

Management's Discussion and Analysis of Financial Position and Results of Operations

General

The following information, prepared as of February 14, 2005 should be read in conjunction with the unaudited consolidated financial statements of Western Canadian Coal Corp. (the "Company") for the nine months ended December 31, 2004, as well as the audited consolidated financial statements for the year ended March 31, 2004. All amounts are expressed in Canadian dollars unless otherwise indicated.

The Company's principal business is the acquisition, exploration and development of coal licenses, with its primary focus being favourably located, high-quality coal deposits in northeast British Columbia that are amenable to low-cost mining techniques. The Company has developed a diversified coal asset base adjacent to or nearby existing infrastructure already established for the northeast coalfields, including rail, port, town and other facilities. The Company owns three large multi-deposit coal property groups including more than 50,000 hectares under lease or application. During the past year, the Company demonstrated the economic viability of the Wolverine and Burnt River projects through in-house and independent feasibility studies.

In May 2004, the Company submitted an application for an Environmental Assessment ("EA") certificate to the BC government for the production of 1.6 million tonnes of clean metallurgical coal per annum on the Perry Creek and EB open-pit properties over a projected 11-year period. The project is referred to in that document as the "Wolverine Project Plan". The EA certificate for the Wolverine Project Plan as a whole was received on January 18, 2005. Further, the Company applied for a mining permit on the Perry Creek open-pit in November 2004 and expects approval thereof to be received in early 2005. The estimated marketable coal for the Perry Creek and EB open-pits are 15.6 million tonnes of metallurgical coal and 0.3 million tonnes of thermal coal.

The Company plans to construct a coal preparation plant and rail load-out located adjacent to the Perry Creek pit initially capable of handling 2.4 million tonnes of hard coking coal per annum. Construction of the coal preparation plant is a critical aspect of this project and it is anticipated that this process will take up to 18 months to complete. Independent engineering studies obtained by the Company estimate that the 2.4 million tonne capacity plant and facilities for Wolverine will require a capital investment of approximately \$180 million. This includes site preparation, plant construction, pre-production stripping and associated provisions and contingencies to bring the plant into operation using contractors for waste stripping and coal mining. On the assumption that these works are completed on schedule, production is expected to commence at the Perry Creek open-pit in the first quarter of calendar 2007.

The Perry Creek property will initially have a production level of 1.6 million tonnes of coal per year. However, the Company's goal is to incrementally increase Wolverine's overall production to 3.0 million tonnes per year from the nearby deposits of Hermann and the Perry Creek underground resource. The preparation plant will be constructed to accommodate an expansion to a 3.0 million tonne processing level.

In June 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 the Burnt River property. Approval for such permit was granted by the BC government on September 9, 2004. The Dillon Mine is focused on the Dillon Syncline of the Burnt River property. It will exploit a mining reserve of 1.56 million tonnes and will be campaign mined at a rate of 60,000 tonnes per month. Part of the road haul from the Dillon mine to the load-out is on industrial-use roads which are subject to load restrictions during certain parts of the year, particularly during Spring break-up. Such road-bans have been allowed for in the Company's production and sales plans.

Additional drilling was completed in August 2004 on adjacent areas of the Burnt River property known as the Brule deposit to update and confirm approximately 30 million tonnes of historical resources defined by Teck Corp. (now TeckCominco) in the early 1980s. Studies are now underway toward preparation of a feasibility study, technical report, and applications for an Environmental Assessment Certificate and permit in the 2nd quarter of 2005 to mine the Brule deposit. Production at the Brule Mine would be expected at the beginning of 2007, and the targeted production will be 1.5 Mt/annum of PCI coal.

The Dillon Mine is currently in operation, having started production in November 2004, and trial shipments of low volatile pulverized coal injection (“PCI”) coal commenced in January 2005 to POSCO of South Korea and a large European customer. Subject to satisfactory trial shipments and formal documentation, a long term agreement has been obtained for the supply of 3.0 million tonnes over six-years for PCI coal and hard coking coal to POSCO’s Kwangyang and Pohang steel plants in South Korea. Discussions are also in progress with a European customer regarding the securing of a long term contract for PCI coal and other metallurgical coal products.

