

WESTERN CANADIAN COAL CORP.
Consolidated Financial Statements
For the Three and Six Months Ended
September 30, 2007

(Unaudited)

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

(Unaudited)

(Expressed in thousands of Canadian dollars)

	September 30, 2007	March 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents (Note 5)	\$ 13,514	\$ 35,272
Restricted cash (Note 9)	-	10,000
Accounts receivable (Note 6)	26,976	15,222
Inventory	23,559	28,522
Prepays and other deposits (Note 7)	1,714	4,581
	65,763	93,597
Investment (Note 5)	3,500	-
Deposits and other assets	10,004	9,946
Mineral property, plant and equipment	332,868	321,652
Future income tax asset (Note 13)	-	13,380
	\$ 412,135	\$ 438,575
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 32,036	\$ 25,523
Current income tax payable	538	538
Loan from related party (Note 8)	4,695	-
Current portion of asset retirement obligations	466	327
Current portion of capital lease obligations	11,655	9,898
Current portion of convertible debentures	8,300	8,730
Current portion of long-term debt (Note 9)	32,337	30,047
	90,027	75,063
Asset retirement obligations	9,847	9,793
Capital lease obligations	38,970	35,649
Convertible debentures	104,351	102,557
Long-term debt (Note 9)	-	42,131
	243,195	265,193
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	225,594	182,629
Equity portion of convertible debentures (Note 8)	11,636	11,558
Contributed surplus	6,564	6,256
Deficit	(74,854)	(27,061)
	168,940	173,382
	\$ 412,135	\$ 438,575

Nature of Operations and Going Concern (Note 1), Commitments & Contingencies (Note 17)

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

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

(Unaudited)

(Expressed in thousands of Canadian dollars)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 67,852	10,703	\$ 122,066	40,685
Cost of goods sold				
Cost of product sold	47,014	4,931	82,167	15,871
Transportation and other	26,056	4,606	42,143	14,948
Depletion, amortization and accretion	8,312	586	15,259	1,748
	81,382	10,123	139,569	32,567
(Loss) profit from mining operations	(13,530)	580	(17,503)	8,118
Other expenses (income)				
General, administration and selling (Note 11)	4,986	3,506	8,903	6,488
Coal exploration (Note 12)	1,006	2,741	1,805	4,007
Interest, accretion and financing fees on long-term debt	6,211	(15)	11,878	6
Abandoned transaction expense	-	620	-	620
Investment impairment (Note 5)	1,500	-	1,500	-
Terminated contract expense (Note 7)	2,590	-	2,590	-
Gains on forward exchange contracts	(1,741)	(286)	(11,204)	(286)
Other expenses (income)	1,206	(154)	568	(754)
	15,758	6,412	16,040	10,081
Net (loss) income before tax	(29,288)	(5,832)	(33,543)	(1,963)
Income taxes				
Current income tax (recovery) expense	(85)	300	-	365
Future income tax expense (Note 13)	14,663	(1,375)	13,380	122
	14,578	(1,075)	13,380	487
Net (loss) income for the period	(43,866)	(4,757)	(46,923)	(2,450)
Other Comprehensive Income	-	-	-	-
Comprehensive (Loss) Income	(43,866)	(4,757)	(46,923)	(2,450)
(Loss) Earnings per share				
Basic	\$ (0.38)	(0.05)	\$ (0.44)	(0.03)
Diluted	\$ (0.38)	(0.05)	\$ (0.44)	(0.03)
Weighted average common shares outstanding				
Basic	114,708,171	87,567,624	106,610,403	86,080,068
Diluted	114,708,171	87,567,624	106,610,403	86,080,068

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

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

(Unaudited)

(Expressed in thousands of Canadian dollars)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Deficit, beginning of period as previously reported	\$ (30,988)	(11,769)	\$ (27,061)	(14,076)
Adoption of financial instruments standards (Note 3 (b))	-	-	(870)	-
As restated	(30,988)	(11,769)	(27,931)	(14,076)
Net (loss) for the period	(43,866)	(4,757)	(46,923)	(2,450)
Deficit, end of period	\$ (74,854)	(16,526)	\$ (74,854)	(16,526)

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

WESTERN CANADIAN COAL CORP.**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)

(Expressed in thousands of Canadian dollars)

