

WESTERN CANADIAN COAL CORP.

Management's Discussion and Analysis

The following information, prepared as of November 14, 2007, should be read in conjunction with the unaudited consolidated financial statements of Western Canadian Coal Corp. (the "Company") for the three and six-month period ended September 30, 2007, as well as the audited consolidated financial statements for the year ended March 31, 2007, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated. The Company is listed on the Toronto Stock Exchange ("TSX") and the Alternative Investment Market of the London Stock Exchange ("AIM").

This discussion and analysis contains forward-looking statements. Please refer to the cautionary language on page 24.

Summary of Quarter

- Net loss for the quarter is \$43,866,000 or a loss per share of \$0.38. Included in the second quarter 2008 loss were the following one-time or unusual items as listed below. Total impact of unusual or one-time items during the quarter ended September 30, 2007 of \$25,806,000. These are offset by foreign exchange gains recognized on the Company's forward currency contracts of \$1,741,000 or \$0.02 per share.
- The average Canadian/US dollar exchange rate strengthened approximately 5% from the first quarter to the second quarter ended September 30, 2007. This directly impacted revenues as all coal prices are in US dollars. Had the revenues for the quarter ended September 30, 2007 been recognized at the same average rate as during the quarter ended June 30, 2007, revenues would have been \$3,300,000.
- Future income tax asset of \$15,092,000 written off resulting in a non-cash expense of \$14,663,000 during the quarter.
- Write-off of inventory of \$2,803,000 due to the strengthening Canadian dollar and higher production costs. Production costs during the quarter were higher due to mining issues including equipment shortages, poor equipment uptime due to maintenance issues and low productivity due to an inexperienced work force.
- One time terminated contract expense of \$2,590,000.
- Asset-backed commercial paper non-cash impairment charge of \$1,500,000.
- Write-off of abandoned transaction costs included in General, administration and selling costs of \$950,000.
- Total impact of the above items of unusual or one-time items is \$0.22 per share.
- As at September 30, 2007, the Company was in violation of a financial covenant relating to its current ratio. The Company has sought and received a waiver from its lenders with respect to this financial covenant as at September 30, 2007. However, EIC-59 "Long-Term Debt with Covenant Violations" requires that if a covenant is likely to be violated within one year of the balance sheet date, the debt must be classified as current. The Company anticipates that over the next twelve months, under the current credit agreement with the lenders, it will be in violation of certain financial covenants and will be required to seek waivers on these anticipated violations accordingly. In the absence of restructuring or refinancing the current project facility and as a result of the anticipated

covenant violations under the existing project facilities credit agreement the Company has reclassified the entire balance of the long-term debt to current liabilities. In consideration of the financial covenant being waived as at September 30, 2007, the Company has agreed: to increase the additional equity investment in the Company by November 30, 2007 from \$10,000,000 to \$15,000,000 on terms and conditions acceptable to the majority lenders, 25% of the amount by which such net cash proceeds exceed \$15,000,000, shall be deposited in a segregated account by which withdrawals or transfers will require the prior written approval of the lenders; and pay fees in the amount of \$500,000 payable at the earlier of November 30, 2007, an additional equity raising and refinancing of the project facility.

General

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. 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 has the rights to two large multi-deposit coal property groups – the Wolverine and Brazion groups of properties, which include approximately 35,000 hectares located in northeastern British Columbia under license or lease. Additionally, the Company holds directly and indirectly a 50% interest in Belcourt Saxon Coal Limited Partnership, which owns two additional multi-deposit coal property groups - the Belcourt and Saxon groups of properties, which include more than 50,000 hectares under license or application held by Belcourt Saxon Coal Ltd., the general partner of Belcourt Saxon Coal Limited Partnership. The Company's principal property assets are grouped geographically as follows:

- (i) the Perry Creek, EB and Hermann open-pit deposits (collectively, the "Wolverine Project") located within the Company's Wolverine group of coal properties; and
- (ii) the Brule open-pit mine (the "Brule Mine") located within the Company's Burnt River property which forms part of the larger Brazion group of coal properties.

The Company has demonstrated the economic viability of the Wolverine Project and the Brule Mine through independent technical studies that have been publicly disclosed on SEDAR. The Company also owns or holds an interest in a number of other property assets located in northeast and southeast British Columbia that are at a less advanced stage of development.

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 acquisition by the Company (See "Proposed Transaction").

Wolverine – Perry Creek and EB

The Company's Perry Creek and EB coal deposits (collectively, the "Wolverine Project") which include approximately 6,106 hectares under license or lease are located within the Wolverine group of properties in northeastern British Columbia. The technical report on the Wolverine Project dated March 16, 2006 (the "Wolverine Project Technical Report") prepared under the supervision of Richard Marston, P.E., Principal Consultant of Marston Canada Ltd., and a Qualified Person as defined in NI 43-101, a copy of which is available under the Company's profile on the SEDAR website at www.sedar.com, reported that proven metallurgical coal reserves at the Wolverine Project, Perry Creek (the "Perry Creek Mine") are expected to provide 35.8 million tonnes of run-of-mine ("ROM") coal and the probable metallurgical coal reserves at the Wolverine project – EB Mine (the "EB Mine") are expected to provide 7.4 million tonnes of ROM coal. The total amount of saleable export coal contained within the proven reserves of the Perry Creek Mine is estimated to be 22.8 million tonnes, and the total amount of saleable export coal contained within the probable reserves of EB is estimated to be 4.9 million tonnes at an estimated average preparation plant yield of 64% on an as received basis. As at September 30, 2007, at the Perry Creek Mine, there are 32.9 million tonnes of ROM coal and 20.9 million tonnes of saleable export coal remaining.

The Company has developed the Wolverine project as an open pit mine and has obtained an Environmental Assessment (“EA”) Certificate and Mine Permit allowing for annual coal production from the properties of 2.4 million tonnes. The Wolverine preparation plant, however, was designed and built to handle 3.0 million tonnes of hard coking coal per annum. The budgeted capital cost of for the Wolverine Project was estimated to be \$242,000,000, including pre-production stripping costs capitalized to the date of commercial production and contingencies, and excluding mining equipment. As of September 30, 2007, the capital costs of the project are expected to exceed budget by approximately \$2,000,000 due to increased costs of building the maintenance services complex (*See “Capital Expenditures”*). The total value of the initial mining equipment necessary to conduct the mining and stripping operations at the Wolverine Project is approximately \$83,000,000. This equipment is currently on site. In order to reduce up front capital requirements, the Company is leasing to own the majority of the mining equipment.

The Company developed the Perry Creek pit using an experienced mining contractor for the mining operations. The Perry Creek open-pit mine is being operated and managed by the contractor and the Company provides overall management and engineering and operates the coal preparation plant. The Wolverine preparation plant was commissioned in July 2006.

Production statistics for the three and six months ended September 30, 2007 are summarized in the following table:

	Three months ended September 30, 2007	Six months ended September 30, 2007
Waste stripping	4,051,000 bank cubic metres	7,621,000 bank cubic metres
Run-of-mine coal mined	693,000 tonnes	1,577,000 tonnes
Clean coal produced.....	431,000 tonnes	1,011,000 tonnes
Product coal railed to port.....	467,000 tonnes	1,010,000 tonnes
Coal sales	493,000 tonnes	1,033,000 tonnes

During the three months ended September 30, 2007, the Wolverine preparation plant processed approximately 735,000 tonnes of run-of-mine coal for clean coal production of 431,000 tonnes, resulting in a processing yield of 58.6%. Overall process yields are impacted by the mix of coal processed. Of the clean coal produced in the three months ended September 30, 2007, 467,000 tonnes had been railed to port. During the three months ended September 30, 2007, 493,000 tonnes of clean coal were shipped to major steel mills in Europe and Asia.

