twelve months of operations from the Perry Creek and Brule mines and operations from July 14, 2009 from the newly acquired operations in West Virginia and Wales,

while the 2009 and 2008 fiscal years reflect a full twelve months of operations from the Perry Creek and Brule mines only.

For fiscal 2010, the Company recorded an income from mining operations of \$78,091,000 and a net income of \$40,804,000 on sales of \$438,568,000. The fiscal 2010 net income includes general and administration costs of \$35,135,000, selling costs of \$7,469,000, coal exploration and other mine maintenance costs of \$4,805,000, interest, accretion and financing fees on liabilities of \$14,109,000, other income of \$26,450,000, non-controlling interest loss of \$100,000, equity loss of \$237,000 and an income tax expense of \$1,882,000. The income tax expense consisted of a current income tax recovery of \$2,960,000 and a future income tax expense of \$4,842,000.

For fiscal 2009, the Company recorded an income from mining operations of \$287,882,000 and a net income of \$214,532,000 on sales of \$586,093,000. The fiscal 2009 net income includes general and administration costs of \$19,707,000, selling costs of \$7,919,000, coal exploration and other mine maintenance costs of \$6,432,000, interest, accretion and financing fees on liabilities of \$22,649,000, other income of \$19,015,000 and an income tax expense of \$35,658,000. The income tax expense consisted of a current income tax expense of \$17,573,000 and a future income tax expense of \$18,085,000.

For fiscal 2008, the Company recorded a loss from mining operations of \$40,639,000 and a net loss of \$105,987,000 on sales revenues of \$252,489,000. The fiscal 2008 net loss includes general, administration and selling costs of \$22,512,000, coal exploration of \$4,811,000, interest, accretion and financing fees on liabilities of \$27,262,000, an investment impairment write-down of \$3,319,000, a terminated contract expense of \$2,590,000 and other income of \$8,526,000. During the second quarter of fiscal 2008, the Company wrote off all previously recognized future income tax assets of \$13,380,000.

The increase in total assets over the past three years reflects the acquisition of Cambrian on July 13, 2009, and significant fundraisings conducted by the Company for the development and construction of the Perry Creek and Brule mines as well as the acquisition of the Willow Creek mine in fiscal 2009. Total assets have increased significantly from fiscal 2008 to fiscal 2009 as a result of higher cash and trade receivables which are a function of higher coal prices in fiscal 2009, a higher inventory balance and the costs incurred relating to the development of the Willow Creek mine. The Company's working capital as at March 31, 2010 decreased by \$36,602,000 over the prior year resulting from the lower coal prices, the acquisition of Cambrian and the classification of the convertible debentures as a current liability at March 31, 2010.

The decrease in long-term liabilities, from fiscal 2009 to fiscal 2010, reflects the cancellation of \$29,000,000 of the Company's convertible debenture due to the acquisition of Cambrian and repayments on capital leases during fiscal 2010. During fiscal 2009, long-term liabilities reflected the exercise of convertible debentures, repayment of the demand loan, repayments on capital lease obligation, repayment of the loan from related party and the repayment of the long-term debt. In fiscal 2008, the Company obtained financing through the issue of the demand loan, the US\$40,372,000 convertible debenture and the loan to related party. The Company also made principal repayments on its long term debt.

Summary of Quarterly Results (unaudited)

(000's of Canadian dollars, except per share data)

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008
Total Revenues	\$136,571	\$118,662	\$107,637	\$75,698	\$111,684	\$176,561	\$167,455	\$130,393
Net Income	\$11,200	\$24,030	\$2,186	\$3,388	\$47,602	\$62,478	\$44,747	\$59,705
Net Income per share – Basic	\$0.04	\$0.10	\$0.01	\$0.02	\$0.23	\$0.30	\$0.26	\$0.42
Net Income per share – Diluted	\$0.04	\$0.09	\$0.01	\$0.02	\$0.23	\$0.29	\$0.24	\$0.27
Total Assets	\$856,629	\$832,884	\$790,853	\$651,962	\$662,337	\$628,648	\$543,716	\$532,017

Fluctuations in quarterly results reflect the volumes and timing of coal shipments, the net price realized in such sales, the exchange rate, and cost of goods sold.

The decrease in net income from March 31, 2009 to September 30, 2009 is a result of lower coal prices during fiscal 2010. The increase in net income from September 30, 2009 to December 31, 2009 is due to 175,000 tonnes of carry-over tonnage sold during the quarter. The decrease in net income from December 31, 2009 to March 31, 2010 was significantly impacted by the royalty liability revaluation loss of \$4,893,000.

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. The increase in assets from June 30, 2009 to September 30, 2009 reflects the acquisition of Cambrian and the share placement for net proceeds of \$55,865,000, while the increase in assets from September 30, 2009 to December 31, 2009 reflects the results of carry-over tonnage sold during the period which resulted in higher operating income for the period and a higher cash balance, a fund raising by Energybuild and the sale of AGD which resulted with the Company receiving an investment in Mandalay as consideration. The increase in assets from December 31, 2009 to March 31, 2010 reflects the higher sales volume in the fourth quarter.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the year ended March 31, 2010 resulted in a net increase to cash of \$61,206,000. As at March 31, 2010, the Company's cash balance was \$136,059,000, working capital was \$109,037,000 and the Company had full access to its \$30,000,000 revolving term credit facility.

