

**WESTERN CANADIAN COAL CORP.**

**Consolidated Financial Statements**

**For the Three Months Ended**

**June 30, 2007**

**(Unaudited)**

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

(Unaudited)

(Expressed in thousands of Canadian dollars)

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	<b>June 30, 2007</b>	<b>March 31, 2007</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 36,640	\$ 35,272
Restricted cash	10,000	10,000
Accounts receivable (Note 5)	24,430	15,222
Inventory	34,533	28,522
Prepays and other deposits	8,700	4,581
	114,303	93,597
<b>Deposits and other assets</b>	10,834	9,946
<b>Mineral property, plant and equipment</b>	323,297	321,652
<b>Future income tax asset</b>	15,092	13,380
	\$ 463,526	\$ 438,575
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 26,511	\$ 25,523
Current income tax payable	623	538
Current portion of asset retirement obligations	492	327
Current portion of capital lease obligations	10,341	9,898
Current portion of convertible debentures	10,934	8,730
Current portion of long-term debt (Note 6)	16,330	30,047
	65,231	75,063
<b>Asset retirement obligations</b>	9,759	9,793
<b>Capital lease obligations</b>	35,091	35,649
<b>Convertible debentures</b>	103,273	102,557
<b>Long-term debt (Note 6)</b>	37,168	42,131
	250,522	265,193
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 7)</b>	225,461	182,629
<b>Equity portion of convertible debentures</b>	11,558	11,558
<b>Contributed surplus</b>	6,973	6,256
<b>Deficit</b>	(30,988)	(27,061)
	213,004	173,382
	\$ 463,526	\$ 438,575

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Nature and Continuation of Operations (Note 1), Commitments &amp; Contingencies (Note 13)

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

Approved on Behalf of the Board of Directors:

"John Byrne"

John Byrne, Director

"John R. Brodie"

John R. Brodie, FCA, Director

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**WESTERN CANADIAN COAL CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME**  
(Unaudited)

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

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	<b>Three Months Ended June 30,</b>			
	<b>2007</b>		<b>2006</b>	
<b>Revenues</b>	\$	54,214	\$	29,982
<b>Cost of goods sold</b>				
Cost of product sold		35,153		10,940
Transportation and other		16,087		10,342
Depletion, amortization and accretion		6,947		1,162
		<hr/> 58,187		<hr/> 22,444
<b>Operating (loss) profit</b>		(3,973)		7,538
<b>Other expenses (income)</b>				
General, administration and selling (Note 8)		3,917		2,982
Coal exploration (Note 9)		799		1,266
Interest, accretion and financing fees on long-term debt		5,667		21
Unrealized gain on forward currency contract		(8,028)		-
Other income		(2,073)		(600)
		<hr/> 282		<hr/> 3,669
<b>Net (loss) income before tax</b>		(4,255)		3,869
Income taxes				
Current income tax expense		85		65
Future income tax expense		(1,283)		1,497
		<hr/> (1,198)		<hr/> 1,562
<b>Net (loss) income for the period</b>		(3,057)		2,307
<b>Other Comprehensive Income</b>		-		-
<b>Comprehensive (Loss) Income</b>		<hr/> (3,057)	\$	<hr/> 2,307
<b>(Loss) Earnings per share</b>				
Basic	\$	(0.03)	\$	0.03
Diluted	\$	(0.03)	\$	0.03
<b>Weighted average common shares outstanding</b>				
Basic		97,149,718		84,576,166
Diluted		97,149,718		85,343,022

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

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

(Unaudited)

(Expressed in thousands of Canadian dollars)

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		<b>Three months ended June 30,</b>	
		<b>2007</b>	<b>2006</b>
<b>Deficit, beginning of period as previously reported</b>	\$	(27,061)	\$ (14,076)
Adoption of financial instruments standards (Note 3 (b))		(870)	-
<b>As restated</b>		(27,931)	(14,076)
<b>Net (loss) income for the period</b>		(3,057)	2,307
<b>Deficit, end of period</b>	\$	(30,988)	\$ (11,769)

