

Western Coal Corp.
Consolidated Financial Statements
For the three and nine months ended
December 31, 2009
(Unaudited)

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

	December 31, 2009	March 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 150,146	\$ 74,853
Restricted cash (Note 15 (a))	5,004	-
Amounts receivable (Note 6)	26,257	40,080
Loans to related party	-	40,634
Inventory (Note 7)	60,755	62,376
	242,162	217,943
Deposits	27,992	19,079
Mineral property, plant and equipment	518,420	419,321
Investments and other assets (Note 8)	47,537	5,994
	\$ 836,111	\$ 662,337
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 48,589	\$ 29,539
Income tax payable	17,604	17,994
Asset retirement obligations	1,009	1,009
Capital lease obligations	18,799	18,642
Convertible debentures	3,681	4,953
Long-term debt	6,449	-
Royalty and other liabilities	167	167
Derivative financial liabilities	2,774	-
	99,072	72,304
Asset retirement obligations	29,181	12,498
Capital lease obligations	20,198	29,154
Convertible debentures	37,382	61,729
Long-term debt	7,404	-
Royalty and other liabilities	5,879	3,159
Derivative financial liabilities	5,703	-
Future income tax liability	29,124	18,085
	233,943	196,929
Non-controlling interests (Note 9)	25,841	-
Shareholders' equity	576,327	465,408
	\$ 836,111	\$ 662,337

Commitments and contingencies (Note 15), Subsequent events (Note 17)

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

Approved on Behalf of the Board of Directors:

"John Byrne"
John Byrne, Director

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

Western Coal Corp.

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

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
Revenues	\$ 118,662	\$ 176,561	\$ 301,997	\$ 474,409
Cost of goods sold				
Operating expenses	69,813	74,762	205,029	223,288
Depletion, amortization and accretion	11,099	7,648	29,198	22,085
	80,912	82,410	234,227	245,373
Income from mining operations	37,750	94,151	67,770	229,036
Other expenses (income)				
General and administration (Note 11)	9,134	4,210	21,022	14,564
Sales and marketing	3,403	1,322	7,653	3,496
Coal exploration and other mine costs	1,369	4,276	3,729	5,224
Interest, accretion and financing fees on liabilities	2,713	2,948	8,958	19,535
Other income (Note 12)	(9,711)	(8,907)	(16,595)	(9,631)
	6,908	3,849	24,767	33,188
Net income before undernoted items	30,842	90,302	43,003	195,848
Income tax (expense)				
Current income tax (expense)	(2,245)	(12,042)	(4,064)	(14,789)
Future income tax (expense)	(5,498)	(15,782)	(10,291)	(14,129)
	(7,743)	(27,824)	(14,355)	(28,918)
Non-controlling interests	(111)	-	86	-
Equity earnings	1,042	-	870	-
Net income for the period	\$ 24,030	\$ 62,478	\$ 29,604	\$ 166,930
Income per share				
Basic	\$ 0.10	\$ 0.30	\$ 0.13	\$ 0.96
Diluted	\$ 0.09	\$ 0.29	\$ 0.13	\$ 0.84
Weighted average common shares outstanding				
Basic	250,748,997	209,715,527	232,628,178	174,148,309
Diluted	253,810,593	218,123,580	234,470,329	205,258,642

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

Western Coal Corp.

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

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
Net income for the period	\$ 24,030	\$ 62,478	\$ 29,604	\$ 166,930
Other comprehensive income				
Change in fair value of available-for-sale securities	374	-	1,724	-
Currency translation adjustment	(4,066)	-	(2,275)	-
	(3,692)	-	(551)	-
Comprehensive income for the period	\$ 20,338	\$ 62,478	\$ 29,053	\$ 166,930

