WESTERN COAL CORP.

Management's Discussion and Analysis

The following information, prepared as of February 8, 2010, should be read in conjunction with the unaudited interim consolidated financial statements of Western Coal Corp. (the "Company") for the three and nine month period ended December 31, 2009, as well as the audited consolidated financial statements for the year ended March 31, 2009, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated. The Company is listed under the symbol WTN on the Toronto Stock Exchange ("TSX") and the Alternative Investment Market of the London Stock Exchange ("AIM").

This discussion and analysis contains forward-looking statements. Please refer to the cautionary language on page 24.

Summary

Key operating points for the fiscal third quarter:

- Consolidated revenues of $118.7 million were 10% higher than fiscal second quarter 2010, partially due to 175,000 tonnes of coal sold at previous coal year prices
- Consolidated income from mining operations of $37.8 million or a margin of 32%
- Continued lower costs with Canadian operations cash costs (cost of product sold plus transportation costs) at $96 per tonne which was 4% lower than the previous quarter; US operations cash costs of US$66 per short ton or 7% lower than the previous quarter
- Approximately 260,000 tonnes of low volatile PCI and hard coking coal scheduled for shipment in December 2009 were delayed, due to the late arrival of two ships, to the first week of January 2010
- Commenced operations on a permit for Maple Coal surface mine which increases reserves of marketable tons to over 10 million short tons, which is a 67% increase in the Maple surface reserves

Other key points for the fiscal third quarter:

- Continued strong financial position with cash in the bank as at December 31, 2009 of $150.1 million or $55.5 million more than September 30, 2009
- Approved $23.9 million investment for six 250-tonne haul trucks and front-end loading equipment at the Wolverine mine. The new equipment, which is expected to arrive in Q1-2011 as the mines increase production rates, will replace eight 150-tonne trucks, which could be redeployed at Brule and Willow Creek. Overall productivity and costs should improve at the mines which will allow the Company to take advantage of the strengthening coal markets
- Sold AGD Mining Pty on November 30, 2009 for a gain of $7.0 million
- Commenced a share buy-back program on December 17, 2009. No shares have been purchased on this program as at the date of this release
- Participated in the Energybuild Group Plc fundraising which increased the Company's ownership to 55%. The funds were raised to grow Energybuild's operations
- Further strengthening of the Board with the appointment of Owen Ryan on December 7, 2009
- Appointment of Keith Calder as Director, President and Chief Executive Officer on December 1, 2009

Results of Operations (Unaudited)

On July 13, 2009, the Company completed the acquisition of Cambrian Mining Plc ("Cambrian"). 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	**Three months ended December 31, 2009**	Three months ended December 31, 2008	**Nine months ended December 31, 2009**	Nine months ended December 31, 2008
Financial Excerpts				
Revenues	**$ 118,662**	$ 176,561	**$ 301,997**	$ 474,409
Cost of goods sold	**80,912**	82,410	**234,227**	245,373
Income from mining operations	**37,750**	94,151	**67,770**	229,036
Other expenses	**6,908**	3,849	**24,767**	33,188
Net income	**24,030**	62,478	**29,604**	166,930
Earnings per share, basic	**$ 0.10**	$ 0.30	**$ 0.13**	$ 0.96
Earnings per share, diluted	**$ 0.09**	$ 0.29	**$ 0.13**	$ 0.84

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

Canadian Operations

In thousands of Canadian dollars unless otherwise noted		**Three months ended December 31, 2009**		Three months ended December 31, 2008		**Nine months ended December 31, 2009**		Nine months ended December 31, 2008
Financial Excerpts								
Revenues	**$**	**83,781**	$	176,561	**$**	**235,064**	$	474,409
Cost of goods sold		**49,946**		82,410		**176,337**		245,373
Income from mining operations	**$**	**33,835**	$	94,151	**$**	**58,727**	$	229,036
Production (tonnes):								
Hard coking coal		**354,000**		280,000		**1,040,000**		935,000
Low-vol PCI coal		**179,000**		329,000		**399,000**		885,000
Total Production		**533,000**		609,000		**1,439,000**		1,820,000
Sales (tonnes):								
Hard coking coal		**301,000**		318,000		**973,000**		949,000
Low-vol PCI coal		**146,000**		195,000		**527,000**		747,000
Total Sales		**447,000**		513,000		**1,500,000**		1,696,000
Per sales unit:								
Coal price realized	**$**	**187**	$	344	**$**	**157**	$	280
Coal price realized (USD)	**$**	**177**	$	279	**$**	**141**	$	255
Cost of goods sold								
Cost of product sold	*$*	*67*	*$*	*116*	*$*	*74*	*$*	*100*
Transportation and other	*$*	*29*	*$*	*30*	*$*	*29*	*$*	*32*
Depletion, amortization and accretion	*$*	*16*	*$*	*15*	*$*	*15*	*$*	*13*
	$	**112**	$	161	**$**	**118**	$	145