During the six months ended September 30, 2007, the Wolverine preparation plant processed approximately 1,739,000 tonnes of run-of-mine coal for clean coal production of 1,011,000 tonnes, resulting in a processing yield of 58.1%. Of the clean coal produced, 1,010,000 tonnes had been railed to port. During the six months ended September 30, 2007, 1,033,000 tonnes of clean coal were shipped to major steel mills in Europe and Asia.

Clean coal production during the quarter ended September 30, 2007 has been below the steady-state production of 200,000 tonnes per month due to poor mine production.

No significant issues have arisen with respect to coal quality and quantity available from the pit. In the fiscal year ended March 31, 2007, the Company identified an area of lesser quality coal in the Perry Creek pit originally expected to be hard coking coal. The area is expected to produce approximately 350,000 tonnes of this coal, which is anticipated to be completely mined by the end of fiscal 2008 and sold into the Mid-Vol PCI market.

Based on the 2006 Technical Report, the life-of-mine average cash costs were expected to be \$62.16 per tonne in 2005 dollars. This has been revised to \$71.91 per tonne in current 2007 dollars for 2008 forward as a result of recent review of long term plans. This increase reflects a combination of lower pit equipment productivities and higher wage costs than previously expected, and a general increase in mining input costs. In addition, the administrative and support staff requirements are significantly higher than the levels envisioned in the Technical Report.

It is the Company's intent to increase annual production from 2.4 million tonnes to 3.0 million tonnes per year within the next 24 months subject to the necessary approvals. The extra capacity would facilitate production from future mining activities at other deposits within the Wolverine property group. In order to increase the annual production, additional pit production equipment will be required.

Burnt River – Brule Mine

The Brule Mine is located within the Burnt River coal property approximately 45 kilometers south by road of the BC Rail mainline near Chetwynd, BC. During fiscal 2006, the Company completed a coal reserve estimate for the Brule Mine (Brule and Blind deposits). Detailed mine designs and economic analysis developed the feasibility study and technical report on the Brule Mine entitled "Brule Coal Project of the Burnt River Property" dated October 27, 2005 (the "Brule Coal Project Technical Report") were prepared under the supervision of Edward Minnes, P.E., Senior Project Manager for Marston Canada Ltd. and a Qualified Person as defined in NI 43-101. A copy of the report is available under the Company's profile on the SEDAR website at www.sedar.com. As reported in the Brule Coal Project Technical Report, the Brule Mine proven reserves are expected to provide 22.5 million tonnes of ROM coal. The total amount of salable export coal contained within the proven reserves is estimated to be 21.1 million tonnes at an estimated average preparation plant yield of 92% on a dry basis.

In July 2006, the Company received an EA Certificate from the British Columbia Environmental Assessment Office for the Brule Mine and in February 2007, the Company received a Mine Permit. These allow the Company to produce up to 2.0 million tonnes per annum of ultra-low volatile pulverized coal injection ("ULV-PCI") coal from the Brule Mine, and approve the future development of a new coal rail load-out at Falling Creek Flats in the Pine River Valley, along with associated roads and power lines.

The Company has developed the Brule Mine in a manner similar to its operation at the Dillon Mine, where the reserve is now fully depleted. The Brule Mine is being operated and managed by a mining contractor; however, the Company retains overall management and engineering responsibility for the project and for the operation of the Bullmoose load-out facility, which is being leased from Bullmoose Operating Corporation.

On this basis, the Company estimates that production at the Brule Mine will be approximately 1,000,000 tonnes of ULV-PCI coal per year, and with long-term cash costs per tonne similar to those experienced at Dillon, being sub \$70. The Brule Mine provides a continuity of ULV-PCI production from the Burnt River property to the Company's ULV-PCI customers. With its high caloric value, low ash content and volatile matter of approximately 14%, ULV-PCI coal from the Burnt River property is ranked as a premium PCI coal and has been sold to major steel mills in Europe and Asia.

Production statistics for the three and six months ended September 30, 2007 are summarized in the following table:

	Three months ended September 30, 2007	Six months ended September 30, 2007
Waste stripping	1,189,287 bank cubic metres	1,901,000 bank cubic metres
Run-of-mine coal mined	306,000 tonnes	499,000 tonnes
Product coal to rail	310,000 tonnes	528,000 tonnes
Product coal to port	325,000 tonnes	498,000 tonnes
Coal sales	363,000 tonnes	452,000 tonnes

Non-GAAP Financial Measures

This management's discussion and analysis refers to certain financial measures, such as cash flow generated on coal sales which is not a measure recognized under GAAP in Canada and does not have a standardized meaning prescribed by GAAP. These measures may differ from those made by other corporations and accordingly may not be comparable to such measures as reported by other corporations. We discuss these measures which have been derived from our financial statements, and applied on a consistent basis, because we believe that they are of assistance in the understanding of the results of our operations and financial position.

Cash flow generated on coal sales (see "*Liquidity and Capital Resources*") is the term used by us to describe the cash that is generated from coal sales after the costs of cost of product sold and transportation and other costs.

Market Outlook

The financial performance of the Company is strongly influenced by the price of metallurgical coal, which is set in a highly competitive marketplace and impacted by numerous factors outside the control of the Company. These would include the demand for steel, developments in mining technology, infrastructure capacity constraints, and transportation improvements or degradation, fluctuations in currency, interest rates, political stability and overall economic growth.

The global demand for metallurgical coal rose sharply in late 2004 and early 2005, as crude steel production expanded in pace with buoyant economic growth, particularly in China, India and other developing countries. As a result, prices for coking coal rose sharply for the 2005/2006 coal year, to US\$125 per tonne from the high US\$50s in the previous year. With the announcement of new coal mine developments (spurred by record coal prices) and with steel mills subsequently drawing down inventories built up in early 2005 as security against supply disruption, coking coal prices fell to between US\$95 - \$115 per tonne in the 2006/2007 coal year. Similarly, early settlements for the 2007/2008 coal year resulted in price settlements of between US\$85 - \$98 per tonne. With continued strong economic growth, the global supply of hard coking coal is slowly adjusting to increased demand; however, the continued shortage of transportation infrastructure in the major coal producing countries and scarcity of key mining inputs such as skilled labour, mining equipment and in some areas basic inputs like water have once again skewed the supply-demand balance in favour of the producers. This trend has been evidenced in 2007, with spot price settlements moving upwards as the year has progressed. A recent Canadian spot deal was at US\$120 per tonne. Early 2008 settlements in Europe have been reported at US\$111 - 115 and current negotiations are understood to be in the range of US\$120 - 125. There is no indication that this trend will diminish prior to settling prices for the 2008 coal year and a number of industry analysts are projecting metallurgical coal prices to rise to the US\$135 level.

A similar situation exists in the supply-demand balance for low volatile PCI coals, though the price volatility for these coals will likely be more acute. Constraints on mine production in key supply areas have occurred in 2007 at the same time as demand has increased. Adding to this are recent thermal coal price increases, which impact PCI pricing in that PCI coals, which have superior quality (lower ash and higher heat values) command a substantial price premium above thermal coal benchmark prices. These factors, in conjunction with the Company's own experience with increased prices now being received for its low and mid-volatile PCI coals, is strongly indicative of buoyant pricing for such coals. For the coal year 2008, ULV-PCI coal prices are projected to rise to the US\$95 level. There has been very little tonnage available at spot in this market.

In the longer term, the Company believes that the market fundamentals for metallurgical coal will provide substantial opportunity to increase market diversity and market share. The Company's Wolverine hard coking coal has received positive reviews from some of the world's leading steel mills. The Company's Burnt River low volatile PCI coal is consistently ranked in the top three PCI coals worldwide and has experienced unparalleled demand. These coals, in conjunction with highly efficient rail and port infrastructure with excess capacity, provides to the Company a strategic advantage to grow and diversify.

Guidance

The Company's low volatile PCI coal has been sold to major steel mills in Japan, Korea, China and Europe and its Wolverine hard coking coal is being placed in similarly diverse and growing markets. Previously secured term purchase and sales agreements in Korea for PCI coal have been augmented with sales agreements with the other major Asian and European mills for both PCI and hard coking coal. Further negotiations are currently near completion to structure longer term supply arrangements with top tier steel mills with excellent growth and stability prospects.

