



Coalcorp was created in February 2006 and we have come a long way in the past year and a half towards realizing our goal of creating a highly-profitable, integrated, mid-sized coal producer. We have faced numerous challenges related to the acquired operations and we believe that the majority of these have now been addressed and we look forward to the coming year.

2007 Review

In fiscal 2007 we produced 2.5 million tonnes of coal, with two-thirds of this coming from the La Francia operation. Potentially of more significance, although negatively impacting unit costs and cash flow in the short term, almost 16 million cubic metres of waste were removed at La Francia, which is expected to result in higher production and lower unit costs in the future.

At Caypa, we changed over to contract mining in May of this year and expect to see more consistent operating and cost performance going forward.

In the year, we sold 2.4 million tonnes, with two-thirds of this being mine-gate sales averaging \$35 per tonne and the balance being FOB sales averaging \$56 per tonne. Also, earlier in the year we announced two long term sales contracts commencing in 2009 for a total of 12.5 million tonnes at average prices in excess of \$50 per tonne.

In early calendar 2007, we announced a doubling of measured and indicated resources at La Francia, from 54.2 million tonnes to 105.2 million tonnes. This growth in resources was further enhanced in March with the closing of the acquisition of the adjacent La Francia II property, adding a further 41 million tonnes of measured and indicated resources.

The company was also very active in acquiring numerous exploration concessions in the Cesar, Santander and Guajira departments. In order to fully exploit this potential without unduly taxing the company's resources, an exploration joint venture was formed with BHP Billiton, whereby they are responsible for managing and fully funding all exploration in exchange for up to a 60%-interest in the development of any new deposits.

All rolling stock for rail shipments on the Fenoco rail concession was ordered earlier this year and deliveries have commenced. The rail link connecting La Francia with the main line is nearing completion, with shipments expected to commence before the end of the year.

During the past year, we were granted 30-year concessions for both our river port at Capulco and the new state-of-the-art ocean port facility in Cartagena. We expect to begin construction of both ports in early 2008, with shipments to commence in 2009.

In August of 2006 we completed a US\$115 million debt offering to help fund our infrastructure development. A C\$161 million equity offering was completed in March of this year to fund the acquisition of the La Francia property.

2008 Outlook

In the coming year, we expect to increase production by almost 50% to 3.7 million tonnes. Given the impact of the excess stripping in the current year and the commencement of rail shipments, we anticipate lower costs and higher realized prices on increased FOB sales, which should translate into a significant improvement in operating margins. We believe that the market for high quality thermal coal will remain firm for some time, as the tightening of emissions standards globally will ensure high demand and a premium price for high calorific, low sulfur coal such as we produce.

We expect to receive the final feasibility study for development of Pit C/D located due west of the current La Francia operation and expect that a decision to develop this new deposit will be made before the end of 2007.

We continue to receive encouraging reports from BHP Billiton with respect to our exploration joint venture and look forward to developments in this regard.

We anticipate environmental approval for the development of the Cartagena port facility early in 2008 and look forward to breaking ground on both port facilities shortly thereafter.

While 2007 was not without its challenges, we are proud of the progress we have made towards becoming the newest, intermediate-sized integrated coal producer and look forward to an even more exciting future. I would like to thank all our employees for their dedication to this objective and also our investors for their support and patience.

Serafino Iacono
Chief Executive Officer
October 2, 2007

Consolidated Financial Statements Of

Coalcorp Mining Inc.

June 30, 2007 and May 31, 2006



AUDITORS' REPORT

To the Shareholders of Coalcorp Mining Inc.

We have audited the consolidated balance sheets of Coalcorp Mining Inc. as at June 30, 2007 and May 31, 2006 and the consolidated statements of operations, deficit and cash flows for the thirteen-month period ended June 30, 2007 and the year ended May 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2007 and May 31, 2006 and the results of its operations and its cash flows for the thirteen-month period ended June 30, 2007 and the year ended May 31, 2006 in accordance with Canadian generally accepted accounting principles.

(Signed) Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada

September 21, 2007

Coalcorp Mining Inc.
Consolidated Balance Sheets
As at June 30, 2007 and May 31, 2006
(Expressed in thousands of U.S. dollars)

	2007	2006
ASSETS		Restated (Note 2(c))
Current		
Cash	\$ 10,617	\$ 4,811
Short-term investments	55,401	56,847
Restricted cash (Note 6)	12,887	-
Accounts receivable	15,025	14,501
Inventories (Note 4)	13,960	6,539
Prepaid expenses and deposits	3,777	1,624
Current portion of deferred finance charges	1,558	-
	113,225	84,322
Long-term investments (Note 5)	8,244	7,637
Restricted cash (Note 6)	76,300	11,500
Property, plant and equipment (Note 7)	378,660	153,748
Intangible asset (Note 3(d))	33,119	32,979
Future income taxes (Note 12)	7,030	-
Deferred finance charges	4,869	-
	\$ 621,447	\$ 290,186
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 56,707	\$ 21,092
Current portion of long-term debt (Note 8)	631	2,693
	57,338	23,785
Long-term debt (Note 8)	185,800	13,440
Asset retirement obligations (Note 9)	2,280	1,145
Other liabilities (Note 3(b))	4,112	4,112
Future income taxes (Note 12)	122,511	52,791
	372,041	95,273
Commitments and contingencies (Notes 16)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	252,165	158,370
Contributed surplus (Note 10)	83,477	46,535
Cumulative translation adjustment	4,120	4,120
Deficit	(90,356)	(14,112)
	249,406	194,913
	\$ 621,447	\$ 290,186

Approved on behalf of the Board of Directors:

Serafino Iacono Director
Michael Beckett Director

See accompanying notes to the consolidated financial statements.

Coalcorp Mining Inc.

Consolidated Statements of Operations

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Expressed in thousands of U.S. dollars, except for share and per share amounts)

	<u>2007</u>	<u>2006</u>
		Restated (Note 2(c))
REVENUES	<u>\$ 103,547</u>	<u>\$ 26,210</u>
COST OF OPERATIONS		
Operating costs	123,241	21,028
Depletion and depreciation	13,919	3,214
	<u>137,160</u>	<u>24,242</u>
(LOSS) INCOME BEFORE UNDERNOTED ITEMS	<u>(33,613)</u>	<u>1,968</u>
EXPENSES		
General and administration	14,625	5,668
Stock-based compensation (Note 10)	618	5,481
Write-off of mineral properties (Notes 3(c) and 7)	13,607	-
	<u>28,850</u>	<u>11,149</u>
OPERATING LOSS	<u>(62,463)</u>	<u>(9,181)</u>
OTHER INCOME (EXPENSE)		
Interest income	7,966	996
Financing costs and bridge loan interest	(1,352)	(622)
Interest on long-term debt (Note 8)	(15,740)	(418)
Foreign exchange (loss) gain	(24,280)	5,565
	<u>(95,869)</u>	<u>(3,660)</u>
LOSS BEFORE INCOME TAXES	<u>(95,869)</u>	<u>(3,660)</u>
(PROVISION FOR) RECOVERY OF INCOME TAXES (Note 12)		
Current	(229)	(46)
Future	19,882	869
	<u>19,653</u>	<u>823</u>
NET LOSS	<u>\$ (76,216)</u>	<u>\$ (2,837)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (1.16)</u>	<u>\$ (0.14)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (Note 1)	<u>65,818,907</u>	<u>19,913,033</u>

See accompanying notes to the consolidated financial statements.

Coalcorp Mining Inc.

Consolidated Statements of Deficit

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Expressed in thousands of U.S. dollars)

	<u>2007</u>	<u>2006</u>
		Restated (Note 2(c))
Deficit, beginning of period	\$ (14,112)	\$ (11,275)
Net loss	(76,216)	(2,837)
Excess of purchase price of treasury shares over stated value (Note 10(e))	<u>(28)</u>	<u>-</u>
Deficit, end of period	<u>\$ (90,356)</u>	<u>\$ (14,112)</u>

See accompanying notes to the consolidated financial statements.

Coalcorp Mining Inc.

Consolidated Statements of Cash Flows

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Expressed in thousands of U.S. dollars)

	<u>2007</u>	<u>2006</u>
		Restated (Note 2(c))
OPERATING ACTIVITIES		
Net loss for the period	\$ (76,216)	\$ (2,837)
Items not affecting cash:		
Accretion	376	87
Depletion and depreciation	13,919	3,214
Stock-based compensation	618	5,481
Write-off of mineral properties	13,607	-
Amortization of deferred financing charges	1,352	-
Bridge loan financing costs	-	288
Foreign exchange loss (gain)	22,336	(7,315)
Future income tax recovery	(19,882)	(869)
Changes in non-cash working capital items (Note 14(a))	<u>2,072</u>	<u>(8,539)</u>
Net cash used in operating activities	<u>(41,818)</u>	<u>(10,490)</u>
INVESTING ACTIVITIES		
Acquisition of César (Note 3(b))	-	(42,622)
Acquisition of Neo Coal (Note 3(c))	-	(555)
Acquisition of Panamerican (Note 3(d))	(140)	(14,388)
Acquisition of Cerrejón, net of cash acquired (Note 3(e))	(3,200)	(32,472)
Acquisition of Adromi (Note 3(a))	(126,390)	-
Property, plant and equipment expenditures, net of accounts payable and accrued liabilities	(38,199)	(1,316)
Decrease (increase) in short-term investments	1,446	(53,422)
Restricted cash	(77,687)	(11,500)
Acquisition of long-term investments	<u>(607)</u>	<u>(7,637)</u>
Net cash used in investing activities	<u>(244,777)</u>	<u>(163,912)</u>
FINANCING ACTIVITIES		
Proceeds from debt financing, net of issue costs	107,139	-
Proceeds from additional long-term debt	61,082	19,213
Repayment of long-term debt	(4,786)	(12,563)
Issue of common shares, net of issue costs	129,123	169,401
Buy-back of common shares	(157)	-
Net cash provided by financing activities	<u>292,401</u>	<u>176,051</u>
INCREASE IN CASH DURING THE PERIOD	5,806	1,649
CASH, BEGINNING OF PERIOD	4,811	3,162
CASH, END OF PERIOD	<u>\$ 10,617</u>	<u>\$ 4,811</u>

SUPPLEMENTARY INFORMATION (Notes 14(b) and (c))

See accompanying notes to the consolidated financial statements.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

1. Nature and continuance of operations

Coalcorp Mining Inc. (the "Company") is a Canadian-based coal mining and development company that is focused on the exploration, development and exploitation of coal and coal-related assets, principally in Colombia.

These consolidated financial statements reflect the acquisition of Americoal Corporation Ltd. ("Americoal"), Neo Coal Corporation A.V.V.. ("Neo Coal"), Panamerican Ports Corporation Ltd. ("Panamerican"), and Andean Coal Corporation ("Andean") by the Company on February 8, 2006 and the acquisition of Adromi Capital Corp. ("Adromi") on March 22, 2007. Prior to the acquisition of Americoal, Neo Coal, Panamerican and Andean, the Company's principal business activity was the acquisition and exploration of mineral properties. On October 27, 2005, the Company changed its name to Coalcorp Mining Inc. from Adobe Ventures Inc.

The Company has changed its fiscal year end from May 31 to June 30 commencing with the thirteen month period ending June 30, 2007. This change is being implemented to eliminate the need for duplicate quarterly reporting by the Company's subsidiaries that have statutory reporting requirements based on a calendar year.