Comparing the Three Months Ended December 31, 2009 to the Three Months Ended December 31, 2008

The impact of the global economic recession has resulted in a 33% decrease in revenues from third quarter 2009 to third quarter 2010, which results from the decrease in sales price as well as a lower sales volume. 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. These lower sales prices in the quarter ended December 31, 2009 were offset by 175,000 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 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 December 31, 2009 was $1.06, compared to $1.23 in the comparable period in the prior year.

During the quarter ended December 31, 2009, ships scheduled to arrive in December 2009 did not arrive until early January 2010. This caused shipments of approximately 260,000 tonnes of ULV-PCI and hard coking coal scheduled for shipment in the fiscal third quarter to slip into the fiscal fourth quarter.

For the three month period ended December 31, 2009, total production was 76,000 tonnes lower than in the comparable period in the prior year due to a reduction in the production rates at the Canadian operations in response to the economic downturn.

Production of hard coking coal increased 74,000 tonnes when comparing the three month period ended December 31, 2009 to the three month period ended December 31, 2008.

Production of ULV-PCI coal from the Brule mine decreased 150,000 tonnes when comparing the three month period ended December 31, 2009 to the three month period ended December 31, 2008, which is a reflection of lower demand for the PCI product. Production at Brule in December 2009 was impacted by the removal of a gas pipeline. The removal of the pipeline, which was completed a month ahead of schedule, will extend the life and increase production rates at the mine.

The 31% decrease in the per unit costs of goods sold from $161 per tonne during the quarter ended December 31, 2008 compared to $112 per tonne during the current period is mainly attributable to the Wolverine mine. The Wolverine mine's per unit cost of goods sold decreased 42%, 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. 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 5% in fiscal third quarter 2010 as compared to the same quarter in 2009.

Comparing the Nine Months Ended December 31, 2009 to the Nine Months Ended December 31, 2008

The primary reason for the decrease in revenues over the prior comparable period is the decrease in the sales price as discussed above and a 12% lower sales volume. The average US dollar/Canadian dollar exchange rate for the nine month period ended December 31, 2009 was consistent at $1.11 compared to $1.10 in the comparable period in the prior year.

For the nine month period ended December 31, 2009, total production was 381,000 tonnes lower than in the comparable period in the prior year.

Production of hard coking coal increased 105,000 tonnes when comparing the nine month period ended December 31, 2009 to the nine month period ended December 31, 2008 as discussed above.

Production of ULV-PCI coal from the Brule mine decreased 486,000 tonnes when comparing the nine month period ended December 31, 2009 to the nine month period ended December 31, 2008. The Company ceased its coal mining and hauling activities at the Brule mine in mid-March 2009 due to a build-up of inventory, resulting from 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 and is in a good position to respond to the recent upturn in the economy.

The 19% decrease in the per unit costs of goods sold to $118 per tonne during the nine month period ended December 31, 2009 compared to $145 per tonne during the prior comparable period is mainly attributable to the Wolverine mine which had 31% lower per unit cost of goods sold, which is a result of the factors discussed above. The Brule mine unit costs increased 5% for the nine month period ending December 31, 2009 when compared to the same period in 2008. The increase is primarily due to Brule concentrating on stripping waste in the first quarter of fiscal 2010.

