

WESTERN CANADIAN COAL CORP.

Consolidated Financial Statements

For the Six Months Ended September 30, 2004

(Prepared without Audit)

WESTERN CANADIAN COAL CORP.

Consolidated Balance Sheets

(Prepared without audit)

	September 30, 2004	March 31, 2004
Assets		
Current Assets		
Cash and cash equivalents	\$ 7,634,470	\$ 96,619
Accounts receivable	356,996	137,160
Prepaid expenses	17,768	13,777
	<hr/> 8,009,234	<hr/> 247,556
Deposits (note 3)	1,182,439	170,815
Deferred Financing Costs (note 4(c))	1,625,085	-
Capital Assets	291,815	34,877
Coal Properties	262,249	262,249
Deferred Exploration and Development Expenditures	13,246,305	7,507,445
	<hr/> \$ 24,617,127	<hr/> \$ 8,222,942
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 4(c))	\$ 3,370,393	\$ 1,582,937
Advances from related parties	-	-
	<hr/> 3,370,393	<hr/> 1,582,937
Asset Retirement Obligations (note 5)	356,869	-
Share Subscriptions Received	-	314,117
	<hr/> 3,727,262	<hr/> 1,897,054
Share Capital and Deficit		
Share Capital (note 4)	26,477,022	10,530,702
Contributed Surplus	946,291	171,358
Broker Warrants	290,557	-
Deficit	(6,824,005)	(4,376,172)
	<hr/> 20,889,865	<hr/> 6,325,888
	<hr/> \$ 24,617,127	<hr/> \$ 8,222,942

Approved by the Directors

"Gordon Bub"
Director*"Gary Livingstone"*
Director

WESTERN CANADIAN COAL CORP.**Consolidated Statements of Operations and Deficit**

(Prepared without audit)

	Three months ended		Six months ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Revenue				
Interest income	\$ 29,378	\$ 101	\$ 38,128	\$ 257
Expenses				
AIM listing expenses	167,658	-	167,658	-
Amortization	16,104	3,464	21,261	6,929
Annual report	23,066	11,895	25,566	11,895
Consulting	65,691	47,156	134,258	101,711
Directors' fees and expenses	31,930	34,366	150,129	62,640
Donations	3,500	-	4,300	-
Financing fees	-	-	-	25,000
Interest and bank charges	552	280	1,025	512
Investor relations	11,100	5,124	11,100	10,580
Legal, accounting and professional	61,782	17,237	164,714	62,525
Licenses, dues and fees	14,665	4,732	15,576	13,420
Management fees	24,425	121,500	157,770	203,500
Office and sundry	76,227	9,298	117,485	17,443
Rent	28,923	21,370	53,738	44,368
Salaries and benefits	295,237	-	380,202	-
Shareholder communications	(17,952)	-	2,451	-
Stock-based compensation	406,245	-	795,763	-
Telephone	19,324	2,701	22,453	5,310
Training and seminars	-	-	1,350	-
Transfer agent and regulatory	(246,637)	12,501	80,320	12,099
Travel and entertainment	115,869	50,962	178,842	173,395
	1,097,709	342,616	2,485,961	751,395
Net loss for the period	(1,068,331)	(342,515)	(2,447,833)	(751,138)
Deficit at beginning of period	(5,755,674)	(3,047,524)	(4,376,172)	(2,638,901)
Deficit at end of period	\$ (6,824,005)	\$ (3,390,039)	\$ (6,824,005)	\$ (3,390,039)
Loss per share	\$ (0.03)	\$ (0.02)	\$ (0.07)	\$ (0.03)
Weighted average number of shares outstanding	40,531,309	21,532,299	36,897,333	21,510,633

WESTERN CANADIAN COAL CORP.

Consolidated Cash Flow Statements

(Prepared without audit)