On June 14, 2007 the Company completed a share consolidation whereby seven pre-consolidation shares were exchanged for one post-consolidation share. All information related to common shares in the current and prior periods has been restated to give effect to the share consolidation.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will continue in operation for a reasonable period of time and will be able to realize its assets and discharge its liabilities in the normal course of operations. While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, adverse conditions may cast substantial doubt upon the validity of this assumption. In the event the Company is unable to identify recoverable reserves and resources, receive the necessary permitting, or arrange appropriate financing, the carrying value of the Company's assets could be subject to material adjustment. The Company incurred a net loss of \$76.2 million during the current year and had working capital of \$55.9 million at June 30, 2007. These financial statements do not include any adjustments to the recoverability and classification of certain recorded assets amounts and classification of certain liabilities that might be necessary, if the Company were unable to continue as a going concern.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are expressed in U.S. dollars.

(a) *Basis of consolidation*

These consolidated financial statements include the accounts of the Company and all its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Variable interest entities ("VIE's"), which include, but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, *Consolidation of Variable Interest Entities*, are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. The Company does not have any entities that qualify for treatment under this guidance.

(b) *Measurement uncertainty*

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounts that require estimates as the basis for determining the stated amounts include accounting for doubtful accounts, inventories, property, plant and equipment, asset retirement obligations, stock-based compensation, allocation of purchase price of acquisitions and income and mining taxes.

Depreciation and depletion of property, plant and equipment assets are dependent upon estimates of useful lives and reserves estimates, both of which are determined with the exercise of judgment. The assessment of any impairment of property, plant and equipment is dependent upon estimates of fair value that take into account factors such as reserves, economic and market conditions and the useful lives of assets. Asset retirement obligations are recognized in the period in which they arise and are stated as the fair value of estimated future costs. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

(c) *Functional and reporting currency*

As of June 1, 2006, the Company adopted the United States dollar as its primary currency of measurement. The change in the Company's currency of measurement from Canadian to U.S. dollars was made due to the increasing amount of debt held in U.S. dollars and interest being paid in U.S. dollars.

Effective June 1, 2006, the Company translates transactions denominated in foreign currencies into U.S. dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

As a result of the change in the currency of measurement, the Company's foreign currency risk has changed from U.S. dollar denominated monetary assets and liabilities to non-U.S. dollar denominated monetary assets and liabilities and the risk of the impact of exchange rate changes relative to the U.S. dollar.

Where a subsidiary is self-sustaining, the financial results have been translated into U.S. dollars using the current rate method. The current rate method provides that all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange prevailing during the period. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on the Company's net investment in these foreign operations, are recorded in the cumulative translation account component of shareholders' equity.

Where a subsidiary is integrated, the financial results have been translated into U.S. dollars using the temporal method. The temporal method provides for foreign currency denominated monetary assets and liabilities to be translated into U.S. dollars at rates of exchange in effect at the balance sheet date. Non-monetary items are translated at historical exchange rates and revenues and expenses at average rates of exchange during the period. Exchange gains and losses arising on translation are included in the statement of operations and deficit.

With the change in currency of measurement, the Company changed its reporting currency to U.S. dollars effective June 1, 2006. The change in reporting currency was made to improve investors' ability to compare the Company's results with those of most other publicly traded businesses in the industry. Historical results have been restated to the reporting currency using the current rate method. Under this method, the assets and liabilities were translated using the exchange rate in effect at the balance sheet date. The statements of operations and cash flows were translated at the average rate for the respective reporting periods. Any resulting foreign exchange gains and losses were recorded as a separate component of shareholders' equity and described as cumulative translation adjustments. The comparative financial statements that were previously reported in Canadian dollars have been restated into U.S. dollars.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

(d) *Short-term investments*

Short-term investments include short-term money market instruments with terms to maturity at the date of issue of between three and twelve months. The carrying value of short-term investments consists of cost and accrued interest.

(e) *Inventories*

Coal inventory is valued at the lower of average production cost and net realizable value. Production costs include direct labour, benefits, direct material and other direct product costs including depletion and amortization. Cost is determined on the first-in, first-out basis.

Materials and supplies are valued at the lower of cost or replacement cost.

(f) *Long-term investments*

Long-term investments are carried at cost. The Company reviews the carrying value of each investment whenever events or changes in circumstances indicate that its carrying value may exceed its estimated net recoverable amount. An impairment loss is recognized when the carrying value of the investment exceeds its fair value.

(g) *Property, plant and equipment*

Property, plant and equipment are recorded at cost less accumulated depreciation and depletion. Maintenance, repairs and renewals are charged to operations.

Mining properties and mining and process facility assets are amortized on a units-of-production basis which is measured by the portion of the mine's economically recoverable and proven ore reserves recovered during the period.

Stripping costs incurred during the production phase of a mine are treated as variable production costs and as a result are included in the cost of the inventory produced during the period that the stripping costs are incurred.

Other assets are depreciated using the straight-line method based on their estimated useful lives, which generally range from 5 to 20 years.

All direct costs related to the acquisition, exploration and development of mineral properties are capitalized until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the units-of-production method following commencement of production.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

(h) *Intangible asset*

Intangible asset consists of a port license to operate a coal port in Colombia. The license will be amortized over its expected useful life upon issuance of the final authorization to begin construction of the port facility.

(i) *Impairment of long-lived assets*

Long-lived assets are tested for recoverability annually or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total estimated future undiscounted cash flows. An impairment loss is measured and recorded based on discounted estimated future cash flows. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

(j) *Deferred financing costs*

Debt issuance costs are deferred and amortized as a component of expenses over the term of the related debt instrument.

(k) *Asset retirement obligation costs*

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, the fair value of the liability for an asset retirement obligation is recognized in the period incurred. The net present value is added to the carrying amount of the associated asset and amortized over the asset's useful life. The liability is accreted over time through periodic charges to operations and it is reduced by actual costs of reclamation.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. A change in estimated discount rates is reviewed annually or as new information becomes available. Expenditures relating to ongoing environmental programs are charged against operations as incurred or capitalized and amortized depending on their relationship to future earnings.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

(l) *Revenue recognition*

Revenue from the sale of coal is recognized on the date the product is loaded for shipment at the port or at the mine according with the conditions of the contract, as this coincides with the transfer of title, the risk of ownership, the determination of the amount due under the terms of sales contracts the Company has with its customer, and collection is reasonably assured.

(m) *Income taxes*

The Company uses the liability method of accounting for income and mining taxes. Under the liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax losses and other deductions carried forward. Upon business acquisitions, the liability method results in a gross up of mining interests to reflect the recognition of the future tax liabilities for the tax effect of such differences.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A reduction in respect of the benefit of a future tax asset (a valuation allowance) is recorded against any future tax asset if it is not likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

(n) *Stock-based compensation*

The Company accounts for stock-based compensation using the Black-Scholes fair value option pricing model. Stock-based compensation is accrued and charged to operations, with a corresponding credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(o) *Earnings (loss) per share*

Earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting years. Options and warrants as disclosed in Note 10 are antidilutive and, therefore, have not been taken into account in the per share calculations.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

3. Acquisitions

(a) *La Francia II acquisition – Adromí Capital Corp. (“Adromí”)*

On March 22, 2007, the Company exercised its option to acquire 100% of the shares of Adromi, a Panamanian company, which owns 100% of a property (La Francia II) adjacent to the Company’s wholly-owned La Francia property.

In consideration for the acquisition of Adromi, the Company paid \$126.3 million plus a \$1.00 per tonne royalty on all future production from La Francia II. The acquisition was considered to be an asset acquisition and the purchase price was allocated to mining property within property, plant and equipment.

(b) *Americoal Acquisition - Compania Carbones del César S.A. (“César”)*

On September 27, 2005, the Company entered into an agreement (the “Blue Pacific Agreement”) with Blue Pacific Assets Corp. (“Blue Pacific”) pursuant to which the Company agreed to acquire certain interests in each of Americoal, Neo Coal and Panamerican.

Pursuant to the Blue Pacific Agreement, the Company acquired all of the issued and outstanding shares of Americoal, a BVI company, which held the right to indirectly acquire all of the issued and outstanding shares of César, a Colombian company that operates the La Francia mine located in the César region of Colombia. Americoal was incorporated on July 26, 2005 and had no operations or assets, other than its right to acquire César.

In consideration for the acquisition of César, the Company issued 1.7 million common shares to Blue Pacific and paid Blue Pacific \$1.25 million. The Company also assumed all of Americoal’s purchase obligations relating to César, including the payment of \$38.8 million to the beneficial shareholders of César (amount paid). Blue Pacific was also granted a royalty interest of \$1.00 per tonne on all of the La Francia mine’s future production.

The common shares issued have been valued at a price of Cdn\$4.76 being the average closing price of the common shares of the Company for the two days before, the day of, and the two days after, the date of announcement of the acquisition on September 28, 2005.

The acquisition of César was completed on February 8, 2006 and the results of operations of César are included in the consolidated statement of operations since February 8, 2006.

The business combination has been accounted for as a purchase transaction, with the Company as the acquirer of César. The final allocation of the purchase price based on the consideration paid and the fair value of César’s net assets acquired is as follows:

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

Purchase price		
Cash	\$	38,810
Shares issued on acquisition (1.7 million common shares)		7,055
Acquisition costs		3,812
		<hr/>
		49,677
		<hr/>
Net assets acquired		
Non-cash working capital		704
Property, plant and equipment		96,085
Long-term debt		(9,483)
Asset retirement obligation		(127)
Other liabilities		(4,112)
Future income tax liabilities		(33,390)
		<hr/>
	\$	49,677
		<hr/>

The Company assumed a contract for the sale of coal to a Chilean company for a total of 600,000 tonnes at \$31.50 per tonne. At February 8, 2006, the fair value adjustment on this contract of approximately \$4.1 million was recorded in other liabilities and will be recognized as revenue as the coal is sold to the third party. The Company has reached a tentative agreement with the third party to defer the settlement of this sale contract until January 2009 through December 2010.

(c) *Neo Coal Acquisition - La Curubita concession application*

Pursuant to the Blue Pacific Agreement, the Company acquired from Blue Pacific a joint venture interest in Neo Coal, a corporation existing under the laws of Aruba. Neo Coal had an agreement with an unrelated third party ("Arboleda"), who had applied to the Colombian governmental authority responsible for granting mineral exploration concessions ("Ingeominas"), to acquire a 2,500 hectare coal exploration concession known as La Curubita (the "La Curubita concession"). Pursuant to this agreement, Neo Coal acquired a joint venture interest in the La Curubita concession and had a 90% interest and Arboleda had a 10% carried interest. Neo Coal was incorporated on May 19, 2005 and had no operations or assets, other than its right to acquire an interest in the La Curubita concession.

Total consideration for the acquisition of Neo Coal was \$2.9 million; the Company issued to Blue Pacific 0.6 million common shares and the Company paid \$0.5 million to Arboleda. Blue Pacific was also granted a royalty interest of \$1.00 per tonne on all production in respect of the La Curubita concession.

The common shares issued were valued at a price of Cdn\$4.76 being the average closing price of the common shares of the Company for the two days before, the day of, and the two days after, the date of announcement on September 28, 2005.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

The acquisition was considered to be an asset acquisition and the purchase price was allocated to other mineral property within property, plant and equipment. Following an assessment of the resource potential for this concession during the thirteen months ended June 30, 2007, the carrying value of the mineral property was written off.