US Operations

In thousands of Canadian dollars unless otherwise noted	**Three months ended December 31, 2009**	Three months ended December 31, 2008	**Nine months ended December 31, 2009**	Nine months ended December 31, 2008
Financial Excerpts				
Revenues	**$ 29,821**	$ -	**$ 57,159**	$ -
Cost of goods sold	**25,933**	-	**48,366**	-
Income from mining operations	**$ 3,888**	-	**$ 8,793**	-
Production (short tons*):				
Metallurgical coal	**120,000**	-	**222,000**	-
Thermal coal	**243,000**	-	**445,000**	-
Total Production	**363,000**	-	**667,000**	-
Sales (short tons*):				
Metallurgical coal	**114,000**	-	**209,000**	-
Thermal coal	**232,000**	-	**414,000**	-
Total Sales	**346,000**	-	**623,000**	-
Per sales unit:				
Coal price realized	**$ 86**	$ -	**$ 92**	$ -
Coal price realized (USD)	**$ 80**	$ -	**$ 85**	$ -
Cost of goods sold	**$ 75**	$ -	**$ 78**	$ -

1 short ton = 0.907 tonnes

Results for the Three Months Ended December 31, 2009

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

Revenues for the three month period ended December 31, 2009 reflect the sale of 346,000 short tons at a realized price of $86 per short ton or US$80 per short ton reflecting a foreign exchange rate of 1.075. Shipments in fiscal third quarter 2010 were 25% higher than in fiscal second quarter 2010, which is a reflection of improving market conditions. Sales prices were 13% 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 for the three months ended December 31, 2009 reflect a unit cost of $75 per short ton. Cost of goods sold, excluding depletion, amortization and accretion was $66 per short ton which is in line with the expected cash production costs and 7% lower than costs in fiscal second quarter 2010.

During the current quarter, the Company commenced operations under a valley fill permit at the Maple coal property. The permit will increase the marketable reserves on the property to over 10,000,000 short tons of high quality thermal coal, which is a 67% increase in the Maple surface reserves. This permit will extend the life of the surface mine at Maple by ten years and employ over seventy people.

Results for the Nine Months Ended December 31, 2009

Revenues from July 14, 2009 to December 31, 2009 reflect the sale of 623,000 short tons at a realized price of $92 per short ton or US$85 per short ton. 88% of sales were to customers in the US with the majority of the balance sold into Europe.

Cost of goods sold for the same period reflects a unit cost of $78 per short ton. Cost of goods sold, excluding depletion, amortization and accretion was $68 per short ton which is in line with the expected cash production costs.

UK Operations

In thousands of Canadian dollars unless otherwise noted	**Three months ended December 31, 2009**	Three months ended December 31, 2008	**Nine months ended December 31, 2009**	Nine months ended December 31, 2008
Financial Excerpts				
Revenues	**$ 4,076**	$ -	**$ 7,120**	$ -
Cost of goods sold	**3,142**	-	**5,923**	-
Income from mining operations	**$ 934**	-	**$ 1,197**	-
Production (tonnes):	**44,000**	-	**73,000**	-
Sales (tonnes):	**42,000**	-	**73,000**	-
Per sales unit:				
Coal price realized	**$ 97**	$ -	**$ 98**	$ -
Coal price realized (£)	**£ 55**	£ -	**£ 55**	£ -
Cost of goods sold	**$ 75**	$ -	**$ 81**	$ -

Results for the Three Months Ended December 31, 2009

On July 13, 2009, 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 its 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 to approximately 750,000 tonnes per year.

Revenues for the three month period ended December 31, 2009 reflect the sale of 42,000 tonnes at a realized price of $97 per tonne or £55 per tonne. The price realized is consistent with the price in fiscal second quarter 2010.

Cost of goods sold for the three months ended December 31, 2009 reflect a unit cost of $75 per tonne, which is 17% lower than costs in fiscal second quarter 2010.

Results for the Nine Months Ended December 31, 2009

Revenues for the nine month period ended December 31, 2009 reflect the sale of 73,000 tonnes at a realized price of $98 per tonne or £55 per tonne.

Cost of goods sold for the nine months ended December 31, 2009 reflect a unit cost of $81 per tonne.

AGD Mining Pty Ltd.