During the quarter ended September 30, 2007, both production and rail service have not achieved targeted levels. The Company anticipates 2.2 million tonnes of production from the Perry Creek Mine compared to previous estimates of 2.4 million tonnes, of which approximately 1.9 million tonnes will be marketed as Wolverine hard coking coal compared to previous estimates of 2.1 million tonnes.

Interest in Joint Ventures

The Company has a 50% interest in the Belcourt Saxon Coal Limited Partnership (the "Partnership") which was formed in March 2005, with NEMI Northern Energy & Mining Inc. ("NEMI"). Pursuant to the Partnership Agreement, the Company transferred its Belcourt group of properties and contributed \$12,000,000 to the capital of the Partnership as funding towards the first \$20,000,000 of expenditures that are being incurred to update the feasibility reports and conduct the planned work programs. Similarly, NEMI transferred in its Saxon group of properties and contributed \$8,000,000 to the capital of the Partnership. On November 30, 2006, NEMI transferred its 50% interest in the Partnership to Peace River Coal Limited Partnership. Following the transfer, each of the Company and Peace River Coal Limited Partnership contributed an additional \$950,000 to the Joint Venture in fiscal 2007. In June 2007, the Company's board approved a further contribution of \$952,000 representing the Company's portion of ongoing feasibility related costs of the Partnership. The first portion of the contribution of \$400,000 was contributed in June 2007 with an additional contribution of \$125,000 being made in November 2007. The remaining contribution is expected to be made in the third quarter of fiscal 2008.

The Saxon Group had extensive work programs carried out in the 1970s and early 1980s and feasibility reports were prepared which indicated the potential for large-scale surface coal mining operations. The Belcourt Group was extensively explored by previous license holders in the late 1970s and early 1980s, and more recently studied in 2000 by the Company. Both property groups are located approximately 85 kilometres southeast of Tumbler Ridge and significant improvement of the transportation infrastructure in the area will be required to realize the potential from their development.

Combined historical resource estimates of the four main potential surface mineable areas that fall within the Belcourt Group and the Saxon Group indicate that there may be in excess of 280 million tonnes of coal accessible to the Partnership. However, these historical estimates have not always conformed to the guidelines contained within GCS Paper 88-21 or National Instrument 43-101 and are not to be relied upon. The Partnership believes that both the Belcourt Group and the Saxon Group have the potential to support significant mining operations and is currently advancing these properties to feasibility.

In accordance with CICA Handbook Section 3055 "Interests in Joint Ventures" the Company's audited consolidated financial statements include the Company's proportionate share of the assets, liabilities, revenues and expenses of the Partnership, as summarized in Note 4 thereto.

Proposed Transaction

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 acquired all of the issued and outstanding shares of FMC from PVMC (the “Acquisition”). The Acquisition was completed by Cambrian on June 28, 2007. The consideration paid by Cambrian was 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 Master Agreement sets 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.

Upon completion of the Acquisition by Cambrian, the Company paid 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 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.

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.

Cambrian, together with Cambrian's wholly-owned subsidiary Deepgreen Minerals Corporation Ltd. of Melbourne, Australia currently hold approximately 42% of the Company's issued and outstanding shares. Mr. John Byrne, Chairman of the Company and Mr. John Conlon, a director of the Company, are also directors of Cambrian.

The independent directors of the board of the Company have reviewed the terms of the Master Agreement and the Management Agreement (together, the "Agreements"). Following their initial review, the independent directors requested that certain key provisions of the Agreements be discussed with Cambrian. Following the discussions and further review by the independent directors of the final terms of the Agreements, the independent directors recommended to the board that the Company enter into the Agreements.

The Agreements and the transactions contemplated thereby were approved by the board of directors of the Company at a meeting on April 26, 2007. As Cambrian, together with its subsidiary is a substantial shareholder of the Company, the Master Agreement constitutes a related party transactions under the AIM Rules and the *Business Corporations Act* (British Columbia). Having consulted with the Company's nominated advisor, the directors of the Company, other than John Byrne and John Conlon, who are also directors of Cambrian, consider that the Agreements are fair and reasonable in so far as the shareholders are concerned.

Results of Operations

Comparing the Quarter Ended September 30, 2007 to the Quarter Ended September 30, 2006

Revenues

For the quarter ended September 30, 2007, total sales revenues were \$67,852,000 from the sale of 856,000 tonnes of coal. The average price per tonne realized during the period was \$79.27 or US\$75.57.

During the quarter ended September 30, 2006, total revenues were \$10,703,000 on 142,000 tonnes sold. The average selling price per tonne realized was \$75.37 or US\$67.50. These sales comprised solely of PCI coal from the Dillon Mine, located within the Burnt River property.

The primary reason for the increase in the Company's total revenues over the comparable quarter in the prior year is the increase in sales volume due to the commencement of sales from the Perry Creek Mine. Realized revenues per tonne were adversely affected by a stronger Canadian dollar and lower ULV-PCI sales prices compared to the quarter ended September 30, 2006.

Cost of Goods Sold

Total cost of goods sold for the quarters ended September 30, 2007 and 2006 are \$81,382,000 and \$10,123,000, respectively, or \$95.07/tonne and \$71.29/tonne, respectively.

Cost of product sold include the open-pit mining costs, coal preparation and handling costs, general services and other costs as well as proportionate allocations of overhead. For the quarter ended September 30, 2007, cost of product sold was \$47,014,000 or \$54.92/tonne. Cost of product sold during the period ended September 30, 2006 was \$4,931,000 or \$34.72/tonne. Cost of product sold in the 2006 quarter solely relates to ULV-PCI coal as the Perry Creek Mine was still in development. The increase in the current quarter's per unit cost of product sold over the comparable prior quarter is due to the slower than anticipated start-up of the Perry Creek Mine and the requisite processing required on the Perry Creek hard coking coal through the coal preparation plant. Specifically, during the quarter, production issues at the mine were due to equipment shortages, poor equipment uptime due to maintenance issues and low productivity of an inexperienced workforce. Further, during the quarter ended September 30, 2007, the Company wrote down its coal inventory balance to its net realizable value. This write-down of \$2,803,000 was required due to the

strengthening of the Canadian dollar in comparison to the US dollar and higher production costs. All sale prices are denominated in US dollars. Per unit cost of product sold for the Brule Mine, based on similar strip ratios and mining operations as the Dillon mine have increased compared to those at Dillon due to higher fuel costs.

Transportation and other costs include the coal haul to the rail load-out, rail costs including surcharges and fuel allocations, port charges, as well as various surveying and agent fees incurred in loading vessels. For the quarter ended September 30, 2007, total transportation and other costs were \$26,056,000 or \$30.44/tonne. Transportation and other costs incurred during the quarter ended September 30, 2006 and relating solely to ULV-PCI coal were \$4,606,000 or \$32.44/tonne. The decrease in per unit transportation costs resulted from reduced trucking expenditures since there is no truck haul associated with Perry Creek hard coking coal. Burnt River ULV-PCI coal is trucked 94 km to the Bullmoose load-out.

Depletion and amortization relate to the various capital expenditures required for mine development and production. These are primarily calculated on a unit of production basis with various pieces of equipment being charged on either a declining balance or straight-line basis. The accretion costs represent charges incurred on the asset retirement obligation. Depletion, amortization and accretion charges for the quarter ended September 30, 2007 are \$8,312,000 or \$9.71/tonne. Depletion, amortization and accretion expensed for the quarter ended September 30, 2006 relating solely to ULV-PCI coal amounted to \$586,000 or \$4.13/tonne. The increase in the period is due to the additional depletion, amortization and accretion charges related to the Perry Creek Mine assets.