During the quarter ended December 31, 2004, the Company signed a Letter of Intent (“LOI”) to form a 50:50 joint venture with NEMI Northern Energy and Mining Inc. (“NEMI”) for the exploration and development of the Saxon and Belcourt coal properties located in British Columbia. The LOI contemplates expenditures of up to \$20 million to update feasibility reports on both Groups of coal properties, as well as extensive work programs on the properties. The joint venture is subject to completion and execution of a formal agreement and is expected to be finalized in late February 2005. NEMI and the Company intend to update the information and reclassify and expand the coal resources on these properties with a view to developing a 6 to 10 million tonne per year operation.

One of the most significant factors in the outlook for the Company is the price of coal. The price of coal is influenced by numerous factors beyond the Company’s control, including international economic and political trends, fluctuations in currency, interest rates, competition and improvements in mining and production methods. The revival in the steel industry, driven by economic growth in China and India, has significantly raised the demand for metallurgical coal. World steel output rose 6.7% in 2003 and 7.9% in the first half of 2004, according to the International Iron and Steel Institute. This has placed pressure on metallurgical coal producers to keep up with the increased demand, leading to a scarcity of supply and rising prices. Prices in the hard coking coal market are determined on an annually contracted basis. For the 2005/6 year, prices for hard coking coal have reportedly been set in excess of US\$120 per tonne which compares to the 2004/5 level of US\$57 per tonne. While annual PCI and semi-soft coal prices are usually determined in the first quarter of each year, the latest McCloskey Coal Reports are reporting that Australian PCI suppliers are currently asking prices above US\$100 FOB for the current year’s contracts. (*Source: McCloskey Coal Reports, January 21, 2005*). However, current settlements to date have been in excess of US\$90 per tonne. The Company has also received feedback from its contract discussions with potential PCI customers in Asia and Europe, lending support to the findings above, with the Company experiencing strong demand for its PCI coal products. The Company therefore believes that there are currently no signs of the demand for metallurgical coals weakening in the short term.

Results of Operations –

Comparing the Quarter Ended December 31, 2004 to the Quarter Ended December 31, 2003

Although the Company commenced coal mining operations at the Dillon mine in the quarter ended December 31, 2004, no coal sales had been made to that date. The Company produced 53,700 tonnes of coal, the value of which is reflected in inventory on the consolidated balance sheet.

The Company recorded a net loss of \$2,080,144 (\$0.04 per share) for the three months ended December 31, 2004 as compared to a loss of \$360,851 (\$0.01 per share) for the same period in 2003. The 2004 loss includes stock-based compensation expense of \$547,597 (2003 - \$nil) representing non-cash charges incurred in connection with the granting of stock options and \$475,680 in amortization of capital assets and deferred exploration and development costs mainly due to the commencement of operations at the Dillon mine during the quarter ended December 31, 2004. Excluding the impact of stock-based compensation, the loss increased from \$360,851 in 2003 to \$1,532,547 in 2004 commensurate with the stage of development of the Company’s projects.

In addition to the items mentioned above, significant expense items include: directors fees and expenses which were \$45,433 in the third quarter of 2003 and \$70,982 in 2004; legal, accounting and other professional costs which increased from \$29,293 to \$42,592; office and sundry which increased from \$9,772 to \$93,669; rent and occupancy expenses which increased from \$19,670 to \$44,792; and travel expense, including travel associated with various overseas financing initiatives, increased from \$71,758 to \$172,313. Telecommunications,

insurance and all other office-related expenditures experienced similar increases. All such increases were directly or indirectly attributable to the increased property development activities of the Company over the previous year, particularly with respect to the work being conducted on the Wolverine-Perry Creek and Burnt River-Dillon properties. (Refer to “Capital Expenditures” below).

Management fees paid to senior management decreased from \$75,400 to \$66,880, and consulting costs and expenses increased from \$102,552 to \$211,216. As part of the continuing transition from a junior exploration concern to a producing mining company, the Company commenced hiring full-time staff in July 2004 and some of the individuals previously included in management fees and/or consultants have become employees. As a result, during the quarter, the Company incurred \$389,492 (2003 - \$nil) in salaries and benefits.