In thousands of Canadian dollars unless otherwise noted	**Three months ended December 31, 2009**	Three months ended December 31, 2008	**Nine months ended December 31, 2009**	Nine months ended December 31, 2008
Financial Excerpts				
Revenues	**$ 984**	$ -	**$ 2,654**	$ -
Cost of goods sold	**1,891**	-	**3,601**	-
Income from mining operations	**(907)**	-	**(947)**	-

On July 13, 2009, the Company acquired the Costerfield gold and antimony mine based in Victoria, Australia, owned by AGD Mining Pty, Ltd, a wholly owned subsidiary 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 three and nine months ended December 31, 2009 include the following:

In thousands of Canadian dollars unless otherwise noted	**Three months ended December 31, 2009**	Three months ended December 31, 2008	**Nine months ended December 31, 2009**	Nine months ended December 31, 2008
General and administration	**$ 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)	**(9,711)**	(8,907)	**(16,595)**	(9,631)
Total other expenses	**$ 6,908**	$ 3,849	**$ 24,767**	$ 33,188

General and Administration

For the three month period ended December 31, 2009, general and administration costs have increased $4,924,000, or 117%, over the prior comparable period. Of this increase, $2,362,000 relates to costs of the Cambrian group, which was acquired July 13, 2009. The largest portion of these costs relate to salaries, benefits and other remuneration ($1,381,000). The Company is continuing to review the integration of Cambrian to reduce general and administration costs in the future. During the three month period, there was also an increase in stock based compensation of $2,321,000 which resulted from stock options that were issued during the third quarter of fiscal 2010.

For the nine months ended December 31, 2009, general and administration costs have increased $6,458,000 or 44% over the prior comparable period. Of this increase, $5,280,000 relates to the Cambrian costs discussed above. During the nine month period, there was also an increase in stock based compensation of $4,264,000 as a result of stock options that were issued during this period. These increases are partially offset by a decrease in consulting costs during the nine month period ended December 31, 2009.

Sales and Marketing

For the three and nine month periods ended December 31, 2009, sales and marketing costs have increased $2,081,000 or 157% and $4,157,000 or 119%, respectively, over the prior comparable periods. Of these increases, $2,105,000 and $4,526,000, respectively relate to sales and marketing costs of the US operations, which is based on a percentage of sales. These costs are expected to continue on a go forward basis. This increase was partially offset by a decrease in the sales and marketing costs at the Canadian operations as a result of lower sales prices.

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 three month period ended December 31, 2009, decreased to $1,369,000 from $4,276,000 in the comparable period in the prior year. For the nine month period ended December 31, 2009, these costs decreased to $3,729,000 from $5,224,000 in the comparable period in the prior year. These decreases are 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. 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 three month period ended December 31, 2009, interest, accretion and financing fees on liabilities were $2,713,000 compared to $2,948,000 for the three month period ended December 31, 2008. For the nine month period ended December 31, 2009, interest, accretion and financing fees on liabilities were $8,958,000 compared to $19,535,000 for the prior comparable period. These decreases are 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	**Three months ended December 31, 2009**	Three months ended December 31, 2008	**Nine months ended December 31, 2009**	Nine months ended December 31, 2008
Net foreign exchange (gains) losses	**$ (8,979)**	$ (5,127)	**$ 7,341**	$ (4,950)
Unrealized loss (gain) 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 expense (income)	**1,804**	(449)	**(1,709)**	(1,011)
Other (income) expense	**(412)**	72	**(444)**	(267)
	$(9,711)	$(8,907)	**$ (16,595)**	$ (9,631)

For the three and nine month periods ended December 31, 2009, the Company realized net foreign exchange gains of $8,979,000 and net foreign exchange losses of $7,341,000, respectively, as a result of losses from the strengthening of the Canadian dollar compared to the US dollar offset by gains realized on its foreign currency contracts. The unrealized loss (gain) on forward exchange contracts for the three and nine month periods ended December 31, 2009 relates to the Company's outstanding foreign currency contracts. 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 nine months ended December 31, 2009.

Non-Controlling Interests

For the three and nine month periods ended December 31, 2009, the Company recognized non-controlling interest loss and gain of $111,000 and $86,000 respectively which relates to the remaining 45.3% interest in Energybuild not owned by the Company.

Equity Earnings

For the three and nine month periods ended December 31, 2009, the Company recognized equity earnings of $1,042,000 and $870,000, respectively, which reflect an estimate of the Company's share of the net income of Xtract Energy Plc ("Xtract"). During these periods, Xtract recorded gains relating to disposals of some of its investments.

Net Income

Net income for the three month period ended December 31, 2009 was $24,030,000 compared to $62,478,000 for the comparable period in the prior year. The current period's net income reflects: an income from mining operations of $37,750,000; other expenses totalling $6,908,000; non-controlling interest loss of $111,000; equity earnings of $1,042,000; and an income tax expense of $7,743,000.