Operating Profit / Loss

Operating loss for the quarter ended September 30, 2007 was \$13,530,000. This was the result of revenues from 856,000 tonnes of coal at an average price of \$79.27/tonne for total revenues of \$67,852,000, net of cost of goods sold of \$81,382,000 at an average cost of \$95.07/tonne.

Operating profit for the quarter ended September 30, 2006 was \$580,000. This was a result of sales of 142,000 tonnes at an average price of \$75.37 per tonne, for total revenues of \$10,703,000, net of cost of goods sold of \$10,123,000 at an average cost of \$71.29/tonne.

Operating loss for the quarter ended September 30, 2007 was adversely affected by the strengthening Canadian dollar. The average foreign exchange rate for revenue in the quarter ending September 30, 2007 was 8% lower compared to the same period in the prior fiscal year. Further, during the current quarter, there were production issues at the mine which resulted in higher costs.

Other Expenses

(000's of Canadian dollars)	September 30, 2007	September 30, 2006	\$ Change	% Change
Salaries, benefits and other remuneration	\$ 1,692	\$ 1,261	\$ 431	34%
Consulting	1,245	245	1,000	408%
Legal and audit	438	107	331	309%
Sales and marketing	435	152	283	186%
Office and miscellaneous	393	197	196	99%
Insurance	212	100	112	112%
Amortization	148	119	29	24%
Travel and related expenses	143	268	(125)	(47)%
Rent and telecommunications	129	117	12	10%
Stock-based compensation	77	755	(678)	(90)%
Exchange listings and other regulatory fees	63	90	(27)	(30)%
Corporate communications	11	95	(84)	(88)%
	\$ 4,986	\$ 3,506	\$ 1,480	42%

General, administration and selling costs for the quarter ended September 30, 2007 increased by \$1,480,000 or 42% to \$4,986,000 over the same period in the prior fiscal year. The increase is primarily due to the Company writing off previously deferred transactions costs relating to an abandoned transaction. Further, the increase can be attributed to an increase in salaries, benefits and other remuneration as a result of the Company increasing its staffing levels to support a larger scale operation, an increase in sales and marketing costs, which are a function of coal sales from the Perry Creek Mine, an increase in office and miscellaneous costs, which are a function of supporting a larger scale operation and an increase in legal fees due to legal consulting provided during the quarter. These increases are partially offset by a decrease in stock based compensation due to a lower weighted average fair value of options granted and travel expenses which are a function of timing of employee travel. The remaining increase in other expenses is due to building the necessary support systems for a larger, multi-operational company.

Coal exploration expenditures for the quarter ended September 30, 2007, including the Company's proportionate share of expenses recorded by the Partnership of \$287,000, decreased to \$1,006,000 from \$2,741,000 in the same quarter in the prior fiscal year. Coal exploration costs include property development expenditures, field programs, consultants, coal license and lease payments, engineering, environmental costs and other project administration expenses. Exploration costs are charged to earnings in the quarter in which they are incurred, except where these costs related to specific properties for which economically recoverable reserves have been established, in which case they are capitalized.

(000's of Canadian dollars)	September 30, 2007	September 30, 2006	\$ Change	% Change
Belcourt and Saxon	\$ 287	\$ 982	\$ (695)	(71)%
Willow Creek	437	-	437	100%
Other	282	82	200	243%
Wolverine - Hermann	-	1,677	(1,677)	(100)%
	\$ 1,006	\$ 2,741	\$ (1,735)	(63)%

Interest and accretion on the Company's convertible debentures, interest on the Company's debt facilities and capital leases, and the amortization of deferred financing costs, all of which relate to the Wolverine Project, commenced being charged to operations effective October 1, 2006, when the Perry Creek Mine was

determined to have reached commercial production. Prior to October 1, 2006, such costs were capitalized to the project. For the quarter ended September 30, 2007, interest, accretion and amortization of financing fees on long-term debt were \$6,211,000 (2006 – \$(15,000)).

The Company recorded impairment on its asset-backed commercial paper of \$1,500,000 during the quarter ended September 30, 2007. As at September 30, 2007, the Company held two Canadian third party asset-backed commercial papers (“ABCP”) with a total maturity value of \$5 million. When the Company acquired these investments, they were rated R1 (High) by the Dominion Bond Rating Service (“DBRS”), the highest credit rating issued for commercial paper, and backed by R1 (High) rated assets and liquidity agreements. These investments reached their maturity dates during the quarter ended September 30, 2007 but did not settle on maturity due to the liquidity issues in the ABCP market. The ABCP in which the Company has invested continues to be rated R1 (High, Under Review with Developing Implications) by DBRS. These investments were designated as available-for-sale and were included in the cash and cash equivalent balance. For the quarter ended September 30, 2007, these investments have been reclassified to non-current assets.

On August 16, 2007 an announcement was made by a group representing the banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement to convert the ABCPs into long-term floating rate notes maturing no earlier than the scheduled maturity of the underlying assets. On September 6, 2007, a restructuring committee was formed to propose a solution to the liquidity problem affecting the ABCP market. On October 16, 2007, it was announced that the committee expected that the restructuring would be completed on or before December 14, 2007. By means of Extraordinary Resolutions of the trusts that had issued ABCP, until December 14, 2007, trading has ceased and investors have committed not to take any action that would cause an event of default.

The ABCP in which the Company has invested has not traded in an active market since mid-August 2007. The Company has assessed the fair value of these instruments by obtaining bid prices from private third parties. The change in fair value is considered to be other than temporary and as a result, an impairment charge has been recorded during the period of \$1,500,000.

The valuation of these investments involves management’s judgment. Actual results could differ from the estimates and assumptions used.

In fiscal 2007, the Company bid on tendered contracts for the sale of hard-coking coal from the Perry Creek mine. The Company was awarded two contracts. As part of these contracts, the Company was required to post performance bonds through letters of credit for US\$891,000 relating to the first contract and US\$1,154,000 relating to the second contract. The letters of credit are supported by term deposits which are included on the balance sheet in the Prepaids and Other Deposits line. Both of these contracts were contingent on the acceptance of a trial shipment of Wolverine hard-coking coal. Notification of acceptance of the trial shipment for the first contract was made after the expiry of the first contract. The acceptance under the second contract was not made in time for the Company to arrange for shipment. The Company tried to restructure the contracts, but could not come to an agreement with the customer. As a result, the customer terminated the two contracts. As at September 30, 2007, the customer called on the letters of credit for non-delivery of product. These amounts were paid as required by the letters of credit in October 2007. The Company has recorded a charge in its financial statements during the period and provided a provision against the deposits supporting the letters of credit. The Company does not agree with the exercise of the letters of credit and is currently reviewing its options. Previously deferred sales commissions relating to these contracts totalling \$537,000 have been expensed during the quarter ended September 30, 2007.

During the quarter ended September 30, 2007, the Company recorded \$1,741,000 of gains relating to its forward contracts entered into by the Company to mitigate its exposure to currency fluctuation for the period ended September 30, 2007 (*See “Financial Instruments”*), of which \$801,000 are unrealized at the end of the quarter. During the quarter ended September 30, 2007, the Company crystallized its forward US dollar currency exchange contracts and realized, previously recorded unrealized foreign exchange gains. These contracts were crystallized as a requirement to make the agreed upon long-term debt repayment in September

2007. In the quarter ended September 30, 2006, the company recorded a foreign exchange gain of \$268,000 resulting from put and call option contracts, or costless collars, entered into by the Company to mitigate its exposure to currency fluctuations.

Other expenses amounted to \$1,206,000 for the quarter ended September 30, 2007, as compared to other income \$154,000 in the prior year. Other expense for the period ended September 30, 2007 consisted of \$1,461,000 of realized forward exchange losses on transactions, \$385,000 in interest on short term investments and \$130,000 in miscellaneous expenses. Other income for the period ended September 30, 2006 consisted of interest on short-term investments of \$172,000 offset by other expenses of \$18,000.