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

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

	Three months ended		Nine months ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Cash flows from (used in):				
Operating Activities				
Net income for the period	\$ 24,030	\$ 62,478	\$ 29,604	\$ 166,930
Items not involving cash and cash equivalents:				
Depletion, amortization and accretion	10,504	7,797	29,664	22,463
Stock-based compensation	2,458	226	4,923	659
Interest, accretion and financing fees on long-term debt	999	553	3,681	6,341
Gain on extinguishment of convertible debenture	-	-	(4,155)	-
Net unrealized foreign exchange loss (gain)	6,127	(3,399)	(6,119)	(3,990)
Gain on disposal of subsidiary	(6,996)	-	(6,996)	-
Other expenses	(1,053)	-	(948)	-
Future income tax expense	5,498	15,782	10,291	14,129
	41,567	83,437	59,945	206,532
Changes in non-cash working capital items (Note 13)	27,820	12,637	17,287	(52,995)
	69,387	96,074	77,232	153,537
Financing Activities				
Repayment of demand bank loan	-	-	-	(3,500)
Proceeds from capital lease obligations	1,003	-	1,003	-
Repayments on capital lease obligations	(5,376)	(3,725)	(13,095)	(10,438)
Proceeds from long-term debt	636	-	636	-
Repayments on long-term debt and related costs	(1,523)	-	(3,490)	(27,918)
Repayments on convertible loan notes	-	-	(31,380)	-
Proceeds from issuance of shares by subsidiary	9,607	-	9,607	-
Proceeds from issue of shares, net of issue costs	24	-	55,889	-
Proceeds from exercise of stock options	-	-	549	4,125
Proceeds from exercise of warrants	256	-	1,824	6,580
	4,627	(3,725)	21,543	(31,151)
Investing Activities				
Acquisition of mineral property, plant and equipment	(14,797)	(32,738)	(18,214)	(50,384)
Deferred transaction costs	82	(1,558)	(4,975)	(1,558)
Cash inflow (outflow) from business acquisition	(526)	-	4,427	-
Deposits	(1,666)	(2,499)	(1,679)	(7,148)
	(16,907)	(36,795)	(20,441)	(59,090)
Effect of exchange rate on cash and cash equivalents in US dollars	(1,559)	-	(3,041)	-
Increase in cash and cash equivalents during the period	55,548	55,554	75,293	63,296
Cash and cash equivalents, beginning of period	94,598	21,879	74,853	14,137
Cash and cash equivalents, end of period	\$ 150,146	\$ 77,433	\$ 150,146	\$ 77,433

Supplementary cash flow information (Note 13). The accompanying notes are an integral part of these consolidated financial statements.

Western Coal Corp.
Consolidated Statements of Shareholders' Equity
 (Expressed in thousands of Canadian dollars)
 (Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
Share capital (Note 10)	\$ 444,256	\$ 362,767	\$ 444,256	\$ 362,767
Equity portion of convertible debentures	3,878	6,638	3,878	6,638
Contributed surplus	19,749	15,185	19,749	15,185
Retained earnings and other accumulated comprehensive income				
Retained earnings (deficit), beginning of period	88,106	(29,466)	80,614	(133,918)
Loss on repurchase of convertible debentures	-	-	(1,223)	-
Net income for the period	24,030	62,478	29,604	166,930
Retained earnings, end of period	112,136	33,012	108,995	33,012
Accumulated other comprehensive (loss)	(3,692)	-	(551)	-
	108,444	33,012	108,444	33,012
	\$ 576,327	\$ 417,602	\$ 576,327	\$ 417,602

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

Western Coal Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

1. Basis of presentation and consolidation

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

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

The Company completed the 100% acquisition of Cambrian Mining Plc on July 13, 2009 (Note 3). The following significant accounting policies have been adopted as a result of this acquisition:

Translation of foreign currencies

The functional currency of the parent entity is the Canadian dollar. For the Company’s self-sustaining foreign operations, the accounts are translated at the period end exchange rates and revenue and expenses are translated at the monthly average exchange rates. Differences arising from these foreign currency translations are recorded in other comprehensive income until they are realized by a reduction in the investment.

Investments subject to significant influence

Investments over which the Company exercises significant influence are accounted for using the equity method. At each balance sheet date, the value of these investments is assessed for impairment.

Non-controlling interests

A non-controlling interest exists in a less than wholly-owned subsidiary of the Company through the principles of consolidation and represent the third party interest’s share of the carrying values of the subsidiary. The subsidiary’s earnings or losses are included in their entirety in the Company’s net operations and are then adjusted to reflect the portion attributable to the non-controlling interests.

