

Interim Consolidated Financial Statements Of

Coalcorp Mining Inc.

December 31, 2007 and 2006

Coalcorp Mining Inc.
Consolidated Balance Sheets
(Expressed in thousands of U.S. dollars)

	December 31, 2007	June 30, 2007
	(Unaudited)	
ASSETS		
Current		
Cash	\$ 10,499	\$ 10,617
Short-term investments	19,688	55,401
Restricted cash (Note 3)	1,836	12,887
Accounts receivable	16,249	15,025
Inventories	15,630	13,960
Prepaid expenses and deposits	5,013	3,777
Current portion of deferred finance charges (Note 2(c))	-	1,558
	68,915	113,225
Long-term investments	8,244	8,244
Restricted cash (Note 3)	66,300	76,300
Property, plant and equipment (Note 4)	387,889	378,660
Intangible asset	33,119	33,119
Future income taxes	7,030	7,030
Deferred finance charges (Note 2(c))	-	4,869
	\$ 571,497	\$ 621,447
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 46,720	\$ 56,707
Current portion of long-term debt (Note 5)	2,765	631
	49,485	57,338
Long-term debt (Note 5)	176,268	185,800
Asset retirement obligations	2,315	2,280
Other liabilities	4,112	4,112
Future income taxes	117,669	122,511
	349,849	372,041
Commitments and contingencies (Note 10)		
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	252,172	252,165
Contributed surplus	83,490	83,477
Accumulated other comprehensive income (Note 2(b))	4,120	4,120
Deficit	(118,134)	(90,356)
	221,648	249,406
	\$ 571,497	\$ 621,447

See accompanying notes to the consolidated financial statements.

Coalcorp Mining Inc.

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

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

	Three Months Ended December 31,		Six Months Ended December 31,	Seven Months Ended December 31,
	2007	2006	2007	2006
REVENUES	\$ 33,090	\$ 26,603	\$ 52,794	\$ 62,854
COST OF OPERATIONS				
Operating costs	32,607	28,879	55,093	64,391
Depletion and depreciation	3,658	3,975	6,668	9,461
	<u>36,265</u>	<u>32,854</u>	<u>61,761</u>	<u>73,852</u>
LOSS BEFORE UNDERNOTED ITEMS	<u>(3,175)</u>	<u>(6,251)</u>	<u>(8,967)</u>	<u>(10,998)</u>
EXPENSES				
General and administration	3,820	3,739	7,823	7,002
Stock-based compensation	-	89	14	202
Write-off of mineral properties (Note 4)	4,223	2,248	4,223	2,248
	<u>8,043</u>	<u>6,076</u>	<u>12,060</u>	<u>9,452</u>
OPERATING LOSS	<u>(11,218)</u>	<u>(12,327)</u>	<u>(21,027)</u>	<u>(20,450)</u>
OTHER INCOME (EXPENSE)				
Interest income	1,618	1,506	3,947	2,659
Financing costs (Note 2(c))	-	(390)	-	(573)
Interest on long-term debt (Note 4)	(4,531)	(4,292)	(9,942)	(6,322)
Foreign exchange gain (loss)	(383)	(8,085)	3,966	(10,823)
LOSS BEFORE INCOME TAXES	<u>(14,514)</u>	<u>(23,588)</u>	<u>(23,056)</u>	<u>(35,509)</u>
(PROVISION FOR) RECOVERY OF INCOME TAXES				
Current	(10)	(337)	(13)	(386)
Future	1,003	895	1,718	2,182
	<u>993</u>	<u>558</u>	<u>1,705</u>	<u>1,796</u>
NET LOSS AND COMPREHENSIVE LOSS	<u>\$ (13,521)</u>	<u>\$ (23,030)</u>	<u>\$ (21,351)</u>	<u>\$ (33,713)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ (0.15)</u>	<u>\$ (0.41)</u>	<u>\$ (0.24)</u>	<u>\$ (0.59)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>89,657,697</u>	<u>56,837,026</u>	<u>89,656,920</u>	<u>56,831,444</u>

See accompanying notes to the consolidated financial statements.

Coalcorp Mining Inc.

Consolidated Statement of Changes in Shareholders' Equity (Unaudited)

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

	Common Shares		Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
	Shares	Amount				
Balance, June 30, 2007	89,656,268	\$ 252,165	\$ 83,477	\$ 4,120	\$ (90,356)	\$ 249,406
Change in accounting policy (Note 2(c))	-	-	-	-	(6,427)	(6,427)
Balance, July 1, 2007	89,656,268	252,165	83,477	4,120	(96,783)	242,979
Net loss	-	-	-	-	(7,830)	(7,830)
Exercise of options	1,429	7	(1)	-	-	6
Stock-based compensation	-	-	14	-	-	14
Balance, September 30, 2007	89,657,697	\$ 252,172	\$ 83,490	\$ 4,120	\$(104,613)	\$ 235,169
Net loss	-	-	-	-	(13,521)	(13,521)
Balance, December 31, 2007	89,657,697	\$ 252,172	\$ 83,490	\$ 4,120	\$(118,134)	\$ 221,648

See accompanying notes to the consolidated financial statements.

Coalcorp Mining Inc.

Consolidated Statements of Cash Flows (Unaudited)

(Expressed in thousands of U.S. dollars)