Net Income / Loss

Net loss for the quarter ended September 30, 2007 was \$43,866,000 compared to a net loss of \$4,757,000 for the same period in the previous fiscal year. Net loss quarter reflects: an operating loss of \$13,530,000; other expenses totalling \$15,758,000 including general, administrative and selling expenses; coal exploration; and interest, accretion and financing fees on long-term debt; a current income tax recovery of \$85,000 and write-off of previously recognized future income tax assets of \$14,663,000. Per CICA Handbook Section 3465 "Income Taxes", a future income tax asset can only be realized as a result of it being "more likely than not" that sufficient future taxable income will be available to utilize such future income tax assets. The future income tax asset must be assessed on a regular basis. The "more likely than not" criteria is difficult to meet when there is unfavourable evidence such as cumulative losses in recent years and a history of tax losses. Given the Company's operating history, the Company does not believe that it currently meets these "more likely than not" criteria and as a result has written off the previously recorded future income tax asset.

Comparing the Six Months Ended September 30, 2007 to the Six Months Ended September 30, 2006

Revenues

For the six month period ended September 30, 2007, total sales revenues were \$122,066,000 from the sale of 1,485,000 tonnes of coal. The average price per tonne realized during the period was \$82.20 or US\$76.75.

During the six month period ended September 30, 2006, total revenues were \$40,685,000 on 462,000 tonnes sold. The average selling price per tonne realized was \$88.06 or US\$78.48. These sales comprised solely of PCI coal from the Dillon Mine, located within the Burnt River property.

The primary reason for the increase in the Company's total revenues over the comparable period in the prior year is the increase in sales volume due to the commencement of sales from the Perry Creek Mine. Realized revenues per tonne were adversely affected by a stronger Canadian dollar and lower ULV-PCI sales prices compared to the period ended September 30, 2006.

Cost of Goods Sold

Total cost of goods sold for the six months ended September 30, 2007 and 2006 are \$139,569,000 and \$32,567,000, respectively, or \$93.99/tonne and \$70.48/tonne, respectively.

Cost of product sold include the open-pit mining costs, coal preparation and handling costs, general services and other costs as well as proportionate allocations of overhead. For the six month period ended September 30, 2007, the cost of product sold was \$82,167,000 or \$55.33/tonne. Cost of product sold during the six month period ended September 30, 2007 amounted to \$15,871,000 or \$34.35/tonne.

Cost of product sold in the 2006 period solely relates to ULV-PCI coal as the Perry Creek Mine was still in development. The increase in the current period's per unit cost of product sold over the comparable prior period is due to the slower than anticipated start-up of the Perry Creek Mine and the requisite processing

required on the Perry Creek hard coking coal through the coal preparation plant. Further, an inventory write-off was recorded during the period to write down the inventory to its net realizable value.

Transportation and other costs include the coal haul to the rail load-out, rail costs including surcharges and fuel allocations, port charges, as well as various surveying and agent fees incurred in loading vessels. For the six month period ended September 30, 2007, total transportation and other costs were \$42,143,000 or \$28.38/tonne. Transportation and other costs incurred during the six month period ended September 30, 2006 and relating solely to ULV-PCI coal were \$14,948,000 or \$32.35/tonne.

The decrease in per unit transportation costs resulted from reduced trucking expenditures since there is no truck haul associated with Perry Creek hard coking coal. Burnt River ULV-PCI coal is trucked 94 km to the Bullmoose load-out.

Depletion and amortization relate to the various capital expenditures required for mine development and production. These are primarily calculated on a unit of production basis with various pieces of equipment being charged on either a declining balance or straight-line basis. The accretion costs represent charges incurred on the asset retirement obligation.

Depletion, amortization and accretion charges for the six month period ended September 30, 2007 are \$15,259,000 or \$10.28/tonne. Depletion, amortization and accretion expensed for the six month period ended September 30, 2006 relating solely to ULV-PCI coal amounted to \$1,748,000 or \$3.78/tonne. The increase in the period is due to the additional depletion, amortization and accretion charges related to the Perry Creek Mine assets.

Operating Profit / Loss

Operating loss for the six month period ended September 30, 2007 was \$17,503,000. This was the result of revenues from 1,485,000 tonnes of coal at an average price of \$82.20/tonne for total revenues of \$122,066,000, net of cost of goods sold of \$139,569,000 at an average cost of \$93.99/tonne.

Operating profit for the six month period ended September 30, 2006 was \$8,118,000. This was a result of sales of 462,000 tonnes at an average price of \$88.06 per tonne, for total revenues of \$40,685,000, net of cost of goods sold of \$32,567,000 at an average cost of \$70.48/tonne.

Other Expenses

General, administration and selling costs for the six month period ended September 30, 2007 increased by \$2,415,000 or 37% to \$8,903,000 over the same period in the prior fiscal year. The increase is primarily due to the Company writing off previously deferred transactions costs relating to an abandoned transaction. Further, the increase can be attributed to an increase in salaries, benefits and other remuneration as a result of the Company increasing its staffing levels to support a larger scale operation, an increase in sales and marketing costs, which are a function of coal sales from the Perry Creek Mine, an increase in office and miscellaneous costs, which are a function of supporting a larger scale operation and an increase in legal fees due to legal consulting provided during the period. These increases are partially offset by a decrease in stock based compensation due to a lower weighted average fair value of options granted. The remaining increase in other expenses is due to building the necessary support systems for a larger, multi-operational company.

Coal exploration expenditures for the six month period ended September 30, 2007, including the Company's proportionate share of expenses recorded by the Partnership of \$811,000, decreased to \$1,805,000 from \$4,007,000 in the same period in the prior fiscal year. Coal exploration costs include property development expenditures, field programs, consultants, coal license and lease payments, engineering, environmental costs and other project administration expenses. Exploration costs are charged to earnings in the quarter in which they are incurred, except where these costs related to specific properties for which economically recoverable reserves have been established, in which case they are capitalized.

Interest and accretion on the Company's convertible debentures, interest on the Company's debt facilities and capital leases, and the amortization of deferred financing costs, all of which relate to the Wolverine Project, commenced being charged to operations effective October 1, 2006, when the Perry Creek Mine was determined to have reached commercial production. Prior to October 1, 2006, such costs were capitalized to the project. For the six month period ended September 30, 2007, interest, accretion and amortization of financing fees on long-term debt were \$11,878,000 (2006 – \$6,000).

The Company recorded impairment on its asset-backed commercial paper of \$1,500,000 during the six month period ended September 30, 2007.

The Company recorded an expense of \$2,590,000 during the six month period ended September 30, 2007 in relation to the terminated sale contracts.

During the six month period ended September 30, 2007, the Company recorded \$11,204,000 of gains relating to its forward contracts entered into by the Company to mitigate its exposure to currency fluctuation for the period ended September 30, 2007 (*See "Financial Instruments"*), of which \$801,000 are unrealized at the end of the quarter. During the six month period ended September 30, 2007, the Company crystallized its forward US dollar currency exchange contracts and realized, previously recorded unrealized foreign exchange gains. In the six month period ended September 30, 2006, the company recorded a foreign exchange gain of \$268,000 resulting from put and call option contracts, or costless collars, entered into by the Company to mitigate its exposure to currency fluctuations.

Other expenses amounted to \$568,000 for the six month period ended September 30, 2007, as compared to other income \$754,000 in the prior year. Other expense for the period ended September 30, 2007 consisted of \$823,000 of realized forward exchange losses on transactions, \$385,000 in interest on short term investments and \$130,000 in miscellaneous expenses.

