WESTERN CANADIAN COAL CORP.

Consolidated Financial Statements

For the Nine Months Ended December 31, 2004

(Prepared without Audit)

WESTERN CANADIAN COAL CORP.

Consolidated Balance Sheets
(Prepared without audit)

		December 31, 2004		March 31, 2004
Assets				
Current Assets				
Cash and cash equivalents	$	10,600,785	$	96,619
Accounts receivable		949,555		137,160
Inventory		3,200,313		-
Prepaid expenses		123,108		13,777
		14,873,761		247,556
Deposits (note 3)		1,381,080		170,815
Plant and equipment		1,769,465		34,877
Coal Properties		262,249		262,249
Investment in Belcourt-Saxon Joint Venture (note 4)		3,000,000		-
Deferred Exploration and Development Expenditures		23,126,356		7,507,445
	$	44,412,911	$	8,222,942
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	$	6,475,096		1,582,937
		6,475,096		1,582,937
Asset Retirement Obligations (note 6)		360,200		-
Share Subscriptions Received		-		314,117
		6,835,296		1,897,054
Share Capital and Deficit				
Share Capital (note 5)		45,074,862		10,530,702
Contributed Surplus		1,406,902		171,358
Deficit		(8,904,149)		(4,376,172)
		37,577,615		6,325,888
	$	44,412,911	$	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		Nine months ended	
	Dec. 31, 2004	**Dec. 31, 2003**	**Dec. 31, 2004**	**Dec. 31, 2003**
Revenue				
Interest	$ 95,156	$ 9,032	$ 133,284	$ 9,289
Other income	84,308	-	84,308	-
	179,464	9,032	217,592	9,289
Expenses				
AIM listing expenses	13,710	-	181,368	-
Accretion (note 6)	3,331	-	3,331	-
Amortization and depletion	481,736	3,540	502,997	10,469
Annual report	-	-	25,566	11,895
Consulting	211,216	102,552	345,474	204,263
Directors' fees and expenses	70,982	45,433	221,111	108,073
Donations	10,400	-	14,700	-
Financing fees	-	-	-	25,000
Insurance	53,519	-	53,519	3,179
Interest and bank charges	1,977	473	3,002	985
Investor relations	5,289	3,526	16,389	14,106
Legal, accounting and professional	42,592	29,293	207,307	91,818
Licenses, dues and fees	9,476	2,147	25,052	15,567
Management fees	66,880	75,400	224,650	278,900
Office and sundry	93,710	9,772	212,544	24,036
Rent	44,792	19,670	98,530	64,038
Salaries and benefits	389,492	-	769,694	-
Shareholder communications	18,500	-	20,951	-
Stock-based compensation	547,597	-	1,343,360	-
Telecommunications	16,724	2,060	39,177	7,370
Transfer agent and regulatory	5,372	4,259	85,692	16,358
Travel and related expenses	172,313	71,758	351,155	245,221
	2,259,608	369,883	4,745,569	1,121,278
Net loss for the period	(2,080,144)	(360,851)	(4,527,977)	(1,111,989)
Deficit at beginning of period	(6,824,005)	(3,390,039)	(4,376,172)	(2,638,901)
Deficit at end of period	$ (8,904,149)	$ (3,750,890)	$ (8,904,149)	$ (3,750,890)
Loss per share	$ (0.04)	$ (0.01)	$ (0.11)	$ (0.05)
Weighted average number of shares outstanding	47,065,303	26,449,974	42,800,132	23,163,067

WESTERN CANADIAN COAL CORP.

Consolidated Cash Flow Statements
(Prepared without audit)

