

Interim Consolidated Financial Statements Of

Coalcorp Mining Inc.

March 31, 2008 and 2007

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

	March 31, 2008	June 30, 2007
	(Unaudited)	(Restated - Note 10)
ASSETS		
Current		
Cash	\$ 11,934	\$ 7,540
Short-term investments	9,506	53,810
Restricted cash	-	12,887
Accounts receivable	7,396	9,053
Inventories	3,597	6,053
Prepaid expenses and deposits	559	314
Current portion of deferred finance charges (Note 2(c))	-	1,558
Assets of discontinued operations (Note 10)	28,475	22,010
	<u>61,467</u>	<u>113,225</u>
Long-term investments	8,244	8,244
Restricted cash (Note 3)	49,500	59,500
Property, plant and equipment (Note 4)	340,905	326,335
Future income taxes	521	521
Deferred finance charges (Note 2(c))	-	4,869
Assets of discontinued operations (Note 10)	53,552	108,753
	<u>\$ 514,189</u>	<u>\$ 621,447</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 33,126	\$ 42,854
Current portion of long-term debt (Note 5)	97	631
Liabilities of discontinued operations (Note 10)	17,604	13,853
	<u>50,827</u>	<u>57,338</u>
Long-term debt (Note 5)	163,768	173,300
Asset retirement obligations	111	311
Other liabilities	4,112	4,112
Future income taxes	103,073	97,683
Liabilities of discontinued operations (Note 10)	23,623	39,297
	<u>345,514</u>	<u>372,041</u>
Commitments and contingencies (Note 11)		
Subsequent event (Note 12)		
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	(171,107)	(90,356)
	<u>168,675</u>	<u>249,406</u>
	<u>\$ 514,189</u>	<u>\$ 621,447</u>

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 March 31,		Nine Months Ended March 31,		Ten Months Ended March 31,	
	2008	2007	2008			2007
		(Restated – Note 10)				(Restated – Note 10)
Revenues	\$ 30,487	\$ 13,464	\$ 59,427			\$ 44,292
Cost of operations						
Operating costs	20,663	13,942	48,380			42,712
Depletion and depreciation	2,541	1,660	5,973			5,895
	<u>23,204</u>	<u>15,602</u>	<u>54,353</u>			<u>48,607</u>
Earnings (loss) before undernoted items	<u>7,283</u>	<u>(2,138)</u>	<u>5,074</u>			<u>(4,315)</u>
Expenses						
General and administration	3,894	3,872	10,346			9,877
Stock-based compensation	-	125	14			327
Write-off of mineral properties (Note 4)	1,337	348	5,559			2,596
	<u>5,231</u>	<u>4,345</u>	<u>15,919</u>			<u>12,800</u>
Earnings (loss) from continuing operations before other income (expense) and income taxes	<u>2,052</u>	<u>(6,483)</u>	<u>(10,845)</u>			<u>(17,115)</u>
Other income (expense)						
Interest income	1,034	1,274	4,841			3,888
Financing costs (Note 2(c))	-	(499)	-			(1,537)
Interest on long-term debt (Note 4)	(3,595)	(4,180)	(12,901)			(10,036)
Foreign exchange gain (loss)	(9,431)	428	(6,548)			(6,255)
Loss from continuing operations before income taxes	<u>(9,940)</u>	<u>(9,460)</u>	<u>(25,453)</u>			<u>(31,055)</u>
(Provision for) recovery of income taxes						
Current	(117)	187	(130)			(199)
Future	799	360	1,863			1,658
	<u>682</u>	<u>547</u>	<u>1,733</u>			<u>1,459</u>
Loss from continuing operations	<u>(9,258)</u>	<u>(8,913)</u>	<u>(23,720)</u>			<u>(29,596)</u>
Loss from discontinued operations (Note 10)	<u>(43,715)</u>	<u>(7,446)</u>	<u>(50,604)</u>			<u>(20,475)</u>
Net loss and comprehensive loss	<u>\$ (52,973)</u>	<u>\$ (16,359)</u>	<u>\$ (74,324)</u>			<u>\$ (50,071)</u>
Basic and diluted loss from continuing operations per share	<u>\$ (0.10)</u>	<u>\$ (0.14)</u>	<u>\$ (0.27)</u>			<u>\$ (0.51)</u>
Basic and diluted per share	<u>\$ (0.59)</u>	<u>\$ (0.26)</u>	<u>\$ (0.83)</u>			<u>\$ (0.86)</u>
Weighted average number of common shares outstanding	<u>89,657,707</u>	<u>63,084,840</u>	<u>89,657,275</u>			<u>58,259,737</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
Adjustment for rounding of fractional shares on 1-for-7 consolidation in prior year	10	-	-	-	-	-
Net loss	-	-	-	-	(52,973)	(52,973)
Balance, March 31, 2008	89,657,707	\$ 252,172	\$ 83,490	\$ 4,120	\$(171,107)	\$ 168,675