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**WESTERN CANADIAN COAL CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)(Expressed in thousands of Canadian dollars)

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	<b>Three Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM (USED IN):</b>		
<b>Operating Activities</b>		
Net (loss) income for the period	\$ (3,057)	\$ 2,307
Items not involving cash and cash equivalents:		
Depletion, amortization and accretion	7,648	1,756
Stock-based compensation	288	404
Interest, accretion and financing fees on long-term debt	802	2,835
Unrealized gains on foreign currency forward contracts	(8,028)	-
Future income tax expense	(1,283)	1,497
	(3,630)	8,799
Changes in non-cash working capital items:		
Restricted cash	-	(97)
Accounts receivable	(1,180)	(9,831)
Inventory	(6,228)	14,881
Prepaid expenses	(4,119)	(945)
Accounts payable and accrued liabilities	989	(5,063)
Accrued interest on convertible debenture	2,204	-
Current income tax payable	85	65
	(11,879)	7,809
<b>Financing Activities</b>		
Financing costs	-	(284)
Repayments on capital lease obligations	(2,450)	(1,081)
Repayments on long-term debt	(19,583)	-
Proceeds from issue of shares, net of issue costs	42,832	5,304
	20,799	3,939
<b>Investing Activities</b>		
Acquisition of mineral property, plant and equipment	(6,664)	(64,667)
Deferred transaction costs	(615)	-
Deposits	(273)	(2,149)
Loan receivable	-	(13,125)
	(7,552)	(79,941)
<b>DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>1,368</b>	<b>(68,193)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>35,272</b>	<b>71,274</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 36,640</b>	<b>\$ 3,081</b>

Supplementary cash flow information (Note 11)

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

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

(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.)

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**1. NATURE AND CONTINUANCE 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 portfolio of assets in northeast BC, which 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 ("TSX") and the Alternative Investment Market of the London Stock Exchange ("AIM").

The Company has incurred substantial development costs to place its Wolverine Project – Perry Creek Mine (the "Perry Creek Mine") and the Burnt River - Brule Mine (the "Brule Mine") into commercial production during the second half of fiscal 2007 that ended March 31, 2007. The production ramp-up at the larger of the two mines, the Perry Creek Mine, was slower than anticipated and as a result, cash flows generated to date from the Perry Creek Mine were lower than expected. These productivity issues are expected to be substantially resolved during the fiscal year ending March 31, 2008, however, the Company still has capital obligations in respect of the completion of the Perry Creek Mine. During the quarter ended June 30, 2007 the Company entered into an agreement with its major shareholder governing the rights of the Company and the major shareholder with respect to the acquisition of Falls Mountain Coal Inc. by the Company's major shareholder and the possible subsequent acquisition by the Company. The Company's ability to meet these planned obligations depends on its ability to generate positive cash flow and profits from operations, and on its ability to raise sufficient additional equity or debt. The Company may be required to seek additional equity financing and/or debt financing from its major shareholder or other third parties. There is no assurance, however, that any required funding would be available to the Company on acceptable terms.

**2. BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using standards for interim financial statements and do not contain all of the information required for annual financial statements. These statements follow the same accounting policies and methods of application of the most recent annual audited financial statements, except as described in Note 3. Accordingly, they should be read in conjunction with the most recent annual audited financial statements of the Company.

**3. ADOPTION OF NEW ACCOUNTING STANDARDS**

- (a) Effective April 1, 2007, the Company adopted the revised CICA Section 1506 "Accounting Changes", which requires that: (a) a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

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**WESTERN CANADIAN COAL CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

(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.)

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**3. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)**

- (b) Effective, April 1, 2007, the Company adopted the three new accounting standards and related amendments to other standards on financial instruments issued by the CICA. Prior periods have not been restated.