(d) *Panamerican Acquisition - Cartagena Coal Port Assets*

Pursuant to the Blue Pacific Agreement, the Company acquired from Blue Pacific all of the issued and outstanding shares in Panamerican, a BVI company. Panamerican's only operations and assets consisted of the existing option to acquire: (i) 57 hectares of land on the coast of the Caribbean Sea near the industrial zone of Cartagena, Colombia (the "Port Land"), which land is capable of being used as a coal port; and (ii) all of the issued and outstanding shares of Carbones del Carare, S.A. ("Carare"), a company existing under the laws of Colombia (the shares of Carare and the Port Land being referred to, collectively, as the "Port Assets"). Carare was previously licensed to operate and retains rights to a public coal port located near the city of Cartagena. Panamerican was incorporated on August 11, 2005 and had no operations or assets, other than its right to acquire the Port Assets.

Total consideration for the acquisition of the Port Assets was \$21.5 million; the Company issued to Blue Pacific 1.7 million common shares, paid a finder's fee of \$0.25 million to an unrelated third party and is committed to paying to Blue Pacific a royalty of \$0.30 per tonne shipped through the Port Assets. The Company also assumed all of Panamerican's purchase obligations relating to the Port Assets, consisting of the payment of \$14.2 million, \$13.9 million paid for the value of the lapsed permit held by Carare to operate a coal port, \$0.1 million for all of the issued and outstanding shares of Carare (less any accrued liabilities of Carare) and \$0.2 million of acquisition costs.

The common shares issued have been valued at a price of Cdn\$4.76 being the average closing price of the common shares of Coalcorp for the two days before, the day of, and the two days after, the date of announcement on September 28, 2005.

The acquisition is considered to be an asset acquisition and the purchase price has been allocated to the port license.

As of June 30, 2007, the Company has been granted a temporary authorization permit to begin basic site clearing and preparation for the construction of the port facility while awaiting the issuance of final authorization to begin construction.

(e) *The Andean Acquisition - Carbones Colombianos del Cerrejón, S.A. ("Cerrejón")*

Pursuant to an agreement with Next Com Limited ("Next Com"), the Company acquired all of the issued and outstanding shares of Andean, a BVI company that held the right to acquire all of the issued and outstanding shares of Cerrejón, the

Coalcorp Mining Inc.

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operator of the Caypa Mine. Cerrejón is a company existing under the laws of Colombia. Andean was incorporated on August 24, 2005, and had no other operations or assets other than its right to acquire Cerrejón.

In consideration for the acquisition of Andean, the Company paid \$1.0 million to Next Com. The Company further assumed all of Andean's purchase obligations relating to the acquisition of the shares of Cerrejón, consisting of the payment of US\$32.6 million. Andean also made a working capital adjustment payment of \$3.5 million.

The acquisition of Cerrejón was completed on February 8, 2006 and the results of operations of Cerrejón are included in the consolidated statement of operations since February 8, 2006.

The business combination has been accounted for as a purchase transaction, with the Company as the acquirer of Andean. The final allocation of the purchase price based on the consideration paid and the fair value of Cerrejón's net assets acquired is as follows:

Purchase price		
Cash (including working capital adjustment)	\$	36,051
Acquisition costs		2,479
		<hr/>
		38,530
		<hr/>
Net assets acquired		
Cash		2,858
Non-cash working capital		1,003
Property, plant and equipment		49,736
Asset retirement obligation		(931)
Future income tax liabilities		(14,136)
		<hr/>
	\$	38,530
		<hr/>

4. Inventories

		June 30, 2007		May 31, 2006
Coal inventory	\$	8,121	\$	3,289
Materials and supplies		5,839		3,250
	\$	<hr/>	\$	<hr/>
		13,960		6,539

5. Long-Term Investments

Long-term investments principally comprise the Company's 8.4% interest in Ferrocarriles del Norte de Colombia, S.A. ("Fenoco") which operates a railroad from the Cesar area to Santa Marta.

Coalcorp Mining Inc.

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6. Restricted Cash

Restricted cash is comprised of term deposits being held against certain long-term debt balances (Note 8) and issued letters of credit (Note 16(b)), of which \$12.9 million will become unrestricted within the next 12 months.

7. Property, plant and equipment

The following table summarizes the Company's property, plant and equipment:

	2007			2006		
	Cost	Accumulated depreciation/ depletion/ writedowns	Net book value	Cost	Accumulated depreciation/ depletion	Net book value
Mining properties						
Caypa	\$ 40,324	\$ 5,432	\$ 34,892	\$ 39,515	\$ 1,269	\$ 38,246
La Francia	97,231	8,502	88,729	95,867	1,732	94,135
La Francia II	186,687	-	186,687	-	-	-
Plant and equipment						
Caypa	11,619	3,516	8,103	9,106	31	9,075
La Francia	3,080	225	2,855	791	53	738
Other	319	45	274	69	17	52
Construction in progress	43,869	-	43,869	260	-	260
Other mineral properties	26,858	13,607	13,251	11,242	-	11,242
	\$ 409,987	\$ 31,327	\$ 378,660	156,850	3,102	153,748

- (i) The Company acquired rights to three additional coal exploration properties located near the Company's La Francia mine from Corte Nova Ltd. in May 2006. These concessions were acquired for aggregate consideration of \$5.4 million. Following an assessment of the resource potential for these properties, \$3.6 million of this total was written off during the thirteen months ended June 30, 2007 and the properties were turned back to the vendor in lieu of remaining payments amounting to \$1.8 million.
- (ii) The Company acquired rights to four additional coal exploration properties located near the Company's La Curubita concession from Corte Nova Ltd. in May 2006. The Curubita concessions were acquired for aggregate consideration of \$1.3 million. Following an assessment of the resource potential for these properties, \$1.2 million of this total was written off during the thirteen months ended June 30, 2007 and all of the properties were turned back to the vendor in lieu of remaining payments amounting to \$0.1 million.
- (iii) On August 24, 2006, the Company entered into an agreement to acquire the rights to 25 additional coal exploration concessions in the César and Santander departments representing in excess of 85,000 hectares. The concessions were acquired for an aggregate consideration of \$9.3 million. Following an assessment of the resource potential for these concessions, \$2.1 million of this total plus additional deferred expenditures of \$0.5 million were written off during the thirteen months ended June 30, 2007 and 19 of the concessions were turned

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back to the vendor in lieu of remaining payments amounting to \$1.7 million. At June 30, 2007, accounts payable and accrued liabilities includes \$2.0 million related to the acquisition of the remaining concessions. The agreement provides for varying additional acquisition payments based on additional indicated resources.

- (iv) On November 21, 2006, the Company entered into an agreement to acquire the rights to 28 additional coal exploration concessions in the César and Santander departments representing in excess of 92,000 hectares. The concessions were acquired for an aggregate consideration of \$6.3 million. Following an assessment of the resource potential for these concessions, \$1.4 million of this total plus additional deferred expenditures of \$0.3 million were written off during the thirteen months ended June 30, 2007 and 17 of the concessions were turned back to the vendor in lieu of remaining payments amounting to \$2.1 million. At June 30, 2007, accounts payable and accrued liabilities includes \$1.0 million related to the acquisition of the remaining concessions. The agreement provides for a production royalty as additional consideration of \$1 per tonne of coal produced out of each concession.

- (v) On April 11, 2007 the Company completed an agreement with BHP Billiton covering the majority of its extensive coal exploration portfolio in Colombia. Under the terms of the agreement, BHP Billiton has been granted the option to earn a 50% interest in any particular deposit discovered by sole funding 100% of exploration expenditures, subject to an annual minimum of \$2.5 million until the completion of a pre-feasibility study. BHP Billiton can earn a further 10% in the deposit by funding all expenditures through the completion of a feasibility study and assisting the Company in arranging for financing its share of development costs. The portfolio, which currently consists of 12 properties, excludes the currently producing Caypa and La Francia properties as well as the neighbouring La Francia II property.

Coalcorp Mining Inc.

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8. Long-term debt

	2007	2006
12% Senior secured guaranteed notes due August 31, 2011	\$ 114,002	\$ -
Loans maturing December 2007 (987 million Colombia pesos), unsecured, interest at Colombian market weekly average of fixed-term deposits ("DTF") plus 6%, principal and interest payable at the end of the loan	500	-
Loans maturing June 2009 (18,900 million Colombian pesos), interest at DTF plus 4.25% payable semi-annually and principal payable at the end of the loan, guaranteed by a letter of credit supported by a term deposit in the amount of \$10 million issued by the Company (Note 6)	9,580	-
Loans maturing March 2010, interest at LIBOR plus 2.01% payable semi-annually and principal payable at the end of the loan, guaranteed by a term deposit in the same amount issued by the Company (Note 6)	11,500	11,500
Loans maturing August 2011 through May 2012, interest at LIBOR plus 1.11% payable semi-annually and principal payable at the end of the loans, guaranteed by term deposits in the same amount issued by the Company (Note 6)	50,500	-
Capital lease obligations (688 million Colombian pesos) payable monthly through February 2010 bearing interest at DTF plus 12%	349	
Loan repaid June 2006, unsecured, interest at DTF plus 5%	-	1,156
Loans repaid January 2007, unsecured, interest at DTF plus 4.75%	-	1,537
Loan due January 2008, unsecured, interest at DTF plus 4.5%, repaid in 2007	-	1,940
	186,431	16,133
Less: Current portion	631	2,693
	\$ 185,800	\$ 13,440

As of June 30, 2007, the DTF rate was 7.93% and LIBOR was 5.38%.

On August 17, 2006, the Company completed a \$115 million financing that consisted of 115,000 units. Each unit consisted of \$1,000 principal amount senior secured guaranteed note and 30 common share purchase warrants. The notes will mature on August 31, 2011, with an annual interest rate of 12% payable. Each warrant entitles the holder to purchase one common share of the Company at a price of Cdn\$8.40 per common share any time on or before August 17, 2011. The fair value of these warrants

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of \$1.2 million was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 25%, an average annual risk free rate of 4.5% and an estimated life of 5 years. The notes are being accreted using the effective interest method over the life of the notes to bring the carrying value of the notes to their face value of \$115 million at the maturity date.

As of June 30, 2007, the principal maturities of long-term debt are as follows for the years ending June 30:

2008	\$	631
2009		9,742
2010		12,556
2011		1,000
2012		163,500
Thereafter		-
	\$	<u>187,429</u>

9. Asset retirement obligations

Although the ultimate amount of the asset retirement obligation is uncertain, the fair value of these obligations is based on information currently available, including closure plans and applicable regulations. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs. The total undiscounted amount of the estimated cash flows required to settle the Company's asset retirement obligations at the end of the mines' life is approximately \$9 million (2006 - \$9 million). The portion incurred to-date has been discounted using a discount rate of 12% to total approximately \$2.3 million (2006 - \$1.2 million). These obligations will be funded from operating cash flows, reclamation deposits and cash on hand. Future changes to these estimates, due to changes in closure plans or applicable regulations, will be made prospectively, with a corresponding charge to the asset's carrying value.

The following table summarizes the effect to the Company's asset retirement obligations:

Balance, May 31, 2005	\$	-
Additions during the year upon acquisitions (Notes 3 (b) and (e))		1,058
Accretion		87
Balance, May 31, 2006		<u>1,145</u>
Additions	\$	968
Accretion		167
Balance, June 30, 2007	\$	<u>2,280</u>

10. Share capital

(a) Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value

Coalcorp Mining Inc.