	Three Months Ended December 31,		Six Months Ended December 31,	Seven Months Ended December 31,
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net loss for the period	\$ (13,521)	\$ (23,030)	\$ (21,351)	\$ (33,713)
Items not affecting cash:				
Accretion	102	164	195	1,022
Depletion and depreciation	3,658	3,975	6,668	9,461
Stock-based compensation	-	89	14	202
Write-off of mineral properties	4,223	2,248	4,223	2,248
Amortization of deferred financing charges	-	390	-	573
Foreign exchange (gain) loss	340	5,221	(4,436)	7,028
Future income tax recovery	(1,003)	(895)	(1,718)	(2,181)
Changes in non-cash working capital items (Note 8(a))	126	(5,124)	(5,626)	(5,804)
Net cash used in operating activities	<u>(6,075)</u>	<u>(16,962)</u>	<u>(22,031)</u>	<u>(21,164)</u>
INVESTING ACTIVITIES				
Property, plant and equipment expenditures, net of accounts payable and accrued liabilities	(13,410)	(8,446)	(28,453)	(23,063)
Asset retirement obligations	(198)	-	(198)	-
Decrease (increase) in short-term investments	3,386	31,415	35,713	(30,112)
Decrease in restricted cash	5,257	-	11,051	-
Acquisition of Cerrejón	-	-	-	(3,200)
Acquisition of long-term investments	-	-	-	(607)
Net cash provided by (used in) investing activities	<u>(4,965)</u>	<u>22,969</u>	<u>18,113</u>	<u>(56,982)</u>
FINANCING ACTIVITIES				
Proceeds from debt financing, net of issue costs	-	-	-	107,124
Proceeds from additional long-term debt	-	20,637	27,788	30,366
Repayment of long-term debt	(33,808)	(1,335)	(33,994)	(4,763)
Decrease (increase) in restricted cash	35,500	(23,000)	10,000	(32,500)
Issue of common shares	-	-	6	4
Buy-back of common shares	-	(158)	-	(158)
Net cash provided (used in) by financing activities	<u>1,692</u>	<u>(3,856)</u>	<u>3,800</u>	<u>100,073</u>
(DECREASE) INCREASE IN CASH DURING THE PERIOD	<u>(9,348)</u>	<u>2,151</u>	<u>(118)</u>	<u>21,927</u>
CASH, BEGINNING OF PERIOD	<u>19,847</u>	<u>24,587</u>	<u>10,617</u>	<u>4,811</u>
CASH, END OF PERIOD	<u>\$ 10,499</u>	<u>\$ 26,738</u>	<u>\$ 10,499</u>	<u>\$ 26,738</u>

SUPPLEMENTARY INFORMATION (Notes 8(b) and (c))

See accompanying notes to the consolidated financial statements.

Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended December 31, 2007 and 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.

The Company changed its fiscal year end from May 31 to June 30 commencing with the thirteen month period ended June 30, 2007. As such, the comparative prior year period comprises the seven months ended December 31, 2006.

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 prior period 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 \$22.0 million during the six months ended December 31, 2007 and a net loss of \$76.2 million during the thirteen months ended June 30, 2007. The Company had working capital of \$19.4 million at December 31, 2007. These financial statements do not include any adjustments to the recoverability and classification of certain recorded asset amounts and classification of certain liabilities that might be necessary if the Company were unable to continue as a going concern.

2. Basis of presentation

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. Operating results for the three and six month periods ended December 31, 2007 are not necessarily indicative of the results that may be expected for the year ending June 30, 2008. These interim consolidated financial statements follow the same accounting policies as the audited consolidated financial statements of the Company for the thirteen month period ended June 30, 2007, except for the new policies disclosed below. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's 2007 annual audited consolidated financial statements and notes thereto.

Effective July 1, 2007, the Company adopted several new accounting standards that have been issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

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(a) *Accounting changes (CICA Section 1506)*

Effective July 1, 2007, the Company adopted CICA Handbook Section 1506, "Accounting Changes", which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or required by the transitional provisions of a primary source of GAAP or where impracticable to determine. As well, voluntary changes in accounting policy are made only when the change results in more relevant and reliable information.

(b) *Comprehensive income (CICA Section 1530)*

Comprehensive income comprises the Company's net income and other comprehensive income. Other comprehensive income represents changes in shareholders' equity during a period arising from non-owner sources and, for the Company, includes currency translation adjustments on the net investment in self-sustaining operations and unrealized gains and losses on available-for-sale securities. The Company's comprehensive income, components of other comprehensive income, and accumulated other comprehensive income are presented in the consolidated statement of changes in shareholders' equity. Prior financial statements retroactively reflect the classification of the currency translation adjustments on the Company's net investment in self-sustaining operations as components of other comprehensive income.

(c) *Financial instruments – recognition and measurement (CICA Section 3855) and disclosure and presentation (CICA Section 3861)*

In accordance with these new standards, the Company now classifies all financial instruments as either held-for-trading, available for sale, held-to-maturity, loans and receivables or other financial liabilities. Financial instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in operating results. Financial instruments classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Financial instruments classified as held-to-maturity, loans and receivables or other financial liabilities are measured at amortized cost.

Other long-term investments in companies where the Company does not exercise significant influence are recorded at fair value according to active quoted market information when readily determinable. In the absence of reliably determinable measures of fair value, long-term investments are recorded at historical cost, less provision for impairment, if any.

Upon adoption of these new standards, the Company has designated its cash, short-term investments and restricted cash as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Where the time value of money is not material due to their short-term nature, accounts receivable are carried at their original invoice amount less allowance for doubtful accounts. Accounts payable and accrued liabilities and long-term liabilities are classified as other financial liabilities, which are measured at amortized cost.

The Company adopted a policy, under Section 3855, to expense debt financing fees when they are incurred and as a result the Company recorded a non-cash adjustment to increase opening deficit by \$6.4 million to eliminate the opening balance of debt financing fees that were capitalized and amortized under the Company's previous accounting policy.

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(d) *Hedging (CICA Section 3865)*

This standard specifies the criteria under which hedge accounting can be applied for the permitted hedging strategies. The Company has no derivative instruments that qualify for hedge accounting treatments and therefore, implementation of this standard had no impact on the Company's consolidated financial statements.

(e) *Equity (CICA Section 3251)*

The Company's adoption of CICA section 3251 resulted in expanded disclosure of the changes in its components of shareholders' equity as a result of the application of *Section 1530, Comprehensive Income*.

(f) *Overburden removal costs (CICA EIC-160)*

Effective July 1, 2007, the Company adopted the CICA Emerging Issues Committee Abstract 160 (EIC-160), "*Stripping Costs Incurred in the Production Phase of a Mining Operation*". EIC-160 requires stripping costs to be accounted for as variable production costs to be included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs would be capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs would be amortized on a unit-of-production basis over the proven and probable reserves to which they relate.