Western Coal Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

2. Adoption of new accounting standards and recent developments*(a) 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.

(b) 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.

(c) Consolidated Financial Statements

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

Western Coal Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

3. Acquisitions*(a) Cambrian Mining Ltd.*

On July 13, 2009, the Company acquired 100% of the issued common shares of Cambrian Mining Ltd. ("Cambrian"), the Company's major shareholder at the time. Cambrian owned the Maple Coal and Gauley Eagle coal mines in West Virginia, which produce metallurgical and thermal coal; a 50.6% interest in Energybuild Group Plc, which produces anthracite and thermal coals in South Wales (UK); a 45% interest in Xtract Energy Plc; a 20% interest in NEMI Northern Energy & Mining and 100% interest in AGD Mining Pty Ltd., a gold and antimony operation in Australia. Cambrian's results of operations are included in the Company's consolidated financial statements from July 14, 2009.

The Company has accounted for the acquisition of Cambrian as a business combination using the purchase method. The purchase consideration was funded as follows:

Issuance of 88,625,764 common shares	\$	118,759
Issuance of 4,960,905 stock options and warrants in exchange for Cambrian option and warrant obligations		1,119
Secured loan facility provided by the Company to Cambrian		38,987
Transaction costs		8,116
	\$	166,981
Less: Cash and cash equivalents acquired		(4,427)
Less: 72,122,826 own common shares acquired		(96,645)
Net purchase price	\$	65,909

Each common share was valued at \$1.34, being the average market price of the Company's common shares over the two day period before and after the terms were agreed to and announced. As part of the acquisition, the Company acquired 72,122,826 of its own common shares. Accordingly, 16,502,938 net common shares were issued.

The Company issued 4,960,905 stock options and warrants valued at \$1,119,000 in exchange for Cambrian stock options and warrants. The terms and conditions of these stock options and warrants remain the same as the Cambrian stock options and warrants, except for the number of options issued and the respective exercise price, which were adjusted according to the exchange ratio. The following assumptions were used for the Black-Scholes option pricing model to determine the fair value of the stock options and warrants:

Risk-free interest rate:	1.33% to 3.13%
Expected volatility:	102% to 149%
Expected life:	0.03 years to 8.38 years
Dividend rate:	Nil

The fair value of the secured loan facility provided by the Company to Cambrian was determined as its fair value on the date of acquisition.

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(Unaudited)

3. Acquisitions (continued)

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

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

Restricted cash	\$	526
Amounts receivable		12,391
Inventory		7,380
Deposits		8,775
Mineral property, plant and equipment		130,633
Investments in associates		13,043
Other long term assets investments		4,216
Warrants of the Company		502
Convertible debentures of the Company (Note (a))		27,840
<hr/>		
Total assets acquired		205,306
Accounts payable and accrued liabilities		(31,514)
Income tax payable		(16,005)
Convertible loan notes		(31,380)
Current portion of long-term debt and capital leases		(8,551)
Long term debt (Note (b))		(12,538)
Other long-term liabilities		(2,900)
Asset retirement obligations		(17,715)
Future income tax liability		(715)
Non-controlling interest		(18,079)
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Total liabilities assumed		(139,397)
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Net assets acquired	\$	65,909

Note (a) - On July 13, 2009, as part of the acquisition of Cambrian, the Company acquired convertible debentures with a face value of \$29,000,000 which had a debt component book value of \$28,091,000 and an equity component book value of \$2,681,000. The fair value on the date of acquisition was \$27,840,000. As a result, the Company recognized a gain on settlement of the debt component of \$4,155,000 and a loss on settlement of the equity component of \$1,223,000.

Note (b) – The long-term debt assumed by the Company upon acquisition relates to various credit facilities for the acquisition of equipment. The interest rates on the credit facilities range from 3.64% to 17.28% and have maturities from the current fiscal period until 2016.

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For the three and nine months ended December 31, 2009

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

(Unaudited)

3. Acquisitions (continued)*(b) Energybuild Group Plc*

On December 18, 2009, the Company participated in Energybuild Group Plc's ("Energybuild") 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%. The purchase discrepancy in the amount of \$407,000 was allocated to mineral property, plant and equipment.