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For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

(b) *Issued and fully paid common shares*

	Number of common shares	Amount	Contributed surplus
Balance, May 31, 2005	3,557,340	\$ 13,071	\$ 205
Bridge financing	-	-	288
Issued on private placement, net of issue costs	49,285,714	128,832	40,565
Issued for acquisitions of:			
Americoal (Note 3(b))	1,714,286	7,054	-
Neo Coal (Note 3(c))	571,429	2,351	-
Panamerican (Note 3(d))	1,714,286	7,054	-
Options exercised	1,428	8	(4)
Stock-based compensation	-	-	5,481
Balance, May 31, 2006	56,844,483	158,370	46,535
Share repurchase	(46,429)	(129)	-
Options exercised	1,071	4	(1)
Issued on private placement, net of issue costs	32,857,143	93,920	35,200
Warrants issued on debt financings, net of issue costs (Note 7)	-	-	1,125
Stock-based compensation	-	-	618
Balance, June 30, 2007	89,656,268	\$ 252,165	\$ 83,477

On March 7, 2007, the Company filed a short form prospectus qualifying the distribution of 28,571,429 units of the Company at a price of Cdn\$4.90 per unit to raise gross proceeds of Cdn\$140 million. The overallotment option was also exercised consisting of an additional 4,285,714 units for additional gross proceeds of Cdn\$21 million. Each unit consists of one common share of the Company and one-half of one common share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company at a price of Cdn\$8.40 per share until August 17, 2011. The fair value of these warrants of \$35.2 million was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 89%, an average annual risk free rate of 4.1% and an estimated life of 4 years.

(c) *Incentive stock option plan*

Under the Company's stock option plan, the Company may grant options to its directors, officers and employees not to exceed 10% of the issued common shares of the Company. At June 30, 2007, 4,868,125 common shares remain available for grant under the plan. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of grant and an option's maximum term is five years. Options are granted from time to time by the Board of Directors and vest immediately upon grant. A summary of the changes in the Company's incentive share option plan for the thirteen month period ended June 30, 2007 and the year ended May 31, 2006 are as follows:

Coalcorp Mining Inc.

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(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

	Number of options	Average exercise price Cdn\$
Balance, May 31, 2005	36,786	3.85
Granted	3,839,286	5.25
Exercised	(1,429)	3.85
Cancelled	(12,857)	3.85
Balance, May 31, 2006	3,861,786	5.25
Granted	250,000	5.25
Exercised	(1,071)	3.85
Cancelled	(13,214)	5.25
Balance, June 30, 2007	4,097,501	5.25

The fair value of options granted by the Company in 2007 and 2006 was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 117% (2006 - 63%), an average annual risk free rate of 4% (2006 - 6%) and an estimated life of 2.5 years. The weighted average grant date fair value of stock options granted during the thirteen month period ended June 30, 2007 was Cdn \$2.80 (2006 – Cdn \$1.68).

The following table summarizes information concerning outstanding and exercisable options at June 30, 2007:

Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share Cdn\$
21,073	1.2	3.85
4,057,856	3.8	5.25
18,572	3.9	6.23
4,097,501	3.7	5.25

Coalcorp Mining Inc.

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For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

(d) *Warrants*

During the thirteen month period ended June 30, 2007, no warrants were exercised and 19,878,577 non-broker warrants with an exercise price of Cdn \$8.40 were issued (Notes 7 and 8(b)).

As at June 30, 2007, the following non-broker warrants were outstanding and exercisable:

Outstanding and exercisable	Exercise price	Expiry date
Cdn\$		
214,286	4.20	September 22, 2007
24,642,862	5.60	February 8, 2011
19,878,577	8.40	August 17, 2011

(e) *Normal course issuer bid*

In October, the Board of Directors approved a share purchase plan, under a normal course issuer bid to repurchase and cancel up to 5,000,000 common shares of the company. The normal course issuer bid commenced October 25, 2006 and will terminate October 24, 2007, unless terminated by the Company. The Company has repurchased and cancelled 46,429 common shares for a total cost including transaction fees of \$157,000 of which \$28,000, representing the excess of purchase price over stated value, was charged to the accumulated deficit.

11. Related party transactions

The Company incurred the following expenses with companies and individuals related by way of directors and/or officers in common:

	2007	2006
Production royalties	\$ 2,075	\$ -
Business development costs	-	104
Consulting fees	60	977
Rent	-	4
Interest on bridge loan (Note 9)	-	107
	\$ 2,135	\$ 1,192

As at June 30, 2007, property, plant and equipment included an amount of \$1.8 million (2006 - \$1.0 million) and deferred finance charges included an amount of \$0.6 million (2006 - Nil) paid to a company related by way of a common director.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Coalcorp Mining Inc.

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(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

12. Income taxes

The provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before tax provision due to the following:

	2007		2006
Loss before income taxes	\$ 95,869	\$	3,660
Statutory tax rate	36.12%		36.12%
Expected income tax recovery	\$ 34,628	\$	1,322
Difference in tax rates between foreign jurisdictions and Canada	(727)		(34)
Future income tax recovery on reduction of cost base differences on assets	157		1,244
Valuation allowance on future tax assets and benefit of income tax losses not recognized	(11,972)		(1,792)
Impact of changes in tax rates on future tax assets and liabilities	8,135		-
Foreign exchange differences, non-deductible expenses and other	(10,568)		83
Recovery of income taxes	19,653		823

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets are as follows:

	2007		2006
Future income tax assets			
Mineral property exploration and development	\$ 8,576	\$	434
Eligible capital expenditures	2,821		2,625
Share issues costs	5,413		2,922
Non-capital loss carryforwards	\$ 12,642	\$	3,420
Other	2,447		5
	31,899		9,406
Valuation allowance	(24,869)		(9,406)
Future income tax asset	\$ 7,030	\$	-
Future income tax liability			
Mineral properties	\$ 122,511	\$	52,791

Coalcorp Mining Inc.

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For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

At June 30, 2007, the Company had Canadian non-capital losses carried forward of approximately \$23.0 million for income tax purposes. The losses may be utilized to reduce future years' taxable income and expire between 2008 and 2027. The Company had Colombian noncapital losses carried forward of approximately \$15.4 million. These losses may be utilized to reduce future years' taxable income and expire between 2008 and 2015. The Company also had Canadian exploration and development expenditures of approximately \$1.4 million and eligible capital expenditures of approximately \$8.5 million. These expenditures may be utilized to reduce future years' taxable income and do not expire.

13. Financial Instruments

The fair values of cash, short-term investments, accounts receivable and accounts payable approximate their carrying values due to the short-term to maturity of these financial instruments.

Long-term investments consist of interests in two privately held Colombian companies. The fair value of these investments cannot be measured reliably. The Company reviewed the carrying value of these investments and determined that no impairment should be recorded as at June 30, 2007.

The fair value of long-term debt was determined using discounted cash flows at prevailing market rates and the fair value is considered to approximate carrying value.

The Company minimizes credit risk by reviewing the credit risk of the counterparty to the arrangement and has made any necessary provisions related to credit risk at June 30, 2007.

The Company is exposed to fluctuations in interest rates, foreign currency exchange rates and commodity prices. The Company has not entered into any derivative financial instruments to manage exposure to fluctuations in these rates.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

14. Cash flow information

(a) *Net change in non-cash working capital items*

	Thirteen months ended June 30, 2007	Year ended May 31, 2006
(Increase) decrease in		
Accounts receivable	\$ (854)	\$ (4,105)
Inventories	(6,722)	(1,614)
Prepaid expenses	(2,152)	(472)
Increase (decrease) in		
Accounts payable and accrued liabilities	11,800	(2,348)
	<u>\$ 2,072</u>	<u>\$ (8,539)</u>

(b) *Supplementary information regarding other non-cash transactions*

At June 30, 2007, accounts payable and accrued liabilities include non-cash amounts of \$22.7 million (2006 – Nil) related to its purchase commitments in Colombia for plant and equipment expenditures and \$8.8 million (2006 - \$4.2 million) related to the acquisition of concession rights in Colombia.

During the year ended May 31, 2006, the Company issued 4.0 million common shares with a value of \$16.5 million with respect to the acquisitions described in Note 3.

(c) *Other supplementary information*

	Thirteen months ended June 30, 2007	Year ended May 31, 2006
Interest paid	\$ 14,531	\$ 574
Income taxes paid	300	-

15. Segmented information

- (a) Operating segment - The Company's operations are primarily directed towards the acquisition, exploration and production of coal in the natural resources sector.

Coalcorp Mining Inc.

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For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

- (b) Geographic segments - The Company's assets as at June 30, 2007 and May 31, 2006, and revenues and expenses by geographic areas for the thirteen month period ended June 30, 2007 and year ended May 31, 2006 are as follows:

	June 30, 2007		
	Colombia	Corporate	Total
Property, plant and equipment	\$ 378,635	\$ 25	\$ 378,660
Total assets	\$ 468,222	\$ 153,225	\$ 621,447
Property, plant and equipment expenditures	\$ 38,182	\$ 17	\$ 38,199

	May 31, 2006		
	Colombia	Corporate	Total
Property, plant and equipment	\$ 153,732	\$ 16	\$ 153,748
Total assets	\$ 221,025	\$ 69,161	\$ 290,186
Property, plant and equipment expenditures	\$ 1,316	\$ -	\$ 1,316

	Thirteen months ended June 30, 2007		
	Colombia	Corporate	Total
Revenues	\$ 103,547	\$ -	\$ 103,547
Operating costs	(123,241)	-	(123,241)
Depletion and depreciation	(13,911)	(8)	(13,919)
Expenses	(20,519)	(8,331)	(28,850)
Other expense	(25,757)	(7,649)	(33,406)
Loss before income taxes	\$ (79,881)	\$ (15,988)	\$ (95,869)

	Year ended May 31, 2006		
	Colombia	Corporate	Total
Revenues	\$ 26,210	\$ -	\$ 26,210
Production costs	(21,028)	-	(21,028)
Depletion and depreciation	(3,213)	(1)	(3,214)
Expenses	(2,400)	(8,749)	(11,149)
Other income (expense)	7,718	(2,197)	5,521
Loss before income taxes	\$ 7,287	\$ (10,947)	\$ (3,660)

Prior to the February 8, 2006 acquisitions all of the Company's operations were in Canada.

Coalcorp Mining Inc.

Notes to the consolidated financial statements

For the thirteen month period ended June 30, 2007 and the year ended May 31, 2006

(Tabular amounts expressed in thousands of U.S. dollars except for shares and per share amounts)

For the thirteen month period ended June 30, 2007, 56 % of revenue was to one customer, 24% of revenue was to one customer and 42% of accounts receivable were from three customers. For the year ended May 31, 2006, 44% of revenue was to one customer, 37% of revenue was to one customer and 70% of accounts receivable were from three customers.

16. Commitments and contingencies

- (a) In addition to the contract assumed on acquisition (Note 3 (b)), the Company has entered into various contracts as at June 30, 2007 to deliver 19.2 million tonnes of coal as follows:

Year ending June 30,	Tonnes	Average price per tonne
FOB Port		
2008	1,721,000	\$ 54.93
2009	2,695,000	52.25
2010	3,190,000	50.67
2011	3,185,000	50.68
2012	3,190,000	50.68
2013	2,890,000	50.68
2014	1,250,000	50.25
	<u>18,121,000</u>	
FOT Mine		
2008	<u>989,000</u>	\$ 39.00
CFR		
2008	<u>90,000</u>	\$ 81.75

- (b) At June 30, 2007, the Company has issued letters of credit outstanding totalling \$27.2 million in support of certain of its obligations related to long-term debt (Note 8), equipment purchases in the amount of \$12.9 million and Caypa mine operations in the amount of \$4.3 million. The letters of credit have been guaranteed with cash deposits of an equal amount (Note 6).
- (c) At June 30, 2007, the Company is contractually obligated under take-or-pay contracts with respect to 1.6 million tonnes valued at \$7.9 million annually at a third party port facility until 2012 and up to 2.45 million tonnes valued at \$5.6 million per annum of capacity on the Fenoco rail line for a period of seven years.
- (d) The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

Management's Discussion & Analysis

September 26, 2007

Fourth Quarter and Thirteen Month Periods Ended June 30, 2007

The financial statements present the results of Coalcorp Mining Inc. (the "Company") for the thirteen month period ended June 30, 2007 ("2007 fiscal year") with comparatives for the year ended May 31, 2006 ("2006 fiscal year") and accompanying notes in accordance with Canadian generally accepted accounting principles. The following comments analyze the factors which affected the Company's operations for the thirteen month period ended June 30, 2007 as well as the factors that reasonably may be expected to affect future operations and financial results.