(g) *Future accounting pronouncements*

- a. Effective July 1, 2008, the Company will be required to adopt two new CICA standards, *Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instruments Presentation*, which will replace *Section 3861, Financial Instruments Disclosure and Presentation*. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The Company is currently evaluating the implications of these standards.
- b. In November 2006, the CICA issued the new handbook *Section 1535, Capital Disclosures*, effective for annual and interim periods related to fiscal years beginning on or after October 1, 2007. This section establishes standards for disclosing information about a corporation's capital and how it is managed in order that a user of the financial statements may evaluate the Company's objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on the Company's consolidated financial statements.
- c. The CICA issued a new section *3031, Inventories*, in March 2007, which is based on International Accounting Standard 2. The new section replaced the existing section *3030, Inventories*. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also allows the reversal of any write-downs previously recognized. The new accounting standard and any consequential amendments will be effective for the Corporation beginning July 1, 2008. The Company is currently evaluating the implications of the new standard.

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- d. In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The precise timing of convergence will depend on an Accounting Standards Board progress review to be undertaken by early 2008. The impact of this transition on the Company's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments.

3. Restricted Cash

Restricted cash is comprised of term deposits being held against certain long-term debt balances (\$62.0 million) and issued letters of credit (\$6.1 million), of which \$1.8 million will become unrestricted within the next 12 months.

4. Property, plant and equipment

	December 31, 2007			June 30, 2007		
	Cost	Accumulated depreciation/ depletion/ writedowns	Net book value	Cost	Accumulated depreciation/ depletion/ writedowns	Net book value
Mining properties						
Caypa	\$ 40,482	\$ 7,363	\$ 33,119	\$ 40,324	\$ 5,432	\$ 34,892
La Francia	100,661	12,043	88,618	97,231	8,502	88,729
La Francia II	186,687	-	186,687	186,687	-	186,687
Plant and equipment						
Caypa	11,682	4,882	6,800	11,619	3,516	8,103
La Francia	4,475	482	3,993	3,080	225	2,855
Other	956	81	875	319	45	274
Construction in progress	59,341	-	59,341	43,869	-	43,869
Other mineral properties	26,286	17,830	8,456	26,858	13,607	13,251
	\$ 430,570	\$ 42,681	\$ 387,889	\$ 409,987	\$ 31,327	\$ 378,660

During the six month period ended December 31, 2007, the Company capitalized interest in the amount of \$0.7 million related to construction in progress. There was no interest capitalized during the seven month period ended December 31, 2006.

During the six month period ended December 31, 2007, the Company completed its assessment of several coal exploration properties resulting in a writedown in the amount of \$4.2 million. The properties were returned to the vendors in lieu of remaining payments amounting to \$1.9 million. During the seven month period ended December 31, 2006, the Company recorded a writedown of exploration properties in the amount of \$2.2 million.

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Notes to the interim consolidated financial statements (Unaudited)

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

5. Long-term debt

	December 31, 2007	June 30, 2007
12% Senior secured guaranteed notes due August 31, 2011	\$ 114,123	\$ 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 January 2008 (5,500 million Colombia pesos), unsecured, interest at DTF plus 2%, principal and interest payable at the end of the loan	2,727	-
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 3)	-	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 3)	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 3)	50,500	50,500
Capital lease obligations (369 million Colombian pesos) payable monthly through February 2010, bearing interest at DTF plus 12%	183	349
	179,033	186,431
Less: Current portion	2,765	631
	\$ 176,268	\$ 185,800

As of December 31, 2007, the DTF rate was 9.5% and LIBOR was 4.64%.

As of December 31, 2007, the principal maturities of long-term debt are as follows for the years ending June 30:

2008	\$ 2,765
2009	82
2010	12,562
2011	1,001
2012	163,500
Thereafter	-
	\$ 179,910

6. Share capital

(a) Authorized

Unlimited number of common shares without par value
 Unlimited number of preferred shares without par value

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Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended December 31, 2007 and 2006

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

(b) *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 December 31, 2007, 4,864,097 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 three and six month periods ended December 31, 2007 is as follows:

	Number of options	Average exercise price (Cdn\$)
Balance, June 30, 2007	4,097,501	5.25
Granted	5,600	5.25
Exercised	(1,429)	3.85
Balance, September 30, 2007	4,101,672	5.25
Expired	(3,571)	5.25
Balance, December 31, 2007	4,098,101	5.25

The fair value of options granted by the Company during the six months ended December 31, 2007 was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 149%, an average annual risk free rate of 4.3% and an estimated life of 2.5 years. The weighted average grant date fair value of stock options granted during the six month period ended December 31, 2007 was Cdn \$2.56.

The fair value of options granted by the Company during the seven months ended December 31, 2006 was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 116%, an average annual risk free rate of 4.0% and an estimated life of 2.5 years. The weighted average grant date fair value of stock options granted during the seven month period ended December 31, 2006 was Cdn \$2.66.

The following table summarizes information concerning outstanding and exercisable options at December 31, 2007:

Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share (Cdn\$)
19,644	0.7	3.85
4,059,885	3.3	5.25
18,572	3.4	6.23
4,098,101	3.3	5.25

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(c) Warrants

During the six month period ended December 30, 2007, no warrants were exercised. On September 22, 2007, 214,286 non-broker warrants with an exercise price of Cdn \$4.20 expired unexercised.

As at December 31, 2007, the following non-broker warrants were outstanding and exercisable:

Outstanding and exercisable	Exercise price (Cdn\$)	Expiry date
24,642,862	5.60	February 8, 2011
19,878,577	8.40	August 17, 2011

(d) Normal course issuer bid

In October 2006, 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 terminated on October 24, 2007. During the thirteen month period ended June 30, 2007, the Company 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. There have been no further repurchases since June 30, 2007.

7. Related party transactions

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

	Three months ended		Six months ended		Seven months ended	
	December 31,		December 31,		December 31,	
	2007	2006	2007	2006	2006	2006
Production royalties	\$ 493	\$ 390	\$ 877	\$ 928		
Consulting fees	15	15	30	30		
Rent expense	53	-	105	-		

In December 2007, the Company sold certain excess land to a company controlled by three directors in settlement of the Company's obligation to the related party for reimbursement of \$456,000 for leasehold improvements and furniture incurred on its behalf in its Colombian administration office.