4. Dispositions*AGD Mining Pty Ltd.*

On November 30, 2009, the Company completed the sale (the "disposal") of its wholly-owned subsidiary AGD Mining Pty Ltd. ("AGD") to Mandalay Resources Corporation ("Mandalay").

Prior to completion of the sale, the Company provided a bridge loan of \$2,500,000 to AGD to assist in AGD's planned capital development. 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 per share 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 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 125% 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 recorded at fair value at the end of each financial reporting period with changes in fair value flowing through the net income or loss. The promissory note was valued using discounted cash flows using a discount rate of 20%.

Subsequent to December 31, 2009, the Company agreed to exercise 4,000,000 warrants with an exercise price of \$0.31 per common share.

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Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

4. Dispositions (continued)

Concurrent with the disposal of AGD, Mandalay completed a private placement financing. The Company has granted a group of these investors, some of whom are related parties (Note 14 (d)) 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 purchase options granted by the Company were valued using the Black-Scholes model with a volatility of 125% 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 recorded at fair value at the end of each financial reporting period with changes in fair value flowing through net income or loss.

A preliminary pre-tax gain of \$6,996,000 was realized on the sale. This gain may be subject to change in future periods as the Company is in the process of finalizing its purchase accounting for the acquisition of Cambrian.

5. Financial instruments**Financial risk management***Market risk*

Foreign currency exchange rates

To minimize the risk exposure of foreign currency fluctuations on sales revenues from its Canadian operations, the Company may enter into forward exchange contracts to fix the rate at which future anticipated flows of US dollars are exchanged into Canadian dollars. The Company has entered into a series of forward exchange contracts to fix the rate at which future anticipated cash flows of US dollars are exchanged into Canadian dollars. As at December 31, 2009, these contracts included forward sales of US dollars at an average rate of 1.1087, in the aggregate amount of US\$184,400,000 from January 2010 to the end of October 2010. The unrealized foreign exchange gain recorded on these contracts at December 31, 2009 was \$10,632,000 (Note 6).

Western Coal Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

6. Amounts receivable

	December 31, 2009	March 31, 2009
Trade accounts receivable	\$ 8,356	\$ 34,690
Unrealized gain on foreign currency contracts	10,632	-
Prepaid expenses and other deposits	5,318	810
Goods and services tax and other sales tax receivable	1,274	3,940
Other receivables	677	640
	\$ 26,257	\$ 40,080

7. Inventory

	December 31, 2009	March 31, 2009
Production inventory	\$ 49,795	\$ 53,206
Parts inventory	10,960	9,170
	\$ 60,755	\$ 62,376

For the period ended December 31, 2009, the Company did not record any net realizable value adjustments nor were any previously recorded net realizable value provisions reversed.

Western Coal Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

8. Investments and other assets

	December 31, 2009	March 31, 2009
Held-for-trading investments:		
Asset-backed commercial paper	\$ 3,000	\$ 2,937
Marketable securities	359	-
Available-for-sale investments:		
Marketable securities	5,063	-
Investments accounted for under the equity method:		
Mandalay Resources Corporation (46.7% interest)	14,960	-
Xtract Energy Plc (41.9% interest)	12,579	-
Derivative financial assets	10,838	-
Note receivable	738	-
Deferred transaction costs	-	3,057
	<u>\$ 47,537</u>	<u>\$ 5,994</u>

9. Non-controlling interests

	December 31, 2009	March 31, 2009
Energybuild Group Plc (45.3% interest)	\$ 25,841	\$ -
	<u>\$ 25,841</u>	<u>\$ -</u>

Western Coal Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

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

	Number of Shares	Consideration
Balance, March 31, 2009	209,715,935	\$ 362,767
Shares issued for acquisition of Cambrian (Note 3)	88,625,764	118,759
Company shares acquired through acquisition of Cambrian (Note 3)	(72,122,826)	(96,645)
For cash received from the issuance of share offering	22,100,000	55,889
Transferred to share capital upon conversion of US\$40 million convertible debentures	27,034	26
For cash received from the exercise of stock options	246,200	549
Transferred to share capital upon exercise of stock options	-	311
For cash received from the exercise of warrants	2,431,883	1,824
Transferred to share capital upon exercise of warrants	-	776
Balance, December 31, 2009	251,023,990	\$ 444,256