This document should be read in conjunction with the financial statements. This Management's Discussion and Analysis contains certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "likely", "may" or other similar words or phrases. Similarly, statements contained in each of the "Outlook" sections of this Management's Discussion and Analysis, including those with respect to expectations concerning assets, prices, foreign exchange rates, earnings, production, market conditions, capital expenditures, commodity demand, risks, availability of regulatory approvals, corporate objectives and plans or goals, are or may be forward-looking statements. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that are beyond the Company's ability to control or predict. Actual results and developments may differ materially from those contemplated by this Management's Discussion and Analysis depending on, among others, such key factors as business and economic conditions in Canada, Colombia and the principal markets for the Company's products. Key factors that may result in material differences between actual results and developments and those contemplated by this Management's Discussion and Analysis also include the supply, demand and prices for the Company's products; dependence on significant customers; deliveries; production levels, production and other anticipated and unanticipated costs and expenses; energy costs; premiums or discounts realized over cash and other benchmark prices; interest rates; foreign exchange rates; rates of inflation; changes in tax legislation; the timing, capital costs and financing arrangements associated with development projects; the timing of the receipt of government and other approvals; political unrest or instability in the countries where the Company is active; risks related to collecting accounts receivable and repatriating profits and dividends from Colombia; risks associated with mining, processing and exploration activities; potential imprecision of reserve estimates; market competition; developments affecting labour relations; environmental regulation; and other risk factors listed from time to time in the Company's continuous disclosure documents such as its annual report, annual information form and management information circular. The Company does not intend, and does not assume any obligation, to update these forward-looking statements.

This report contains financial terms that are not considered measures under Canadian generally accepted accounting principles ("GAAP"), such as net revenue per tonne and cost per tonne. These measures are commonly utilized in the mining industry and are considered informative for management and shareholders. "Net revenue per tonne" represents the realized selling prices for coal under sales contracts net of adjustments for product quality, divided by the number of tonnes sold in the period. "Mine cost per tonne" represents direct and indirect mine operating costs including royalties and excluding excess mine stripping and other one-time

costs not associated with current production, divided by the number of tonnes produced in the period. "Ex mine costs per tonne" represents the cost of transportation and port handling for coal produced at the Company's Caypa mine, divided by the number of tonnes sold in the period.

The Company maintains accounting and internal control systems to provide reasonable assurance that its financial information is complete, reliable and accurate and that its assets are adequately protected. The Board of Directors, in conjunction with the Audit Committee, has an oversight role to ensure the integrity of the reported information.

This report has been reviewed by the Company's Audit Committee and approved by its Board of Directors.

All dollar amounts are expressed in United States dollars unless stated otherwise.

Selected Annual Information

(\$ millions except per share)	2007 ⁽¹⁾	2006 ⁽²⁾
Revenue	\$ 103.5	\$ 26.2
Net loss	(76.2)	(2.8)
Loss per share	(1.16)	(0.14)
Total assets	621.4	290.2
Total long-term debt	186.4	16.1

(1) Represents a 13-month period due to change in year end to June 30 from May 31 effective June 1, 2007.

(2) Includes the results of the La Francia and Caypa mines for four months following February 8, 2006 acquisitions.

Overview

The Company is engaged in the business of operating coal mines and the development of other coal mining related assets located in Colombia, including various coal export infrastructure projects. The Company operates the La Francia coal mine located in the César region of Colombia and the Caypa coal mine located in the Guajira region of Colombia, as well as a number of additional exploration concessions and applications, some of which are the subject of an exploration joint venture with BHP Billiton completed on April 11, 2007.

The Company also holds an 8.4% interest in Ferrocarriles del Norte de Colombia, S.A. ("Fenoco"), which operates a railroad from the Cesar area to Santa Marta. In addition, the Company is also planning the development of wholly-owned port facilities near Capulco and Cartagena as well as a river transport system to provide access to the Cartagena facility.

The Company's goal is to become a leading intermediate-sized, vertically-integrated coal company. In order to achieve its goal, the Company recognized that access to, or ownership in, export infrastructure would be as important as finding or acquiring suitable coal deposits, as there is very little, if any, excess capacity available to Colombian coal exporters at the current time.

Until the acquisition of the Company's coal assets in Colombia on February 8, 2006, the Company had no meaningful assets, liabilities, revenues or income. Accordingly, comparisons to previous periods have been omitted where not relevant, with an increased emphasis on providing forward-looking information to assist in the understanding of the Company's business.

Effective June 1, 2006, the Company changed its measurement currency to the United States dollar from the Canadian dollar due to the increasing amount of debt held in U.S. dollars and interest being paid in U.S. dollars. Concurrently, the Company changed its reporting currency to U.S. dollars to improve investors' ability to compare the Company's results with those of other publicly traded businesses in the industry.

The Company also changed its fiscal year end to June 30 from May 31 to eliminate the need for duplicate quarterly reporting by its Colombian subsidiaries. As such, the first fiscal period in 2007 was four months ended September 30, 2006 and fiscal 2007 included thirteen months ended June 30, 2007.

On June 14, 2007 the Company completed a share consolidation whereby seven pre-consolidation shares were exchanged for one post-consolidation share. All information related to common shares in the current and prior periods has been restated to give effect to the share consolidation.

Fourth Quarter Ended June 30, 2007

The Company produced a total of 545,000 tonnes of coal at an average mine cost of \$37 per tonne from its La Francia and Caypa mines during the quarter ended June 30, 2007 compared with 563,000 tonnes at an average mine cost of \$31 per tonne in the fourth quarter last year.

Revenues totaled \$24.2 million based on sales of 567,000 tonnes at an average realized price of \$42 per tonne delivered during the fourth quarter of 2007 compared with \$20.2 million from 563,000 tonnes sold at an average realized price of \$36 per tonne during the fourth quarter last year. The Company recorded a net loss of \$26.1 million or \$0.29 per share during the fourth quarter of 2007 compared with net earnings of \$0.7 million or \$0.03 per share in the corresponding period last year. The increase in the fourth quarter 2007 net loss compared with last year results from above-average stripping ratios at the two mines and \$5.7 million of other operating costs unrelated to current production. In addition, the Company recorded a writedown of its mineral exploration properties of \$11.0 million and a non-cash foreign exchange loss, principally related to its future income tax liability denominated in Colombian pesos, in the amount of \$14.4 million. These factors are described more fully in the discussion of the *Results of Operations* below for the thirteen month period ended June 30, 2007.

Results of Operations

For the thirteen months ended June 30, 2007	La Francia	Caypa	Total
Waste (000m ³)	15,866	8,353	24,219
Stripping ratio (:1)	9.5	9.9	9.6
Coal production (tonnes000)	1,677	846	2,523
Cost per tonne ⁽¹⁾ - mine	31	42	35
- ex mine	-	20	7
Sales (tonnes000) - FOT mine	1,596	-	1,596
- FOB port	-	845	845
- Total	1,596	845	2,441
Revenue ⁽²⁾ - FOT mine	35	-	35
- FOB Port	-	56	56

(1) "Mine cost per tonne" represents direct and indirect mine operating costs including royalties and excluding excess mine stripping and other one-time costs not associated with current production, divided by the number of tonnes produced in the period. "Ex mine costs per tonne" represents the cost of transportation and port handling for coal produced at the Company's Caypa mine, divided by the number of tonnes sold in the period.

(2) "Net revenue per tonne" represents the realized selling prices for coal under sales contracts net of adjustments for product quality, divided by the number of tonnes sold in the period.

Revenues

Revenues totalled \$103.5 million based on sales of 2.4 million tonnes at an average realized price of \$42 per tonne delivered during the thirteen month period ended June 30, 2007 compared with \$26.2 million from 0.7 million tonnes sold at an average realized price of \$37 per tonne during the year ended May 31, 2006. The prior year period only includes the results of operations from the La Francia and Caypa mines for the four months following their acquisition on February 8, 2006.

Production and Cost of Operations

The Company produced 2.5 million tonnes of coal from its La Francia and Caypa mines during the thirteen month period ended June 30, 2007. At the La Francia mine, a total of 17.5 million tonnes of material were mined yielding 1.6 million tonnes of coal at an average stripping ratio of 9.5:1, much higher than the life of mine ratio of 5.9:1. This included approximately 2 million tonnes of pre-stripping waste moved during January through June 2007 unrelated to current production. Concerns about protecting the quality of coal in the stockpile as it approached capacity coupled with temporary availability issues for trucks to transport the coal to port and the re-location and expansion of the stockpile area in April impacted crushing activities for a period of 20 days, causing the mine operator to shift the balance of material extracted during the last six months of the year towards a higher waste component than previously anticipated. Excluding this additional waste material, which should lower the cost of future production, the stripping ratio at La Francia for the year on a normalized basis would have been closer to 8:1. At the Caypa mine, a total of 9.2 million tonnes of material were mined yielding 0.8 million tonnes of coal at an average stripping ratio of 9.9:1, much higher than the life of mine ratio of 7.6:1. In the third fiscal quarter, the Company moved equipment to stabilize the pit wall, disrupting production during the month of February. This action together with a change in the mining plan resulted in the extraction of incremental waste material of approximately 1.6 million tonnes. Excluding this additional waste material, which should lower the cost of future production, the

stripping ratio at Caypa for the year on a normalized basis would also have been closer to 8:1 as previously anticipated.

Mine operating costs averaged \$31 per tonne produced at La Francia during the thirteen month period ended June 30, 2007 while Caypa's mine cost during the same period of \$42 per tonne produced was much higher than expected reflecting the change in mine plan. Included in mine operating costs are royalties averaging approximately \$5 per tonne on a combined basis. In addition, the Company paid selling commissions of approximately \$2 per tonne and, at the Caypa mine, the costs of transporting the coal to port and port handling costs borne by the Company averaged another \$20 per tonne. As referred to above, the Company incurred excess pre-stripping costs for waste removal unrelated to current production that was expensed in the current year amounting to approximately \$7.2 million. The Company also expensed \$8.9 million of other costs unrelated to current production, including the excess of its take-or-pay third-party port facility contract over current requirements and repairs and maintenance of mine equipment to increase availability standards at Caypa as part of the transition of mine operations to a third party contractor beginning in May 2007.

Depreciation and depletion of property, plant, equipment and mining properties amounted to \$13.9 million or almost \$6 per tonne during the thirteen month period ended June 30, 2007, an increase of about a \$1 per tonne over last year as a result of capital expenditures during the current fiscal year. The Company expects that depreciation and depletion charges per tonne will decrease in the future as reserves are added.