- (i) Financial Instruments – Recognition and Measurement, Section 3855

This standard prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized on the balance sheet and whether fair value or cost-based measures are used. It also specifies how financial instrument gains and losses are to be presented. All financial instruments and derivatives are measured at fair value on initial recognition. Subsequent measurement depends on the classification of the instrument.

The Company's cash and restricted cash balances have been classified as held-for-trading and are recorded at fair value. Cash equivalents, which include banker's acceptances and commercial paper, have been classified as available-for-sale and are recorded at fair value on the balance sheet with changes in the fair value of these instruments reflected in other comprehensive income and included in shareholders' equity on the balance sheet. Deposits have been classified as held-to-maturity and are recorded at amortized cost.

All derivatives are recorded on the balance sheet at fair value. Mark-to-market adjustments on these instruments are included in net income. In accordance with the standard's transitional provisions, the Company recognizes as separate assets and liabilities only embedded derivatives acquired or substantially modified on or after April 1, 2003.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when the risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

All other financial instruments have been recorded at cost or amortized cost. Transaction costs incurred to acquire financial instruments are included in the underlying balance. Regular-way purchases and sales of financial assets are accounted for on the trade date.

- (ii) Hedges, Section 3865

This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the existing AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The recommendations of this section are optional and are only required if the entity is applying hedge accounting. The adoption of this standard has had no present impact as the Company has not employed hedge accounting which is consistent with prior years.

**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

(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.)

**3. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED)**

## (iii) Comprehensive Income, Section 1530

This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income is the change in net assets during a period from transactions and other events and circumstances from non-owner sources. Other comprehensive income comprises all revenues, expenses, gains and losses that are included in comprehensive income but are not recognized in net earnings, such as those resulting from changes in the fair value of financial assets classified as available for sale.

As at April 1, 2007, the effect on the Company's balance sheet of adopting these standards is summarized as below. As prescribed by these standards, prior periods have not been restated.

	<b>April 1, 2007</b>		
	As reported	Adjusted on adoption of Financial Instrument standards	Restated opening balances in 2007
<b>ASSETS</b>			
Current assets	\$ 93,597	\$ -	\$ 93,597
Deferred financing costs	6,754	(6,754) <sup>(a)</sup>	-
Deposits and other assets	9,922	24 <sup>(a)</sup>	9,946
Mineral property, plant and equipment	321,652	-	321,652
Future income tax asset	13,380	-	13,380
	<u>\$ 445,305</u>	<u>\$ (6,730)</u>	<u>\$ 438,575</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities	\$ 75,063	\$ -	\$ 75,063
Asset retirement obligations	9,793	-	9,793
Capital lease obligations	35,649	439 <sup>(b)</sup>	36,088
Convertible debentures	106,465	(4,068) <sup>(a)(c)</sup>	102,397
Long-term debt	44,953	(2,231) <sup>(a)(c)</sup>	42,722
	<u>271,923</u>	<u>(5,860)</u>	<u>266,063</u>
Shareholders' equity			
Share capital	182,629	-	182,629
Equity portion of convertible debentures	11,558	-	11,558
Contributed surplus	6,256	-	6,256
Deficit	(27,061)	(870) <sup>(b)(c)</sup>	(27,931)
	<u>173,382</u>	<u>(870)</u>	<u>172,512</u>
	<u>\$ 445,305</u>	<u>\$ (6,730)</u>	<u>\$ 438,575</u>

## Notes:

(a) Debt financing costs have been reclassified to their underlying balances of Convertible debentures and Long-term debt. Deferred transaction costs have been reclassified to Deposits and other assets.

(b) Embedded derivatives have been measured at fair value.

(c) Deferred financing costs have been adjusted to be recognized on the effective interest rate method.