	Three Months Ended September 30, 2007		Six Months Ended September 30, 2007		
CASH FLOWS FROM (USED IN):					
Operating Activities					
Net (loss) income for the period	\$	(43,866)	(4,757)	\$ (46,923)	(2,450)
Items not involving cash and cash equivalents:					
Depletion, amortization and accretion		7,899	8,056	15,547	12,888
Stock-based compensation		77	755	365	1,159
Interest, accretion and financing fees on long-term debt		2,233	-	3,035	-
Abandoned transaction expense		615	-	-	-
Inventory write-down		2,803	-	2,803	-
Investment impairment (Note 5)		1,500	-	1,500	-
Terminated contract expense (Note 7)		2,590	-	2,590	-
Unrealized gains on foreign currency forward contracts		(801)	-	(801)	-
Future income tax expense (Note 13)		14,663	(1,375)	13,380	122
		(12,287)	2,679	(8,504)	11,719
Changes in non-cash working capital items (Note 15)		21,748	(39,007)	5,471	(39,997)
		9,461	(36,328)	(3,033)	(28,278)
Financing Activities					
Bank indebtedness		-	2,778	-	2,778
Financing costs		-	(2,407)	-	(2,932)
Repayments on capital lease obligations		(3,253)	(4,466)	(5,703)	(5,547)
Proceeds from advance from related party, net of issue costs		4,739	-	4,739	-
Proceeds from long term debt, net of issue costs		-	63,228	-	63,228
Repayments on long-term debt and transaction costs		(22,021)	-	(41,604)	-
Proceeds from exercise of stock options		104	-	104	-
Proceeds from issue of shares, net of issue costs		(28)	230	42,804	5,534
		(20,459)	59,363	340	63,061
Investing Activities					
Acquisition of mineral property, plant and equipment		(7,319)	(15,860)	(13,983)	(80,527)
Deposits		191	(1,307)	(82)	(3,456)
Investment (Note 5)		(5,000)	-	(5,000)	-
Loan receivable		-	13,125	-	-
		(12,128)	(4,042)	(19,065)	(83,983)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD		(23,126)	18,993	(21,758)	(49,200)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		36,640	3,081	35,272	71,274
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	13,514	22,074	\$ 13,514	22,074

Supplementary cash flow information (Note 15). The accompanying notes are an integral part of these consolidated financial statements.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

1. NATURE OF OPERATIONS AND GOING CONCERN

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 production from and the development of 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").

These interim financial statements have been prepared on the going concern basis, which assumes that the company will be able to continue its operations and realize its assets and settle its obligations in the normal course of operations.

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 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 from the Company's lenders (Note 9). 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 in accordance with EIC-59 "Long-Term Debt with Covenant Calculations", 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 external sources. In addition, the Company has agreed, as a condition of the waiver noted above, to raise additional equity (Note 9). 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 the necessary funds will be available in the future to meet its obligations, however there is no assurance that any required funding would be available to the Company on acceptable terms.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments would be material.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

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 AND DEVELOPMENTS

- (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.
- (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, 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.

WESTERN CANADIAN COAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED SEPTEMBER 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 AND DEVELOPMENTS (CONTINUED)

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.

(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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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 AND DEVELOPMENTS (CONTINUED)

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.

	April 1, 2007		
	As reported	Adjusted on adoption of Financial Instrument standards	Restated opening balances in 2007
ASSETS			
Current assets	\$ 93,597	\$ -	\$ 93,597
Deferred financing costs	6,754	(6,754) ^(a)	-
Deposits and other assets	9,922	24 ^(a)	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>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	\$ 75,063	\$ -	\$ 75,063
Asset retirement obligations	9,793	-	9,793
Capital lease obligations	35,649	439 ^(b)	36,088
Convertible debentures	106,465	(4,068) ^{(a)(c)}	102,397
Long-term debt	44,953	(2,231) ^{(a)(c)}	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) ^{(b)(c)}	(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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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 AND DEVELOPMENTS (CONTINUED)

(c) 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.