Comparing the Nine Months Ended December 31, 2004 to the Nine Months Ended December 31, 2003

The Company recorded a net loss of \$4,527,977 (\$0.11 per share) for the nine months ended December 31, 2004 as compared to a loss of \$1,111,989 (\$0.05 per share) for the same nine-month period in 2003. The 2004 loss includes stock-based compensation expense of \$1,343,360 (2003 - \$nil) representing non-cash charges incurred in connection with the granting of stock options, \$502,997 in amortization of capital assets and deferred exploration and development costs mainly due to the commencement of operations at the Dillon mine during the quarter ended December 31, 2004 and \$181,368 in costs related to the listing of the Company’s common shares on the AIM Market of the London Stock Exchange (“AIM”). Excluding the impact of stock-based compensation and the AIM listing expense, the loss increased from \$1,111,989 in 2003 to \$3,003,249 in 2004 commensurate with the increased rate and stage of development of the Company’s projects.

Significant expense items include: transfer agent and regulatory fees which increased from \$16,358 to \$85,692; legal and accounting expense which increased from \$91,818 to \$207,307; office and sundry which increased from \$24,036 to \$212,544; directors’ fees and expenses which increased from \$108,073 to \$211,111; and travel expense which increased from \$245,221 to \$351,155. Similarly, telecommunications, insurance, annual report costs, and all other office-related expenditures experienced similar increases and were directly or indirectly attributable to the increased property development activities of the Company over the previous year, particularly with respect to the work being conducted on the Wolverine-Perry Creek and Burnt River-Dillon properties. (Refer to “Capital Expenditures” below).

Management fees paid to senior management decreased from \$278,900 to \$224,650, and consulting costs and expenses increased from \$204,263 to \$345,474. As part of the continuing transition from a junior exploration concern to a producing mining company, the Company commenced hiring full-time staff in July 2004 and some of the individuals previously included in management fees and/or consultants are now employees. As a result, during the nine-month period, the Company incurred \$769,694 (2003 - \$nil) in salaries and benefits.

The Company expects that its general and administrative expenditures, including all salaries and benefits not directly attributable to project development and/or mine operations, will continue to grow as it builds its support functions to support the increasing level of operations.

Capital Expenditures

During the nine months ended December 31, 2004, the Company incurred deferred exploration expenditures of \$16,014,714, including \$4,268,480 expended at Wolverine and \$11,481,517 incurred at Burnt River. The deferred costs include expenditures incurred to advance and complete the Environmental Assessment review process and respond to issues for the Wolverine Project, to augment existing baseline work for both Wolverine and Burnt River as necessary, and to prepare the Mine Permit application for the Dillon Mine at Burnt River. Of the \$11,481,517 incurred at Burnt River, \$9,005,609 was incurred during the most recently completed quarter, and included expenditures for road work, process facilities, site infrastructure, engineering, communications equipment, commissioning and start-up, pre-production stripping and other mine site preparation work for the Dillon Mine. These costs also included \$1,061,779 in deferred stripping costs as described below in “Changes in Accounting Policies” and “Critical Accounting Estimates”. The Company estimates that additional infrastructure related expenditures at Dillon will amount to approximately \$1.5 million over the next two quarters. With the commencement of production at Dillon during the quarter ended December 31, 2004, the Company began amortizing the deferred development costs related to the mine on a unit of production basis.

Such amortization during the quarter amounted to \$389,747.

During the nine months ended December 31, 2004, the Company purchased equipment and other capital assets totalling \$1,841,782 of which \$1,563,583 was expended in the quarter ended December 31, 2004. Approximately \$980,000 of the capital additions was for the crushing plant at the Dillon mine operation. The other equipment additions, all at Dillon, included lab equipment, trailers, flocculant system, dust suppression systems, rescue and other safety equipment, trucks and other mine related equipment. The Company estimates that additional capital expenditures at Dillon, including crusher modifications and related equipment will amount to \$750,000 over the next two quarters. There were no capital assets purchased in the corresponding period ended December 31, 2003, however, the Company incurred deferred exploration expenditures of \$817,565 during the comparative nine months in 2003.