For the year ended March 31, 2010, the Company generated positive cash flow of \$121,948,000 on sales of \$438,568,000, while for the year ended March 31, 2009, the Company generated cash flow of \$315,876,000 from sales of \$586,093,000. Cash flows generated from future shipments 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."

Positive cash flow on sales is a non-GAAP measure and is reconciled in the table below:

In thousands of Canadian dollars unless otherwise noted	2010	2009
Sales	\$ 438,568	\$ 586,093
Operating expenses	(316,620)	(270,217)
Positive cash flow on sales	121,948	315,876

As of March 31, 2010, 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
Long-term debt	\$ 13,536	\$ 5,786	\$ 6,586	\$ 1,164	\$ -
Convertible debentures	41,425	41,425	-	-	-
Capital lease obligations	37,623	18,576	19,047	-	-
Operating leases (premises & other)	18,255	4,723	6,792	4,296	2,444
Reclamation bond requirement	5,200	1,450	2,750	1,000	-
Minimum Willow Creek Loadout Royalty	1,750	200	400	400	750
Equipment purchase obligations	108,542	108,542	-	-	-
Other	550	110	220	220	-
Total Contractual Obligations	\$ 226,881	\$ 180,812	\$ 35,795	\$ 7,080	\$ 3,194

Other commitments, including royalty commitments ranging from 0.375% to 1.0% of sales from certain coal properties of the Company and the joint venture are described in the notes to the audited consolidated financial statements for the year ended March 31, 2010.

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 to be paid to Pine Valley Mining Corporation on the basis of the tonnage of coal shipped through the Willow Creek rail load-out facility.

In connection with the Company's mine permit for its Wolverine property, the Company is required to provide additional reclamation security deposits of \$1,200,000 by December 31, 2010 and \$500,000 by December 31, 2012.

In connection with the Company's mine permit for its Willow Creek property, the Company is required to provide additional reclamation security deposits. The original mine permit was amended on February 19, 2009 and requires the Company to provide additional reclamation security deposits of \$250,000, \$1,000,000, \$1,250,000 and \$1,000,000 30 days, 12 months, 21 months and 33 months after the resumption of pit operations, respectively. At March 31, 2010, pit operations had not resumed. All other terms and conditions remain the same. These amounts may be adjusted for inflation, if the cumulative inflation rate from January 1, 2010 exceeds 10%.

Operating Activities

For the year ended March 31, 2010, the Company generated \$82,924,000 from operating activities compared to \$200,528,000 in the prior year. Cash flows from operating activities before changes in non-cash working capital items for the years ended March 31, 2010 and 2009 were \$89,227,000 and \$258,111,000, respectively. The decrease reflects the lower sales price realized for the year ended March 31, 2010. Changes in non-cash working capital items for the year ended March 31, 2010 was \$5,573,000 consumed compared to the \$57,583,000 consumed for the prior year. The significant change in non-cash working capital during the year ended March 31, 2010 reflects the lower sales price during the period and its related impact on receivable balances as well as movements in the inventory balance during the year.

Financing Activities

Capital leases

During the year ended March 31, 2010, the Company made repayments on capital lease obligations of \$18,219,000 as compared to 2009 repayments of \$14,447,000 and entered into capital leases for proceeds of \$1,627,000 during the year ended March 31, 2010.

Long-term debt

During the year ended March 31, 2010, the Company made repayments on long-term debt of \$5,276,000 relating to its West Virginia operations while the 2009 repayments of \$27,918,000 related to the repayment of its Canadian project facility. During 2009, the Company had a debt facility, which was repaid in full during the period. During the year ended March 31, 2010, the Company raised an additional \$2,956,000 from the issuance of long-term debt which was raised to acquire new equipment.

Convertible loan notes

During the year ended March 31, 2010, the Company repaid the outstanding convertible loan notes in the amount of \$31,380,000, which were assumed as part of the Cambrian acquisition.

Proceeds from non-controlling interest contribution

During the current fiscal year, the non-controlling interest of Energybuild, representing shareholders other than the Company, contributed \$9,168,000.

Equity issuance

During the year ended March 31, 2010, \$3,697,000 and \$2,183,000 were raised pursuant to the exercise of 1,437,000 stock options and 2,910,000 warrants, respectively. At March 31, 2010, \$1,868,000 was included in amounts receivable relating to stock option exercises.

On August 19, 2009, the Company raised \$55,857,000, net of issuance costs, through the issuance of 22,100,000 common shares at a purchase price of \$2.70 per common share.

No equity was raised in 2009.

Share Buy Back Program

On December 17, 2009, the Company announced that its normal course issuer bid for up to 10,000,000 common shares, was accepted by the Toronto Stock Exchange ("TSX"). The Company's normal course issuer bid commenced on December 21, 2009 and will terminate on December 20, 2010, unless terminated earlier by the Company. The Company will purchase the common shares at market price at the time of acquisition under the normal course issuer bid, which will be conducted through the facilities of the TSX and AIM. The maximum number of common shares that may be purchased on a daily basis, subject to any approved exemptions is 1,198,087. The actual number of common shares that may be purchased and the timing of any such purchases will be determined by the Company. Any common shares purchased under the normal course issuer bid will be cancelled.

As at the date of this report, the Company has not made any purchases of common shares under a normal course issuer bid in the previous twelve month period nor is it obliged to make any purchases going forward.

Investing Activities

Issuance of loan to related party

In June 2009, the Company advanced Cambrian a loan of \$1,218,000 which was subsequently included as part of the purchase consideration for Cambrian. The Company also advanced \$3,213,000 to AGD which was subsequently converted into common shares of AGD and sold to Mandalay.