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 December 31, 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:

Balance Sheet:	September 30, 2007	March 31, 2007
Cash and cash equivalents	\$ 97	\$ 273
Other current	19	22
Deposits	50	50
Mineral property, plant and equipment	22	26
Current liabilities	(176)	(111)
	<u>\$ 12</u>	<u>\$ 260</u>

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

4. INTEREST IN JOINT VENTURE (CONTINUED)

Statement of Operations:	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
General, administration and selling	\$ (28)	\$ 70	\$ 59	\$ 154
Other income	-	(13)	-	(33)
Coal exploration	287	982	811	1,897
Net loss	\$ 259	\$ 1,039	\$ 870	\$ 2,018

Statement of Cash Flows:				
Operating activities	\$ (250)	\$ (1,414)	\$ (747)	\$ (2,138)
Financing activities	223	-	573	-
Investing activities	(2)	54	(2)	54

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.

5. INVESTMENT

As at September 30, 2007, the Company held two Canadian third party asset-backed commercial papers ("ABCP") with a total maturity value of \$5,000,000. 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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

5. INVESTMENT (CONTINUED)

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.

6. ACCOUNTS RECEIVABLE

	September 30, 2007	March 31, 2007
Trade accounts receivable	\$ 22,345	\$ 9,678
Goods and services tax receivable	3,279	3,025
Unrealized gain on foreign currency contracts	801	2,363
Other	551	156
	\$ 26,976	\$ 15,222

7. PREPAIDS AND OTHER DEPOSITS

	September 30, 2007	March 31, 2007
Prepaid expenses	\$ 1,714	\$ 1,388
Deposits supporting letters of credit	2,053	3,193
Terminated contract provision	(2,053)	-
	\$ 1,714	\$ 4,581

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 Perry Creek 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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

7. PREPAIDS AND OTHER DEPOSITS (CONTINUED)

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 totaling \$537,000 have been expensed during the quarter ended September 30, 2007.

8. LOAN FROM RELATED PARTY

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.

The loan is being accounted for in accordance with its substance and is presented in these consolidated financial statements in its component parts, measured at their respective fair values at the time of issue. The liability component has been calculated as the present value of the stream of interest and principal payments discounted at a rate approximating the interest rate for a similar liability without a conversion feature. The difference between the debt component of \$4,922,000 and the face value of the loan, in the amount of \$78,000 is classified as equity. Issuance costs related to the debt component of the loan have been netted against the liability and are charged to earnings over the term to maturity. The debt component of the loan is accreted over the term to maturity, by charges to earnings for the period.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

9. 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 in the third and fourth quarters of 2007 and most recently 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.

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 amended waivers on these anticipated violations. 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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

10. SHARE CAPITAL**Authorized:** Unlimited number of common shares without par value**Issued:**

	Number of Shares	Consideration
Balance, March 31, 2007	96,727,740	\$ 182,629
Net proceeds received from private placement of shares (Note (a))	19,200,000	42,804
For cash received from the exercise of stock options	63,500	104
Transferred to share capital upon exercise of stock options	-	57
Balance, September 30, 2007	115,991,240	\$ 225,594

- (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 for general corporate purposes including working capital.

11. GENERAL, ADMINISTRATION AND SELLING

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Schedule of expenses:				
Salaries, benefits and other remuneration	\$ 1,692	\$ 1,261	\$ 3,279	\$ 2,387
Consulting	1,245	245	1,424	368
Sales and marketing	435	152	927	366
Office and miscellaneous	393	197	819	349
Legal and audit	438	107	664	423
Insurance	212	100	452	220
Stock-based compensation	77	755	365	1,159
Travel and related expenses	143	268	312	392
Amortization	148	119	287	272
Rent and telecommunications	129	117	263	210
Exchange listings and other regulatory fees	63	90	88	236
Corporate communications	11	95	23	106
	\$ 4,986	\$ 3,506	\$ 8,903	\$ 6,488

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

12. COAL EXPLORATION

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Schedule of expenses:				
Belcourt and Saxon (Note 4)	\$ 287	\$ 982	\$ 811	\$ 1,897
Willow Creek	437	-	701	-
Other	282	82	293	170
Wolverine - Herman	-	1,677	-	1,940
	\$ 1,006	\$ 2,741	\$ 1,805	\$ 4,007

13. FUTURE INCOME TAXES

Per CICA Handbook Section 3465 "Income Taxes", a future income tax asset can only be recognized 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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