	Three months ended		Six months ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Cash flows from operating activities				
Net loss	\$ (1,068,331)	\$ (342,515)	\$ (2,447,833)	\$ (751,138)
Amortization	16,104	3,464	21,261	6,929
Stock-based compensation	406,245	-	795,763	-
	(645,982)	(339,051)	(1,630,809)	(744,209)
Changes in non-cash working capital				
Accounts receivable	(169,593)	(852)	(219,836)	39,439
Prepaid expenses	(916)	-	(3,991)	-
Accounts payable and accrued liabilities	2,241,074	(622,861)	1,787,456	(202,601)
	1,424,583	(962,764)	(67,180)	(907,371)
Cash flows from financing activities				
Subscriptions received	-	255,190	-	255,190
Repayment of advances	-	(240,000)	-	(30,000)
Advanced from related parties	(200,000)	-	-	-
Deferred financing costs	(1,625,085)	-	(1,625,085)	-
Net proceeds from issue of shares	4,818,500	1,202,500	15,901,930	1,202,500
	2,993,415	1,217,690	14,276,845	1,427,690
Cash flows from investing activities				
Capital assets	(247,130)	-	(278,199)	-
Deposits on plant and equipment	(525,218)	-	(1,011,624)	-
Asset retirement obligations	356,869	-	356,869	-
Deferred exploration and development expenditures	(4,053,170)	(103,296)	(5,738,860)	(343,018)
	(4,468,649)	(103,296)	(6,671,814)	(343,018)
Increase (decrease) in cash and cash equivalents	(50,651)	151,630	7,537,851	177,301
Cash and cash equivalents at beginning of period	7,685,121	60,360	96,619	34,689
Cash and cash equivalents at end of period	\$ 7,634,470	\$ 211,990	\$ 7,634,470	\$ 211,990
Supplemental non-cash financing Information:				
Common shares issued to settle subscriptions	\$ -	\$ -	\$ 314,117	\$ -
Broker warrants issued for financing costs	-	-	290,557	-

WESTERN CANADIAN COAL CORP.**Consolidated Statement of Deferred Exploration and Development Expenditures**

(Prepared without audit)

For the six months ended September 30, 2004

	Belcourt	Wolverine	Brazion Group	Burnt River	Other	Total
Expenditures						
Balance March 31, 2003	\$ 521,285	\$ 3,063,373	\$ 430,223	\$ 982,164	\$ 34,040	\$ 5,031,085
Field programs	-	444,409	-	377,968	-	822,377
Consultants	-	1,107,747	-	70,269	-	1,178,016
Coal licenses	195,345	51,930	74,324	35,656	5,675	362,930
Laboratory	-	116,615	-	11,777	-	128,392
Mining exploration tax credit	-	(148,020)	(35,134)	(53,436)	-	(236,590)
Project administration	-	206,390	-	8,109	-	214,499
Public relations/First nations	-	3,918	-	2,818	-	6,736
	195,345	1,782,989	39,190	453,161	5,675	2,476,360
Balance March 31, 2004	717,630	4,846,362	469,413	1,435,325	39,715	7,507,445
Field programs	-	389,273	-	380,308	29,764	785,761
Consultants	5,828	380,153	-	359,053	34,329	792,948
Coal licenses	18,460	52,452	44,074	35,110	-	150,096
Drilling	-	395,310	-	173,989	-	569,298
Engineering	-	622,201	-	52,758	19,000	693,959
Laboratory	-	9,831	-	2,950	-	12,781
Mining exploration tax credit	-	(59,991)	-	(35,233)	-	(95,223)
Project administration	-	1,248,759	-	1,122,191	-	2,414,173
Public relations/First nations	-	30,285	-	27,913	-	58,198
Reclamation obligation	-	-	-	356,869	-	356,869
	24,288	3,068,273	44,074	2,475,908	126,317	5,738,860
Balance September 30, 2004	\$ 740,918	\$ 7,914,635	\$ 513,487	\$ 3,911,233	\$ 166,032	\$ 13,246,305
Non-producing properties	740,918	7,914,635	513,487	-	166,032	9,335,072
Producing properties	-	-	-	3,911,233	-	3,911,233
Accumulated amortization	-	-	-	-	-	-
Balance September 30, 2004	\$ 740,918	\$ 7,914,635	\$ 513,487	\$ 3,911,233	\$ 166,032	\$ 13,246,305

**Notes to Consolidated Financial Statements
For the Six Months Ended September 30, 2004**

(Prepared without audit)

1. Nature of operations

Western Canadian Coal Corp. (“the Company”) was incorporated in the Province of British Columbia and is primarily engaged in the acquisition, exploration and development of coal mining properties throughout British Columbia. The Company is listed on the TSX Venture Exchange and, as of October 7, 2004, on the Alternative Investment Market of the London Stock Exchange (“AIM”) (see note 9(a)).

The Company is considered a development stage company as planned principle operations have not commenced and the Company is devoting most of its efforts to raising capital, exploring and developing its coal properties, and acquiring equipment or other operating assets. The exploration activities of the Company have been funded primarily by the issuance of share capital.