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

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**4. INTEREST IN JOINT VENTURE**

The Company owns a 50% interest in the Belcourt Saxon Coal Limited Partnership (the "Joint Venture"). On June 1, 2007, the Company's board approved an expenditure of \$952,000 representing the Company's portion of the continuing development and feasibility related costs of the Joint Venture. \$400,000 of this contribution was made in the quarter ended June 30, 2007, with the remainder expected to be made during the quarter ended September 30, 2007.

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

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
Cash and cash equivalents	\$ 126	\$ 273
Other current	22	22
Deposits	50	50
Mineral property, plant and equipment	24	26
Current liabilities	(124)	(111)
	<b>\$ 98</b>	<b>\$ 260</b>

	<b>Three months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
General, administration and selling	\$ 87	\$ 84
Other income	-	(20)
Coal exploration	524	915
Net loss	<b>\$ 611</b>	<b>\$ 979</b>

Cash Flows		
Operating activities	(497)	(724)
Financing activities	350	-
Investing activities	-	-

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 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 ventures' contributed property.

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

(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.)

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**5. ACCOUNTS RECEIVABLE**

	<b>June 30, 2007</b>	<b>March 31, 2007</b>
Trade accounts receivable	\$ 11,367	\$ 9,678
Goods and services tax receivable	3,199	3,025
Unrealized gain on foreign currency contracts	9,603	2,363
Other	261	156
	<b>\$ 24,430</b>	<b>\$ 15,222</b>

**6. LONG-TERM DEBT**

Although commercial production at the Perry Creek Mine was achieved during the fiscal year ended March 31, 2007, production ramp-up has been slower than anticipated. Productivity during ramp-up has been constrained by the shortage of skilled operators and tradesmen, earlier than usual and severe winter conditions and disrupted shipments to port arising from rail issues which directly impacted mining and plant operations, as well as rail operations. As a result, the Company was in violation of certain of its credit agreement covenants as at March 31, 2007. The Company sought and received waivers from its lenders in respect of these covenants and an amendment to certain covenants required to be met in the future.

In connection with an amendment to the credit agreement subsequent during the quarter ended June 30, 2007, the Company has agreed: to increase the mandatory principal prepayments after December 31, 2007 from 55% to 75% of excess cash flows; to increase the agreement's contingent support account by \$2.5 million to \$12.5 million by September 15, 2007; and to ensure by September 15, 2007, that an additional \$10.4 million is available for debt repayments, including the December 31, 2007 scheduled repayment of \$5.8 million. Western has received a letter of support from its major shareholder in connection with any additional funding requirements to be met with these obligations at September 15, 2007.

Subsequent to June 30, 2007, the Company was in violation of certain covenants relating to the delivery of certain mine and financial planning information to the lenders. The Company has sought and received waivers from its lenders in respect of the covenants.

**7. SHARE CAPITAL**

**Authorized:** Unlimited number of common shares without par value

**Issued:**

	<b>Number of Shares</b>	<b>Consideration</b>
<b>Balance, March 31, 2007</b>	<b>96,727,740</b>	<b>182,625</b>
Net proceeds received from private placement of shares (Note (a))	19,200,000	42,832

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

(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.)

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<b>Balance, June 30, 2007</b>	<b>115,927,741</b>	<b>225,461</b>
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**7. SHARE CAPITAL (CONTINUED)**

- (a) On June 28, 2007, the Company completed a brokered private placement of 19,200,000 units at \$2.35 per unit for gross proceeds of \$45,120,000. Each unit consists of one common share of the Company and one-quarter of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share until June 28, 2012 at an exercise price of \$3.25. The net proceeds of the private placement were used to repay \$19,582,500 of the Wolverine project debt facility and will be used for general corporate purposes including working capital.