Included in investing activities for the quarter ended December 31, 2004 is a \$3 million initial contribution to the 50:50 joint venture with NEMI for the Saxon and Belcourt coal properties. The LOI contemplates expenditures of up to \$20 million, of which \$12 million will be provided by the Company. The joint venture is expected to be finalized in late February 2005. The balance of the Company's commitment to the joint venture is anticipated to be expended within the next twelve months and is to be funded by the private placement completed subsequent to December 31, 2004. (Refer to "Financing Activities" and "Liquidity and Capital Resources" below).

Summary of Quarterly Results (unaudited)

Three months ended	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003	March 31, 2003
Total revenues	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil	\$nil
Net (loss)	(\$2,080,144)	(\$1,068,331)	(\$1,379,502)	(\$625,126)	(\$360,851)	(\$342,515)	(\$408,779)	(\$384,266)
Net (loss) per share (Basic and fully diluted) ⁽¹⁾	(\$0.04)	(\$0.03)	(\$0.04)	(\$0.02)	(\$0.01)	(\$0.02)	(\$0.02)	(\$0.02)
Total assets	\$44,412,911	\$24,617,127	\$18,062,770	\$8,222,942	\$7,278,891	\$6,023,778	\$5,771,464	\$5,549,827

⁽¹⁾ The basic and fully diluted calculations result in the same values due to the anti-dilutive effect of outstanding stock options and warrants.

The net loss for the quarters ended December 31, 2004, September 30, 2004, June 30, 2004 and March 31, 2004 include non-cash charges of \$547,597, \$406,245, \$389,518 and \$171,358, respectively, for stock-based compensation expense.

Financing Activities

In April 2004, the Company closed a non-brokered private placement of 1,500,000 units at a price of \$1.00 per unit for gross proceeds of \$1,500,000, of which \$300,000 had been received in subscriptions as at March 31, 2004. Each unit consists of one common share and one-half of a share purchase warrant. Each full warrant entitles the holder to purchase an additional common share at a price of \$1.00 until April 16, 2005. The Company also paid a finder's fee of \$15,000 in respect of this placement.

In June 2004, the Company closed a private placement of 8 million units at \$1.25 per unit. This placement consisted of 4,800,000 subscription receipts at a price of \$1.25 per subscription receipt, and 3,200,000 units at a price of \$1.25 per unit for aggregate gross proceeds of \$10,000,000. Each subscription receipt has been converted into a unit, for no additional consideration. All units are identical and consist of one common share and one-half of a share purchase warrant. One whole warrant entitles the holder to purchase an additional common share at a price of \$1.50 until June 16, 2006. In connection with the completion of these offerings, the Company paid the Agent a fee in cash of \$480,000. The Agent was also issued broker's warrants entitling it to

purchase up to 384,000 common shares at a price of \$1.25 per share until June 16, 2006. 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. The Company also incurred share issue costs of \$93,736 in respect of this placement. Upon exercise of the warrant during the quarter ended December 31, 2004, the \$290,557 attributed to these broker warrants was reversed and credited to share capital.

In connection with its application for admission to trading on AIM, the Company arranged two concurrent private placements, 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. On September 30, 2004, \$4,700,000 of the non-brokered private placement closed and 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 \$5,300,001 brokered private placement.

In connection with the brokered private placement, broker's fees payable include a commission 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 expiring October 7, 2006. The value of \$385,219 was attributed to these broker warrants based on the Black-Scholes pricing model and has been credited to broker warrants within share capital. Upon exercise of the warrant during the quarter ended December 31, 2004, the \$385,219 attributed to these broker warrants was reversed and credited to share capital. A corporate finance fee of £240,000 (approximately Cdn \$545,000) was paid to the broker with regard to advice in connection with the Company's admission to AIM. Cash costs incurred in connection with the private placements, including the broker's corporate finance fee above, totalled \$1,719,415. As at September 30 2004, \$1,625,085 of such costs were reflected on the consolidated balance sheet as deferred financing costs, and were subsequently deducted from the gross proceeds from the private placements received on October 7, 2004.