Net income for the nine month period ended December 31, 2009 was $29,604,000 compared to $166,930,000 for the comparable period in the prior year. The current period's net income reflects: an income from mining operations of $67,770,000; other expenses totalling $24,767,000; non-controlling interest income of $86,000; equity earnings of $870,000; and an income tax expense of $14,355,000.

The major impact on the net income for the three and nine month periods ended December 31, 2009 was the lower sales prices realized in fiscal 2010 compared to fiscal 2009.

Market Outlook

Canadian Operations

Through the year, the Company has seen a strong recovery in the demand for its metallurgical coal products, resulting from renewed strength in the steel sector worldwide. In China specifically, imports of coking coal in 2009 reached 35 million tonnes, up from 7 million tonnes in 2008. Outside of China, capacity utilization in the steel industry is fast approaching the levels seen prior to the economic slump, which bodes well for metallurgical coal demand as the industry readies itself for Coal Year 2010 (FY 2011) price negotiations.

In the longer term, the market fundamentals for metallurgical coal are expected to remain strong, which will provide continued opportunity for the Company. The Company's Wolverine hard coking coal forms a key blend component with many of the world's leading steel mills, while the Brule mine ULV-PCI coal is consistently ranked among the top PCI coals worldwide. These high quality coals, in conjunction with highly efficient 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 increased demand for metallurgical quality coals has also benefitted the Company's West Virginia operations. 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 the Maple mine, production capacity is being reviewed in an attempt to meet the increased demand.

UK Operations

In Wales, where the Company has a 54.7% interest in Energybuild, considerable interest is being expressed in the Aberpergwm anthracite product for use in the steel sector. Energybuild's major customers are an energy plant and steel mill within 25 miles of the mine. Both of these customers are importing almost all of their thermal and PCI coal. This captive market provides a competitive advantage for Energybuild. Energybuild, with its recent fundraising will be increasing production to meet its customer's needs.

Guidance

Canadian Operations

For the remaining three months of fiscal 2010, the Company expects to produce between 600,000 and 700,000 tonnes of metallurgical coal from its two operating mines in Canada. This consists of the Wolverine operations producing 400,000 to 450,000 tonnes of hard coking coal and the Brule mine producing 200,000 to 250,000 tonnes of ULV-PCI coal.

The Company expects to ship between 850,000 and 950,000 tonnes of metallurgical coal in the remaining three months of fiscal 2010, which will consist of 550,000 to 600,000 tonnes of hard coking coal and 300,000 to 350,000 tonnes of ULV-PCI. The expected ULV-PCI sales reflect a drawdown of inventory stockpiles. This guidance is dependent upon the continued demand from the Company's customers, clean coal production at the mines, rail service and vessel arrivals.

All of the Company's fiscal 2010 coal production from its Canadian operations is under contract for sale to international steel producers. Contracted prices for fiscal 2010 are approximately US$126 per tonne for hard coking coal and US$90 per tonne for its ULV-PCI coal. Coal deliveries during fiscal 2010 included certain quantities of fiscal 2009 carryover tonnages at fiscal 2009 prices. As at December 31, 2009 all carryover coal has been shipped.

Expected cash cost of production (FOB) at the Canadian operations is $95 to $100 per tonne for the remainder of fiscal 2010, which would reflect the sixth consecutive quarter of decreasing costs.

The Company has entered into foreign currency contracts totaling US$184,400,000 at December 31, 2009 to help manage the uncertainty of foreign exchange fluctuations in the market. The contracts mature each month through to October 2010. They are at an average rate of C$1.1087 per US$1.00. 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.

US Operations

The Company expects to produce and sell for the remaining three months of fiscal 2010 approximately 365,000 short tons of coals from its mines in West Virginia. This consists of 260,000 short tons of thermal coal and 105,000 short tons of coking coal.

For the remainder of fiscal 2010 average cash production costs at the US operations are expected to be approximately US$69 to US$74 per short ton with expected average coal sales price realizations of approximately US$78 to US$83 per short ton.

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.