Capital expenditures

During the year ended March 31, 2010, mineral property, plant and equipment, net of accumulated depletion and amortization, increased to \$514,323,000 from \$419,321,000 as at March 31, 2009. The increase in the balance was mainly due to the Cambrian acquisition for which the preliminary allocation value for mineral property, plant and equipment was \$134,318,000.

For the year ended March 31, 2010, capital expenditures of \$27,459,000 were incurred of which \$7,075,000 related to the Canadian coal operations, \$8,798,000 to the US coal operations, \$11,447,000 to the UK coal operations and \$139,000 to the corporate activities.

For fiscal 2011, the Company entered into agreements to purchase equipment for its Perry Creek, Brule and Willow Creek mines in the amount of \$104,843,000, which are expected to all be delivered by the end of December 2010. Further capital commitments were made in Wales for \$1,541,000 for shuttle cars and breakers and \$2,158,000 for two Quad bolters.

For fiscal 2011 the Company plans capital expenditures of \$260,000,000 for its Canadian operations, including \$120,000,000 in equipment and \$140,000,000 in infrastructure to expand its mines, the majority on restarting the Willow Creek mine and expanding the Brule mine. At the West Virginia operations, the Company plans capital expenditures of US\$13,000,000, including US\$7,000,000 in equipment and US\$6,000,000 in infrastructure to primarily expand the Maple underground mine.

Energybuild plans capital expenditures of £13,000,000 for equipment and development costs to expand the underground mine.

The Company believes that its cash balances of \$136,059,000 as well as cash generated in the next fiscal year will be sufficient to fund all organic growth plans for the year.

Deposits

During the year ended March 31, 2010, additional reclamation deposits of \$2,769,000 were made in conjunction with new permits as compared to \$6,890,000 in 2009.

Deferred transaction costs

During the fiscal year end March 31, 2010, \$4,935,000 in deferred transactions costs were incurred in relation to the acquisition of Cambrian. The Company also acquired \$4,337,000 of cash and cash equivalents as part of the Cambrian acquisition.

Investment in associate

During the year ended March 31, 2010, the Company exercised 4,000,000 warrants for the purchase of Mandalay common shares at an exercise price of \$0.31 per warrant. This increased the Company's ownership percentage to 48%.

Financing - Energybuild Group Plc

On December 18, 2009, the Company participated in Energybuild's equity issue and acquired 58,246,667 common shares at 15 pence each. The cash value of this participation was \$15,036,000 and increased the Company's ownership interest in Energybuild to 54.7% from 50.6%.

Off-Balance Sheet Arrangements

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

Fourth Quarter 2010

Canadian Operations

Revenues for the three month period ended March 31, 2010 decreased to \$103,317,000 from \$111,684,000 in the comparable period in the prior year. The decrease is primarily due to a lower coal price realized and a weakening of the USD dollar against the Canadian dollar, both of which were partially offset by an increase in sale volumes. The decrease in sales price is a result of lower coal contract prices for fiscal 2010, which are US\$126 per tonne for hard coking coal and US\$90 per tonne for ultra-low volatile PCI ("ULV-PCI") compared to US\$300 per tonne and US\$248 per tonne respectively for fiscal 2009. The decrease in sales price realized during the current quarter was further negatively impacted by the weakening of the US dollar against the Canadian dollar. The average US dollar/Canadian dollar exchange rate for the three month period ended March 31, 2010 was \$1.03, compared to \$1.26 in the comparable period in the prior year, or a decline of 18%. These decreases

were partially offset by an increase in sale volumes of 523,000 tonnes, of which 260,000 tonnes was intended to be shipped in fiscal third quarter 2010. The additional increase in sale volume in the fiscal fourth quarter 2010 is a result of the economic recovery experienced in Asia. The Canadian Operations sells most of its coal into Asia.

For the three month period ended March 31, 2010, total production was 184,000 tonnes higher than in the comparable period in the prior year due to an increase in the production rates at the Canadian operations in response to the economic recovery in Asia. Production of hard coking coal and PCI increased 58,000 and 126,000 tonnes respectively when comparing the three month period ended March 31, 2010 to the three month period ended March 31, 2009.

Cost of goods sold for the quarter ended March 31, 2010 was \$98,023,000 or \$113 per tonne compared to \$52,838,000 or \$153 per tonne in the prior comparable period. The 26% decrease in the per unit costs of goods sold during the quarter ended March 31, 2009 compared to the current period is mainly attributable to the Wolverine mine. The Wolverine mine's per unit cost of goods sold decreased 30%, which was a result of improvements in equipment availabilities, an increase in overall productivity, a significant decline in the stripping ratio, and the replacement of the mining contractor on May 18, 2009 with the direct hire of Western Coal employees to operate and manage the pit operations. The Brule mine's per unit cost of goods sold increased 5% in fiscal fourth quarter 2010 as compared to the same quarter in 2009.

US Operations

Revenues of \$28,454,000 for the three month period ended March 31, 2010 reflect the sale of 326,000 tonnes at a realized price of \$87 per tonne or US\$82 per tonne after applying a CAD/USD foreign exchange rate of 1.06. Sales prices realized were 10% lower in the current quarter when compared to the previous quarter. The lower sales price realized was primarily due to the timing of shipping schedules with a higher contracted price customer.