	Three months ended		Nine months ended	
	Dec. 31, 2004	**Dec. 31, 2003**	**Dec. 31, 2004**	**Dec. 31, 2003**
Cash flows from operating activities				
Net loss	$ (2,080,144)	$ (360,851)	$ (4,527,977)	$ (1,111,989)
Accretion (note 6)	3,331	-	3,331	-
Amortization and depletion	481,736	3,540	502,997	10,469
Stock-based compensation	547,597	-	1,343,360	-
	(1,047,480)	(357,311)	(2,678,289)	(1,101,520)
Changes in non-cash working capital				
Accounts receivable	(592,559)	(63,014)	(812,395)	(23,575)
Mining tax credit receivable	-	(236,589)	-	(236,589)
Inventory	(3,200,313)	-	(3,200,313)	-
Prepaid expenses	(105,340)	-	(109,331)	-
Accounts payable and accrued liabilities	3,104,703	183,364	4,892,159	(19,237)
	(1,840,989)	(473,550)	(1,908,169)	(1,380,921)
Cash flows from financing activities				
Subscriptions received	-	1,300,000	-	1,300,000
Advanced from related parties	-	-	-	(30,000)
Deferred financing costs	1,625,085	-	-	-
Net proceeds from issue of shares	18,220,298	132,600	34,122,228	1,590,290
	19,845,383	1,432,600	34,122,228	2,860,290
Cash flows from investing activities				
Capital assets	(1,563,584)	(200)	(1,841,783)	(200)
Deposits	(198,641)	-	(1,210,265)	-
Asset retirement obligations	-	-	356,869	-
Investment	(3,000,000)	-	(3,000,000)	-
Deferred exploration and development expenditures	(10,275,854)	(474,547)	(16,014,714)	(817,565)
	(15,038,079)	(474,747)	(21,709,893)	(817,765)
Increase (decrease) in cash and cash equivalents	2,966,315	484,303	10,504,166	661,604
Cash and cash equivalents at beginning of period	7,634,470	211,990	96,619	34,689
Cash and cash equivalents at end of period	$ 10,600,785	$ 696,293	$ 10,600,785	$ 696,293
Supplemental non-cash financing Information:				
Common shares issued to settle subscriptions	$ -	$ 255,190	$ -	$ -
Broker warrants issued for financing costs	385,219	-	675,776	-

WESTERN CANADIAN COAL CORP.

Consolidated Statement of Deferred Exploration and Development Expenditures
(Prepared without audit)

For the nine months ended December 31, 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	716,630	4,846,362	469,413	1,435,325	39,715	7,507,445
Field programs	-	382,585	-	437,748	16,179	836,512
Consultants	5,828	475,615	-	413,015	50,173	944,631
Coal licenses	18,460	107,540	95,738	36,152	-	257,890
Drilling	-	395,310	-	173,989	-	569,299
Engineering	-	622,201	-	52,758	19,000	693,959
Laboratory	-	9,831	-	2,950	-	12,781
Mining exploration tax credit	-	(59,991)	-	(35,233)	-	(95,224)
Project development	-	2,285,104	-	8,953,577	59,339	11,298,020
Public relations/First nations	-	50,285	-	27,913	-	78,198
Deferred stripping costs	-	-	-	1,061,779	-	1,061,779
Reclamation obligation	-	-	-	356,869	-	356,869
Accumulated amortization	-	-	-	(395,803)	-	(395,803)
	24,288	4,268,480	95,738	11,085,714	144,691	15,618,911
Balance December 31, 2004	$ 740,918	$ 9,114,842	$ 565,151	$ 12,521,039	$ 184,406	$ 23,126,356
Non-producing properties	740,918	9,114,842	565,151	-	184,406	10,605,317
Producing properties	-	-	-	12,916,842	-	12,916,842
Accumulated amortization	-	-	-	(395,803)	-	(395,803)
Balance December 31, 2004	$ 740,918	$ 9,114,842	$ 565,151	$ 12,521,039	$ 184,406	$ 23,126,356

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 AIM Market of the London Stock Exchange ("AIM").

The Company is considered a development stage company, as planned principle operations have only commenced in the quarter ended December 31, 2004. To date, the Company has devoted most of its efforts to raising capital, exploring and developing its coal properties, and acquiring equipment or other operating assets. The exploration and development activities of the Company have been funded primarily by the issuance of share capital.

During the nine 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 commenced coal extraction in late November 2004 at a rate of 60,000 tonnes per month. Trial shipments of PCI coal commenced in 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.

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.

Inventory

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include contract mining costs, direct labour, operating materials and supplies, transportation costs, an applicable portion of operating overhead, but do not include depreciation or depletion costs.

Materials inventory consists of parts and supplies, and is valued at the lower of cost and net realizable value.

Deferred stripping costs

Effective with the commencement of the Dillon Mine operations in the quarter ended December 31, 2004, the Company adopted the industry practice of deferred stripping. Using deferred stripping accounting method, mining costs associated with waste rock removal in excess of the life-of-mine average are deferred and charged to operations on a basis of the average stripping ratio for the life of the mine. When 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 the Dillon mine is 2.17:1 (2.17 bank cubic meters of waste per tonne of product coal).