Western Coal Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

10. Share capital (continued)**Stock Options**

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

	Number of Shares Issuable pursuant to Stock Options	Weighted Average Exercise price per Share
Balance, March 31, 2009	6,078,400	\$ 3.12
Issued	6,153,000	2.34
Assumed (Note (a))	4,398,405	2.84
Exercised	(246,200)	2.23
Expired	(2,250,000)	2.74
Forfeited	(1,412,450)	2.84
Balance, December 31, 2009	12,721,155	\$ 2.85

Note (a) - For those Cambrian stock options outstanding at the time of close of the acquisition of Cambrian, the Cambrian option holders are entitled to receive the Company's shares upon exercise of such options on the basis of 0.75 Company shares for every 1 Cambrian share, which the option holder is entitled to under the terms of the option. At December 31, 2009, 892,155 of such stock options are outstanding with approximate exercise prices ranging from \$1.55 to \$4.42 based on the closing foreign exchange rate on December 31, 2009.

Warrants

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

	Number of Shares Issuable pursuant to Warrants	Weighted Average Exercise price per Share
Balance, March 31, 2009	7,535,345	\$ 1.84
Assumed (Note (b))	562,500	3.27
Expired	(562,500)	3.27
Exercised	(2,431,883)	0.75
Balance, December 31, 2009	5,103,462	\$ 2.36

Note (b) - For those Cambrian warrants outstanding at the time of close of the acquisition of Cambrian, the Cambrian warrant holders are entitled to receive the Company's shares upon exercise of such options on the basis of 0.75 Company shares for every 1 Cambrian share, which the warrant holder is entitled to under the terms of the warrant. At December 31, 2009, all such warrants had expired.

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Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

11. General and administration

	Three months ended		Nine months ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Salaries, benefits and other remuneration	\$ 3,659	\$ 2,357	\$ 9,276	\$ 6,550
Stock-based compensation	2,458	226	4,923	659
Office and miscellaneous	662	127	1,418	890
Legal and audit	572	272	1,391	1,090
Travel and related expenses	408	378	926	772
Corporate communications	145	81	509	266
Consulting	592	337	951	2,839
Rent and telecommunications	236	161	589	466
Amortization	190	143	489	372
Insurance	124	111	363	480
Exchange listings and other regulatory fees	88	17	187	180
	\$ 9,134	\$ 4,210	\$ 21,022	\$ 14,564

12. Other income

	Three months ended		Nine months ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Net foreign exchange (gains) losses	\$ (8,979)	\$ (5,127)	\$ 7,341	\$ (4,950)
Unrealized (gain) loss on forward exchange contracts	4,872	(3,403)	(10,632)	(3,403)
Gain on disposal of subsidiary	(6,996)	-	(6,996)	-
Gain on redemption of convertible debentures	-	-	(4,155)	-
Interest (income) expense	1,804	(449)	(1,709)	(1,011)
Other (income) expenses	(412)	72	(444)	(267)
	\$ (9,711)	\$ (8,907)	\$ (16,595)	\$ (9,631)

Western Coal Corp.

Notes to Consolidated Financial Statements

For the three and nine months ended December 31, 2009

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

(Unaudited)

13. Supplementary cash flow information

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
Other information:				
Interest paid	\$ 885	\$ 882	\$ 4,236	\$ 10,379
Taxes paid	(244)	-	20,409	-
Non-cash investing and financing transactions:				
Capital lease obligation recognized for assets under capital lease	1,003	3,630	1,003	8,963
Proceeds from disposal of AGD	17,869	-	17,869	-
Net common shares issued for acquisition of Cambrian	-	-	22,114	-
Acquisition of Falls Mountain Coal Inc.	-	-	-	2,483