Cost of goods sold of \$24,370,000 for the three months ended March 31, 2010 was \$75 per tonne. Cost of goods sold, excluding depletion, amortization and accretion was \$67 per tonne which is in line with the expected cash production costs.

UK Operations

Revenues of \$4,800,000 for the three month period ended March 31, 2010 reflect the sale of 51,000 tonnes at a realized price of \$94 per tonne or £61 per tonne. The price realized is consistent with the price in fiscal third quarter 2010.

Cost of goods sold of \$4,003,000 for the three months ended March 31, 2010 was \$78 per tonne, which is in line with the cost in the fiscal third quarter 2010.

Other Expenses

General and administration increased by \$8,970,000, to \$14,113,000 for the quarter ended March 31, 2010 as compared to \$5,143,000 for the quarter ended March 31, 2009. The increase is primarily related to the general and administration costs of the Cambrian entities of \$4,547,000, an increase in corporate salaries and other compensation in an amount of \$2,874,000 and an increase of \$1,063,000 in the stock based compensation expense as a result of stock options issued.

Sales and marketing costs have decreased to a recovery of \$184,000 for the fourth quarter of 2010 compared to a cost of \$4,423,000 for the fourth quarter of 2009. The recovery for the fourth quarter of 2010 is a result of the reversal of a portion of the Wolverine Royalty Sharing Agreement accrual while in the fourth quarter of fiscal 2009 the balance included an accrual for the Wolverine Royalty Sharing agreement which was to allow for the potential liability, that was subsequently settled.

Coal exploration and other mine costs for the three months ended March 31, 2010 of \$1,076,000 were consistent with those for the quarter ended March 31, 2009 of \$1,207,000. Exploration costs are charged to earnings in the period in which they are incurred, except where these costs relate to specific properties for which economically recoverable reserves have been established, in which case they are capitalized. Other mine costs include care and maintenance costs relating to the carrying costs of the Willow Creek mine.

Interest, accretion and deferred financing fees on long-term debt increased to \$5,151,000 compared to \$3,113,000 in 2009 as a result of additional liabilities assumed in fiscal 2010.

<i>In thousands of Canadian dollars unless otherwise noted</i>	Three months ended March 31, 2010	Three months ended March 31, 2009
Royalty liability revaluation loss (gain)	\$ 4,893	\$ (7,981)
Unrealized (gain) loss on forward exchange contracts	1,653	4,904
Loss (gain) on disposal of subsidiary	477	-
Net foreign exchange gains	(13,996)	(6,111)
Gain on redemption of convertible debentures	-	-
Interest income	(1,413)	(1,258)
Gain on fair value adjustment of investments	(1,291)	(1,393)
Other (income) expenses	(178)	2,455
	\$ (9,855)	\$ (9,384)

Other income amounted to \$9,855,000 for the three month period ended March 31, 2010, compared to \$9,384,000 for the three month period ended March 31, 2009. The increase mainly relates to the net foreign exchange differences offset by the revaluation loss on the royalty liability.

Net income for the quarter ended March 31, 2010 was \$11,200,000 compared to \$47,602,000 for the comparable period in the prior fiscal year. The net income reflects: an income from mining operations of \$10,321,000; other expenses totalling \$10,301,000 including general, administration and selling expenses; coal exploration and other maintenance costs; interest, accretion and financing fees on liabilities; other income, including the loss on revaluation of royalty liability of \$4,893,000; non-controlling interest; equity loss and income tax recovery. During the quarter the Company recognized a reduction in the net future income tax liability of approximately \$5,200,000 as the Company was able to offset taxable income in 2009 and recover approximately \$3,000,000 of tax paid in fiscal 2009 and expects to defer tax until such time as Canadian corporate income taxes will be reduced from 29.6% to

25%. The Company also recognized benefits associated with enhanced deductions and elected expenditure allocations available to offset BC mineral taxes totalling approximately \$6,700,000.

Related Party Transactions

During the year ended March 31, 2010, the Company paid fees totaling \$161,000 (2009 - \$159,000) to companies related to the Company through directors in common or officers of the Company. At March 31, 2010, amounts receivable included \$956,000 outstanding from officers of the Company relating to stock option exercises. These amounts receivable were received subsequent to March 31, 2010.

During the year ended March 31, 2010, 841,883 warrants were exercised at a price of \$0.75 by a Company related to a director.

The Company entered into an agreement with Audley Capital Advisors LLP, of which one of the Company's director is a partner, for them to provide strategic and financial advisory services for a period of eighteen months commencing June 1, 2009 which includes a monthly work fee and a success fee if a transaction results. This agreement was cancelled in March 2010.

On November 30, 2009, the Company completed the sale of AGD to Mandalay. The Chairman of the Company at the time and another director, who have both subsequently retired, are the Chairman of Mandalay and a director of Mandalay, respectively.

Concurrent with the disposal of AGD, Mandalay completed a private placement financing. The Company has granted the participants in the Mandalay private placement options to purchase 15,999,977 of the common shares which the Company holds in Mandalay at an exercise price of \$0.31 per share. Officers and directors of the Company or companies related to officers and directors received a total of 4,893,328 options.

At March 31, 2010, included in the amounts receivable balance is \$53,779 of related party amounts receivable.