During the six months ended September 30, 2004, the Company submitted an application for a small mine permit for the production of up to 240,000 tonnes per calendar year of pulverized coal injection (PCI) coal from the Dillon mine, located within its Burnt River property in Northeast British Columbia. Approval for such permit was granted by the BC government on September 9, 2004. The mine is currently being prepared for the commencement of coal extraction, expected in November 2004, and conditional upon the finalization of the rail and port terminal contracts, trial shipments of PCI coal have been scheduled to commence in early January 2005 to two large steel producers with which the Company expects to secure long-term supply contracts.

These financial statements have been prepared on the basis of accounting principles applicable to a going-concern, which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has not earned significant revenue.

2. Significant accounting policies

These consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“GAAP”), using the same accounting policies and methods as per the annual financial statements for the year ended March 31, 2004. Except as follows:

Asset retirement obligations

Effective with the quarter ended September 30, 2004, the Company adopted the provision of CICA Handbook Section 3110 for asset retirement obligations in relation to future mine site reclamation and closure costs. This standard focuses on the recognition, measurement and disclosure of legal obligations and costs associated with the retirement of long-lived capital assets that result from the acquisition, construction, development or normal operation of those assets.

WESTERN CANADIAN COAL CORP.**Notes to Consolidated Financial Statements
For the Six Months Ended September 30, 2004**

(Prepared without audit)

2. Significant accounting policies (cont'd)

Under this standard, the Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The liability is measured at fair value and is adjusted to its present value in subsequent periods as accretion expense is recorded. The fair value of the estimated asset retirement costs is capitalized as part of the carrying amount of the long-lived asset when incurred and amortized to earnings over the asset's estimated useful life.

Accounting Principles

Except as disclosed in note 8, these consolidated financial statements conform in all material respects with International Accounting Standards ("IAS"). These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the Company's latest annual report.

3. Deposits

During the six-month period ended September 30, 2004 the Company made additional payments of \$882,359 as deposits against the purchase of certain used plant and equipment, as well as payments of \$142,000 representing security deposits required by the BC government for the purpose of settling asset retirement obligations with the issuance of the Dillon small mine permit.

4. Share capital

	Common Shares	Amount
Balance at March 31, 2004	29,787,363	\$ 10,530,702
For cash from private placements of units (net of issue costs of \$879,293) (b)	9,500,000	10,620,707
For cash from private placements of shares (c)	2,685,714	4,700,000
For cash received from the exercise of warrants	923,666	458,283
For cash received from the exercise of stock options	410,000	146,500
Reclassification required due to exercise of stock options	-	20,830
Balance at September 30, 2004	43,306,743	\$ 26,477,022

Notes to Consolidated Financial Statements
For the Six Months Ended September 30, 2004
(Prepared without audit)

4. Share capital (continued)

- (a) On March 29, 2004, the British Columbia Legislature enacted the *Business Corporations Act* (the "New Act") and repealed the *Company Act*, which previously governed the Company. All pre-existing British Columbia companies are required to adopt the *New Act*. Accordingly, during the six months ended September 30, 2004, the Company transitioned to the *New Act*, and in connection with such transition, sought and received approval to change the maximum number of common shares of the Company that the Company is authorized to issue from 100,000,000 common shares without par value to an unlimited number of common shares without par value.
- (b) On April 15, 2004, the Company completed a non-brokered private placement of 1,500,000 units at \$1.00 per unit for gross proceeds of \$1,500,000. Each unit consists of one common share and one-half warrant. Each whole warrant entitles the holder thereof to purchase one additional share of the Company at a price of \$1.00 per share until the first anniversary of the closing date, expiring thereafter.

On June 16, 2004, the Company completed a brokered private placement of 4,800,000 subscription receipts at a price of \$1.25 per subscription receipt and 3,200,000 units at \$1.25 per unit for aggregate gross proceeds of \$10,000,000. On closing, each subscription receipt converted into a unit. Each unit consists of one common share and one-half warrant. Each whole warrant entitles the holder thereof to purchase one additional share of the Company at a price of \$1.50 per share until the second anniversary of the closing date, expiring thereafter. In connection with the offering the Company paid the agent a cash fee of \$480,000 and issued to the agent 384,000 agent's warrants. Each agent's warrant entitles the holder thereof to purchase one common share of the Company at an exercise price of \$1.25 per share until June 16, 2006, thereafter expiring. The value of \$290,557 has been attributed to these broker warrants based on the Black-Scholes pricing model and has been credited to broker warrants within share capital.

