
WESTERN CANADIAN COAL CORP.
Consolidated Financial Statements
For the Three Months Ended
June 30, 2005

WESTERN CANADIAN COAL CORP.**CONSOLIDATED BALANCE SHEETS**

(Prepared without audit)

(Expressed in thousands of Canadian dollars)

	June 30, 2005	March 31, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 110,132	\$ 115,186
Accounts receivable	10,459	6,834
Inventory	10,088	8,831
Prepaid expenses	292	207
	<hr/> 130,971	<hr/> 131,058
Deposits (Note 4)	4,172	1,128
Plant and equipment	2,438	2,355
Deferred development expenditures	21,535	15,261
	<hr/> \$ 159,116	<hr/> \$ 149,802
LIABILITIES		
Current liabilities		
Bank indebtedness	\$ 2,737	\$ 2,844
Accounts payable and accrued liabilities	11,716	8,650
Current portion of asset retirement obligations (Note 5)	17	16
Current portion of capital lease obligations (Note 6)	265	172
	<hr/> 14,735	<hr/> 11,682
Asset retirement obligations (Note 5)	1,323	445
Capital lease obligations (Note 6)	648	521
	<hr/> 16,706	<hr/> 12,648
SHARE CAPITAL AND DEFICIT		
Share capital (Note 7)	157,338	156,929
Contributed surplus	2,010	1,755
Deficit	(16,938)	(21,530)
	<hr/> 142,410	<hr/> 137,154
	<hr/> \$ 159,116	<hr/> \$ 149,802

Subsequent Event (Note 13)

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

Approved on Behalf of the Board of Directors:

Gordon Bub, Director

Gary K. Livingstone, Director

WESTERN CANADIAN COAL CORP.**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

(Prepared without audit)

(Expressed in thousands of Canadian dollars, except per share data)

	Three Months Ended	
	June 30, 2005	June 30, 2004
		(As restated)
Revenues	\$ 19,515	\$ -
Cost of goods sold		
Cost of product sold	3,714	-
Transportation and other	6,333	-
Depletion, amortization and accretion	1,497	-
	<u>11,544</u>	<u>-</u>
Operating profit	7,971	-
Other expenses (income)		
General, administration and selling	2,436	1,388
Coal exploration	1,708	74
Interest expense	4	-
Other income	(769)	(9)
	<u>3,379</u>	<u>1,453</u>
Net income (loss) for the period	<u>4,592</u>	<u>(1,453)</u>
Deficit, beginning of period as previously reported	(21,530)	(4,376)
Change in accounting policy	-	(6,182)
Deficit, beginning of period as restated	<u>(21,530)</u>	<u>(10,558)</u>
Deficit at end of period	\$ <u>(16,938)</u>	\$ <u>(12,011)</u>
Earnings (loss) per share		
Basic	\$ 0.06	\$ (0.04)
Diluted	\$ 0.05	\$ (0.04)
Weighted average common shares outstanding		
Basic	79,384,551	33,669,013
Diluted	86,706,681	33,669,013

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

WESTERN CANADIAN COAL CORP.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Prepared without audit)

(Expressed in thousands of Canadian dollars)

	Three Months Ended	
	June 30, 2005	June 30, 2004
		(As restated)
CASH FLOWS FROM (USED IN):		
Operating Activities		
Net income (loss) for the period	\$ 4,592	\$ (1,453)
Items not involving cash and cash equivalents:		
Accretion	73	-
Depletion and amortization	1,905	5
Stock-based compensation	258	389
	6,828	(1,059)
Changes in non-cash working capital items:		
Accounts receivable	(3,625)	(50)
Inventory	(1,617)	-
Prepaid expenses	(85)	(3)
Accounts payable and accrued liabilities	3,066	(454)
	4,567	(1,566)
Financing Activities		
Advanced from related parties	-	200
Bank indebtedness	(107)	-
Repayments on capital lease obligations	(18)	-
Net proceeds from issue of shares	406	11,083
	281	11,283
Investing Activities		
Acquisition of plant and equipment	(181)	(31)
Deposits	(3,044)	(486)
Deferred development expenditures	(6,677)	(1,612)
	(9,902)	(2,129)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(5,054)	7,588
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	115,186	97
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 110,132	\$ 7,685

Supplementary cash flow information (Note 9)

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

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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

1. NATURE OF OPERATIONS

Western Canadian Coal Corp. (the "Company") was incorporated in the Province of British Columbia for the purpose of acquiring, exploring and developing coal mining properties for the international metallurgical coal markets. It is currently focused on bringing into production a high quality portfolio of assets in northeast BC, which will take advantage of the infrastructure already established for the northeast BC coalfields, including rail, port, town and other facilities. The Company is listed on the Toronto Stock Exchange and the Alternative Investment Market of the London Stock Exchange ("AIM").