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 (the "Court") 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 were directors and officers of the Company at the time the Agreement was entered into. The Company's petition was dismissed on February 20, 2006 and an appeal was filed. In October 2006 the Company abandoned its appeal but notified the respondents that the RSA was granted in consideration for advances made to the Company and that as such any royalty payments that represents interest in excess of 60% per annum as provided in Section 347 of the Criminal Code would not be paid. During 2007 the royalty holders filed petitions to obtain a ruling relating to whether the Company was obliged to make further payments. The petitions were

heard in September 2008 and in March 2009 the Company reached a settlement with one of the claimants.

On April 1, 2009, the Court rendered a decision in the remaining claimants' petition to the effect that royalties under the RSA was not a charge paid or payable for the advancing of credit and therefore does not constitute interest within the meaning of Section 347 of the Criminal Code. On April 30, 2009, the Company filed an appeal in respect of the April 1 decision based on an error in law by the Judge. On December 17, 2009 the matter was heard by the B.C. Court of Appeal and on February 11, 2010 the Court rendered its decision granting the Company's appeal in part. The effect of the decision is to reduce the rate of royalty payable by approximately 40%. Neither the Company nor the claimants sought leave to appeal the decision to the Supreme Court of Canada and accordingly going forward any entitlement to royalty will be calculated at the rate of 0.375%. In respect of monies previously paid into a trust account pending the outcome of the appeal, the Company will receive a payment of \$1.9 million plus interest representing the overpayment of royalty based on the pre-decision royalty rate.

Atlantic Leaseco, LLC ("Atlantic") and Maple Coal Company ("Maple")

Atlantic and Maple, two subsidiaries of the Company, which have operations located in West Virginia, were the subject of compliance orders issued against them on April 5, 2007 by the West Virginia Department of Environmental Protection ("WVDEP"). These orders, which are similar to compliance orders issued by the WVDEP to a number of coal mining companies in West Virginia, provided that the companies would have until April 5, 2010 to comply with certain water quality-based effluent limitations for selenium concentrations in discharges from mining operations. Subsequent to the issue of the orders, the selenium discharge limits against Atlantic that were the subject of the compliance orders, were removed by permit modifications and Atlantic has no further obligations under that order.

With respect to Maple, due to the fact that there is no currently available practical technology for consistently meeting the effluent limits for selenium at the point of discharge that could be installed and effective by the time permit levels established by the Federal Environmental Protection Agency ("EPA") became effective on April 6, 2010, the Company filed an appeal to the state Environmental Quality Board ("EQB") requesting an injunction to stay the WVDEP denial of the Company's application for modification of its permits. In addition the Company asked for a stay of the deadline for the compliance schedule to bring the effluent discharges into compliance with any final water quality based effluent limits for selenium. By a letter dated April 14, 2010, the Company received a "notice of intention to sue" from three environmental groups (the "Complainants") notifying the Company of the Complainant's intent to commence a "citizens suit" in federal court if the Company does not achieve compliance with permit levels within 60 days. Subsequently the Company has received information to the effect that the WVDEP may initiate enforcement actions in the County Circuit Court against Maple and several other coal companies in respect of any non-compliance with discharge permit levels. The Company understands that such an action by the State officials would effectively forestall any federal proceedings and maintain enforcement actions at the State level. In the interim the Company is vigorously contesting the claims of the WVDEP and the Complainants and pursuing appeals to obtain an extension of its selenium compliance schedule. At present the likelihood of an unfavourable outcome is neither remote nor probable and no opinion can be offered regarding the likelihood of enforcement actions or civil penalties that may be sought but they could be material.

Potential Securities Class Action

In November 2009 the Company was named as a defendant in a statement of claim issued by a plaintiff who seeks leave of the Ontario Courts to proceed with a securities class action. The claim alleges that those persons who acquired or disposed of Company shares during the period between November 14, 2007 and December 10, 2007 should be entitled to recover \$200 million for general damages and \$20 million in punitive damages. Two current directors and one former director and officer were also named as defendants. The plaintiff alleges that the financial statements for the Second Quarter of fiscal 2008 and the accompanying news release issued on November 14, 2007 misrepresented the Company's financial condition and that the Company failed to make full, plain and true disclosure of all material facts and changes. The action also claims that the named directors purchased shares during the proposed class period while in possession of material undisclosed information.

The plaintiff was to have delivered its materials in support of motions for leave to proceed with the actions and for certification on or before May 14, 2010. The plaintiff however, sought and obtained permission of the Court to deliver an amended claim before May 28, 2010.

On May 28, 2010, the plaintiff delivered a proposed Fresh As Amended Statement of Claim. That claim indicates the plaintiff intends to introduce new allegations that the Company, some of its current and former directors and other parties caused the Company to enter transactions between April 26, 2007 and July 13, 2009 that were oppressive. The Company intends to vigorously defend the action brought against it.

At this stage in the proceedings it is not possible to assess what if any exposure the Company has to the claims being made. The Company, however maintains that there is no merit to the claims and that the damages are without foundation and excessive and accordingly has made no provision for this claim in its financial statements.

Pay as You Earn ("PAYE") Tax Investigation

In the normal course of business, the Company is subject to audit by taxation authorities. The Company is currently subject to an enquiry into PAYE withholding tax compliance in the United Kingdom relating to the period prior to June 2007. On January 12, 2010, a determination notice was issued for the payment of £8,300,000, in order to avoid the potential claim being affected by the UK statute of limitation regulations. £2,500,000 of the £8,300,000 was also registered at the court. The Company was advised that this is standard procedure in these circumstances and the court case has since been adjourned following an appeal to the tax authorities to allow for resolution of the ongoing enquiry and determination of the final liability.