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.

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8. Cash flow information

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

	Three months ended December 31,		Six months ended December 31,	Seven months ended December 31,
	2007	2006	2007	2006
(Increase) decrease in:				
Accounts receivable	\$ (1,295)	\$ (4,672)	\$ (1,224)	\$ (8,992)
Inventories	1,994	(2)	(1,240)	(2,636)
Prepaid expenses	(707)	(241)	(1,236)	(1,337)
Increase (decrease) in:				
Accounts payable and accrued liabilities	134	(209)	(1,926)	7,161
	\$ 126	\$ (5,124)	\$ (5,626)	\$ (5,804)

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

At December 31, 2007, accounts payable and accrued liabilities include non-cash amounts of \$17.3 million (June 30, 2007 – \$22.7 million) related to its purchase commitments in Colombia for plant and equipment expenditures and \$6.1 million (June 30, 2007 - \$8.8 million) related to the acquisition of concession rights in Colombia.

(c) *Other supplementary information*

	Three months ended September 30,		Six months ended December 31,	Seven months ended December 31,
	2007	2006	2007	2006
Interest paid	\$ 9,418	\$ 5,546	\$ 10,538	\$ 5,875
Income taxes paid	-	-	-	-

9. 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.

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(b) *Geographic segments*

The Company's assets by geographic segment are as follows:

	December 31, 2007		
	Colombia	Corporate	Total
Property, plant and equipment	\$ 387,779	\$ 110	\$ 387,889
Total assets	\$ 486,940	\$ 84,557	\$ 571,497

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

The Company's revenues, expenses and property, plant and equipment expenditures by geographic area for the three month periods ended December 31, 2007 and 2006 are as follows:

	Three months ended December 31, 2007		
	Colombia	Corporate	Total
Revenues	\$ 33,090	\$ -	\$ 33,090
Operating costs	(32,607)	-	(32,607)
Depletion and depreciation	(3,650)	(8)	(3,658)
Expenses	(6,146)	(1,897)	(8,043)
Other expense	(1,833)	(1,463)	(3,296)
Loss before income taxes	\$ (11,146)	\$ (3,368)	\$ (14,514)

Property, plant and equipment expenditures	\$ 13,355	\$ 55	\$ 13,410
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	Three months ended December 31, 2006		
	Colombia	Corporate	Total
Revenues	\$ 26,603	\$ -	\$ 26,603
Production costs	(28,879)	-	(28,879)
Depletion and depreciation	(3,973)	(2)	(3,975)
Expenses	(4,258)	(1,818)	(6,076)
Other expense	(7,235)	(4,026)	(11,261)
Loss before income taxes	\$ (17,742)	\$ (5,846)	\$ (23,588)

Property, plant and equipment expenditures	\$ 8,437	\$ 9	\$ 8,446
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Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended December 31, 2007 and 2006

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

The Company's revenues, expenses and property, plant and equipment expenditures by geographic area for the six month period ended December 31, 2007 and the seven month period ended December 31, 2006 are as follows:

	Six months ended December 31, 2007		
	Colombia	Corporate	Total
Revenues	\$ 52,794	\$ -	\$ 52,794
Operating costs	(55,093)	-	(55,093)
Depletion and depreciation	(6,657)	(11)	(6,668)
Expenses	(8,308)	(3,752)	(12,060)
Other income (expense)	972	(3,001)	(2,029)
Loss before income taxes	\$ (16,292)	\$ (6,764)	\$ (23,056)

Property, plant and equipment expenditures	\$ 28,356	\$ 97	\$ 28,453
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	Seven months ended December 31, 2006		
	Colombia	Corporate	Total
Revenues	\$ 62,854	\$ -	\$ 62,854
Operating costs	(64,391)	-	(64,391)
Depletion and depreciation	(9,457)	(4)	(9,461)
Expenses	(5,834)	(3,618)	(9,452)
Other expense	(9,765)	(5,294)	(15,059)
Loss before income taxes	\$ (26,593)	\$ (8,916)	\$ (35,509)

Property, plant and equipment expenditures	\$ 23,050	\$ 13	\$ 23,063
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For the six month period ended December 31, 2007, three customers represented 95% of revenue and 22% of accounts receivable. For the seven month period ended December 31, 2006, two customers represented 81% of revenue and 31% of accounts receivable.

Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended December 31, 2007 and 2006

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

10. Commitments and contingencies

- (a) The Company has entered into various contracts as at December 31, 2007 to deliver 21.1 million tonnes of coal at an average FOB port price, subject to quality adjustments, of \$52.23 per tonne as follows:

Years ending June 30,	Tonnes	Average FOB port price per tonne
2008	1,495	\$ 66.41
2009	4,290	52.46
2010	3,785	49.48
2011	3,545	51.10
2012	3,500	51.37
2013	3,240	51.55
2014	1,260	50.25
	<u>21,115</u>	<u>52.23</u>

- (b) At December 31, 2007, the Company has issued letters of credit outstanding in support of certain of its obligations related to equipment purchases in the amount of \$1.8 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 3).
- (c) At December 31, 2007, the Company is contractually obligated under take-or-pay contracts with respect to 1.6 million tonnes valued at \$7.3 million annually at a third party port facility until 2012 and up to 2.45 million tonnes valued at an average of \$5.3 million per annum of capacity on the Fenoco rail line for a period of six 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.

11. Subsequent event

On February 7, 2008, the Company announced that its Board of Directors had unanimously approved a process to review strategic alternatives with the objective of maximizing shareholder value. The Board of Directors has retained GMP Securities L.P. and Endeavour Financial International Corporation as its exclusive financial advisors to assist in exploring strategic alternatives. These alternatives may include but are not limited to strategic alliances, financing opportunities, mergers, acquisitions, a sale of all or part of the business, or such other alternatives that are considered to be in the best interest of the Company's shareholders.

Management's Discussion & Analysis

February 11, 2008

Three- And Six-Month Periods Ended December 31, 2007

The financial statements present the results of Coalcorp Mining Inc. (the "Company") for the three- and six-month periods ended December 31, 2007 with comparatives for the three- and seven-month periods ended December 31, 2006 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 three- and six-month periods ended December 31, 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.