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

	Three months ended December 31,		Nine months ended December 31,	
	2009	2008	2009	2008
Restricted cash	\$ (322)	\$ 1,046	\$ (4,443)	\$ 4,608
Amounts receivable	33,570	2,832	36,490	(40,886)
Inventory	(9,521)	(7,112)	10,078	(22,970)
Accounts payable and accrued liabilities	1,449	2,381	(10,548)	(9,983)
Accrued interest on convertible debenture	786	1,428	786	1,428
Current income tax payable	1,858	12,062	(15,076)	14,808
	\$ 27,820	\$ 12,637	\$ 17,287	\$ (52,995)

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(Unaudited)

14. Related party transactions

- (a) During the nine month period ended December 31, 2009, the Company paid fees totaling \$161,000 (2008 - \$159,000) to companies related to the Company through directors in common or officers of the Company.
- (b) During the nine month period ended December 31, 2009, 2,431,883 warrants were exercised at a price of \$0.75 that were granted to the Audley European Opportunities Master Fund ("Audley"), which is advised by Audley Capital Advisors LLP, of which one of the Company's directors is a partner, were exercised.
- (c) The Company entered into an agreement with Audley Capital Advisors LLP 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.
- (d) As disclosed in note 4, on November 30, 2009, the Company completed the sale of AGD to Mandalay. The Chairman of the Company is the Chairman of Mandalay and another director is a director in common.

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.

- (e) At December 31, 2009, 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.

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(Unaudited)

15. Commitments and contingencies*(a) 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 judgment has been reserved. While the Company believes that its position is correct, the outcome is indeterminate at this time. To allow for the potential liability in the event that the Company's position is incorrect, the Company has accrued an amount that might otherwise be payable under the terms of the RSA to December 31, 2009 under Accounts payable and accrued liabilities. Pursuant to an agreement with the remaining claimants, the Company has paid that amount plus an amount on account of interest into a trust account pending a decision on the appeal filed by the Company, which is presented as restricted cash.

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(Unaudited)

15. Commitments and contingencies (continued)*(b) 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, if it is unable to bring discharges into compliance with the permit levels by the April 5, 2010 deadline it will file for an extension pursuant to legislation that was enacted during the 2009 West Virginia legislative session which provided for a further two year extension to meet the stated discharge limits prescribed in the compliance orders. It should be noted that the enacted legislation has not been approved by the Federal Environmental Protection Agency ("EPA") and there may be arguments that the legislation is invalid until such time as approval from the EPA is received. In the interim management is vigorously contesting the claims of the WVDEP and is working toward attaining approval for a mechanism or process that may be used to address any selenium discharge issues. At present the likelihood of an unfavourable outcome in this matter is neither remote nor probable and no opinion can be offered regarding the likelihood of subsequent enforcement actions or civil penalties that may be sought but they could be material in nature.

(c) Potential Securities Class Action

The Company is named a defendant in an action alleging that those who bought and sold shares between November 14, 2007 and December 10, 2007 should be entitled to recover \$200,000,000 for general damages and \$20,000,000 in punitive damages. Two current directors and one former director and officer are also named as defendants. The plaintiff alleges that the financial statements for the second quarter of 2008 and the accompanying news release issued November 14, 2007 negligently and recklessly misrepresented the Company's financial condition. The plaintiff has not yet delivered its materials in support of motions for leave to proceed with the action under the Ontario Securities Act and for certification under the Class Proceedings Act. At this stage in the proceeding, 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 plaintiff's claims and that the damages are excessive, and accordingly no provision has been raised.

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(Unaudited)

15. Commitments and contingencies (continued)*(d) 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 maybe 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.

The Company has not made any purchases of common shares under a normal course issuer bid in the previous twelve month period.

(e) 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 the PAYE withholding tax 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 has acknowledged the determination notice and the court claim and no later than February 12, 2010, a disputed claim must be lodged with the court and by February 11, 2010, an appeal against the determination must be submitted to the tax authorities. The enquiry process will then continue. The Company has been advised that this is standard procedure under these circumstances.

An accrual of £900,000 has been made relating to this issue. The Company believes that the final assessment will not be materially different from the amount accrued.

(f) Purchase Commitments

Subsequent to December 31, 2009, the Company entered into agreements to purchase six 250 tonne haul trucks and a front end loader for its Perry Creek property at a total cost of approximately \$23,914,000.