The Company has made payments of £500,000 and has recorded an accrual of £900,000 in respect of this issue. The Company believes that although the final liability is uncertain, it is unlikely to differ materially from the amount paid and accrued.

Acquisition – Cambrian Mining Plc

On July 13, 2009, the Company completed the acquisition of Cambrian. A total of 88,625,764 common shares of the Company were issued to Cambrian shareholders on the basis of 0.75 Company shares for every Cambrian share. Pursuant to section 177 of the Business Corporations Act (British Columbia), the 72,122,826 common shares of the Company held directly or indirectly by Cambrian, now a wholly owned subsidiary of the Company, are not entitled to be voted at a meeting of shareholders of the Company.

The Company consolidated the results of the operations from Cambrian from July 14, 2009.

The major operations acquired by the Company include those described under US Operations, UK Operations, an investment in NEMI, investment in Xtract and AGD Mining Plc. The Company originally owned 100% of AGD Mining Pty Ltd (“AGD”), which operates a gold and antimony operation in Costerfield, Victoria, Australia. The estimated reserves and resources at AGD include 331,000 tonnes of ore with an average content of 11.4 g of gold per tonne and antimony of 6.1%. The Company sold their interest in AGD to Mandalay Resources Corporation. This is not considered to be a discontinued operation as the Company owns 48% of Mandalay. Further information on Mandalay can be found at www.mandalayresources.com.

Disposition – AGD Mining Pty Ltd

On November 30, 2009, the Company completed the sale of AGD to Mandalay Resources Corporation (“Mandalay”).

Prior to completion of the sale, the Company provided \$2,500,000 to AGD to assist in AGD’s planned capital development in the period prior to completion of the disposal. Immediately prior to the completion of the disposal, the bridge loan was converted into new ordinary shares in AGD issued to the Company.

In consideration for all of the issued and outstanding ordinary shares of AGD and the historical intercompany loans, the Company received 44,000,000 common shares of Mandalay, 20,000,000 warrants to acquire Mandalay common shares at an exercise price of \$0.31 per share which expire November 30, 2014, 20,000,000 warrants to acquire Mandalay common shares at an exercise price of \$0.465 which expire November 30, 2014 and a promissory note in the principal amount of \$1,500,000. The promissory note bears interest at 7% per annum and will accrue interest until December 1, 2010. Under certain circumstances, this promissory note may be converted to an interest free loan which will mature no later than December 1, 2013.

The common shares of Mandalay received were valued at their closing price on November 30, 2009. The 40,000,000 warrants were valued using the Black-Scholes model with a volatility of 161% and are presented as derivative financial assets under the Investments and Other Assets header on the Company’s balance sheet. These derivative financial assets have been designated as held-for-trading and are fair valued at the end of each financial reporting period with changes in fair value flowing through the income statement. The promissory note was valued using discounted cash flows using a discount rate of 20%.

Concurrent with the disposal of AGD, Mandalay completed a private placement financing. The Company has granted a group of private placement investors, some of who are related parties to the Company, options expiring November 30, 2010 to purchase up to 15,999,977 common shares the Company owns in Mandalay at a price of \$0.31 per share. In addition, the Company has granted an option expiring September 25, 2011 to a company controlled by the Chief Executive Officer of Mandalay, to purchase up to 24,687,960 of the common shares the Company owns in Mandalay at a price of \$0.25 per share.

The two tranches of options granted by the Company were valued using the Black-Scholes model with a volatility of 161% and are presented as derivative financial liabilities on the Company's balance sheet. These derivative financial liabilities have been designated as held-for-trading and are fair valued at the end of each financial reporting period with changes in fair value flowing through the income statement.

A gain of \$6,519,000 was realized on the sale.

Changes in Accounting Policies

Goodwill and intangible assets

Effective April 1, 2009, the Company adopted CICA Handbook section 3064 "Goodwill and Intangible Assets." This section 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," has been withdrawn. The adoption of this standard did not have a material impact on the Company.

Financial instruments - disclosures

Effective June 2009, the CICA amended Handbook section 3862 "Financial Instruments – Disclosures" to require enhance disclosures about the relative reliability of the data that a company uses to measure the fair values of its financial instruments and to enhance liquidity risk disclosure requirements. These disclosures have been included in the Company's financial statements.

Future Accounting Pronouncements

Business Combinations

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

Consolidated Financial Statements

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

International financial reporting standards (IFRS)

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

The Company's conversion approach consists of three phases: 1) Diagnostic, 2) Evaluation and Development and 3) Implementation.

The Company has completed the diagnostic phase which identified the key differences between the Company's current accounting policies and IFRS and estimated the level of impact on the consolidated financial statements. The Company has identified that a large portion of its conversion effort will be related to mineral property, plant and equipment, asset impairment, asset retirement obligations and share based payments.

The Company has moved into the evaluation and development phase and continues to assess the effects of adoption on key financial statement components, including the transition alternatives available for first time adoption of IFRS, and finalize its conversion plan. The Company will continue to invest in training and additional resources to ensure timely conversion in fiscal 2012. Through the acquisition of Cambrian, the Company acquired internal resources with IFRS expertise as several of the subsidiaries had already converted and began reporting under IFRS.

The transition to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations. Since the Company is still in the Evaluation and Development phase and has not yet selected its accounting policy choices and exemptions available to it under IFRS 1, the impact on the Company's financial position and future results of operations is not reliably determinable or estimable at this time.