Highlights

- Increased second quarter coal production to 721,000 tonnes from 563,000 last quarter.
- Reduced La Francia stripping ratio to 5.9:1 and mine operating cost to \$25 per tonne in second quarter.
- Revenues from mining operations exceeded operating costs, reducing quarterly operating loss and improving operating cash flow.
- Sold 440,000 tonnes at an average FOB port price of \$89 per tonne for delivery in early 2008 to improve operating cash flow.
- Announced agreement on port concession in Barranquilla.
- Received final feasibility study for La Francia Pit C/D.

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 signed in April 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 planning the development of wholly-owned port facilities near Capulco and the Caribbean coast of Colombia.

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.

Last year the Company 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 the prior period 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 prior period has been restated to give effect to the share consolidation.

Results of Operations

	Three Months Ended			Six Months Ended		
	December 31, 2007			December 31, 2007		
	La Francia	Caypa	Total	La Francia	Caypa	Total
Waste (000m ³)	2,908	2,411	5,319	6,435	4,246	10,681
Stripping ratio (:1)	5.9	10.6	7.4	7.3	10.4	8.3
Coal production (tonnes000)	493	228	721	877	407	1,284
Cost per tonne ⁽¹⁾						
- mine	\$ 25	\$ 44	\$ 28	\$ 29	\$ 45	\$ 32
- ex mine	\$ -	\$ 17	\$ 7	\$ -	\$ 17	\$ 6
Sales (tonnes000)						
- FOT mine	428	-	428	807	-	807
- FOB port	-	312	312	-	425	425
- Total	428	312	740	807	425	1,232
Revenue ⁽²⁾						
- FOT mine	\$ 36	\$ -	\$ 36	\$ 36	\$ -	\$ 36
- FOB Port	\$ -	\$ 57	\$ 57	\$ -	\$ 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 during the three month period ended December 31, 2007 totalled \$33.1 million based on sales of 740,000 tonnes at an average realized price of \$45 per tonne delivered compared with \$26.6 million from 602,000 tonnes sold at an average realized price of \$44 per tonne during the second quarter last year. Coal inventories at Caypa decreased as expected during the current quarter as a result of timing of deliveries.

Revenues for the six month period ended December 31, 2007 totalled \$52.8 million based on sales of 1.2 million tonnes at an average realized price of \$43 per tonne compared with \$62.9 million from 1.4 million tonnes at \$44 per tonne during the seven month period ended December 31, 2006.

Production and Cost of Operations

The Company increased production to 721,000 tonnes of coal from its La Francia and Caypa mines during the three month period ended December 31, 2007 from 563,000 last quarter and 607,000 tonnes during the second quarter last year. At the La Francia mine, a total of 3.4 million tonnes of material were mined yielding 493,000 tonnes of coal at an average stripping ratio of 5.9:1, a significant improvement from the 9.2:1 stripping ratio experienced in the first quarter and the lowest since the acquisition of the La Francia mine in February 2006. Although the heavy seasonal rainfall experienced during the first quarter continued to affect production during October, the stripping ratio improved during November and December as the rains subsided and the equipment could get to the lower sections of the pit. The Company is currently making arrangements to expand mine contractor resources at La Francia to increase equipment capacity to meet future increased production rates. At the Caypa mine, a total of 2.7 million tonnes of material were mined yielding 228,000 tonnes of coal at an average stripping ratio of 10.6:1, representing a modest increase from the previous quarter.

Coal production totalled 1.3 million tonnes during the six months ended December 31, 2007 compared with 1.5 million tonnes during the seven months ended December 31, 2006. For the first half of fiscal 2008, La Francia produced a total of 807,000 tonnes at an average stripping ratio of 7.3:1 while Caypa produced 407,000 tonnes at an average stripping ratio of 10.4:1.

Mine operating costs averaged \$25 per tonne produced at La Francia during the three month period ended December 31, 2007, down from \$36 per tonne in the first quarter. The improvement in La Francia's mine operating costs in the current quarter reflected the benefit of the pre-stripping activities that had been undertaken and expensed in fiscal 2007. At Caypa, lower mine support costs decreased mine operating costs to \$44 per tonne in the current quarter from \$47 per tonne in the first quarter. Included in mine operating costs in the second quarter are royalties averaging approximately \$4 per tonne on a combined basis. In addition, the Company paid selling commissions of approximately \$1 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 \$17 per tonne.

Depreciation and depletion of property, plant, equipment and mining properties amounted to \$3.7 million during the second quarter bringing the total for the six month period ended December 31, 2007 to \$6.7 million or approximately \$5 per tonne. 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 \$3.8 million during the second quarter bringing the total for the six month period ended December 31, 2007 to \$7.8 million compared with \$7.0 million during the seven month period ended December 31, 2006. The year over year increase in these costs is attributable to consulting and other professional services incurred in support of the Company's 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.

During the second quarter the Company completed its assessment of several coal exploration properties acquired in the previous year resulting in a writedown of \$4.2 million. The properties were turned back to the vendors in lieu of remaining acquisition payments amounting to \$1.9

million. The Company recorded a writedown of its exploration properties in the amount of \$2.2 million during the second quarter last year.

Other Income (Expense)

Interest income earned on cash, short-term investments and restricted cash balances during the second quarter amounted to \$1.6 million bringing the total for the six month period ended December 31, 2007 to \$3.9 million compared with \$2.7 million in the prior year period. A primary component of the interest earned relates to restricted cash balances and helps to cover the interest expense associated with the back-to-back bank loans used to fund local infrastructure development and working capital requirements in Colombia.

Interest on long-term debt of \$4.5 million during the second quarter comprises the 12% interest payable semi-annually on the \$115 million senior notes due August 2011, net of amounts capitalized, and interest on the back-to-back bank loans undertaken by the Colombian operations. During the second quarter, the Company capitalized \$0.7 million of interest related to its expenditures on construction in progress. Year-to-date, interest expense totalled \$9.9 million compared with \$6.3 million in the prior year period. The increase stems from the issuance of the senior notes in August 2006. The back-to-back bank loans in Colombia, amounting to \$62 million at December 31, 2007, are supported by restricted cash deposits in the same amount.