Expenses

General and administrative expenses amounted to \$14.6 million during the thirteen month period ended June 30, 2007, up from the \$5.7 million incurred in the prior year period. Fiscal 2007 includes approximately \$0.8 million as a result of having an extra month stemming from the change in the Company's year end in 2007 and also represents the first full year including the operations in Colombia following the acquisitions in February 2006. The Company incurred approximately \$2.3 million in fiscal 2007 for consulting and professional services in support of its business strategy. General and administrative expenses also include salaries and benefits, business development, investor relations, travel, office and other administration costs incurred in both its Canadian and Colombian operations.

Stock-based compensation expense of \$0.6 million was recorded during the thirteen month period ended June 30, 2007 related to the granting of 250,000 stock options to executives, employees and consultants under the Company's stock option plan.

Subsequent to the February 2006 acquisitions and continuing during fiscal 2007, the Company acquired a number of prospective coal exploration properties in Colombia, some of which were near its existing La Francia mine and others in the Santander and Guajira departments. Following an extensive evaluation of the exploration potential of these properties, the Company wrote-off \$13.6 million of mineral properties acquisition payments during fiscal 2007 and turned several properties back to the vendors in lieu of further payments. Of the Company's remaining exploration properties, 12 concessions are being explored under a three-year agreement with BHP Billiton whereby BHP Billiton could earn up to 50% interest in any particular deposit discovered by sole-funding 100% of exploration expenditures, subject to an annual minimum of \$2.5 million through until the completion of a pre-feasibility study. BHP Billiton can earn a further 10% in the deposit by funding all expenditures through completion of a feasibility study and assisting the Company in arranging financing for its share of development costs.

Other Income (Expense)

Interest income earned on cash, short-term investments and restricted cash balances during fiscal 2007 amounted to \$8.0 million, up significantly from \$1.0 million earned during the prior year period as a result of investing funds raised through the private placement in February 2006 and the debt offering in August 2006 in directly in secure, high quality and highly liquid investments.

Financing costs of \$1.4 million in fiscal 2007 represents the amortization of the deferred financing costs associated with the August 2006 debt offering that are being charged to earnings over the five-year term of the debt.

Interest on long-term debt comprises the 12% interest payable semi-annually on the \$115 million senior notes due August 2011 and interest on bank loans undertaken by the Colombian operations to finance local infrastructure development and working capital requirements. The bank loans in Colombia are supported by restricted cash deposits generating interest income included above.

Effective June 1, 2007, the Company changed its measurement currency to the U.S. dollar. Consequently, the Company's foreign currency risk pertains to its monetary assets and liabilities denominated in currencies other than the U.S. dollar. Most of the Company's cash, short-term investments, restricted cash and long-term debt balances are denominated in U.S. dollars. Although other working capital items such as receivables and payables in its Colombian operations are exposed to foreign currency fluctuations, the Company's principal foreign currency exposure is its future income tax liability that is denominated in Colombian pesos. During the thirteen month period ended June 30, 2007, the Company recorded a foreign exchange loss of \$24.3 million of which \$22.7 million was generated by the impact of foreign exchange rate changes on the U.S. dollar value of its future income tax liability and the balance on its other working capital balances.

Income Taxes

The Company recorded a tax recovery of \$19.7 million during the thirteen month period ended June 30, 2007. Reference should be made to Note 12 to the consolidated financial statements for a reconciliation of the actual tax recovery to the expected tax recovery at the Canadian statutory tax rate.

Net Loss

As a result of the factors discussed above, the Company recorded a net loss of \$76.2 million or \$1.16 per share in fiscal 2007 compared with a net loss of \$2.8 million or \$0.14 per share in the prior year period.

Net Cash Used in Operating Activities

Net cash used in operating activities during the thirteen months ended June 30, 2007 was \$41.8 million compared with \$10.5 million used in the prior year period. The increase is primarily attributable to the excess mine stripping and other costs unrelated to current production, an increase in general and administrative expenses as the Company engages various consultants for infrastructure development and net financing costs of \$7.8 million following the debt offering in August 2006.

Capital Expenditures

Capital expenditures amounted to \$38.2 million during the thirteen month period ended June 30, 2007. Of this total, \$17.0 million was spent on the Company's infrastructure development projects related to the Fenoco rail connection and upgrading program and on property

acquisitions and development costs related to the ports. A further \$26.7 million of committed expenditures related to these two major projects are included in accounts payable and accrued liabilities at June 30, 2007 that will be spent by the end of December 2007. The Company also spent \$5.1 million on property, plant and equipment at its La Francia and Caypa mines and \$16.1 million on mineral exploration property acquisitions.

Contractual Obligations

\$000	Less than 1 year	1 – 3 years	4 - 5 years	After 5 years	Total
Long term debt ¹	631	22,298	164,500	-	187,429
Purchase obligations ²	9,248	24,915	42,846	17,969	94,978
Total obligations	9,879	47,213	207,346	17,969	282,407

¹ Represents repayment of long-term bank loans supported by restricted cash deposits of a like amount used as collateral for the loans (back-to-back loans) which are used to providing funding for the Company's operations in Colombia and \$115 million note due August 2011.

² Represents take-or pay contracts with respect to i) 1.6 million tonnes per annum at a third-party port facility until 2012 and ii) up to 2.45 million tonnes per annum of capacity on the Fenoco rail line for a period of 7 years.

Summary of Quarterly Results

	2007				2006			
	Q4	Q3	Q2	Q1 ⁽²⁾	Q4	Q3 ⁽¹⁾	Q2	Q1
Financial (\$millions except per share)								
Revenue	\$ 24.2	\$ 16.5	\$ 26.6	\$ 36.2	\$ 20.2	\$ 6.0	\$ -	\$ -
Net earnings (loss)	(26.1)	(16.4)	(23.0)	(10.7)	0.7	(1.9)	(1.2)	(0.4)
Per share	(0.29)	(0.26)	(0.41)	(0.19)	0.03	(0.12)	(0.35)	(0.10)
Cash used in operating activities	(12.2)	(8.4)	(17.0)	(4.2)	(6.7)	(2.8)	(0.9)	(0.1)
Capital expenditures	10.4	4.7	8.5	14.6	1.1	0.2	-	-
Operations								
Production (000's tonnes)	545	503	607	869	563	134	-	-
Cost per tonne								
- mine	\$ 37	\$ 36	\$ 35	\$ 33	\$ 31	\$ 31	-	-
- ex mine	8	4	7	7	7	7	-	-
Sales (000's tonnes)	568	438	602	834	563	145	-	-
Average revenue per tonne	\$ 42	\$ 39	\$ 44	\$ 44	\$ 36	\$ 41	-	-

(1) Includes the results of the La Francia and Caypa mines for 20 days following February 8, 2006 acquisitions.

(2) Represents a four-month interim period due to change in year end to June 30 from May 31 effective fiscal 2007.

Liquidity and Capital Resources

The Company has unrestricted cash and short-term investments of \$66.0 million at June 30, 2007. In addition, the Company has \$12.9 million of restricted cash that will become available for use by the Company within the next 12 months to fund its capital projects. The Company's working capital at June 30, 2007 was \$55.9 million.

The Company has initiated a number of investments in mining properties and infrastructure development. The components include:

Fenoco – the Company is required to fund its share of a \$230 million upgrading and expansion program (\$19 million) of which \$14 million has been incurred through June 30, 2007 and the balance to be spent over the next two years. In addition, the Company has incurred \$18 million to June 30, 2007 to connect its La Francia mine to the Fenoco line with initial access to commence in December of this year. The Company is expecting to spend a further \$25 million over the next 12 months to complete this project.

River port – the Company is planning to spend \$25 million on the development of a river port at Capulco, the majority of which will be incurred in calendar 2008 and 2009, although no material financial commitments have been made to-date. A 30-year concession for the river port was granted earlier this year and is fully permitted, with construction to commence upon completion of detailed engineering.

Cartagena Port – the Company was granted a 30-year concession to operate a port earlier this year. Construction will commence upon approval of the Company's environmental plan. The Phase I program, expected to cost \$55 million, will be incurred during calendar 2008 and 2009, with start-up expected in 2009. No material financial commitments have been made to-date.

The Company anticipates funding the majority of its infrastructure development in the near term from available cash resources. Other sources of financing, including local borrowing in Colombia, vendor or project financing and leasing, are being considered in the event additional resources are required. However, if such funding is required and is not available from the foregoing sources, the Company would have to consider the possibility of additional equity financing.

On August 17, 2006, the Company completed a \$115 million financing consisting of 115,000 units. Each unit consisted of a \$1,000 principal amount senior secured guaranteed note and 30 common share purchase warrants. The notes will mature on August 31, 2011, with an annual interest rate of 12% payable. Each warrant entitles the holder to purchase one common share of the Company at a price of Cdn\$8.40 per common share any time on or before August 17, 2011.

During the thirteen months ended June 30, 2007, the Company also increased its net long-term debt in Colombia by \$56.2 million to fund capital expenditures and working capital requirements. To facilitate the new borrowings, the Company increased its restricted cash deposits guaranteeing these loans by \$60.5 million. In addition, the Company issued letters of credit, supported by restricted cash deposits, to a rail equipment supplier in the amount of \$12.9 million and to guarantee certain local obligations at the Caypa mine in the amount of \$4.3 million.

On October 23, 2006 the Company announced that it was commencing a normal course issuer bid for up to 5,000,000 common shares of the Company, representing approximately 10% of the Company's common shares outstanding. The normal course issuer bid commenced October 25, 2006 and will terminate on October 24, 2007, unless terminated earlier by the Company. The

Company has repurchased and cancelled 46,429 common shares for a total cost including transaction fees of \$0.2 million.

On March 19, 2007 the Company completed its public offering of units in respect of 32.9 million common shares and 16.4 million warrants for total proceeds, net of issue costs, of \$129.1 million.

On March 22, 2007 the Company exercised its option to acquire 100% of the shares of Adromi Capital Corp, a Panamanian company which owns 100% of the La Francia II property located immediately north of the Company's currently-producing La Francia property for cash consideration, including acquisition costs, totalling \$126.3 million. The purchase was considered to be an asset acquisition and the purchase price was allocated to mining property within property, plant and equipment.

Related Party Transactions

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the thirteen month period ended June 30, 2007, the Company incurred production royalties payable to Blue Pacific Assets Corp. amounting to \$2.1 million related to the acquisition of the La Francia mine as disclosed in Note 3(b) to the consolidated financial statements. The Company also paid consulting fees of \$0.1 million to a company related by way of a common director. During the year ended May 31, 2006, the Company incurred consulting fees, business development costs and interest on a bridge loan totalling \$1.2 million with companies related by way of a common directors and/ or officers.

As at June 30, 2007, property, plant and equipment included an amount of \$1.8 million (2006 - \$1.0 million) and deferred finance charges included an amount of \$0.6 million (2006 - Nil) paid to a company related by way of a common director.

Risks and Uncertainties

Foreign Country and Political Risk

The Company's principal mineral projects are located in Colombia and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mineral concessions or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and government regulations relating to the mining industry. Colombia is home to South America's largest and longest running insurgency. Any changes in regulations or shifts in political attitudes are beyond the control of the Company and may adversely affect its business. Mining operations and further exploration may be affected in varying degrees by government regulations with respect to restrictions on future exploitation and production, price controls, export controls, foreign exchange controls, income taxes, expropriation of property, environmental legislation and mine and/or site safety.

Title Matters

The acquisition of title to mineral concessions in Colombia is a detailed and time consuming process. Title to and the area of mining concessions may be disputed. The Company's

properties may also be subject to unforeseen aboriginal title claims. While the Company has diligently investigated title to all mineral concessions and has followed usual industry practice in obtaining satisfactory title opinions in respect of its mining concessions and, to the best of its knowledge, title to all of its properties is in good standing, this should not be construed as a guarantee of title. Title to the properties may be affected by undisclosed and undetected defects.