**8. GENERAL, ADMINISTRATION AND SELLING**

	<b>Three months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Schedule of expenses:</b>		
Salaries, benefits and other remuneration	\$ 1,586	\$ 1,126
Sales and marketing	492	214
Office and miscellaneous	427	152
Stock-based compensation	288	404
Insurance	240	120
Legal and audit	226	316
Consulting	179	123
Travel and related expenses	169	124
Amortization	139	153
Rent and telecommunications	134	93
Exchange listings and other regulatory fees	25	146
Corporate communications	12	11
	<b>\$ 3,917</b>	<b>\$ 2,982</b>

**9. COAL EXPLORATION**

	<b>Three months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Schedule of expenses:</b>		
Belcourt and Saxon (Note 4)	\$ 524	\$ 915
Other	275	88
Wolverine - Herman	-	263
	<b>\$ 799</b>	<b>\$ 1,266</b>

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

(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.)

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**10. FINANCIAL INSTRUMENTS (Note 3(b))**

		<b>June 30, 2007</b>	
	<b>Effective Annual Interest Rate</b>	<b>Fair Value</b>	<b>Carrying Amount</b>
<b>Financial Assets:</b>			
<b>Cash equivalents</b>			
Canadian dollar denominated	4.00% to 4.36%	\$ 19,881	\$ 19,881
<b>Restricted cash</b>			
	4.41%	\$ 10,000	\$ 10,000
<b>Receivables</b>			
Canadian dollar denominated	n/a	\$ 13,046	\$ 13,046
US dollar denominated	n/a	\$ 6,435	\$ 6,435
<b>Derivatives</b>			
Foreign currency option contracts	n/a	\$ 9,603	\$ 9,603
<b>Term Deposits</b>			
Canadian dollar denominated	2.75% to 4.65%	\$ 10,249	\$ 10,249
<b>Financial Liabilities:</b>			
<b>Accounts payable and accrued liabilities</b>			
Canadian dollar denominated	n/a	\$ 26,513	\$ 26,513
<b>Convertible debenture</b>			
	7.5%	\$ 114,207	\$ 114,207
<b>Long-term debt</b>			
	Prime plus 1.5%	\$ 53,498	\$ 53,498

Cash equivalents consist of commercial paper and banker's acceptances. These are classified as available-for-sale and their fair values have been determined by reference to published price quotations in an active market.

The Company's forward exchange contracts are for the forward sales of US dollars at 1.1721, in the amounts of US \$15,000,000 per month from July through December 2007. This derivative has been classified as held for trading and is recorded at its fair value.

All term deposits held at June 30, 2007 carried initial maturity periods of one year or less. They have been classified as held-to-maturity and accordingly are carried at amortized cost. Given their short term nature and low investment risk, the Company estimates that the carrying amounts of the term deposits approximate their fair values. Term deposits are pledged as collateral against reclamation

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

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security provided to certain governmental regulatory agencies as required under various operating permits of the Company or as security for various vendors.

**10. FINANCIAL INSTRUMENTS (CONTINUED)**

Substantially all of the Company's cash and cash equivalents and term deposits are held with major financial institutions in Canada such that the exposure to credit risk is considered insignificant. Those financial assets that potentially subject the Company to credit risk are primarily receivables, and the Company's maximum credit risk exposure in respect of its receivables is represented by their carrying amount. The Company considers the risk of loss to be significantly mitigated due to the financial strength of the Company's major customers.

All sales revenues for the Company are denominated in US dollars. The Company may also become exposed to currency fluctuations on purchase of certain equipment or facilities for its new mines which are denominated in US dollars. These potential currency risks could have a significant impact on the cost of constructing its mines and on the profitability of the Company. To minimize the risk exposure of foreign currency fluctuations on sales revenues, the Company has entered into a series of forward exchange contracts to fix the rate at which anticipated flows of US dollars are exchanged into Canadian dollars.

The Company's bank loan for financing accounts receivables and its long term debt bear interest at fluctuating rates. The Company believes it is not exposed to significant interest rate risks.