14. FINANCIAL INSTRUMENTS

	Annual Interest Rate	September 30, 2007	
		Fair Value	Carrying Amount
Financial Assets:			
Receivables			
Canadian dollar denominated	n/a	\$ 3,829	\$ 3,829
US dollar denominated	n/a	\$ 22,461	\$ 22,461
Derivatives			
Foreign currency option contracts	n/a	\$ 801	\$ 801
Investment (Note 5)	n/a	\$ 3,500	\$ 3,500
Term deposits			
Canadian dollar denominated	2.75% to 4.65%	\$ 9,954	\$ 9,954
Financial Liabilities:			
Accounts payable and accrued liabilities			
Canadian dollar denominated	n/a	\$ 32,036	\$ 32,036
Loan from related party	8.0%	\$ 4,695	\$ 4,695
Convertible debenture	7.5%	\$ 112,651	\$ 112,651
Long-term debt	Prime plus 1.5%	\$ 32,337	\$ 32,337

The Company's forward exchange contracts are for the forward sales of US dollars at 1.0126, in the amounts of US \$15,000,000 per month from October through December 2007. This derivative has been classified as held for trading and is recorded at its fair value. The bank has the option to extend the contracts to March 2008 with the same terms.

The Company previously had forward exchange contracts for the forward sales of US dollars at 1.1721 in the amount of US\$15,000,000 per month from September through December 2007. These contracts were crystallized in September 2007 with a resulting cash receipt of \$7,060,000. Previously unrecognized gains relating to these contracts have now been recognized with an additional realized foreign exchange gain of \$799,000 being recorded during the quarter ended September 30, 2007.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

14. FINANCIAL INSTRUMENTS (CONTINUED)

All term deposits held at September 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 security provided to certain governmental regulatory agencies as required under various operating permits of the Company or as security for various vendors.

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 the purchase of certain equipment or facilities for its 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.

15. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Other information:				
Interest paid	\$ 6,354	\$ 5,728	\$ 9,143	\$ 6,080
Non-cash investing and financing transactions:				
Capital lease obligation recognized for assets under capital lease	7,654	16,222	9,504	16,344

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

15. SUPPLEMENTARY CASH FLOW INFORMATION (CONTINUED)

Changes in non-cash working capital items consisted of the following:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Restricted cash	\$ 10,000	\$ (5,338)	\$ 10,000	\$ (5,435)
Accounts receivable	(1,745)	4,187	(10,953)	(5,644)
Inventory	6,518	(21,004)	290	(6,123)
Prepaid expenses	4,396	(2,577)	277	(3,522)
Accounts payable and accrued liabilities	4,868	(9,651)	5,857	(14,714)
Accrued interest on convertible debenture	(2,204)	(4,726)	-	(4,726)
Current income tax payable	(85)	102	-	167
	\$ 21,748	\$ (39,007)	\$ 5,471	\$ (39,997)

16. RELATED PARTY TRANSACTIONS

- (a) On September 14, 2007, Cambrian extended a loan to the Company. (Note 8)
- (b) On June 28, 2007, the Company's major shareholder, 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 10)
- (c) On April 27, 2007, the Company entered into a Master Agreement and Management Agreement with Cambrian. (Note 17)

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

17. 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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

- (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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

WESTERN CANADIAN COAL CORP.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED SEPTEMBER 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.)

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

- (c) As at September 30, 2007, the Company has committed to approximately \$5.0 million of the estimated costs to complete the Perry Creek mine facilities.
- (d) In relation to an amendment to its Perry Creek mine permit, the Company is required to provide an additional reclamation security deposit of \$250,000 by November 30, 2007.
- (e) Other commitments are noted elsewhere in these consolidated financial statements (Notes 4, 8, 9 and 14).

18. 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 and six month periods ended September 30, 2007 and 2006 are derived from coal sales to customers located in the following geographic areas:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Asia	\$ 40,391	\$ 10,703	\$ 81,955	\$ 34,654
Europe	27,461	-	40,111	6,031
	\$ 67,852	\$ 10,703	\$ 122,066	\$ 40,685

For the three month periods ended September 30, 2007 and 2006, there were four and three customers respectively, with each accounting for greater than 10% of revenues. For the six month period ended September 30, 2007 and 2006, there were four and one customer respectively, with each accounting for greater than 10% of revenues. The percentage of sales to these customers was 82% and 79% respectively for the three months ended September 30, 2007 and 2006. For the six months ended September 30, 2007, the percentage of sales to these customers was 84% and 100% respectively.

19. COMPARATIVE FIGURES

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