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 some cash, receivables, payables and long-term debt in its Colombian operations are exposed to foreign currency fluctuations between the Colombian peso and the U.S. dollar, the Company's principal foreign currency exposure is its future income tax liability that is denominated in Colombian pesos. The Company recorded a foreign exchange loss of \$0.4 million during the second quarter compared with an \$8.0 million foreign exchange loss during the second quarter last year. During the six month period ended December 31, 2007, the non-cash foreign exchange gain amounted to \$4.0 million, of which \$3.1 million was generated by the impact of foreign exchange rate changes on the U.S. dollar value of its future income tax liability. During the seven month period ended December 31, 2006, the foreign exchange loss amounted to \$10.8 million, of which \$7.0 million related to the translation of its future income tax liability.

Net Loss

As a result of the factors discussed above, the Company recorded a net loss of \$13.5 million or \$0.15 per share in the second quarter compared with a net loss of \$23.0 million or \$0.41 per share in the second quarter last year.

For the six month period ended December 31, 2007, the Company recorded a net loss of \$21.4 million or \$0.24 per share compared with a net loss of \$33.7 million or \$0.59 per share during the seven month period ended December 31, 2006.

Net Cash Used in Operating Activities

As a result of increasing coal production, reducing mine operating costs per tonne produced and managing its working capital, the Company reduced its net cash used in operating activities during the second quarter to \$6.1 million from \$16.0 million in the first quarter and \$17.0 million in the second quarter last year. The second quarter included the cash flow impact of the \$6.9 million semi-annual interest payment due on the senior notes that was paid on December 31, 2007. Net cash used in operating activities during the six month period ended December 31,

2007 was \$22.0 million compared with \$21.2 million during the seven month period ended December 31, 2006.

The Company is continuing to take actions to improve its operating cash flows. The Company has recently entered into coal sales contracts to deliver 300,000 tonnes FOB port at an average price of \$86 per tonne in January and February, 70,000 tonnes FOB port at \$100 per tonne in March and 70,000 tonnes FOB port at \$90 per tonne in the fourth quarter to improve its operating cash flow by approximately \$13 million through re-scheduling of existing contracts. Under hedge accounting this incremental benefit will not be reflected in the income statement until fiscal 2009. In addition, the Company expects to reduce its coal inventories at La Francia during the third quarter to generate additional operating cash flow.

Capital Expenditures

Capital expenditures amounted to \$13.4 million during the second quarter, including \$0.7 million of capitalized interest on construction in progress. Of this total, \$9.6 million was spent on the Company's infrastructure development projects related to the Fenoco rail connection and on property acquisitions and development costs related to the ports. A further \$17.3 million of committed expenditures related to these two major projects is included in accounts payable and accrued liabilities at December 31, 2007. During the current quarter, the Company took delivery of the remaining 63 railcars using \$5.3 million of funds held in restricted cash to fund the capital expenditures. The Company also spent \$2.4 million on mineral property acquisitions and deferred exploration, and \$0.7 million on property, plant and equipment at its mines.

For the six month period ended December 31, 2007, capital expenditures totalled \$28.5 million, of which \$22.2 million was spent on the Company's infrastructure development projects related to the Fenoco rail connection and the ports. Drawdowns of restricted cash totalling \$11.1 million were used to fund a portion of these capital expenditures. There is \$1.8 million held in restricted cash at December 31, 2007 to fund the remaining costs associated with the purchase of the railcars.

Contractual Obligations

The Company's obligations under long-term debt and take-or-pay contract commitments as of December 31, 2007 are as follows:

000's	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
Long term debt ¹	\$ 2,765	\$ 13,645	\$ 163,500	\$ -	\$ 179,910
Purchase obligations ²	13,278	25,137	22,401	5,905	66,721
Total obligations	\$ 16,043	\$ 38,782	\$ 185,901	\$ 5,905	\$ 246,631

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 the \$115 million note due August 2011.

² Represents take-or pay contracts with respect to i) 1.62 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

	Fiscal 2008		Fiscal 2007				Fiscal 2006	
	Q2	Q1	Q4	Q3	Q2	Q1 ⁽²⁾	Q4	Q3 ⁽¹⁾
Financial (\$millions except per share)								
Revenue	\$ 33.1	\$ 19.7	\$ 24.2	\$ 16.5	\$ 26.6	\$ 36.2	\$ 20.2	\$ 6.0
Net earnings (loss)	(13.5)	(7.8)	(26.1)	(16.4)	(23.0)	(10.7)	0.7	(1.9)
Per share	(0.15)	(0.09)	(0.29)	(0.26)	(0.41)	(0.19)	0.03	(0.12)
Cash used in operating activities	(6.1)	(16.0)	(12.2)	(8.4)	(17.0)	(4.2)	(6.7)	(2.8)
Capital expenditures	13.4	15.1	10.4	4.7	8.5	14.6	1.1	0.2
Operations								
Production (000's tonnes)	721	563	545	503	607	869	563	134
Cost per tonne								
- mine	\$ 28	\$ 39	\$ 37	\$ 36	\$ 35	\$ 33	\$ 31	\$ 31
- ex mine	7	5	8	4	7	7	7	7
Sales (000's tonnes)	740	492	568	438	602	834	563	145
Average revenue per tonne	\$ 45	\$ 40	\$ 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 \$30.2 million at December 31, 2007. In addition, the Company has \$1.8 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 December 31, 2007 was \$19.4 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). Through December 31, 2007, \$14 million has been incurred, of which \$9.1 million is included in accounts payable and accrued liabilities, and the balance is expected to be incurred over the next two years.
- In addition, to connect its La Francia mine to the Fenoco line, the Company has incurred a total of \$30 million through December 31, 2007, principally on rolling stock, land purchases and deposits for rail, building and loading system materials, of which \$8.2 million is in accounts payable and accrued liabilities. Since the rail branch must pass over properties owned by the Company and two other parties to connect to the Fenoco line, the three companies are collaborating on the construction of a single rail branch. On February 6, 2008, the Company received approval of its application for an environmental license. Construction is expected to begin within the next two months and will take up to six months to complete. The Company is expecting to incur a further \$15 million over the next 6 to 9 months to complete this project.