Summary of Quarterly Results *(unaudited)*

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

	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Total Revenues	$118,662	$107,637	$75,698	$111,684	$176,561	$167,455	$130,393	$75,291
Net Income (Loss)	$24,030	$2,186	$3,388	$47,602	$62,478	$44,747	$59,705	$(37,801)
Net Income (loss) per share – Basic	$0.10	$0.01	$0.02	$0.23	$0.30	$0.26	$0.42	$(0.33)
Net Income(loss) per share – Diluted	$0.09	$0.01	$0.02	$0.23	$0.29	$0.24	$0.27	$(0.33)
Total Assets	$832,884	$790,853	$651,962	$662,337	$628,648	$543,716	$532,017	$453,324

Fluctuations in quarterly results reflect the volumes and timing of coal shipments, the net price realized in US dollars on such sales, the US/Canadian dollar exchange rate, and 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 reflects 175,000 tonnes of carry-over tonnage sold during the quarter.

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.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the nine month period ended December 31, 2009 resulted in a net increase to cash of $75,293,000. As at December 31, 2009, the Company's cash balance was $150,146,000, working capital was $146,317,000 and the Company had full access to its $30,000,000 revolving term credit facility.

For the nine month period ended December 31, 2009, the Company generated positive cash flow of $96,968,000 on sales of $301,997,000, while for the nine month period ended December 31, 2008, the Company generated cash flow of $251,121,000 from sales of $474,409,000. 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*" in the Company's MD&A for the year ended March 31, 2009.

Operating Activities

For the nine month period ended December 31, 2009, the Company generated $77,232,000 from operating activities compared to $153,537,000 in the same period in the prior year. Cash flows from operating activities before changes in non-cash working capital items for the nine month periods ended December 31, 2009 and 2008 were $59,945,000 and $206,532,000, respectively. The decrease reflects the lower sales price realized for the nine month period ended December 31, 2009. Changes in non-cash working capital items for the nine month period ended December 31, 2009 was $17,287,000 compared to the $52,995,000 consumed for the comparable period in the prior year. The significant change in non-cash working capital during the nine month period ended December 31, 2009 reflects the lower sales price during the period and its related impact on receivable balances.

Financing Activities

Capital leases

During the nine month period ended December 31, 2009, the Company made repayments on capital lease obligations of $13,095,000 as compared to 2008 repayments of $10,438,000 and entered into capital leases for proceeds of $1,003,000 during the nine month period ended December 31, 2009.

Long-term debt

During the nine month period ended December 31, 2009, the Company made repayments on long-term debt of $3,490,000 as compared to 2008 repayments of $27,918,000. During 2008, the Company had a debt facility, which was repaid in full during the period. During the nine month period ended December 31, 2009, the Company raised an additional $636,000 from the issuance of long-term debt which was raised to acquire new equipment.

Convertible loan notes

During the nine month period ended December 31, 2009, 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 nine month period ended December 31, 2009, the non-controlling interest of Energybuild, representing shareholders other than the Company, contributed $9,607,000.

Equity issuance

During the nine month period ended December 31, 2009, $1,824,000 and $549,000 were raised pursuant to the exercise of 2,431,883 warrants and 246,200 stock options, respectively.

On August 19, 2009, the Company raised $55,889,000, 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 2008.

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.

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.

Investing Activities

Capital expenditures

During the nine month period ended December 31, 2009, mineral property, plant and equipment, net of accumulated depletion and amortization, increased to $515,193,000 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 $127,086,000.

For the nine month period ended December 31, 2009, capital expenditures of $18,214,000 were incurred of which $6,615,000 related to the Canadian coal operations, $2,707,000 for US coal operations, $8,821,000 for UK coal operations and $71,000 related to corporate activities.

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.

Deposits

During the nine month period ended December 31, 2009, additional reclamation deposits of $1,679,000 were made in conjunction with new permits as compared to $7,148,000 in 2008.

Deferred transaction costs

During the nine month period ended December 31, 2009, $4,975,000 in deferred transactions costs were incurred in relation to the acquisition of Cambrian. The Company also acquired $4,427,000 of cash and cash equivalents as part of the Cambrian acquisition.

Off-Balance Sheet Arrangements

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

Related Party Transactions

During the nine month period ended December 31, 2009, the Company paid fees totaling $161,000 to companies related to the Company through directors in common or officers of the Company.

During the nine month period ended December 31, 2009, 2,431,883 warrants with an exercise 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.

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.

On November 30, 2009, the Company completed the sale of AGD to Mandalay. The Chairman of the Company is the Chairman and President of Mandalay and another director is a common director.