The amount charged to cost of sales is therefore 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.

Accounting Principles

Except as disclosed in note 9, 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

As at December 31, 2004, deposits included a deposit of $800,000 set aside as security for two letters of guarantee in favour of two key suppliers of products and services for the Dillon Mine operation, a $250,000 deposit made to secure the purchase of certain used plant and equipment, as well as $328,000 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. Investment in Belcourt-Saxon Joint Venture

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. Of the $12 million commitment by the Company, an initial contribution of $3 million was made to December 31, 2004. The joint venture is subject to completion and execution of a formal agreement and 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. (See Note 11).

5. 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 including the non-cash value of broker warrants issued of $290,557) (b)	9,500,000		10,620,707
For cash from private placements of shares (net of issue costs of $2,104,634 including the non-cash value of broker warrants issued of $385,219) (c)	11,428,571		17,895,366
For cash received from the exercise of warrants	6,472,023		4,784,445
For cash received from the exercise of stock options	1,075,866		460,050
Reclassification required due to exercise of warrants	-		675,776
Reclassification required due to exercise of stock options	-		107,816
Balance at December 31, 2004	58,263,823	$	45,074,862

(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. 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.

(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. On September 30, 2004, $4,699,998 of the non-brokered private placement closed and on October 7, 2004, $10,000,000 of the non-brokered private placement closed as did 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 has been attributed to these broker warrants based on the Black-Scholes pricing model and was credited to broker warrants within share capital. Upon exercise of the warrant during the quarter ended December 31, 2004, the $385,219 attributed to this 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 proceeds received on October 7, 2004.

6. Asset retirement obligations

Commensurate with the Dillon site and mine preparation which followed the receipt of the mine permit in September 2004, the Company became 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 resulted in a fair value of $356,869 as of September 30, 2004, the time at which the asset and obligation were recorded.

As at December 31,	**2004**	**2003**
Balance – beginning of period	$ -	$ -
Fair value of asset retirement obligation recorded September 30, 2004	356,869	-
Add: Accretion of liability component of asset retirement obligation	3,331	-
Balance – end of period	360,200	-
Less: Current Portion	-	-
	$ 360,200	$ -

7. Related party transactions

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 this 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 $38,344 (2003 - $207,696) due to officers or directors or companies controlled by officers or directors of the Company.

8. Stock-based compensation

During the nine-month period ended December 31, 2004, the Company granted a total of 2,035,000 stock options at various exercise prices varying from $1.20 to $4.92 per share. During the nine months ended December 31, 2004, an amount of $1,343,360 (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 Dec. 31, 2003		Nine months period ended Dec. 31, 2003
Net loss for the period	As reported	$	(360,851)	$	(1,111,989)
	Pro forma	$	(376,971)	$	(1,220,081)
Basic and diluted loss per share	As reported	$	(0.01)	$	(0.05)
	Pro forma	$	(0.01)	$	(0.05)

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

9. 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.

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	$ 45,062,362	$ (107,816)	$ 44,954,546
Contributed surplus	1,406,902	(1,406,902)	-
Deficit	(8,904,149)	1,514,718	(7,389,431)
Balance as at December 31, 2004	$ 37,564,115	$ -	$ 37,564,115
Share Capital and Deficit			
Share capital	$ 10,530,702	$ -	$ 10,530,702
Contributed surplus	171,358	(171,358)	-
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		Nine months ended	
	Dec. 31, 2004	**Dec. 31, 2003**	**Dec. 31, 2004**	**Dec. 31, 2003**
Net Loss as Reported under Canadian GAAP	$ (2,080,144)	$ (360,851)	$ (4,527,911)	$ (1,111,989)
Adjustment for removal of Stock-based compensation	547,597	-	1,343,360	-
Loss as Reported under IAS	$ (1,532,547)	$ (360,851)	$ (3,184,551)	$ (1,111,989)
Loss per share under IAS	$ (0.03)	$ (0.01)	$ (0.07)	$ (0.05)

10. Lease obligations

Future minimum lease payments due under operating lease agreements for premises and equipment for the next five years are as follows:

For the years ending December 31,	2005	$ 305,568
	2006	311,408
	2007	276,015
	2008	76,852
	2009	70,048

11. Subsequent Event

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. In connection with the private placement, the Company has paid the underwriters a fee of $4,375,000. 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.