A further \$4,784,445 was raised during the nine month period ended December 31, 2004, from the exercise of 6,472,023 share purchase warrants, of which \$14,117 had been received in subscriptions as at March 31, 2004, and from the exercise of 1,075,866 stock options for gross proceeds of \$460,050.

Refer to "Liquidity and Capital Resources" for financing activities subsequent to December 31, 2004.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the nine months ended December 30, 2004 resulted in a net cash inflow in the amount of \$10,504,166. As at December 31, 2004, the Company's cash balance stood at \$10.6 million and working capital was \$8.4 million. However, as disclosed elsewhere in this MD&A, subsequent to December 31, 2004, the Company received \$668,354 from the exercise of warrants and stock options and net proceeds of approximately \$110.5 million in connection with an underwritten private placement.

The net proceeds of the private placements completed in nine months ended 2004 were primarily used to provide funding for the production start-up at the Dillon mine, the environmental and regulatory permitting for the Company's Perry Creek and EB mine properties located within the Wolverine Group, and for general working capital purposes.

As at December 31, 2004, commercial production at the Dillon Mine had just begun and as such, the Company has had no operating revenues. Accordingly, to that date, the Company's sole source of operating working capital had been the equity markets. As such, to that date, the Company's capital resources were largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for the investor support of its projects.

With certain mine properties at, or nearing the production stage, other forms of working capital have become available, including a US\$15 million bank line to finance Export Development Canada insured trade receivables. Additional sources of capital for the development of the Company's other projects will also be required. To that end, the Company has appointed BNP Paribas to provide advisory services to the Company in connection with the arrangement of project financing for the balance of the development/construction costs for the Wolverine project.

Additionally, on February 9, 2005, the Company completed an underwritten private placement of 18,852,460 Units at a price of \$6.10 per Unit for aggregate gross proceeds of \$115 million. Each Unit consists of one common share of the Company and a one-half share purchase warrant, with each whole share purchase warrant entitling the holder to acquire one additional share until February 9, 2006 at an exercise price of \$7.00. As part of the private placement, Cambrian subscribed for 3,278,689 Units for aggregate gross proceeds of \$20 million. In connection with the private placement, the Company paid the underwriters a fee of \$4,375,000, equal to 4.5% of the gross proceeds received from the private placement, net of the proceeds received from Cambrian, and 0.5% of the proceeds received from Cambrian.

Net proceeds from this fundraising will provide funding for: the environmental and regulatory permitting for the Company's Brule mine located within the Company's Burnt River property; a portion of the funding for the anticipated construction and development costs within the Wolverine properties; the balance of the Company's commitment to the joint venture formed with NEMI relating to the exploration and development of the Saxon and Belcourt coal properties; and general working capital purposes.

As of December 31, 2004, the Company's contractual obligations included:

<i>Contractual Obligations</i>	<i>Payments Due by Period (in thousands)</i>				
	<i>Total</i>	<i>Less than 1 year</i>	<i>1 - 3 years</i>	<i>4 - 5 years</i>	<i>After 5 years</i>
Long-term debt	Nil	Nil	Nil	Nil	Nil
Capital lease obligations	Nil	Nil	Nil	Nil	Nil
Operating leases (premises & other)	\$ 1,059.4	\$ 303.6	\$ 582.6	\$ 173.2	Nil
Purchase obligations	125.0	125.0	Nil	Nil	Nil
Belcourt-Saxon Joint Venture Commitment	9,000.0	9,000.0	Nil	Nil	Nil
Other long-term obligations	765.0	162.5	325.0	215.0	\$ 62.5
Total Contractual Obligations	\$ 10,949.4	\$ 9,591.1	\$ 907.6	\$ 388.2	\$ 62.5

Purchase obligations in the above table represent the balance owing for the purchase and installation of a used dryer for the Perry Creek mine, for which \$250,000 has been paid and is included in deposits in non-current assets on the balance sheet. Other long-term obligations include the estimated annual reclamation obligation on the Dillon mine of approximately \$62,500 as well as the Company's obligation to provide further security deposits to the BC government for the purpose of settling mine reclamation obligations related to the Dillon mine property.