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 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.

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 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.

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.

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.

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.

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 the Cambrian from July 14, 2009.

The following are summaries of the major operations that were acquired by the Company:

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 nearly 2,000,000 short tons ("ton") per year (1 ton = 0.907 tonnes). The underground mine produces metallurgical coal sold to international and domestic steel makers. The surface mine produces thermal coal sold to energy 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 450 tons 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 nearly 1,500,000 tons per year of thermal and metallurgical coal. The underground mine produces metallurgical coal sold to domestic 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 550 tons per hour of raw feed.

Energybuild Group Plc

The Company previously owned 50.6% of Energybuild Group Plc (as at December 31, 2009, it owns 54.7%), 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.

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%.

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 operates a metallurgical coal mine in northeast BC and also owns other development properties in the region, including 50% of the Belcourt-Saxon partnership with the Company.

Other Non-Core Assets

Xtract Energy Plc

The Company originally owned approximately 45% of Xtract (as at December 31, 2009, it is 41.9%), which is listed on the AIM as "XTR". Xtract 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.

Dilution - Xtract Energy Plc

On December 18, 2009, a third party participated in a placing of common shares of Xtract which raised £1.2 million. The Company's ownership position, formerly 45.3%, was reduced to 41.9%. 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 loss of $0.1 million.

AGD Mining Pty Ltd

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 46.7% 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 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 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 these investors, some of whom are related parties, 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 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 fair valued at the end of each financial reporting period with changes in fair value flowing through the income statement.

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.

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.

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.

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, 2009. 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, tax provisions and future tax balances, asset retirement obligations, convertible debentures and royalty and other liabilities. Refer to the Annual MD&A for a description of critical accounting estimates affecting the Company's consolidated financial statements.

Financial Instruments

The Company has entered into a series of forward exchange contracts to fix the rate at which future anticipated cash flows of US dollars are exchanged into Canadian dollars. As at December 31, 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. 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.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. Issued and outstanding shares include 323,546,816 common shares as at February 8, 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. Outstanding options and warrants as at February 8, 2010 are as follows:

Security	Number	Exercise price	Expiry date
Stock Options	470,000	$5.40	July 28, 2010
Stock Options	60,000	$6.10	July 28, 2010
Stock Options	180,000	$6.20	July 28, 2010
Stock Options	490,000	$2.26	September 7, 2011
Stock Options	190,000	$1.95	November 11, 2011
Stock Options	584,000	$2.02	March 5, 2012
Stock Options	500,000	$2.25	November 30, 2012
Stock Options	570,000	$2.53	February 20, 2013
Stock Options	2,561,200	$3.37	March 28, 2013
Stock Options	50,000	$1.80	October 30, 2013
Stock Options	50,000	$0.62	March 19, 2014
Stock Options	2,383,800	$1.95	June 24, 2014
Stock Options	150,000	$2.64	November 18, 2014
Stock Options	3,000,000	$2.68	November 18, 2014
Stock Options	190,000	$2.35	December 4, 2014
Stock Options	150,000	$3.75	January 4, 2015
Warrants	1,808,117	$0.75	November 30, 2010
Warrants	3,295,345	$3.25	June 28, 2012

For those Cambrian options outstanding at the time of close of the Cambrian acquisition, 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 1 Cambrian share, which the option holder is entitled to under the terms of the option. Outstanding Company shares issuable upon exercise of the Cambrian options as at February 8, 2010 are as follows:

Security	Number	Exercise price*	Expiry date
Stock Options	131,250	$3.63	July 31, 2010
Stock Options	506,250	$5.89	July 31, 2012
Stock Options	196,155	$2.07	November 30, 2017

*The exercise prices of the Cambrian stock options are denominated in the Canadian dollar equivalent based on the UK pound sterling foreign exchange closing rate on December 31, 2009.

At any time prior to the maturity of the remaining 41,938 Convertible Debentures due March 24, 2011, 10,484,500 common shares are issuable at a conversion price of $4.00 per common share.

Internal Control over Financial Reporting

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

During the nine month period ended December 31, 2009, 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. The Company is in the process of evaluating the design and effectiveness of internal control over financial reporting of this newly acquired group of companies.
- 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 in the annual management discussion and analysis for the year ended March 31, 2009.

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 superceded by subsequent events of filings.