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(Unaudited)

16. Segmented information

The Company is engaged in the acquisition, exploration, development and mining of coal resources. The Company has four reportable segments: Coal – Canadian operations; Coal – US operations; Coal – United Kingdom operations; and Corporate and other. The Corporate and other segment includes all non-core activities.

	Three months ended December 31, 2009				
	Canadian Operations	US Operations	UK Operations	Corporate and other	Total
Revenues	\$ 83,781	\$ 29,821	\$ 4,076	\$ 984	\$ 118,662
Income (loss) from mining operations	33,835	3,888	934	(907)	37,750
Coal exploration and other mine costs	(1,369)	-	-	-	(1,369)
Interest, accretion and financing fees on liabilities	(2,464)	(250)	(5)	6	(2,713)
Other (expenses) income	-	(2,181)	75	(720)	(2,826)
Earnings (loss) before taxes, non-controlling interests and equity losses	\$ 30,002	\$ 1,457	\$ 1,004	\$ (1,621)	\$ 30,842
Capital expenditures	\$ 5,310	\$ 1,193	\$ 8,456	\$ (162)	\$ 14,797
	Three months ended December 31, 2008				
	Canadian Operations	US Operations	UK Operations	Corporate and other	Total
Revenues	\$ 176,561	\$ -	\$ -	\$ -	\$ 176,561
Income from mining operations	94,151	-	-	-	94,151
Coal exploration and other mine costs	(4,276)	-	-	-	(4,276)
Interest, accretion and financing fees on liabilities	(2,948)	-	-	-	(2,948)
Other (expenses) income	-	-	-	3,375	3,375
Earnings before taxes, non-controlling interests and equity losses	\$ 86,927	\$ -	\$ -	\$ 3,375	\$ 90,302
Capital expenditures	\$ 32,421	\$ -	\$ -	\$ 317	\$ 32,738

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(Unaudited)

16. Segmented information (continued)

	Nine months ended December 31, 2009					Total
	Canadian Operations	US Operations	UK Operations	Corporate and other		
Revenues	\$ 235,064	\$ 57,159	\$ 7,120	\$ 2,654	\$ 301,997	
Income (loss) from mining operations	58,727	8,793	1,197	(947)	67,770	
Coal exploration and other mine costs	(3,729)	-	-	-	(3,729)	
Interest, accretion and financing fees on liabilities	(7,773)	(496)	(128)	(561)	(8,958)	
Other (expenses) income	-	(5,061)	(424)	(6,595)	(12,080)	
Earnings (loss) before taxes, non-controlling interests and equity losses	\$ 47,225	\$ 3,236	\$ 645	\$ (8,103)	\$ 43,003	
Capital expenditures	\$ 6,615	\$ 2,707	\$ 8,821	\$ 71	\$ 18,214	
Total assets	\$ 629,654	\$ 103,433	\$ 59,026	\$ 43,998	\$ 836,111	

	Nine months ended December 31, 2008					Total
	Canadian Operations	US Operations	UK Operations	Corporate and other		
Revenues	\$ 474,409	\$ -	\$ -	\$ -	\$ 474,409	
Income from mining operations	229,036	-	-	-	229,036	
Coal exploration and other mine costs	(5,224)	-	-	-	(5,224)	
Interest, accretion and financing fees on liabilities	(19,535)	-	-	-	(19,535)	
Other (expenses) income	-	-	-	(8,429)	(8,429)	
Earnings (loss) before taxes, non-controlling interests and equity losses	\$ 204,277	\$ -	\$ -	\$ (8,429)	\$ 195,848	
Capital expenditures	\$ 50,029	\$ -	\$ -	\$ 355	\$ 50,384	
Total assets	\$ 627,146	\$ -	\$ -	\$ 1,502	\$ 628,648	

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(Unaudited)

17. Subsequent Events

Subsequent to December 31, 2009, the Company entered into a series of forward exchange contracts to fix the rate at which future anticipated cash flows of US dollars are exchanged into Canadian dollars. Such contracts include forward sales of US dollars at an average rate of 1.0639, in the aggregate amount of US\$45,000,000 from May 2010 to the end of January 2011.