During the quarter ended December 31, 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. These deposits are included in non-current assets on the consolidated balance sheet.

Other commitments, including royalty obligations ranging from 0.75% - 1.0% of sales from certain coal properties, are described in the notes to the audited consolidated financial statements of the Company for the year ended March 31, 2004.

Transactions with Related Parties

During the nine months ended December 31, 2004, the Company incurred management and consulting fees of \$355,316 (2003 - \$219,500) to companies controlled by directors or companies with common directors. Included in the 2004 amount is \$143,316 (£60,000) paid to Cambrian Mining PLC in consulting fees earned in connection with the Company's listing on the AIM Market in October 2004. During the nine months ended

December 31, 2004, the Company incurred accounting, management, and investor relations fees of \$186,886 (2003 - \$101,400) to companies controlled by officers.

Included in accounts payable and accrued liabilities at December 31, 2004 is \$38,444 (2003 - \$207,696) due to officers or directors or companies controlled by officers or directors of the Company.

Changes in Accounting Policies

The Company's previously disclosed accounting policy with respect to land reclamation and environmental remediation costs included capitalizing, when incurred, such costs as deferred costs until such time as the properties were put into commercial production, after which the costs would be charged to operations on a unit-of-production basis over the estimated mine life. Due to the stage of the Company's development, land reclamation costs had not been material to March 31, 2004. However, commensurate with the Dillon site and mine preparation which followed the receipt of the mine permit in September 2004, such obligations will become material. In accordance with CICA Handbook Section 3110, effective with the quarter ended September 30, 2004, such reclamation 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. Refer to "Critical Accounting Estimates" below.

Effective with the quarter ended December 31, 2004, the Company has adopted the industry practice of deferred stripping. Under this practice, mining costs associated with waste rock removal in excess of the life-of-mine average are deferred and charged to operations on the basis of the average stripping ratio for the life of the mine. When the cumulative stripping ratio is less than the life-of-mine average, a provision for the future stripping is made. The life-of-mine stripping ratio at Dillon mine is 2.17:1 (2.17 bank cubic meters of waste per tonne of product coal). Refer to "Critical Accounting Estimates" below.

Critical Accounting Estimates

The Company's consolidated financial statements are impacted by the accounting policies used, and the estimates and assumptions made, by management during their preparation. The Company's accounting policies are described in Note 2 to the consolidated financial statements for the most recent fiscal year ended March 31, 2004. The accounting estimates considered to be significant to the Company include the review of the carrying values of coal properties and deferred exploration expenditures as well as those related to accounting for land reclamation and environmental remediation costs.

Management reviews the carrying values of its coal properties on at least an annual basis to determine whether an impairment should be recognized. For the years ended March 31, 2004, 2003, and 2002 there have been no write-downs in respect of the values attributed to coal properties and deferred exploration expenditures.

As described above in "Changes in Accounting Policies", the Company now accounts for land reclamation and environmental remediation costs in accordance with CICA Handbook Section 3110. The Company is required to make certain assumptions and estimates with respect to the determination of the fair value of such costs. The key assumptions on which the fair value of the reclamation obligation 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, the time at which the asset and liability were recorded.

As described above in "Changes in Accounting Policies", effective with the quarter ended December 31, 2004, the Company has adopted the industry practice of deferred stripping. Under this practice, the amount charged to inventory, and ultimately to cost of sales, is subject to management's ability to estimate the stripping ratio over the life of the mine. Any changes in this estimate could have a material effect on the financial statements.

Recent Accounting Pronouncements

There are no recent accounting pronouncements impacting the current consolidated financial statements for the quarter and nine months ended December 31, 2004, except as disclosed in the Annual MD&A.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities and various commitments. The fair values of these financial instruments approximate their carrying values. In management's opinion, the Company is not exposed to significant interest rate or credit risk arising from these financial instruments, with the exception of accounts receivables denominated in US dollars, on which the company could be exposed to a foreign exchange risk. As the majority of the operating costs are incurred in Canadian dollars and revenues are denominated in US dollars, exchange rate movements can have a significant impact on operating results and profitability. To manage its exposure to currency fluctuations, the Company implemented, in January 2005, a foreign exchange hedging program in connection with the start of coal sales from the Dillon mine, wherein it has purchased put and call options to provide full downside protection, on approximately US\$43 million of its total anticipated sales for the next 12 months, against a further strengthening of a Canadian dollar, while also limiting any upside of a further weakening of a Canadian dollar.