**11. SUPPLEMENTARY CASH FLOW INFORMATION**

	Three months ended June 30,	
	2007	2006
<b>Other information:</b>		
Interest paid	\$ 2,789	\$ 352
<b>Non-cash investing and financing transactions:</b>		
Capital lease obligation recognized for assets under capital lease	\$ 1,850	\$ 122
Asset retirement obligation recognized for future mine reclamation costs	-	4,078

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**12. RELATED PARTY TRANSACTIONS**

- (a) On June 28, 2007, the Company's major shareholder, Cambrian Mining Plc ("Cambrian") subscribed for 2,450,000 Units for aggregate gross proceeds of \$5,757,500 of the private placement. Cambrian and its wholly-owned subsidiary, Deepgreen Minerals Corporation Ltd., now hold approximately 48.3 million common shares representing 42% of the issued common shares of the Company as well as warrants to purchase a further 612,500 common shares of the Company. (Note 7)

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

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- (b) On June 28, 2007, the Company's major shareholder provided a comfort letter regarding future commitments.

**12. RELATED PARTY TRANSACTIONS (CONTINUED)**

- (c) On April 27, 2007, the Company entered into a Master Agreement and Management Agreement with Cambrian. (Note 13)

The transactions described above have been recorded at what management believes to be representative of commercial terms.

**13. COMMITMENTS AND CONTINGENCIES**

- (a) On March 21, 2005, the Company filed a Petition in the Supreme Court of British Columbia to have the Court set aside a Royalty Sharing Agreement ("RSA"), dated March 31, 2000, entered into between the Company and three individuals, two of whom are former directors and officers of the Company. The Company's current Board of Directors had concluded that the transaction which resulted in the RSA was not in the best interests of the Company and had not received the appropriate approvals at the time. The Petition was heard in the British Columbia Supreme Court during the week of February 20, 2006. On February 24, 2006, the court gave oral reasons dismissing the petition.

On March 24, 2006, the Company filed a Notice of Appeal with the Court of Appeal for British Columbia and on October 11, 2006, the Company notified the respondents that the Company was abandoning its appeal but was not altering its position that the RSA was granted in consideration for advances made to the Company and that as such the three individuals were not entitled to receive any royalty payment that represents interest in excess of 60% per annum as provided in section 347 of the Criminal Code of Canada.

The Company has made royalty payments to the three individuals up to the maximum amount which would result in them receiving an effective annual rate of interest infinitesimally greater than 60% on the advances they made to the Company that formed consideration for the royalty.

On January 19, 2007, one of the royalty holders, Mr. Fawcett, initiated a Petition against the Company in the Supreme Court of British Columbia to obtain certain rulings from the court relating to whether the Company is obliged to make further payments to him pursuant to the terms of the RSA. In July, 2007, a second royalty holder, Mr. Gibson, initiated a Petition against the Company in the Supreme Court of British Columbia to obtain similar relief. The third individual has indicated that he will consider himself to be bound by any Court ruling made in the Petition filed by Fawcett.

On March 2, 2007, the Company filed an application in the Supreme Court seeking to convert the Petition brought by Mr. Fawcett to an action to be heard by a trial. The Company's application was dismissed by the Court on July 6, 2007, and the Company has filed a Notice of Appeal for Leave to Appeal that decision to the Court of Appeal.

To June 30, 2007, the Company made payments of \$453,000 representing the maximum payments allowed under section 347 of the Criminal Code of Canada based on the respective advances that each of the three royalty holders made to the Company. The Company has not

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

(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.)

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recorded the additional amount which it believes would, to date, exceed the limit of permissible payments, which at June 30, 2007 is \$835,000.

**13. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

- (b) On April 27, 2007, the Company entered into an agreement (the "Master Agreement") with Cambrian Mining plc ("Cambrian"), the Company's major shareholder, governing the respective rights of the Company and Cambrian with respect to the acquisition of Falls Mountain Coal Inc. ("FMC") by Cambrian from Pine Valley Mining Corporation ("PVMC") and the possible subsequent disposition by Cambrian to the Company.