The Company owns two large multi-deposit coal property groups – the Wolverine and Brazion properties, which include more than 35,000 hectares under lease or application, and holds a 50% limited partnership interest which owns two additional multi-deposit coal property groups - the Belcourt and Saxon properties, which include more than 50,000 hectares under lease or application. On July 27, 2005, the Company received an amended BC government mine permit to allow the Company to mine the 1.56 million tonne coal deposit at its Dillon mine (located on the Burnt River property within the Brazion group) at the rate of 80,000 tonnes per month. In April 2005, the Company received another BC government open-pit mine permit for its Perry Creek mine (located within the Wolverine group). The Company has applied to the BC government to amend this permit to allow the Company to increase its permitted annual coal production from the currently approved annual production level of 1.6 million tonnes to 2.4 million tonnes. Commercial production at Wolverine is anticipated to start in July 2006, following the completion of construction of the coal preparation plant and related facilities. The Company's other properties are at various stages of exploration and development.

Although existing cash resources and anticipated product revenues are currently expected to provide sufficient funds through the upcoming fiscal year, the capital expenditures required to bring the Wolverine open-pit mine and the Company's other properties into production are substantial. As a result, the Company will be required to seek additional financing. In the event that additional funds are not raised as and when required, until such time as the funds are made available, the Company intends to pursue only those development plans that can be funded from existing cash and cash flows generated from its Dillon mine property.

These consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto including the Company's Annual Report for March 31, 2005 and other public disclosure documents.

2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian GAAP using standards for interim financial statements and do not contain all of the information required for annual financial statements. Accordingly, they should be read in conjunction with the most recent annual financial statements of the Company.

Certain comparative figures have been reclassified to conform to the presentation adopted in 2005.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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3. INTEREST IN JOINT VENTURE

On March 2, 2005, the Company acquired a 50% interest in the Belcourt Saxon Coal Limited Partnership (the "Limited Partnership"), a joint venture with NEMI Northern Energy & Mining Inc. ("NEMI"), formed for the exploration and development of the Belcourt and Saxon properties in northeast BC.

The Company's proportionate share of its interest in and results from its joint venture as presented by the Limited Partnership are as follows:

	June 30, 2005	March 31, 2005
Assets		
Cash	\$ 4,166	\$ 4,829
Due from the Company	3,000	3,000
Due from NEMI	2,000	2,000
Other current	79	15
Plant and equipment	46	36
Coal properties and deferred exploration expenditures	1,705	1,028
	<u>\$ 10,996</u>	<u>\$ 10,908</u>
Liabilities and Equity		
Current liabilities	\$ 297	\$ 56
Equity	10,699	10,852
	<u>\$ 10,996</u>	<u>\$ 10,908</u>
Three months ended		
	June 30, 2005	June 30, 2004
Expenses	<u>\$ (50)</u>	<u>\$ -</u>
Cash Flow		
Operating activities	\$ 95	\$ -
Financing activities	2,500	-
Investing activities	1,571	-
	<u>\$ 4,166</u>	<u>\$ -</u>

The Company expenses coal exploration costs as incurred. Exploration costs relating to the consolidation of joint venture to date amount to \$3,590,000, including property acquisition costs of \$1,885,000 and coal property and deferred exploration expenditures of \$1,705,000. Of the \$3,590,000, \$679,000 was charged to operations for the period ended June 30, 2005.