Net Income / Loss

Net loss for the six month period ended September 30, 2007 was \$46,923,000 compared to a net loss of \$2,450,000 for the same period in the previous fiscal year. Net loss for the six month period ended September 30, 2007 period reflects: an operating loss of \$17,503,000; other expenses totalling \$16,040,000 including general, administrative and selling expenses; coal exploration; and interest, accretion and financing fees on long-term debt; and a write-off of previously recognized future income tax assets of \$13,380,000. Per CICA Handbook Section 3465 "Income Taxes", a future income tax asset can only be realized as a result of it being "more likely than not" that sufficient future taxable income will be available to utilize such future income tax assets. The future income tax asset must be assessed on a regular basis. The "more likely than not" criteria is difficult to meet when there is unfavourable evidence such as cumulative losses in recent years and a history of tax losses. Given the Company's operating history, the Company does not believe that it currently meets these "more likely than not" criteria and as a result has written off the previously recorded future income tax asset.

Capital Expenditures

During the period ended September 30, 2007, mineral property, plant and equipment, net of accumulated depletion and amortization, increased to \$332,868,000 from \$321,652,000. For the six month period ended September 30, 2007, costs of \$20,109,000 were incurred relating to the Wolverine Project and included \$6,958,000 relating to remaining initial mine development costs, \$3,260,000 relating to the construction of the service complex and \$9,891,000 relating to the acquisition of equipment. At the Company's corporate office, capital expenditures of approximately \$486,000 were incurred relating to the implementation of an enterprise resource planning system. Of the \$244,000,000 revised budget for plant, facilities, site infrastructure and mine development, the Company has approximately \$10,658,000 remaining to complete

the ancillary facilities in calendar 2007 (See “*Liquidity and Capital Resources*”). The Company has completed the spending on the initial mine equipment budgeted at \$83,000,000.

Summary of Quarterly Results (unaudited)

(000’s of dollars, except tonnes, per tonne and per share data)

	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005
Coal Production (tonnes)	737,000	798,000	552,000	371,000	297,000	111,000	213,000	114,000
Coal Sales (tonnes)	856,000	629,000	474,000	474,000	142,000	320,000	142,000	83,000
Average US \$ Coal Price (per tonne)	\$75.57	\$78.36	\$79.16	\$89.80	\$67.50	\$83.11	\$68.25	\$101.73
Average CAD \$ Coal Price (per tonne)	\$79.27	\$86.19	\$92.52	\$102.68	\$75.37	\$93.69	\$78.21	\$118.79

Per Unit Cost of Goods Sold:

Cost of Product sold (per tonne)	\$54.93	\$55.89	\$ 59.13	\$ 63.38	\$ 34.72	\$ 34.19	\$ 32.53	\$ 35.71
Cost of Transportation (per tonne)	\$30.44	\$25.58	\$ 27.41	\$ 25.41	\$ 32.44	\$ 32.32	\$ 37.48	\$ 35.24
Depletion, amortization and accretion (per tonne)	\$9.71	\$11.05	\$ 10.22	\$ 9.91	\$ 4.13	\$ 3.63	\$ 7.86	\$ 3.29

Summary:

Total Revenues	\$67,852	\$54,214	\$ 44,760	\$ 48,676	\$ 10,703	\$ 29,982	\$ 11,094	\$ 9,856
Net Earnings (Loss)	\$(43,866)	\$(3,057)	\$ (3,289)	\$ (7,246)	\$ (4,757)	\$ 2,307	\$ (1,940)	\$ (383)
Net Earnings (loss) per share – Basic	\$(0.38)	\$(0.03)	\$ (0.03)	\$ (0.08)	\$ (0.05)	\$ 0.03	\$ (0.03)	\$ -
Net Earnings (loss) per share – Diluted	\$(0.38)	\$(0.03)	\$ (0.03)	\$ (0.08)	\$ (0.05)	\$ 0.03	\$ (0.03)	\$ -
Total Assets	\$412,135	\$463,526	\$438,575	\$429,487	\$413,784	\$ 350,353	\$ 341,280	\$ 176,134

The Company’s quarterly results are reflective of the start of commercial production and sales from three separate mines: the Dillon Mine on the Burnt River property in the fourth quarter of fiscal 2005; the Perry Creek Mine within the Wolverine property in the third quarter of fiscal 2007 and the Brule Mine on the Burnt River property in the fourth quarter of fiscal 2007. Fluctuations in quarterly results reflect the volumes and timing of such shipments, the net price realized in US dollars on such sales, the US/Canadian dollar exchange rate, and costs of production, transportation costs and depreciation and depletion. Sales volumes, the average realized US dollar and Canadian dollar prices are presented in the preceding table. Other factors influencing quarterly results are the continued growth and transition of the Company over the past eight quarter periods from a junior coal exploration company into a coal producer. Additionally, with commercial production at Wolverine determined to have commenced on October 1, 2006, effective with that date, interest on the Company’s convertible debentures, debt facility and capital leases, and the amortization of deferred financing costs, have been charged to operations. Prior to October 1, 2006, such costs were capitalized to the project.

As a result of the growth of the Company, general, selling and administrative costs have increased over the last eight quarter periods. These costs include salaries, benefits and other remuneration which have increased

to support the growth of the Company, stock based compensation expense, which vary from quarter to quarter and sales and marketing costs (including royalties) related to the sale of Wolverine coal. Other income in the quarters for fiscal 2007 included lower levels of investment income due to the funds from the financings in prior quarters being used for the construction of the Perry Creek Mine, and foreign exchange gains (losses) realized on the put and call options and forward contracts of \$268,000, nil, \$(1,434,000) and \$2,105,000 in the first, second, third and fourth quarters, respectively, of fiscal 2007 and \$3,317,000 and \$10,402,000 in the first and second quarters, respectively of fiscal 2008. With the formation of the Partnership in March 2005, the Company commenced recording significant exploration expenses related to the Belcourt and Saxon properties. The Company's share of coal exploration expenses from the Partnership were \$915,000, \$982,000, \$477,000 and \$367,000 in the first, second, third and fourth quarters, respectively, of fiscal 2007 and \$524,000 and \$287,000 in the first and second quarters, respectively of fiscal 2008. Coal exploration costs relating to the Belcourt and Saxon properties are anticipated to decrease in the current fiscal year.

The increase in total assets over the eight quarter period reflects the significant financing activities conducted by the Company, commencing in the fourth quarter of fiscal 2005 and through to June 30, 2007, and the development and construction of the Perry Creek and Brule Mines. Total assets decreased from June 30, 2007 to September 30, 2007 due to the repayment of the long-term debt and the write off of the Company's future income tax asset.

Financing Activities

During the six month period ended September 30, 2007, \$104,000 was raised pursuant to the exercise of 63,500 stock options. During the six month period ended September 30, 2006, \$5,279,000 was raised pursuant to the exercise of 3,519,600 share purchase warrants and \$255,000 was raised pursuant to the exercise of 270,768 stock options.

On September 14, 2007, the Company repaid \$20,000,000 of its long-term debt. In relation to the repayment of its long-term debt, the Company incurred fees of approximately \$2,021,000. Of the fees incurred, \$1,050,000 was default interest as the Company has been operating under a waiver, with the remaining fees being agency and advisory fees in relation to the bank loan.

On September 14, 2007, the Company received a loan from its major shareholder, Cambrian Mining Plc. ("Cambrian") for \$5,000,000 with a principal payment date of July 15, 2011. The loan is convertible at the option of Cambrian at a conversion price of \$2.35 per common share until the principal payment date. Interest accrues at 8% per year and if not converted to common shares or repaid by July 31, 2008, the interest will accrue at 12% per year and a fee of \$125,000 becomes earned. Interest and fees are payable on the principal payment date. The Company may make prepayment at any time. The loan is secured against the Company's asset-backed commercial paper. Cambrian may at its option require the Company to liquidate its asset-backed commercial paper and apply the proceeds to the principal.

The Company will make mandatory repayments of the loan if any of the below occur:

- a) The Company refinances its long-term debt. The mandatory repayment will be equal to the amount of the net proceeds generated from the refinancing in excess of the financial obligations due.
- b) The Company has issued shares in its capital before the principal repayment date for a cumulative amount being above \$10,000,000. The mandatory repayment will be equal to the amount of the net proceeds generated from the share issuance above \$10,000,000.
- c) The Company has obtained third party financing to refinance or replace the long-term debt. The mandatory repayment amount will be equal to the net proceeds of the financing.