Cambrian entered into a sale and purchase agreement (the "Purchase Agreement") with PVMC and FMC in which Cambrian will acquire all of the issued and outstanding shares of FMC from PVMC (the "Acquisition"). The proposed consideration to be paid by Cambrian is approximately \$15,600,000 in cash, \$11,000,000 principal amount of 7.5% convertible unsecured subordinated debentures due March 24, 2011 issued by the Company and held by Cambrian, and a royalty payment of \$1.00/tonne, escalating at 2% per annum to a maximum of \$1.50/tonne on coal loaded through the load-out at Willow Creek up to a maximum total royalty payment of \$26,000,000. The acquisition was completed by Cambrian in late June 2007.

The Master Agreement is intended to set out the relationship between the Company and Cambrian with respect to the Acquisition and the operation, management and maintenance by the Company of the Willow Creek Coal Mine owned by FMC. The Master Agreement has three remaining alternatives for disposition of FMC, all of which are subject to the Company receiving all necessary consents and approvals:

- (a) for a period of 180 days following the Acquisition by Cambrian, the Company will be entitled to acquire, and Cambrian will be entitled to require the Company to acquire, all of the shares or assets of FMC, in either case for the purchase price of the consideration paid by Cambrian pursuant to the Purchase Agreement plus any additional contributions made by Cambrian to FMC less any net cash received by Cambrian from the FMC assets taking into account the royalty plus 7.5% per annum of such aggregate costs; or
- (b) in the event that the Company does not acquire the shares or assets of FMC, the Company and Cambrian may form a limited partnership that would develop and operate the Willow Creek Coal Mine and Brule deposits, being the Brazion, Brule and Burnt River property group (the "Brule Deposit"); or
- (c) in the event that none of the aforementioned transaction alternatives are achieved for a period of 270 days after the completion of the Acquisition, Cambrian will have the option to purchase the Brule Deposit from the Company at a purchase price to be agreed between the parties.

The Master Agreement provides that upon the completion of the Acquisition, the Company will pay to Cambrian a fee of \$250,000. Additionally, the Master Agreement provides that the Company will pay Cambrian's reasonable costs in connection with entering into the Purchase Agreement and the Master Agreement. From the date the Acquisition is completed by Cambrian until the termination or expiry of the Master Agreement, the Company shall have the right to use

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**WESTERN CANADIAN COAL CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE THREE MONTHS ENDED JUNE 30, 2007**

(Unaudited)

(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.)

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the coal handling, processing and rail car loading facilities owned by FMC. In consideration for such use, the Company will pay Cambrian \$2.50/tonne of coal loaded through the facilities. The fee ceases to be payable upon the occurrence of the one of the alternatives in (a), (b) or (c) set out above.

**13. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

In accordance with the terms of the Master Agreement, the Company also agreed to the terms of an interim management services agreement with Cambrian dated pursuant to which the Company is to provide Cambrian with the management services and the personnel necessary to operate and maintain the Willow Creek Coal Mine and related facilities.

- (c) As at June 30, 2007, the Company has committed to approximately \$13.4 million of the estimated costs to complete the Perry Creek mine facilities.
- (d) Other commitments are noted elsewhere in these consolidated financial statements (Notes 4 and 10).

**14. SEGMENTED INFORMATION**

All of the Company's mining operations are conducted in Canada. However, the Company had no revenues from Canadian customers. The Company's revenues for the three month periods ended June 30, 2007 and 2006 are derived from coal sales to customers located in the following geographic areas:

	<b>Three months ended June 30,</b>			
	<b>2007</b>		<b>2006</b>	
Asia	\$	41,564	\$	23,951
Europe		12,650		6,031
	\$	54,214	\$	29,982

For each of the three month periods ended June 30, 2007 and 2006, there were four and five customers respectively, with each accounting for greater than 10% of revenues. The percentage of sales to these customers was 95% and 94% respectively for the three months ended June 30, 2007 and 2006.

**15. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the current year presentation.