Under royalty agreements applicable to certain properties within the joint venture, the joint venture is obligated to make royalty payments to various third parties based on the selling price upon delivery of all coal sales relating to the those properties, ranging from 0.75% to 1.00%. In addition, the joint venture participants are entitled to a royalty equal to US \$0.50 per tonne of coal produced from that venturers contributed property.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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

4. DEPOSITS

Deposits as presented consist of the following:

	June 30, 2005	March 31, 2005
Restricted reclamation deposits (Note 4(a))	\$ 2,428	\$ 328
Other restricted deposits	1,744	800
	\$ 4,172	\$ 1,128

- (a) In connection with the receipt of the open-pit mine permit for its Wolverine property and the commencement of ground clearing and earthworks, the Company provided the BC government with an initial reclamation security deposit of \$2,000,000. Additional reclamation security deposits for Wolverine of \$1,700,000, \$3,000,000 and \$300,000 are required to be made on the start of pre-production stripping, 12 months after the start of construction, and 24 months after the start of construction, respectively. The amounts may be adjusted for inflation, if the cumulative inflation from January 1, 2006 exceeds 10%. The Company's obligation for additional reclamation security deposits are described in Note 20, "Commitments", to the consolidated audited financial statements as at March 31, 2005.

5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations relate to the restoration and closure of its mine properties. The asset retirement obligations have been recorded as liabilities at fair value, assuming a credit adjusted risk-free discount rate of 5% and an inflation factor of 2.5%. The amounts of the liabilities are subject to re-measurement during each reporting period.

The total undiscounted amounts of the estimated obligations are approximately \$1,914,000 and are expected to be incurred over a ten year period.

The following table summarizes the asset retirement obligations as at and for the three month periods ended June 30, 2005 and March 31, 2005:

	June 30, 2005	March 31, 2005
Balance, beginning of period	\$ 461	\$ -
Fair value of asset retirement obligation recorded during the period	805	450
Add: Accretion of liability component of asset retirement obligation	74	11
Balance, end of period	1,340	461
Less: current portion	(17)	(16)
Long-term portion of asset retirement obligation	\$ 1,323	\$ 445

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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6. CAPITAL LEASE OBLIGATIONS

The Company has certain equipment and plant under capital leases expiring in 2008 and at interest rates between 2.5% to 5.7%. Capital lease obligations as at and for the periods ended June 30, 2005 and March 31, 2005 are as follows:

	June 30, 2005	March 31, 2005
Balance, beginning of period	\$ 693	\$ -
Fair value of capital leases recorded during the period	238	722
Less: payments made during the period	(22)	(35)
Add: interest portion of payments	4	6
Balance, end of period	913	693
Less: current portion	(265)	(172)
Long-term portion of capital lease obligations	\$ 648	\$ 521

7. SHARE CAPITAL

Authorized: Unlimited number of common shares without par value

Issued:

	Number of Shares Consideration	
Balance, March 31, 2005	79,051,240	\$ 156,929
For cash received from the exercise of warrants	375,000	375
For cash received from the exercise of stock options	100,000	35
Transferred to share capital upon exercise of stock options	-	3
Other	-	(4)
Balance, June 30, 2005	79,526,240	\$ 157,338

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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8. STOCK-BASED COMPENSATION

During the three month period ended June 30, 2005, the Company did not grant stock options to officers, consultants and directors (2004 - 910,000). During the three months ended June 30, 2005, an amount of \$257,976 (2004 - \$389,518) was charged to operations in recognition of stock-based compensation expense, based on the vesting schedule for the options granted.

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

	Three months ended	
	June 30, 2005	June 30, 2004
Assumptions:		
Risk-free interest rate (%)	NA	3.95
Expected life (<i>years</i>)	NA	5.0
Expected volatility (%)	NA	91
Expected dividend	NA	Nil
Results:		
Weighted average fair value of options granted (<i>per option</i>)	\$ -	\$ 1.06

9. SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended	
	June 30, 2005	June 30, 2004
Other information:		
Interest paid	\$ 4	\$ -
Income and resource taxes paid	-	-
Non-cash investing and financing transactions:		
Common shares issued to settle subscriptions	\$ -	\$ 314
Warrants issued to brokers for financing services	-	291
Capital lease obligation recognized for assets under capital lease	238	-
Asset retirement obligation recognized for asset retirement cost	805	-

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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

10. RELATED PARTY TRANSACTIONS

- (a) During the three months ended June 30, 2005, there were no related party transactions. During the three months ended June 30, 2004, the Company incurred management and consulting fees of \$65,500 to companies controlled by directors or companies with common directors. During the three months ended June 30, 2004, the Company incurred accounting, management, and investor relations fees of \$127,400 to companies controlled by officers.
- (b) As at June 30, 2005 and March 31, 2005, other than directors fees, there were no accounts payable and accrued liabilities due to companies controlled by directors.