The fee for making the loan is \$100,000 payable on the principal repayment date and 520,000 warrants to purchase new common shares in the capital of the Company at an exercise price of \$3.25 until September 30, 2008 subject to the Company obtaining the necessary regulatory approvals. These warrants have not yet been issued.

On June 29, 2007, the Company made its first principal repayment on its Wolverine project debt facility of \$19,583,000.

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 \$42,804,000 from the private placement were used to repay \$19,582,500 of the Wolverine project debt facility and for general corporate purposes including working capital.

During the six month period ended September 30, 2007, the Company completed five capital lease arrangements for approximately \$10,053,000 in production equipment at Perry Creek.

Liquidity and Capital Resources

The Company's aggregate operating, investing and financing activities during the six month period ended September 30, 2007 resulted in a net decrease to cash of \$21,758,000. As at September 30, 2007, the Company's cash balance stood at \$13,514,000 (including the Company's share of the Partnership's cash of \$97,000) and working capital deficit was \$24,264,000. During the six month period ended September 30, 2007, the Company completed a brokered private placement for net proceeds of \$42,804,000, received a loan from its major shareholder for \$5,000,000 and repaid \$39,583,000 of its long-term debt (*See "Financing Activities"*).

For the six month period ended September 30, 2007, cash inflow of \$8,960,000 was generated on coal sales of \$122,066,000 before depletion, amortization and accretion and working capital changes and including gains realized on its foreign currency contracts, and for the period ended September 30, 2006, cash inflow of \$9,866,000 was generated on coal sales of \$40,685,000. Cash flows generated from future shipments of metallurgical coal will depend on volumes, settlement prices, exchange rates, the level of operating and transportation costs, and other factors noted throughout this MD&A, including the items identified under "*Risks and Uncertainties*" in the Company's MD&A for the year ended March 31, 2007.

The Company also has a US\$15,000,000 bank line to finance Export Development Canada insured trade receivables, of which the full balance is available as at September 30, 2007.

As of September 30, 2007, the Company's contractual obligations included:

<i>(000's of dollars)</i>	<i>Payments Due by Year</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>
Convertible Debenture	\$157,813	\$9,375	\$18,750	\$129,688	\$ -
Project Debt Facility	41,189	8,496	23,662	9,031	-
Capital lease obligations	58,434	14,795	28,807	14,732	-
Operating leases (premises & other)	867	378	449	40	-
Wolverine project commitments	4,953	4,953	-	-	-
Purchase obligations	13,695	13,695	-	-	-
Reclamation bond requirement	4,175	2,225	1,950	-	-
Other	950	110	620	220	-
Total Contractual Obligations	\$282,076	\$54,027	\$74,238	\$153,811	\$ -

The Wolverine project commitments in the above table include only contractual obligations entered into as of September 30, 2007. Total costs associated with the construction of the 3.0 million tonne per annum plant at Wolverine, including pre-production stripping and contingencies, are approximately \$244,236,000 and total mining equipment to be leased or purchased is approximately \$83,000,000. (See “*Wolverine – Perry Creek and EB*”). As at September 30, 2007, the total estimated costs to complete for the Perry Creek Mine are approximately \$4,953,000. The Company is expecting that commitments beyond those set out in the above table will be entered into for the completion of the Wolverine site infrastructure and mine development costs of approximately \$4,349,000.

Other commitments, including royalty commitments ranging from 0.75% to 1.0% of sales from certain coal properties of the Company and the joint venture, and a royalty of 1% of sales owing to a marketing agent on sales made to Japan and Taiwan, are described in the notes to the audited consolidated financial statements for the year ended March 31, 2007.

The Company has incurred substantial development costs to place its Perry Creek Mine and the Brule Mine into commercial production through March 31, 2007. The production ramp-up at the larger of the two mines, the Perry Creek Mine, was slower than anticipated, and both production and rail service have not achieved targeted levels through September 30, 2007. In addition to this, a general increase in mining costs and the weakening of the US currency in relation to the Canadian dollar during the second quarter of this fiscal year has resulted in lower than expected cash flows for the year to date. Consequently, the Company has incurred a loss for the six months to September 30, 2007 of \$46,923,000, including a write off of future income tax benefits previously recorded.

The Company was in violation of a financial covenant in respect of its long term debt at September 30, 2007 and a waiver has been received in from the Company’s lenders. It is expected, however, that this financial covenant will be violated in the 12 months following September 30, 2007, accordingly, this debt has been classified as current in these interim financial statements, with the result that the Company has a working capital deficiency of \$24,264,000 at September 30, 2007.

At current coal prices and Canadian/US dollar exchange rates, the Company does not expect to have sufficient funds to meet its long term debt obligations as they come due and to continue the planned expansion of the Perry Creek Mine, and accordingly the Company will require equity or debt financing from its major shareholder and/or external sources. These circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company has been successful in raising additional equity and debt financing in the past to fund its capital expenditures and operations, and management believes that these funds will be available in the future, however there is no assurance that any required funding would be available to the Company on acceptable terms.

During the quarter ended September 30, 2007, amendments were made to the credit agreement. In consideration of the covenants within the debt being set at targets in line with the revised operating plans of the Company and certain other requirements imposed by the banking syndicate, the Company has agreed: to increase the mandatory principal prepayments after December 31, 2007 from 55% to 75% of excess cash flows, collapse the contingent support account of \$10,000,000, reduce the outstanding debt from \$55,000,000 to \$35,000,000, obtain an additional equity investment in the Company of \$10,000,000 by November 30, 2007 and pay fees in the amount \$1,050,000 of which \$550,000 was paid during the quarter. A fee of \$300,000 is due no later than December 31, 2007, which shall be waived if the debt is repaid in full prior to this date.

As at September 30, 2007, the Company was in violation of a financial covenant relating to its current ratio. The Company has sought and received a waiver from its lenders with respect to this financial covenant as at September 30, 2007. However, EIC-59 “Long-Term Debt with Covenant Violations” requires that if a covenant is likely to be violated within one year of the balance sheet date, the debt must be classified as current. The Company anticipates that over the next twelve months, under the current credit agreement with

the lenders, it will be in violation of certain financial covenants and will be required to seek waivers on these anticipated violations accordingly. In the absence of restructuring or refinancing the current project facility and as a result of the anticipated covenant violations under the existing project facilities credit agreement the Company has reclassified the entire balance of the long-term debt to current liabilities.

In consideration of the financial covenant being waived as at September 30, 2007, the Company has agreed: to increase the additional equity investment in the Company by November 30, 2007 from \$10,000,000 to \$15,000,000 on terms and conditions acceptable to the majority lenders, 25% of the amount by which such net cash proceeds exceed \$15,000,000, shall be deposited in a segregated account by which withdrawals or transfers will require the prior written approval of the lenders; and pay fees in the amount of \$500,000 payable at the earlier of November 30, 2007, an additional equity raising and refinancing of the project facility.

Subsequent to September 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.

Off-Balance Sheet Arrangements

The only off-balance sheet arrangements, other than commitments described elsewhere in this MD&A, are the Company's foreign exchange hedging program and its trade receivables insurance program, both as more particularly described in the "*Financial Instruments*" section.

Related Party Transactions

On September 14, 2007, the Company's major shareholder, Cambrian Mining Plc ("Cambrian") extended a loan to the Company. (See "*Financing Activities*")

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.

On April 27, 2007, the Company entered into a Master Agreement and Management Agreement with Cambrian as described in *Proposed Transactions*.

Contingency

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.

Subsequent to the quarter ending September 30, 2007, a court hearing was held to request that the action be held by a trial as opposed to a hearing by affidavit. On November 7, 2007 the Court of Appeal granted leave to Appeal the July 6, 2007 decision, accordingly the matter to hear the appeal will be held early in the 2008 calendar year.