Implementation of Business Strategy

The implementation of a number of aspects of the integration and infrastructure strategies described herein are subject to the completion of detailed feasibility studies. There can be no assurance that the Company will be able to successfully implement some or all of these strategies. Further, the implementation of these strategies is subject to factors beyond the control of the Company, including, for example, the receipt of necessary consents and government approvals. In addition, in order to implement its business strategy additional funds may be required to complete the infrastructure development projects. There can be no assurance that such additional financing will be available on terms acceptable to the Company, if at all, and might involve substantial dilution to existing shareholders.

The operation of a port and the granting of a concession to operate a port are subject to permitting by land use and environmental authorities. Although the Cartagena Port has operated as a coal port previously, there is no assurance that required permits will be granted, or if granted, will include terms and conditions necessary for the development and operation of the Cartagena Port in a commercially viable manner. Although the Company has commenced the process of applying for all necessary maritime and environmental permits and other authorizations necessary to operate and develop the Cartagena Port, the Company anticipates that this process could take up to two years. If the required permits are not obtained, the Company will not be able to fully implement or achieve certain of the anticipated benefits of its proposed business strategy.

Environmental and other Regulatory Requirements

The activities of the Company are subject to environmental regulations promulgated by government or government agencies from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. Breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

The current exploration, development and production activities of the Company require certain permits and licenses from various governmental authorities and such operations are and will be governed by laws and regulations governing exploration, development and production, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety, mine permitting and other matters. Companies engaged in exploration activities generally experience increased costs and delays as a result of the need to comply with

applicable laws, regulations and permits. There can be no assurance that all licenses and permits which the Company may require to carry out exploration and development of its projects will be obtainable on reasonable terms or on a timely basis, or that such laws and regulations would not have an adverse effect on any project that the Company may undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in exploration operations may be required to compensate those suffering loss or damage by reason of the exploration activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations and, in particular, environmental laws.

Integration of Acquired Companies

The Company is still in the process of completing the integration of the acquisitions completed during the past two years. Further, a key component of the Company's growth strategy is to complete further acquisitions of, or business combinations with, small coal producing companies in Colombia. Prior acquisitions and business combinations (including the 2006 acquisitions and the acquisition of La Francia II) involve inherent risks, including assumption of transaction costs, risk of non-completion, undisclosed liabilities, assimilation and successfully managing growth. While the Company conducts extensive due diligence and takes steps to ensure successful assimilation, factors beyond the Company's control could influence the results of acquisitions. There can be no assurance, however, that the Company will be able to identify, acquire and integrate appropriate assets or companies for acquisition or obtain financing for such acquisitions on satisfactory terms. There can also be no assurance that competition for acquisition candidates will not escalate, thereby increasing the costs of making acquisitions.

Part of the Company's growth strategy inherently assumes that it will be able to identify and finance suitable acquisition candidates on terms acceptable to the Company and that these acquisitions, if pursued and completed, will be integrated successfully. The Company may encounter problems in connection with the integration of any new businesses, such as: amount of cost savings that may be realized as the result of integration of an acquired business; unanticipated production issues with acquired properties; diversion of management attention; difficulty with personnel and loss of key employees; and compatibility of financial control and information systems.

Additional Mining Concessions May Not Be Granted

The Company has interests in a number of applications for additional mining concessions. Some or all of these concessions may not be granted. The granting of concessions is subject to availability of the land, the favourable opinion of the authorities of applicable local mining authorities and a technical evaluation by Ingeominas. With respect to certain applications in which the Company holds an interest, there are other applications by third parties for portions of the land comprising the concession applied for, which may, if any such applications are successful, decrease the total area comprising the concession once granted.

Changes in Legislation

The mining industry in Colombia is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, including environmental laws and regulations which are evolving in Colombia, or more stringent enforcement thereof, could have a material adverse impact on the Company and cause increases in expenditures and costs, affect the Company's ability to expand or transfer existing operations or require the Company to abandon or delay the development of new mining properties.

Additional Capital

The exploration and development of the Company's properties, including continuing exploration and development projects, the construction of mining facilities and commencement of mining operations and the growth of the Company, may require substantial additional financing. Failure to obtain sufficient financing could result in a delay or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of a property interest. An important source of funds available to the Company is through the sale of equity capital, properties, royalty interests or the entering into of joint ventures. Additional financing may not be available when needed or if available, the terms of such financing might not be favourable to the Company and might involve substantial dilution to existing shareholders. Failure to raise capital when needed would have a material adverse effect on the Company's business, financial condition and results of operations and ability to grow.

Repatriation of Earnings

Currently there are no restrictions on the repatriation from Colombia of earnings to foreign entities. However, there can be no assurance that restrictions on repatriation of earnings from Colombia will not be imposed in the future. Exchange control regulations require that any proceeds in foreign currency originated on exports of goods from Colombia (including minerals) be repatriated to Colombia. However, purchase of foreign currency is allowed through any Colombian authorized financial entity for purposes of payments to foreign suppliers, repayment of foreign debt, payment of dividends to foreign stockholders and other foreign expenses.

Coal Price and Volume Volatility

The Company's profits are directly related to the volume and price of coal sold. Price volatility could have a significant impact on the future revenues and profitability of the Company. Coal demand and price are determined by numerous factors beyond the control of the Company including the demand for electricity, the availability of competitive coal supplies, international exchange rates and political and economic conditions and production costs in major coal producing regions. The Company's dependence on foreign markets may result in instability due to political and economic factors in those foreign jurisdictions which is beyond the control of the Company. The combined effects of any or all of these factors on coal price or volume are impossible for the Company to predict. If realized coal prices fall below the full cost of production of any of the Company's operations and remain at such level for any sustained period, the Company will experience losses, which may be significant, and may decide to

discontinue affected operations, forcing the Company to incur closure or care and maintenance costs, as the case may be.

Transportation and Port Costs

Disruption in or increased costs of transportation and port services could make coal a less competitive source of energy or could make the Company's coal less competitive than other sources of coal. The coal industry depends on rail, trucking, ocean-going vessel and barge transportation to deliver shipments of coal to customers, and transportation and port costs are a significant component of the total cost of supplying coal. Disruptions of these transportation or port services because of weather-related problems, insurgency, strikes, lock-outs, transportation delays or other events could temporarily impair ability to supply coal to customers and may result in lost sales. In addition, increases in transportation or port costs, or changes in costs relative to transportation or port costs for coal produced by competitors, could adversely affect profitability. To the extent such increases are sustained, the Company could experience losses and may decide to discontinue certain operations forcing the Company to incur closure or care and maintenance costs, as the case may be.

Access to Transportation Infrastructure

Access to transportation infrastructure to ship coal economically within Colombia and to export coal internationally is currently limited. While the Company is taking steps to access existing rail infrastructure, further expand rail infrastructure, develop river transportation and develop a river port at Capulco, there is no guarantee that these efforts will be successful. Lack of access to transportation may hinder the expansion of production at the Company's mining properties and the Company may be required to use more expensive transportation alternatives.

Disruptions in Production

Other factors affecting the production and sale of coal that could result in decreases in profitability include: expiration or termination of, or sales price re-determinations or suspension of deliveries under, coal supply agreements; future litigation; the timing and amount of insurance recoveries; work stoppages or other labour difficulties; mine worker vacation schedules and related maintenance activities; and changes in the coal market and general economic conditions. Weather conditions, equipment replacement or repair, fires, variations in thickness of the layer or seam of coal, amounts of rock and other natural materials and other geological conditions can have a significant impact on operating results.

Reserve Estimates and Replacement of Reserves

While the Company's estimates of coal reserves have been prepared in accordance with industry standards and applicable law based on information which the Company believes to be reliable, coal reserves disclosed by the Company should not be interpreted as assurances of mine life or of the profitability of current or future operations given that there are numerous uncertainties inherent in the estimation of economically recoverable coal reserves. Estimates of coal reserves and net cash flows necessarily depend upon a number of variable factors and assumptions such as: geological and mining conditions, which may not be fully identified by available exploration data or may differ from the Company's experience in current operations; historical production from the area compared with production from other producing areas; the assumed effects of regulation by governmental agencies; and assumptions concerning coal prices, operating costs, severance and excise taxes, development costs and reclamation costs,

all of which may vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities attributable to any particular group of properties, classifications of reserves based on risk of recovery and estimates of net cash flows expected therefrom prepared by different engineers or by the same engineers at different times may vary substantially.

Actual coal tonnage recovered from identified reserve areas or properties, and revenues and expenditures with respect to the Company's reserves, may vary materially from estimates. The estimates of reserves may not accurately reflect the Company's actual reserves and may need to be restated in the future. Any inaccuracy in the Company's estimates could result in decreased profitability from lower than expected revenues or higher than expected costs.

The Company's recoverable reserves decline as it produces coal. The Company may not be able to mine all of its reserves as profitably as it does at its current operations. The Company's future success depends on conducting successful exploration and development activities or acquiring properties containing economically recoverable reserves. There is no assurance that the Company will continue to succeed in developing additional mines or will continue to receive the permits necessary to operate profitably in the future.

Mining Risks and Insurance

Establishment of a coal reserve and development of a coal mine does not assure a profit on the investment or recovery of costs. In addition, mining hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from a mine. These conditions include delays in obtaining governmental approvals or consents, insufficient transportation capacity or other geological and mechanical conditions. While diligent mine supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Coal exploration, development and production operations are subject to all of the risks and hazards typically associated with such operations, including hazards such as environmental hazards and industrial accidents, each of which could result in substantial damage to mines, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers consistent with industry practice for a company of its size and stage of development, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Coal mining operations are also subject to all of the risks typically associated with such operations, including encountering unexpected mining conditions, pit wall slides and pit flooding. The occurrence of any of these risks or other significant event against which the Company is not fully insured, or the insolvency of the insurer of such event, could have a material adverse effect on the Company's future results of operations or prospects, liquidity and financial condition.

Reliance on Counterparties

The Company depends on a number of counterparties in the conduct of its business. There can be no assurance that any of these counterparties will be able to continue to perform their respective obligations and contracts.

In particular, both La Francia and Caypa mines currently rely on a single general contractor to conduct mining operations. An interruption in or the termination of any contract or business arrangement with this contractor, and the inability of the Company to make alternative arrangements in a timely manner, or at all, could have a material adverse effect on the Company's business, financial condition and operating results. There can be no assurance that the Company would be able to find alternate mining contractors or hire its own workforce in a timely manner.

Exploration and Development

Certain of the resource properties in which the Company has an interest, or in which it may have an interest in the future, are in the exploration stages only. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs.

Substantial expenditures are required to establish reserves through drilling, to develop plans or processes to extract the resources and, in the case of new properties, to develop the infrastructure necessary for extraction. Although substantial benefits may be derived from the discovery of a major deposit, no assurance can be given that resources will be discovered in sufficient quantities to justify commercial operations or that the funds required for development can be obtained on a timely basis.

Reliance on Key Personnel

The Company's development to date has largely depended and in the future will continue to depend on the efforts of key management. Loss of any of these people could have a material adverse effect on the Company and its business. The Company has not taken out and does not intend to take out key man insurance in respect of any directors, officers or other employees. In addition, the competition for qualified personnel in the coal mining industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

Foreign Currency Exchange

Currency exchange rate fluctuations may adversely affect the Company's financial position and results. The Company does not currently have in place a policy for managing or controlling foreign currency risks since, to date, its activities have not resulted in material exposure to foreign currency risk.