Ocean ports

- The Company was granted a 30-year concession to operate a port in Cartagena earlier in 2007. In October 2007, the Colombian government announced that it would not allow the development of a coal port in Cartagena and proceeded to work with the Company to identify a suitable alternative. In January 2008, the Company announced that it had completed its review of available port concessions in Barranquilla and has elected to partner with an existing concession holder to jointly develop a multi-purpose port, initially to be designed to handle 10 million tonnes of coal per year and ultimately 30 million tonnes per year.
- In addition to granting the site, the Colombian government has granted the Company free zone status that brings reductions in income taxes from 33% to 15% annually and also total exoneration of import duties and VAT tax on all equipment needed for construction of the port.
- Preliminary design work is already underway and Sandwell Engineering has been retained for the detailed design and engineering for a state-of-the-art direct-loading port, fully in accordance with Colombian and international environmental requirements. Capital cost estimates are currently being developed for this port that will take advantage of the Magdalena River to provide export capacity in cape size ships for all coal producers and ultimately other cargoes, including grains and containers, for import and export.
- The Barranquilla port currently has a licence for 1.5 million tonnes per year. In order to expand operations, river and sea port concessions need to be granted by Cormagdalena, along with a national environmental licence and local construction permit. The government is committed to expediting the approvals process for this project.
- The Cartagena concession remains capable of being developed into a port to provide import and export capacity for a wide range of cargoes other than coal, such as containers, vehicles and grains. The Company is currently evaluating its options with respect to this ocean port. At December 31, 2007, accounts payable and accrued liabilities include \$4.0 million with respect to the remaining acquisition payments for a portion of the port lands.

River port

- The Company is planning to spend \$25 million on the development of a river port at Capulco, the majority of which is expected to 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 in 2007 and is fully permitted, with construction to commence upon completion of detailed engineering and financing.
- The Barranquilla concession holder referred to above is currently in the process of obtaining a river port concession in Capulco adjacent to the Company's facility which will be combined to ensure sufficient capacity in Capulco, commensurate with the port facilities in Barranquilla.

La Francia Pit C/D

- In November 2007, the Company received a final feasibility study with respect to development of Pit C/D at La Francia and the adjoining La Francia II property.

- Annual coal production from this 53.1 million tonnes mineable coal resource is estimated at 3.5 million tonnes over a projected 17-year mine life.
- Capital expenditures include \$178 million for equipment and \$30 million for site infrastructure, for a total \$208 million, of which \$140 million is initial capital and the balance is ongoing or sustaining in nature. In addition, initial waste stripping of \$37 million, net of revenues, is included in mining costs. Excluding capital equipment, first year funding requirements total \$55 million.
- The Company is currently reviewing the results of this study and in conjunction with the identification of export infrastructure and arrangement of financing, expects to make a production decision in the coming months.

Existing Mining Operations

- The Company has initiated mine development programs at each of La Francia Pit A/B and Caypa to commence in the third quarter of this fiscal year aimed at expanding pit operations to increase coal production in its 2009 fiscal year. Over the next 12 months it is expected that overburden stripping at both mines will require funding of approximately \$14 million in addition to approximately \$2.0 million of capital spending at Caypa to re-locate the camp and other mine facilities.

The Company anticipates funding its operations, exploration property acquisition payments and a portion of its rail, mine and port infrastructure development in the near term from available cash resources and operating cash flow. However, to complete construction of its rail infrastructure, to fund its planned mine development programs at both La Francia Pit A/B and Caypa, and to implement its port strategy and the development of La Francia Pit C/D, the Company requires additional sources of financing. On February 7, 2008, the Company announced that its board of directors had unanimously approved a process to review strategic alternatives with the objective of maximizing shareholder value. The board of directors has retained GMP Securities L.P. and Endeavour Financial International Corporation as its exclusive financial advisors to assist in exploring strategic alternatives. These alternatives may include but are not limited to strategic alliances, financing opportunities, mergers, acquisitions, a sale of all or part of the business, or such other alternatives that are considered to be in the best interest of the Company's shareholders.

During the second quarter, the Company repaid \$33.8 million of its peso-denominated long-term debt in Colombia using restricted cash balances guaranteeing the back-to-back loans. This action was taken to meet local statutory equity requirements in Colombia, to reduce net carrying costs on the back-to-back loans and to reduce the Company's exposure to foreign currency fluctuations on the debt. The \$1.7 million of excess funds released from restricted cash were returned to the Company's unrestricted cash balances.

For the six months ended December 31, 2007, financing activities provided cash of \$3.8 million comprising the \$1.7 million excess restricted cash balances returned in the second quarter and proceeds of a \$2.7 million unsecured bank loan due in January 2008, net of repayment of an unsecured \$0.5 million bank loan in December 2007 and capital lease obligations of \$0.1 million. In January 2008, proceeds from a maturing \$2.7 million deposit with a government agency in Colombia, included in accounts receivable at December 31, 2007, were used to repay the \$2.7 million local bank loan.

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 three- and six-month periods ended December 31, 2007, the Company incurred production royalties payable to Blue Pacific Assets Corp. ("Blue Pacific") amounting to \$493,000 and \$877,000, respectively, related to the February 2006 acquisition of the La Francia mine. During the three- and seven-month periods ended December 31, 2006, these royalties amounted to \$390,000 and \$928,000, respectively. At December 31, 2007, accounts payable and accrued liabilities included \$1.6 million with respect to this royalty obligation.

In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific for administrative office space in its Bogota, Colombia location. Monthly rent expense of \$17,500 is payable to Blue Pacific under this agreement. In December 2007, the Company sold a small portion of excess land to Blue Pacific in settlement of its obligation to reimburse Blue Pacific for leasehold improvements and furniture in the amount of \$456,000 incurred on its behalf.

The Company also paid consulting fees of \$15,000 in each of the first and second quarters of the current and prior fiscal years 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. If the required permits and approvals are not obtained, the Company will not be able to fully implement or achieve certain of the anticipated benefits of its proposed business strategy. 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.