To September 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 recorded the additional amount which it believes would, to date, exceed the limit of permissible payments, which at September 30, 2007 is \$1,248,000.

Changes in Accounting Policies

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.

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.

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, 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.

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.

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.

Recent Canadian accounting pronouncements

Inventories

CICA Handbook section 3031 "Inventories" will replace the existing section 3030 effective for years fiscal beginning January 1, 2008 and will be applicable to the Company commencing with its 2009 fiscal year. This section establishes standards for the measurement and disclosure of inventories. The Company is in the process of assessing the impact of applying this section on its financial statements.

Financial Instruments and Capital Disclosures

CICA Handbook sections 1535 "Capital Disclosures" and 3863 "Financial Instruments – Presentation" are disclosure requirements that are effective for fiscal years beginning January 1, 2008 and will be applicable to the Company commencing with its 2009 fiscal year. These sections require additional disclosures relating to financial instruments and capital management strategies.

Critical Accounting Estimates

In preparing financial statements, management has to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience, current conditions and expert advice, management makes assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for judgments about the carrying value of assets and liabilities and reported amounts for revenues and expenses. Different assumptions would result in different estimates and actual results may differ from results based on these estimates. These estimates and

assumptions are also affected by management's application of accounting policies. Critical accounting estimates are those that affect the consolidated financial statements materially and involve a significant level of judgment by management. The Company's accounting policies are described in Note 2 to the consolidated financial statements for the most recent fiscal year ending March 31, 2007. Management's critical accounting estimates are applied in the accounting for the impairment of mineral property, plant and equipment and other assets such as investments, restoration and post-closure costs, and accounting for income and mining taxes. Refer to the Annual MD&A for a description of critical accounting estimates affecting the Company's consolidated financial statements.

Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, deposits, investments, accounts payable and accrued liabilities, various commitments including capital lease obligations, debt facility and convertible debentures. 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 has entered into forward exchange contracts to fix the rate at which future anticipated flows of US dollars are exchanged into Canadian dollars. Outstanding forward exchange contracts as at September 30, 2007 are for forward sales of US dollars at 1.0126 in the amounts of US \$15,000,000 per month from October through December 2007. The bank has the option to extend the contracts to March 2007 with the same terms. As at September 30, 2007, the Company has recorded in an unrealized gain of \$801,000, as a result of these instruments.

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, investments, and accounts receivables. In order to manage this risk, the Company deposits cash and cash equivalents and restricted cash with high credit quality financial institutions and investments that are rated R1 (High) by the Dominion Bond Rating Service. The Company uses available export trade credit insurance to provide security for non-payment for coal sales by customers. The Company has entered into an arrangement with Export Development Canada and its bank for the transfer of the insurance and sale of the accounts receivable from coal sales at the Company's discretion, subject to a maximum outstanding at any one time of US\$15,000,000. The arrangement allows the Company to receive cash for its accounts receivable more quickly, and to shorten the period of time during which foreign exchange rate movements may impact the Canadian dollar value of the accounts receivables.

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.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares without par value. Issued and outstanding shares include 115,991,240 common shares as at November 14, 2007 for a net consideration of \$225,594,000. Outstanding options and warrants as at November 14, 2007 are as follows:

Security	Number	Exercise price	Expiry date
Stock Options	10,000	\$0.35	December 4, 2007
Stock Options	140,000	\$0.80	February 15, 2009
Stock Options	40,000	\$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	144,068	\$1.50	August 29, 2009

Stock Options	130,000	\$2.50	October 5, 2009
Stock Options	140,000	\$3.30	November 12, 2009
Stock Options	50,000	\$4.92	December 6, 2009
Stock Options	115,000	\$6.10	March 15, 2010
Stock Options	850,000	\$5.40	July 28, 2010
Stock Options	190,000	\$6.10	July 28, 2010
Stock Options	300,000	\$6.20	July 28, 2010
Stock Options	928,500	\$2.26	September 7, 2011
Stock Options	190,000	\$1.95	November 11, 2011
Stock Options	1,029,000	\$2.02	March 5, 2012
Warrants	4,800,000	\$3.25	June 28, 2012

At any time prior to the maturity of the 125,000 Convertible Debentures on March 24, 2011, 31,250,000 common shares are issuable at a conversion price of \$4.00 per common share.

At any time prior to June 28, 2012 expiry for the warrants of the June 28, 2007 brokered private placement, 4,800,000 common shares are issuable at an exercise price of \$3.25.

At any time prior to the maturity of the Loan from Related Party on July 15, 2011, 2,127,660 common shares are issuable at a conversion price of \$2.35 per common share.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During the six month period ended September 30, 2007, the Company completed the implementation of a new enterprise resource planning system. However, there have been no material changes in the Company's internal control over financial reporting during the quarter ended September 30, 2007 as a result of this implementation that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

Risks and Uncertainties

The exploration and development of natural resources are highly speculative in nature and are subject to significant risks. The risk factors which should be taken into account in assessing the Company's activities include, but are not necessarily limited to, those set out in the Annual MD&A for the year ended March 31, 2007. Additionally, coal producers generally have long term sale agreements with steel mills that are subject only to annual price renegotiations. The Company's current coal sale agreements for Wolverine hard coking coal cover shipments only for the coal year ended March 31, 2008. As a result, the inability of the Company to obtain long term coal sale agreements, along with and one or more of the risks disclosed in the Company's Annual MD&A for the year ended March 31, 2007 could have a material effect on the Company and should be taken into account in assessing the Company's activities.

Forward-looking Information

This management's discussion and analysis contains forward-looking information that may involve risks and uncertainties relating, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-

looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “goal”, “plan”, “intend”, “estimate”, “may”, “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions, or statements about future events or performance. This management’s discussion and analysis contains forward-looking information, included in, but not limited to the sections titled Market Outlook & Guidance, Changes in Accounting Policies and Risks and Uncertainties.

Shareholders and prospective investors are cautioned not to place undue reliance on forward-looking information. By its nature, such information involves assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual future events or results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

The forward-looking statements contained in this management’s discussion and analysis are based, in part, upon certain assumptions made by the Company, including but not limited to, no material changes in commodity prices or costs of products sold; the continued strengths of various economies; the effects of competition and pricing pressures; the oversupply of, lack of demand for, the Company’s products; currency and interest rate fluctuations; various events which could disrupt the Company’s mining operations; the ability to obtain additional funding on favourable terms, if at all; the settlement of collective bargaining disputes by the Company’s contractors on terms that are acceptable; no material increase in labour costs; no material variation in anticipated mining, energy or transportation costs; continued availability of and no material disruption in rail service and port facilities; and the Company’s ability to anticipate and manage the foregoing factors and risks. Additionally, statements related to the quantity or magnitude of coal deposits are deemed to be forward-looking statements. The reliability of such statements is affected by, among other things, uncertainties involving geology of coal deposits; uncertainties of estimates of their size or composition; uncertainties of projections related to costs of production, the possibilities of 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.

The Company cautions that the list of factors and assumptions set forth above is not exhaustive. Some of the risks, uncertainties and other factors which negatively affect the reliability of forward-looking information are discussed in the Company’s public filings with the securities regulatory authorities, including its most recent management information circular, annual information form, quarterly reports, material change reports and news releases. Copies of Canadian public filings are available on SEDAR at www.sedar.com. For a further discussion of the assumptions, risks and uncertainties relating to forward-looking statements contained in this management’s discussion and analysis also refer to the section entitled Risks and Uncertainties in the Company’s Annual MD&A for the year ended March 31, 2007.

Other Information

Additional information related to the Company, including the Company’s Annual Information Form, is available for viewing on SEDAR at www.sedar.com and at the Company’s website at www.westerncoal.com. The Company cautions that information contained on, or accessible through these websites is current only as of the date of such information and may be superceded by subsequent events or filings. The Company undertakes no obligation to update publicly or otherwise revise any information including forward-looking information, whether as a result of new information, future events or such other factors that affect this information except as required by law.