- (c) In connection with its application for admission to trading on AIM, the Company arranged two concurrent private placement financings, including a non-brokered private placement of 8,399,999 shares of the Company at a price of \$1.75 per share for total proceeds of \$14,699,998 and a brokered private placement of 3,028,572 shares at a price of \$1.75 per share for total proceeds of \$5,300,001. As part of the non-brokered private placement, the Company's major shareholder, Cambrian Mining Plc ("Cambrian") of London, UK, subscribed for 5,714,285 shares for total proceeds of \$9,999,999.

As at September 30, 2004, only \$4,700,000 of the non-brokered private placement had closed. Subsequent to quarter-end, on October 7, 2004, \$15,300,000 of the private placements closed, including \$9,999,999 of the non-brokered private placement subscribed for by Cambrian and the full \$5,300,001 brokered private placement. As a result, as of September 30, 2004, only 2,685,714 shares are shown as issued and outstanding in connection with these financings.

**Notes to Consolidated Financial Statements
For the Six Months Ended September 30, 2004**

(Prepared without audit)

In connection with the brokered private placement, broker's fees payable include a commission of 4.5% of the gross proceeds received from the brokered private placement in the amount of \$238,500 and an option to purchase 302,857 shares of the Company, which option will be exercisable at a price of \$2.00 per share for a period of two years from admission to AIM (or three years should the Company be admitted to the TSX, subject to regulatory approval). A corporate finance fee of £240,000 (approximately Cdn \$545,000) is also payable to the broker with regard to advice in connection with the Company's admission to AIM.

Costs incurred in connection with the private placements, including the broker's corporate finance fee above, totalling \$1,625,085, are reflected on the consolidated balance sheet as deferred financing costs as at September 30, 2004 and will be deducted from the gross proceeds from the private placements received in the subsequent quarter. Of these costs, \$1,527,768 are included in accounts payable and accrued liabilities as at September 30, 2004.

5. Asset retirement obligations

Commensurate with the Dillon site and mine preparation which followed the receipt of the mine permit during the quarter, the Company becomes liable for future site restoration and closure costs. In accordance with CICA Handbook Section 3110, such asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The amount of the liability is subject to re-measurement at each reporting period. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and amortized over the estimated life of the mine. The key assumptions on which the fair value of the asset retirement obligations is based includes the estimated future cash flows, the timing of those cash flows and the credit-adjusted risk-free rate or rates on which the estimated cash flows have been discounted. The total undiscounted amount of the estimated obligation is \$375,000 and is expected to be incurred over a six year period. Using a 3.95% discount rate for these cash outflows results in a fair value of \$356,869 at September 30, 2004.

6. Related party transactions

During the six months ended September 30, 2004, the Company incurred management and consulting fees of \$119,500 (2003 - \$177,500) to companies controlled by directors or companies with common directors. During the six months ended September 30, 2004, the Company incurred accounting, management, and investor relations fees of \$179,250 (2003 - \$60,500) to companies controlled by officers.

Included in accounts payable and accrued liabilities at September 30, 2004 is \$25,250 (2003 - \$305,476) due to officers or directors or companies controlled by officers or directors of the Company.

WESTERN CANADIAN COAL CORP.**Notes to Consolidated Financial Statements
For the Six Months Ended September 30, 2004**

(Prepared without audit)

7. Stock-based compensation

During the six-month period ended September 30, 2004, the Company granted a total of 1,570,000 stock options at various exercise prices varying from \$1.20 to \$1.59 per share. During the six months ended September 30, 2004, an amount of \$795,763 (2003 - \$nil) was charged to operations. The estimated fair value of the options is expensed in accordance with the vesting schedule for the options.

Had the Company, during 2003, determined compensation costs of stock option grants to directors and employees based on the fair value at the time of grant dates for those stock options consistent with the fair value method of accounting for stock-based compensation, the Company's net loss and loss per share would have been reduced to the pro forma amounts indicated below.

			Three month period ended Sept. 30, 2003		Six months period ended Sept. 30, 2003
Net loss for the period	As reported	\$	342,515	\$	751,138
	Pro forma	\$	416,127	\$	843,110
Basic and diluted loss per share	As reported	\$	0.02	\$	0.03
	Pro forma	\$	0.02	\$	0.04

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Assumptions:

- a) Risk free interest rate (%) - 3.82% to 3.95% (2003 - 3.5%)
- b) Expected life (years) - 5.0 (2003 - 3.0)
- c) Expected volatility (%) - 91.3% (2003 - 61.0% to 92.0%)
- d) dividend yield - nil.