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 December 31, 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

Effective July 1, 2007, the Company adopted several new accounting standards that have been issued by the Canadian Institute of Chartered Accountants (“CICA”). These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

Accounting changes (CICA Section 1506)

Effective July 1, 2007, the Company adopted CICA Handbook Section 1506, “*Accounting Changes*”, which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or required by the transitional provisions of a primary source of GAAP or where impracticable to determine. As well, voluntary changes in accounting policy are made only when the change results in more relevant and reliable information.

Comprehensive income (CICA Section 1530)

Comprehensive income comprises the Company’s net income and other comprehensive income. Other comprehensive income represents changes in shareholders’ equity during a period arising from non-owner sources and, for the Company, includes currency translation adjustments on the net investment in self-sustaining operations and unrealized gains and losses on available-for-sale securities. The Company’s comprehensive income, components of other comprehensive income, and accumulated other comprehensive income are presented in the consolidated statement of changes in shareholders’ equity. Prior financial statements retroactively reflect the classification of the currency translation adjustments on the Company’s net investment in self-sustaining operations as components of other comprehensive income.

Financial instruments – recognition and measurement (CICA Section 3855) and disclosure and presentation (CICA Section 3861)

In accordance with these new standards, the Company now classifies all financial instruments as either held-for-trading, available for sale, held-to-maturity, loans and receivables or other financial liabilities. Financial instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in operating results. Financial instruments classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Financial instruments classified as held-to-maturity, loans and receivables or other financial liabilities are measured at amortized cost.

Other long-term investments in companies where the Company does not exercise significant influence are recorded at fair value according to active quoted market information when readily determinable. In the absence of reliably determinable measures of fair value, long-term investments are recorded at historical cost, less provision for impairment, if any.

Upon adoption of these new standards, the Company has designated its cash, short-term investments and restricted cash as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Where the time value of money is not material due to their short-term nature, accounts receivable are carried at their original invoice amount less allowance for doubtful accounts. Accounts payable and accrued liabilities and long-term liabilities are classified as other financial liabilities, which are measured at amortized cost.

The Company adopted a policy, under Section 3855, to expense debt financing fees when they are incurred and as a result the Company recorded a non-cash adjustment to increase opening deficit by \$6.4 million to eliminate the opening balance of debt financing fees that were capitalized and amortized under the Company's previous accounting policy.

Overburden removal costs (CICA EIC-160)

Effective July 1, 2007, the Company adopted the CICA Emerging Issues Committee Abstract 160 (EIC-160), "*Stripping Costs Incurred in the Production Phase of a Mining Operation*". EIC-160 requires stripping costs to be accounted for as variable production costs to be included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs would be capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs would be amortized on a unit-of-production basis over the proven and probable reserves to which they relate.

Hedging (CICA Section 3865)

This standard specifies the criteria under which hedge accounting can be applied for the permitted hedging strategies. The Company has no derivative instruments that qualify for hedge accounting treatments and therefore, implementation of this standard had no impact on the Company's consolidated financial statements.

Equity (CICA k Section 3251)

The Company's adoption of CICA section 3251 resulted in expanded disclosure of the changes in its components of shareholders' equity as a result of the application of *Section 1530, Comprehensive Income*.

New Accounting Pronouncements

Financial Instruments Disclosure and Presentation

Effective July 1, 2008, the Company will be required to adopt two new CICA standards, *Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instruments Presentation*, which will replace *Section 3861, Financial Instruments Disclosure and Presentation*. The new disclosure standard increases the emphasis on the risks associated with both recognized and

unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The Company is currently evaluating the implications of these standards.

Capital Disclosures

In November 2006, the CICA issued the new handbook *Section 1535, Capital Disclosures*, effective for annual and interim periods related to fiscal years beginning on or after October 1, 2007. This section establishes standards for disclosing information about a corporation's capital and how it is managed in order that a user of the financial statements may evaluate the Company's objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on the Company's consolidated financial statements.

Inventories

The CICA issued a new section *3031, Inventories*, in March 2007, which is based on International Accounting Standard 2. The new section replaced the existing section *3030, Inventories*. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also allows the reversal of any write-downs previously recognized. The new accounting standard and any consequential amendments will be effective for the Corporation beginning July 1, 2008. The Company is currently evaluating the implications of the new standard.

Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The precise timing of convergence will depend on an Accounting Standards Board progress review to be undertaken by early 2008. The impact of this transition on the Company's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments.

Regulatory Policies

Controls and Disclosures

In accordance with Multilateral Instrument 52-109 ("MI 52-109") of the Canadian Securities Administrators, the Company issues a "Certification of Interim Filings" ("Certification") on a quarterly basis. 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 interim 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 interim 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 December 31, 2007, the certifying officers have concluded that the Company's internal control over financial reporting, as defined in MI 52-109, is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the three- and six- month periods ended December 31, 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 Company has initiated mine development plans at each of its La Francia and Caypa mines commencing in the third quarter of fiscal 2008. Coupled with equipment availability issues at La Francia, a matter the Company hopes to have resolved by the fourth quarter with an agreement to expand mine contractor resources, the Company expects to produce 1.8 million tonnes of coal at La Francia and 0.9 million tonnes of coal at Caypa during fiscal 2008. Mine stripping ratios at La Francia and Caypa are expected to improve in fiscal 2008 to approximately 7.2:1 and 9.5:1, respectively, thereby having a positive impact on mine cost per tonne compared with fiscal 2007. Sales already booked for the balance of fiscal 2008 represent 1.5 million tonnes FOB port at an average of \$66 per tonne.

As a result of the mine development and operating initiatives being undertaken at La Francia Pit A/B and Caypa, preliminary estimates of coal production for fiscal 2009 are 3.2 million tonnes at La Francia with a mine stripping ratio of about 6.3:1 and 1.0 million tonnes at Caypa with a mine stripping ratio of approximately 8.6:1. Sales already booked for fiscal 2009 represent 4.2 million tonnes FOB port at an average of \$52 per tonne.

At December 31, 2007, the Company had also entered into various contracts to deliver 15.3 million tonnes of coal over its 2010 through 2014 fiscal years at an average FOB port price of \$51 per tonne.

Outstanding Share Data

As at February 11, 2008, 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 4,098,101 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.