The transactions described above have been recorded at the exchange amount, which is the amount of consideration agreed upon by related parties.

11. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA AND UNITED STATES

Accounting practices under Canadian and United States GAAP, as they affect the Company, are substantially the same, except for the following:

(a) Asset Retirement Obligations

Effective April 1, 2004, the Company adopted the provisions of CICA Handbook Section 3110 for asset retirement obligations in relation to future mine site reclamation and closure costs. 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 and amortized to earnings over the asset's estimated useful life. The provisions under Canadian GAAP require that the provisions be applied retroactively.

Under US GAAP, the provisions of FASB Statement No. 143 were required to have been implemented on or after years beginning January 1, 2003. As the Company's initial asset retirement obligations relating to the restoration and closure of the Dillon and Wolverine mines only arose late in the year ended March 31, 2005, the Company has determined that there are no differences between the balance sheets at June 30, 2005 or the statement of operations for the period then ended, as prepared under US GAAP, as compared to those prepared under Canadian GAAP.

(b) Deferred Stripping

The Company has adopted industry practice in Canada of deferred stripping costs which permits mining costs associated with waste rock removal in excess of the life-of-mine average to be deferred and charged to operations on a basis of the average stripping ratio for the life of the mine. A similar practice is also common in the United States. On March 30, 2005, the EITF reached consensus on issue 04-06 "Accounting for Stripping Costs in the Mining Industry" which would require stripping costs to be accounted as variable production costs that would be considered a component of mineral inventory. As the standard is effective for financial statements issued for fiscal years beginning after December 15, 2005, with early adoption permitted, there are no differences between US GAAP and Canadian GAAP on accounting for deferred stripping costs for the period ending June 30, 2005. The Company is currently evaluating the impact of the new standard, but has not yet determined its impact on the consolidated interim financial statements of the Company.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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(c) Hedging

Under US GAAP, FASB Statement No. 133 (SFAS 133) "Accounting for Derivative Instruments and Hedging Activities", all derivatives are recorded on the balance sheet at their fair value with changes in fair value recognized in earnings of the current period unless specific hedge accounting criteria are met. CICA Handbook Section 3865 "Hedges", whose adoption is optional, establishes standards for when and how hedge accounting may be applied. Management has determined that the derivative instruments currently in place do not meet the requirements of Section 3865 to qualify them as hedges. Accordingly, such instruments that do not qualify for hedge accounting are required to be marked-to-market with changes in their fair value recognized as unrealized gain and losses in the financial statements. As a result, the Company has determined that there are no differences between the balance sheet as at June 30, 2005 or the statement of operations for the period then ended, as prepared under US GAAP, as compared to those prepared under Canadian GAAP.

(d) Comprehensive Income

Under US GAAP, comprehensive income is recognized and measured in accordance with FASB Statement No. 130 "Reporting Comprehensive Income". Comprehensive income includes all changes in equity other than those resulting from investments by owners and distributions to owners. Comprehensive income includes two components, net income and other comprehensive income. Other comprehensive income includes amounts that are recorded as an element of shareholder's equity but are excluded from net income as these transactions or events were attributable to changes from non-owner sources. These items include minimum pension liability adjustments, holding gains and losses on certain investments, gains and losses on derivative instruments and foreign currency gains and losses related to self-sustaining foreign operations. Comprehensive reporting guidelines under Canadian GAAP are required to be adopted for fiscal years beginning on or after October 1, 2006, with earlier adoption permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. The Company has determined, however, that there are no other comprehensive income items affecting these consolidated interim financial statements.