Results:

Weighted average fair value of options granted (\$ per option) \$1.04

**Notes to Consolidated Financial Statements
For the Six Months Ended September 30, 2004**

(Prepared without audit)

8. Differences Between Generally Accepted Accounting Principals (“GAAP”) in Canada and those in International Accounting Standards (“IAS”)

Stock Based Compensation

Under Canadian GAAP, the Company is required to account for stock options and has adopted the fair value method for valuing stock option grants. Under this method, compensation cost attributed to share options is measured at fair value at the date of grant and expensed over the vesting period with a compensating increase to contributed surplus.

There is currently no equivalent accounting standard under IAS. However, IFRS 2 (Share-Based Payment) was published in February 2004 and will be applicable for accounting periods starting on or after January 1, 2005. This new standard will require that an expense at fair value should be recognized in the statement of operations and for all share-based payment entered into by the reporting entity.

Deferred Development Costs

Under Canadian GAAP, development costs should be deferred and amortized over their estimated useful life provided they satisfy certain criteria. The equivalent international standard is IAS 38 (Intangible assets), although this standard specifically excludes expenditure on exploration for and development of mineral resources from its scope. The established practice of companies accounting under IAS is similar to the requirements under Canadian GAAP.

In January 2004, the International Accounting Standards board published an exposure draft (ED6 – Exploration for and Evaluation of Mineral Resources) for consultation. The exposure draft permits an entity to account for exploration and evaluation assets in accordance with the accounting policies applied in its most recent annual financial statements. If adopted, the proposed IAS would therefore have no impact on the amounts currently reflected in the Company’s accounts.

WESTERN CANADIAN COAL CORP.**Notes to Consolidated Financial Statements
For the Six Months Ended September 30, 2004**(Prepared without audit)

8. Differences Between Generally Accepted Accounting Principals (“GAAP”) in Canada and those in International Accounting Standards (“IAS”) (continued)**Effect of Differences in GAAP on Financial Statements**

The differences in the application of IAS would have the following material effects on the financial statements of the Company:

Consolidated Balance Sheet

	Reported under Canadian GAAP	IAS Adjustments	Reported under IAS
Share Capital and Deficit			
Share capital	\$ 26,477,022	\$ 269,747	\$ 26,746,769
Contributed surplus	946,291	(946,291)	-
Broker warrants	290,557	(290,557)	-
Deficit	(6,824,005)	967,101	(5,856,904)
Balance as at September 30, 2004	\$ 20,889,865	\$ -	\$ 20,889,865

Share Capital and Deficit			
Share capital	\$ 10,530,702	\$ -	\$ 10,530,702
Contributed surplus	171,358	(171,358)	-
Broker warrants	-	-	-
Deficit	(4,376,172)	171,358	(4,204,814)
Balance as at March 31, 2004	\$ 6,325,888	\$ -	\$ 6,325,888

Consolidated Statement of Operations

	Three months ended		Six months ended	
	Sept. 30, 2004	Sept. 30, 2003	Sept. 30, 2004	Sept. 30, 2003
Net Loss as Reported under Canadian GAAP	\$ (1,068,331)	\$ (342,515)	\$ (2,447,833)	\$ (751,138)
Adjustment for removal of Stock-based compensation	406,245	-	795,763	-
Loss as Reported under IAS	\$ (662,086)	\$ (342,515)	\$ (1,652,070)	\$ (751,138)
Loss per share under IAS	\$ (0.02)	\$ (0.02)	\$ (0.04)	\$ (0.03)

**Notes to Consolidated Financial Statements
For the Six Months Ended September 30, 2004**

(Prepared without audit)

9. Subsequent Events

- (a) Subsequent to quarter-end, on October 7, 2004, the Company was admitted to trading on AIM and, in connection therewith, the Company issued another 8,742,857 common shares and received gross proceeds of \$15,300,000 (see note 4(c)). On October 7, 2004, the Company also granted the broker an option to purchase 302,857 shares of the Company, exercisable at a price of \$2.00 per share for a period of two years from admission to AIM, (or three years should the Company be admitted to the TSX, subject to regulatory approval) (see note 4(c)).
- (b) Subsequent to September 30, 2004, the Company granted a total of 150,000 stock options with an exercise price \$2.50 per share to new employees of the Company, of which 120,000 stock options were granted to an individual that was subsequently appointed an officer of the Company on October 19, 2004.
- (c) Subsequent to September 30, 2004, the Company received \$1,466,000 from the exercise of 2,374,000 warrants and \$237,500 from the exercise of 615,000 stock options.
- (d) Subsequent to September 30, 2004, the Company set aside deposits totalling \$800,000 as security for two letters of guarantee in favour of key suppliers of products and services for the Dillon mine operation. For future reporting periods, these will be included as deposits in non-current assets until such time as they are no longer required.