Outstanding Share Data

Authorized Capital:

During the nine months ended December 31, 2004, the Company transitioned to the *Business Corporations Act*, from the *Company Act* which previously governed the Company and in connection with such transition, the Company 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.

Issued and outstanding:

58,263,823 common shares as at December 31, 2004 for a net consideration of \$45,074,862.

Subsequent to December 31, 2004, the Company issued 18,852,460 common shares and received net proceeds of \$110.5 million in connection with an underwritten private placement of units on February 9, 2005. Subsequent to December 31, 2004, the Company also issued 1,257,292 common shares and received \$668,354 from the exercise of warrants and stock options.

Outstanding options, warrants, and convertible securities as at December 31 2004:

Security	Number	Exercise price	Expiry date
Stock Options	180,000	\$0.35	February 13, 2007
Stock Options	390,000	\$0.35	December 4, 2007
Stock Options	190,000	\$0.35	September 19, 2007
Stock Options	50,000	\$0.35	September 24, 2008
Stock Options	200,000	\$0.80	February 15, 2009
Stock Options	410,000	\$1.20	May 16, 2009
Stock Options	250,000	\$1.38	May 16, 2009
Stock Options	250,000	\$1.59	May 16, 2009
Stock Options	120,000	\$1.49	August 23, 2009
Stock Options	464,134	\$1.50	August 29, 2009
Stock Options	150,000	\$2.50	October 5, 2009

Stock Options	165,000	\$3.30	November 12, 2009
Stock Options	50,000	\$4.92	December 6, 2009
Warrants	180,000	\$0.60	January 22, 2005
Warrants	227,500	\$0.60	February 27, 2005
Warrants	4,524,967	\$0.40	October 3, 2005
Warrants	300,000	\$0.55	January 12, 2005
		\$0.60	January 12, 2006
Warrants	550,000	\$1.00	April 16, 2005
Warrants	3,563,500	\$1.50	June 16, 2006
Warrants	100,000	\$5.80	August 31, 2005

Risks and Uncertainties

The exploration for and development of coal deposits are highly speculative in nature and are subject to significant risks. The Company's ability to realize its investments in exploration projects is dependent upon a number of factors, including its ability to continue to raise the financing necessary to complete the exploration and development of those projects and the existence of economically recoverable reserves within its projects. The Company's operations are subject to a number of risk factors as detailed in the Annual MD&A.

Forward-looking Information

This MD&A may contain forward-looking statements that may involve risks and uncertainties. Such statements relate to the Company's expectations, intentions, plans and beliefs. As a result, actual future events or results could differ materially from those suggested by the forward-looking statements. Readers are referred to the documents filed by the Company with the TSX Venture Exchange and/or documents filed on SEDAR, specifically the most recent Annual Report which identifies important risk factors that could cause actual results to differ from those contained in the forward-looking statements. Such risk factors include, but are not limited to, changes in commodity prices; strengths of various economies; the effects of competition and pricing pressures; the oversupply of, or lack of demand for, the Company's products; currency and interest rate fluctuations; various events which could disrupt operations; the Company's ability to obtain additional funding on favourable terms, if at all; and the Company's ability to anticipate and manage the foregoing factors and risks. Additionally, statements related to the quantity or magnitude of mineral deposits are deemed to be forward-looking statements. The reliability of such information is affected by, among other things, uncertainties involving geology of mineral deposits; uncertainties of estimates of their size or composition; uncertainties of projections related to costs of production; the possibilities in delays in mining activities; changes in plans with respect to exploration, development projects or capital expenditures; and various other risks including those related to health, safety and environmental matters.

Other Information

Additional information related to the Company, is available for viewing on SEDAR at www.sedar.com and at the Company's website at www.westerncoal.com.