(e) Deferred Development Expenditures

Under Canadian GAAP, development costs may be deferred where economically recoverable reserves have been established and are amortized over their estimated useful life. US GAAP requires exploration on mineral properties prior to the completion of a definitive feasibility study, which establishes proven and probably reserves, to be expensed as incurred. Although the Company has technical reports and/or pre-feasibility reports covering most of its properties under development, they do not meet the definition of a definitive feasibility study as required under US GAAP. Accordingly, under US GAAP, development costs deferred under Canadian GAAP would be required to be expensed as incurred, with retroactive effect.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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

(f) Stock-based Compensation

Statement of Financial Accounting Standards No. 123 ("SFAS 123") requires that stock-based compensation be accounted for based on a fair value methodology. Statement of Financial Accounting Standards No. 148 ("SFAS 148") provides for transitional rules for companies who adopt the fair value method of accounting for stock-based compensation related to stock options. Effective April 1, 2003, the Company voluntarily adopted the fair value method of accounting for stock-based compensation for Canadian GAAP purposes and applied the standard prospectively. Effective April 1, 2003, the Company also adopted the transitional provision of SFAS 148 for US GAAP purposes and applied the standard prospectively. As a result, there is no difference in stock-based compensation expense between Canadian and US GAAP for the three month periods ended June 30, 2005 and 2004.

(g) Accounting for Interests in Joint Ventures

Under US GAAP, interests in joint ventures are generally required to either be consolidated or accounted for by the equity method. However, interests in unincorporated joint ventures in the natural resource industry may be accounted for by proportionate consolidation, as under Canadian GAAP. As the Company's 50% interest in the Belcourt Saxon Coal Limited Partnership is held through an unincorporated joint venture, there is no difference between US GAAP and Canadian GAAP on accounting for this joint venture interest.

Effect of Differences in GAAP on Financial Statements

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

Consolidated Statements of Operations

	Three months ended	
	June 30, 2005	June 30, 2004
Net Income (Loss) under Canadian GAAP	\$ 4,592	\$ (1,453)
Addback:		
Depletion of deferred development costs	1,185	-
Deduct:		
Deferred development costs	(6,677)	(1,612)
Net Loss under US GAAP	\$ (900)	\$ (3,065)
Basic and fully diluted loss per share under US GAAP	\$ (0.01)	\$ (0.09)

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****For the Three Months Ended June 30, 2005**

(Prepared without audit)

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

Consolidated Statements of Deficit

	Three months ended	
	June 30, 2005	June 30, 2004
Deficit in accordance with Canadian GAAP	\$ (16,938)	\$ (12,011)
Deduct: Cumulative effect of adjustment for differences in accounting for deferred development expenditures	(21,535)	(2,937)
Deficit in accordance with US GAAP	\$ (38,473)	\$ (14,948)

Consolidated Balance Sheets

	As at	
	June 30, 2005	March 31, 2005
Total Assets in accordance with Canadian GAAP	\$ 159,116	\$ 149,802
Deduct: Cumulative effect of adjustment for differences in accounting for deferred development expenditures	(21,535)	(15,261)
Total Assets in accordance with US GAAP	\$ 137,581	\$ 134,541

12. SEGMENTED INFORMATION

All of the Company's mining operations are conducted in Canada. The Company's revenues for the period ended June 30, 2005 are derived from coal sales to three major customers in Luxembourg, South Korea and China in the amounts of \$9,715,000 and \$7,014,000 and \$2,786,000 respectively, which each customer representing greater than 10% of total revenues. The Company had no revenues from Canadian customers

13. SUBSEQUENT EVENT

Subsequent to quarter end, the Company entered into a joint venture agreement with Wasabi Energy Limited ("Wasabi"), to explore and develop the Lillyburt coal property located in southeastern British Columbia. Under the terms of the agreement, Wasabi has the right to earn up to 50% of the coal property by investing \$2.5 million by December 2008. More specifically, Wasabi will earn 5% in the joint venture for each \$250,000 expended. The Company will manage the exploration programs on behalf of the joint venture. The joint venture agreement is subject to Wasabi shareholder approval that will be sought at a meeting to be held in September 2005. Wasabi is a junior energy exploration company that is publicly traded on the Australian Stock Exchange and has offices in Western Australia. The Company's major shareholder is also Wasabi's largest shareholder, holding approximately 22% of Wasabi.