Enforcement of Civil Liabilities

Substantially all of the assets of the Company are located outside of Canada and certain of the directors and officers of the Company are resident outside of Canada. As a result, it may be

difficult or impossible to enforce judgments granted by a court in Canada against the assets of the Company or the directors and officers of the Company residing outside of Canada.

Competition

The coal mining industry is competitive in all its phases. The Company competes with many companies and individuals that have substantially greater financial and technical resources than the Company in the search for, and the acquisition of, mineral concessions as well as for the recruitment and retention of qualified employees. The Company's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select, acquire and develop suitable properties or prospects.

Further, the gross disparity in size between large and small coal producers in Colombia restricts small producers in that they have limited influence to secure access to Colombia's transportation infrastructure, including rail and port facilities. This access is necessary for small producers to access international export markets for their coal production and to competitively sell superior quality Colombian coal in international markets. The Company may have difficulties successfully accessing transportation infrastructure necessary to export the coal it produces.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company to establish accounting policies and to make estimates that affect both the amount and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

A detailed summary of all of the Company's significant accounting policies and the estimates derived therefrom is included in Note 2 to the annual consolidated financial statements for the thirteen month period ended June 30, 2007. While all of the significant accounting policies are important to the Company's consolidated financial statements, the following accounting policies and the estimates derived therefrom have been identified as being critical:

- Impairment of long-lived assets;
- Depletion and depreciation of property, plant and equipment;
- Asset retirement obligations;
- Stock-based compensation; and
- Income taxes.

Impairment of long-lived assets

The Company undertakes a review, at least annually, to evaluate the carrying values of operating mines and other mineral property interests. Preparation of a life-of-mine's cash flow for each remaining year is based on management's estimates of remaining mine reserves and grade, future production and sale volumes, unit sales prices, future operating and capital costs and reclamation costs to the end of mine life. For each mining project, the carrying value is compared to the estimated future discounted cash flows and any excess is written down against operations.

The estimates used by management are subject to various risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the expected

recoverability of the Company's investments in mining projects and other mineral property interests.

Depletion and depreciation of property, plant and equipment

Property, plant and equipment comprises the largest component of the Company's assets and, as such, the amortization of these assets has a significant effect on the Company's financial statements.

On the commencement of commercial production, depletion of each mining property is provided on the unit-of-production basis using estimated proven and probable reserves as the depletion basis. The mining plant and equipment and other capital assets are depreciated, following the commencement of commercial production, over their expected economic lives using either the unit-of-production method or the straight-line method.

Capital projects in progress are not depreciated until the capital asset has been put into operation.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and the reliance on a number of assumptions. The estimates of the reserves may change, based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the original estimate of reserves would result in a change in the rate of depletion and depreciation of the related mining assets, or could result in impairment, resulting in a write-down of the assets.

Asset retirement obligations

The Company has obligations for site restoration and decommissioning related to its mining properties. The Company, using mine closure plans or other similar studies that outline the requirements planned to be carried out, estimates the future obligations for mine closure activities. Because the obligations are dependent on the laws and regulations of Colombia, the requirements could change resulting from amendments in those laws and regulations relating to environmental protection and other legislation affecting resource companies.

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the retirement of mining property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

Because the estimate of obligations is based on future expectations in the determination of closure provisions, management makes a number of assumptions and judgments. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out. Actual costs incurred in future periods in relation to the remediation of the Company's existing assets could differ materially from the \$9 million undiscounted future value of the Company's estimated asset retirement obligations at June 30, 2007.

Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model in determining the fair value of options granted for stock-based compensation. Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective price assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options granted/vested during the year.

Income taxes

The Company must make significant estimates in respect of the provision for income taxes and the composition of its future income tax assets and future income tax liabilities. The Company's operations are, in part, subject to foreign tax laws where interpretations, regulations and legislation are complex and continually changing. As a result, there are usually some tax matters in question which may, on resolution in the future, result in adjustments to the amount of future income tax assets and future income tax liabilities, and those adjustments may be material to the Company's financial position and results of operations.

Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantially enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The valuation of future income tax assets is reviewed quarterly and adjusted, if necessary, by use of a valuation allowance to reflect the estimated realizable amount.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset future income taxes payable requires management to exercise judgment and make assumptions about the future performance of the Company. Management is required to assess whether the Company is "more likely than not" to be able to benefit from these tax losses. Changes in economic conditions, commodity prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Changes in Accounting Policies

The following are new accounting policies used in the preparation of the financial statements for the thirteen months ended June 30, 2007:

Change in year-end

The Company changed its year-end to June 30 from May 31 resulting in a transition year of 13 months from June 1, 2006 to June 30, 2007. The Company's next financial year will commence on July 1, 2007 and end on June 30, 2008.

Change in reporting currency

Effective June 1, 2006, the Company changed its measurement currency to the United States dollar from the Canadian dollar due to the increasing amount of debt held in U.S. dollars and interest being paid in U.S. dollars. Concurrently, the Company changed its reporting currency to U.S. dollars to improve investors' ability to compare the Company's results with those of other publicly traded businesses in the industry. As such, historical results for prior periods have been restated to the new reporting currency using the current rate method. Under this method, the assets and liabilities were translated using the exchange rate in effect at the balance sheet date. The statements of operations and cash flows were translated at the average rate for the respective reporting periods. Any resulting foreign exchange gains and losses were recorded

as a separate component of shareholders' equity and described as cumulative translation adjustments.

Construction in progress

All direct costs related to the construction of the Fenoco rail line access and related rail equipment and the Cartagena port facility are recorded at cost. No amortization of these costs will occur until the port facility commences operations.

Deferred financing costs

Debt issuance costs are deferred and amortized as a component of expenses over the term of the related debt instrument.

Share consolidation

On June 14, 2007 the Company completed a share consolidation whereby seven pre-consolidation shares were exchanged for one post-consolidation share. All information related to common shares in the current and prior periods has been restated to give effect to the share consolidation.

New Accounting Pronouncements

Financial Instruments – Recognition and Measurement

The Canadian Institute of Chartered Accountants (the "CICA") issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement" in April 2005. This pronouncement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under this standard, an entity would recognize a financial asset or liability only when the entity becomes party to the contractual provisions of the financial instrument. Financial assets and financial liabilities would, with certain exceptions, be initially measured at fair value. Gains and losses on financial instruments measured at fair value would be recognized in net income in the periods in which they arise, with the exception of certain gains and losses on financial assets classified as available for sale (which are recognized in other comprehensive income) and certain financial instruments that are part of a designated hedging relationship (which qualify for special accounting in accordance with "Hedges", CICA Handbook Section 3865).

Hedges

The CICA issued Handbook Section 3865, "Hedges" in April 2005. This pronouncement establishes standards for when and how hedge accounting may be applied. Hedge accounting is a method for recognizing the gains, losses, revenues and expenses associated with the items in a hedging relationship such that those gains, losses, revenues and expenses are recognized in net income in the same period when they would otherwise be recognized in different periods. The application of hedge accounting is optional.

Comprehensive Income

The CICA issued Handbook Section 1530, "Comprehensive Income" in April 2005. The pronouncement establishes standards for the reporting and presentation of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources, except

those resulting from investments by owners and distributions to owners. Other comprehensive income is revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. Disclosures required under this section include net income for the period, other comprehensive income for the period classified by its nature, reclassification from other comprehensive income to net income and the tax impact of each component of other comprehensive income.

Equity

The CICA issued Handbook Section 3251, "Equity" in January 2005. This pronouncement establishes standards for the presentation of equity and the changes in equity. An enterprise should present separately the following components of equity: retained earnings, accumulated other comprehensive income by component, the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves.

The new standards for financial instruments, hedges, comprehensive income and equity apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006, for which early adoption is permitted. The adoption of these pronouncements must be done concurrently.

As at July 1, 2007, the Company will recognize all of its financial assets and liabilities in the consolidated balance sheet according to their classification. Any adjustment made to a previous carrying amount will be recognized as an adjustment to the balance of retained earnings at that date or as the opening balance of a separate item in "accumulated other comprehensive income", net of income taxes.

Regulatory Policies

Certification of disclosures in annual and interim filings

In accordance with Multilateral Instrument 52-109 of the Canadian Securities Administrators, the Company annually issues a "Certification of Annual Filings" ("Certification"). The Certification requires certifying officers to state that they are responsible for establishing and maintaining disclosure controls and procedures, have designed such procedures and evaluated their effectiveness as of the end of the period covered by these annual filings.

The certifying officers have evaluated the effectiveness of the Company's disclosure controls and procedures and, based on such evaluation, believe that the disclosure controls and procedures provide a reasonable assurance that information required to be disclosed by the Company in these annual filings is recorded, processed, summarized and reported within the time periods specified and the controls and procedures ensure that the information required to be disclosed by the Company is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In addition, the certifying officers of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Following the acquisitions in February 2006, work is ongoing to improve and modernize these controls and to ensure that they remain consistently applied. The Company realized that with the increasing complexity of the business and more demanding filing requirements of the TSX that additional financial personnel were needed. In addition, the Company does not have the number of

employees that would allow for sufficient division of duties and responsibilities. As a result, the Company implemented plans for the availability of more experienced dedicated financial resources, management involvement in the authorization of material transactions and the performance of detailed analysis during its financial close processes in order to ensure the financial statements present fairly in all material respects. Management and the Board of Directors are working to mitigate the risk of a material misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. The Company has continually had in place systems relating to internal control over financial reporting and will continue to monitor internal controls as the Company's business evolves.

The certifying officers have evaluated the design of the Company's internal control over financial reporting. Based on this evaluation as of June 30, 2007, the certifying officers have concluded that the Company's internal control over financial reporting, as defined in 52-109, is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the thirteen month period ended June 30, 2007 in accordance with Canadian GAAP. There has been no change in the Company's internal control over financial reporting that occurred during the most recently completed fiscal period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Outlook

The La Francia and Caypa mines are expected to produce 2.5 million and 1.2 million tonnes, respectively, of coal during fiscal 2008. Mine stripping ratios at La Francia and Caypa are expected to improve in fiscal 2008 to approximately 7.2:1 and 9.0:1, respectively, thereby having a positive impact on mine cost per tonne compared with fiscal 2007. Sales already booked for fiscal 2008 include 1.0 million tonnes FOT mine at an average price of \$39.00 per tonne, 1.7 million tonnes FOB port at an average of \$54.93 per tonne and 0.1 million tonnes CFR at \$81.75 per tonne.

At June 30, 2007, the Company had also entered into various contracts to deliver 16.4 million tonnes of coal over its 2009 through 2014 fiscal years at FOB port prices ranging from \$50.25 to \$52.25. In addition, the Company has a pre-existing commitment to deliver approximately 0.6 million tonnes of coal at a price of US\$31.50 per tonne FOB port for which it has tentatively agreed with the third party to deliver against this commitment between January 2009 and December 2010.

Outstanding Share Data

As at September 26, 2007, the Company has the following securities outstanding:

	TSX Symbol	Number Outstanding	Shares issuable on Exercise	Exercise price Cdn\$	Expiry date	Proceeds if exercised Cdn\$
Common shares	CCJ	89,657,697	-	-	-	-
Warrants	CCJ.WT.A	19,878,577	19,878,577	8.40	Aug. 17, 2011	166,980,000
Warrants	CCJ.WT	24,642,862	24,642,862	5.60	Feb. 8, 2011	138,000,000

Additionally, the Company has 4,101,872 stock options outstanding, which if exercised, would result in proceeds of approximately Cdn\$21.5 million.

Additional information relating to Coalcorp Mining Inc., including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.