The Company will continue to monitor developments in accounting standards as issued by the International Accounting Standards Board and the AcSB which may affect the timing, nature and disclosure of the Company's adoption of IFRS and will update its plan as necessary.

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. The Company's accounting policies are described in Note 2 to the consolidated financial statements for the most recent fiscal year ending March 31, 2010. Management's critical accounting estimates are applied in the accounting purchase price allocations in business combinations, for the impairment of mineral property, plant and equipment and other assets such as investments, reserve determinations, production inventory quantities, plant and equipment lives, contingent liabilities, stock-based compensation, warrants, financial asset and liabilities, tax provisions and future tax balances, asset retirement obligations, convertible debentures and royalty and other liabilities.

Mineral Property, Plant and Equipment

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

The Company reviews and evaluates mineral property, plant and equipment for impairment on an ongoing basis. The expected undiscounted future cash flows from an asset are estimated. These future cash flows are developed using assumptions that reflect the long-term operating plans for an asset given management's best estimate of the most probable set of economic conditions. Commodity prices used reflect market conditions at the time the model is developed. These models are updated from time to time and lower prices are used should market conditions deteriorate. Inherent in these assumptions are significant risks and uncertainties. In management's view, based on assumptions which management believes to be reasonable, a reduction in the carrying value of plant and equipment is not required as at March 31, 2010. Changes in market conditions, reserve estimates and other assumptions used in these estimates may result in future write-downs.

Depreciation, Depletion and Amortization

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

Inventory

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

Asset Retirement Obligations

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

Stock Based Compensation and Warrants

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

Financial Instruments

The Company has entered into foreign currency contracts totaling US\$241,000,000 at March 31, 2010 to help manage the uncertainty of foreign exchange fluctuations in the market. The contracts mature each month through to March 2011. They are at an average rate of C\$1.0228 per US\$1.00. Subsequent to March 31, 2010, the Company entered into a series of forward exchange contracts to fix the rate at which future anticipated cash flows of US dollars are exchanged into Canadian dollars. Such contracts include forward sales of US dollars at an average rate of 1.0015 in the aggregate amount of US\$120,000,000 from October 2010 to the end of March 2011.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. Issued and outstanding shares include 336,359,383 common shares as at June 9, 2010. 72,122,826 issued and outstanding shares of the Company are held directly or indirectly by Cambrian, now a wholly-owned subsidiary of the Company, which results in 264,236,557 common shares held by the public. Outstanding options and warrants as at June 9, 2010 are as follows:

Security	Number	Exercise price	Expiry date
Stock Options	60,000	\$6.10	July 28, 2010
Stock Options	180,000	\$6.20	July 28, 2010
Stock Options	79,000	\$3.29	July 31, 2010
Stock Options	200,000	\$2.26	September 7, 2011
Stock Options	190,000	\$1.95	November 28, 2011
Stock Options	471,000	\$2.02	March 5, 2012
Stock Options	262,500	\$5.34	July 31, 2012
Stock Options	500,000	\$2.25	November 30, 2012
Stock Options	475,000	\$2.53	February 20, 2013
Stock Options	2,011,550	\$3.37	March 28, 2013
Stock Options	50,000	\$1.80	October 30, 2013
Stock Options	50,000	\$0.62	March 19, 2014
Stock Options	2,130,200	\$1.95	June 24, 2014
Stock Options	3,000,000	\$2.68	November 13, 2014
Stock Options	150,000	\$2.64	November 18, 2014
Stock Options	190,000	\$2.35	December 4, 2014
Stock Options	120,000	\$3.75	January 4, 2015
Stock Options	300,000	\$3.71	February 12, 2015
Stock Options	196,153	\$1.87	November 30, 2017
Warrants	1,330,000	\$0.75	November 30, 2010
Warrants	2,681,845	\$3.25	June 28, 2012

Disclosure Controls and Internal Controls over Financial Reporting

Management has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Company's Board and Audit Committee. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at March 31, 2010 and has concluded, based on its evaluation, that these controls and procedures provide reasonable assurance that material information relating to the Company is made known to management and reported as required.

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

The control framework used to design the Company's internal control over financial reporting is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management has evaluated the effectiveness of design and operation of the Company's internal controls over financial reporting as at March 31, 2010. Based on the result of this assessment, management has concluded that the Company's internal controls over financial reporting are effective.

During the year ended March 31, 2010, there have been no material changes in the Company's internal control over financial reporting except for the following:

- On July 13, 2009, the Company acquired Cambrian Mining Ltd.
- On July 16, 2009, Braam Jonker was appointed as the Company's Chief Financial Officer.
- On December 1, 2009, Keith Calder was appointed as the Company's Chief Executive Officer.

Risks and Uncertainties

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

Competition

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

Exploration, development and operating risks

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

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

pollution, and consequent liability that could have a material adverse impact on the business, operations and financial performance of the Company.

Funding requirements

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

Project development, expansion targets and operational delays

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

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

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

Volatility of coal prices

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

uneconomic, some or all of the coal extraction and/or exploration activities to be undertaken by the Company.

Marketability

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

Governmental regulations and processing licenses and permits

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

Operating history

The Company's mines had positive cash flow for the year ended March 31, 2010. The Company's ultimate success will depend on its ability to continue to generate cash flow from these and other properties in the future. There is no assurance that the Company will generate profits in the future. In order to fund costs associated with development of the Company's properties and to meet future obligations, the Company may be required to obtain additional financing. There is no assurance that the Company would be able to raise the required funds to continue these activities.

Reserve and resource estimates

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

the need for subsequent development of ore bodies and the processing of new or different ore grades, may adversely affect the Company's profitability in any particular accounting period.

Environmental regulation and liability

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

Uninsured risks

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

Dependence on key personnel

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

Dependence on major customers and suppliers of products and services

The coal industry is characterized by a relatively small number of customers worldwide. For the years ended March 31, 2010 and 2009, the Company recorded revenues from coal sales to four and three major customers respectively, each representing in excess of 10% of total revenues. Although the Company expanded its customer base throughout the 2010 fiscal year, the Company still expects future revenues to be derived from a relatively small number of customers. A loss of or a significant reduction in purchases by any one of the Company's largest customers could have a material adverse impact on the financial performance of the Company.

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

and to the extent that alternate sources of transportation of port and rail services are available, it could increase transportation and port costs significantly. Further, the vagaries of the shipping industry could affect the Company's revenues as a result of delays of ocean vessels and could significantly affect the Company's costs and relative competitiveness against the supply of coal from other markets.

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

Aboriginal Issues

Canadian judicial decisions have recognized the continued existence of Aboriginal rights in Canada, including title to lands continuously used or occupied by Aboriginal groups. The northeast British Columbia operations are located within Treaty 8 territory, to which nine First Nations in British Columbia are signatories. Current operations are in or near the traditional territories of the West Moberly, Sauteau and Halfway River First Nations, and the McLeod Lake Indian Band. The Province of British Columbia has signed an Economic Benefits Agreement and related land and resource use agreements with several of the First Nations, including the West Moberly First Nation, over the last few years. The Treaty 8, as well as the Economic Benefits Agreement and related agreements, establish First Nations rights and define roles for their involvement in land and resource use. As a means of protecting treaty and aboriginal rights, as well as undetermined aboriginal rights, Canadian courts continue to confirm a duty to consult with Aboriginal groups when the Crown has knowledge of existing rights or the potential existence of an Aboriginal right, such as title, and contemplates conduct that might adversely impact them.

As issues relating to Aboriginal and treaty rights and consultation continue to be heard, developed and resolved in Canadian courts, the Company will continue to cooperate, communicate and exchange information and views with Aboriginal groups and government, and participate with the Crown in its consultation processes with Aboriginal groups in order to foster good relationships and minimize risks to its mineral rights and operational plans. Due to their complexity, it is not expected that the issues regarding Aboriginal and treaty rights of consultation will be finally resolved in the short term and, accordingly, the impact of these issues on mineral resources and on the Company's mining operations is unknown at this time.

The Company believes in building mutually beneficial and lasting relationships with local First Nations whose treaty rights or potential Aboriginal rights overlap with the Company's areas of operations. Some of these relationships with Aboriginal people have been formalized through agreements that generally seek to increase First Nations' participation in the Company's planning and operational activities.

Currency risk

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

Litigation

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

Health and safety

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

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

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

Forward-looking Information

This management discussion and analysis contains forward-looking statements, which reflect management's expectations regarding the Company's future growth, results of operations (including, without limitation, future production and capital expenditures), performance (both operational and financial) and business prospects (including the timing and development of new deposits and the success of exploration activities) and opportunities. Wherever possible, words such as "plans", "expects" or "does not expect", "budget", "scheduled", "estimates", "forecasts", "anticipate" or "does not anticipate", "believe", "intend" and similar expressions or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved, have been used to identify these forward-looking statements. 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, Acquisition – Cambrian Mining Plc and Risks and Uncertainties.

Although the forward-looking statements contained in this management discussion and analysis reflects management's current beliefs based upon information currently available to management and based upon what management believes to be reasonable assumptions, the Company cannot be certain that actual

results will be consistent with these forward-looking statements. A number of factors could cause actual results, performance, or achievements to differ materially from the results expressed or implied in the forward-looking statements. Such factors include, among others:

- future prices of coal and marketability of coal;
- foreign exchange rate fluctuations;
- operational delays and production problems;
- changes in government, legislation, taxation, control, regulations and political or economic developments in Canada, the United States, the United Kingdom, Australia, or other countries in which the Company may carry on business in the future;
- accidents, labour disruptions, inability to obtain suitable or adequate machinery, equipment or skilled employees or contractors and other risks of the mining industry;
- determination of mineral reserves and resources;
- permits and licenses, governmental regulation and environmental regulation and liability;
- dependence on major customers and suppliers of products and services;
- economic factors affecting the coal mining industry, competition, fluctuation of securities prices and additional financing; and
- dependence on key personnel, conflicts of interest;

These factors should be considered carefully and shareholders and prospective investors should not place undue reliance on the forward-looking statements. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause the Company's actual results, performance, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. With respect to forward-looking statements contained in this management discussion and analysis, the Company has made assumptions regarding: anticipated financial performance; business prospects and strategies; future production and recovery; current and future commodity prices, including the price of coal; availability of skilled labour; timing and amount of capital expenditures; future exchange rates; interest rates; the availability of credit; the impact of increasing competition; conditions in general economic and financial markets; availability of mining equipment; availability and access to rail services and port facilities; effects of regulation by government agencies; future operating costs; and the ability to add production and reserves through acquisitions, development and/or exploration.

Although the Company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, shareholders and prospective investors should not place undue reliance on forward-looking statements. 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.westerncoal.com. The Company cautions that information contained on, or accessible through these websites is current only as of the date of such information and may be superseded by subsequent events of filings.