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		Nine Months	Ten Months
	2008	March 31, 2007	Ended March 31, 2008	Ended March 31, 2007
		(Restated – Note 10)		(Restated – Note 10)
OPERATING ACTIVITIES				
Net loss from continuing operations	\$ (9,258)	\$ (8,913)	\$ (23,720)	\$ (29,596)
Items not affecting cash:				
Accretion	99	100	295	229
Depletion and depreciation	2,541	1,660	5,973	5,895
Stock-based compensation	-	125	14	327
Write-off of mineral properties	1,337	348	5,559	2,596
Amortization of deferred financing charges	-	450	-	1,023
Foreign exchange loss	9,845	481	6,286	4,529
Future income tax recovery	(799)	(360)	(1,863)	(1,658)
Changes in non-cash working capital items (Note 8(a))	10,265	3,554	6,480	2,492
Cash provided by (used in) continuing operations	14,030	(2,555)	(976)	(14,163)
Cash used in discontinued operations	(1,822)	(5,938)	(8,846)	(16,386)
Cash provided by (used in) operating activities	12,208	(8,493)	(9,822)	(30,549)
INVESTING ACTIVITIES				
Property, plant and equipment expenditures, net of accounts payable and accrued liabilities	(13,154)	(3,101)	(38,400)	(22,918)
Asset retirement obligations	(157)	-	(355)	-
Decrease (increase) in short-term investments	2,491	(8,894)	44,305	(39,007)
Decrease in restricted cash	1,836	-	12,887	-
Acquisition of Adromi	-	(126,287)	-	(126,287)
Acquisition of long-term investments	-	-	-	(607)
Cash provided by (used for) continuing operations	(8,984)	(138,282)	18,437	(188,819)
Cash provided by (used for) discontinued operations	5,918	(1,586)	(3,390)	(7,139)
Cash provided by (used in) investing activities	(3,066)	(139,868)	15,047	(195,958)
FINANCING ACTIVITIES				
Proceeds from debt financing, net of issue costs	-	-	-	107,124
Proceeds from long-term debt	-	14,520	27,788	44,885
Repayment of long-term debt	(2,862)	(23)	(36,857)	(4,786)
Decrease (increase) in restricted cash	-	(11,000)	10,000	(43,500)
Issue of common shares	-	129,120	5	129,124
Buy-back of common shares	-	-	-	(158)
Cash (used in) provided by financing activities	(2,862)	132,617	936	232,689
INCREASE (DECREASE) IN CASH	6,280	(15,744)	6,161	6,182
CASH, BEGINNING OF PERIOD	10,498	26,737	10,617	4,811
CASH, END OF PERIOD	\$ 16,778	\$ 10,993	\$ 16,778	\$ 10,993
Consist of:				
Cash of continuing operations	\$ 11,934	\$ 3,751	\$ 11,934	\$ 3,751
Cash of discontinued operations	4,844	7,242	4,844	7,242
	\$ 16,778	\$ 10,993	\$ 16,778	\$ 10,993

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

See accompanying notes to the consolidated financial statements.

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Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended March 31, 2008 and 2007

(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 ten months ended March 31, 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.

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 loss from continuing operations of \$23.7 million during the nine months ended March 31, 2008 and a loss from continuing operations of \$54.5 million during the thirteen months ended June 30, 2007. The Company had working capital of \$10.6 million at March 31, 2008. As disclosed in Note 12, on May 14, 2008 the Company announced that it has developed a new strategic plan and is raising additional financing to support its mine development and infrastructure expansion requirements. 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. The accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are necessary for a fair presentation of results for the interim periods. Operating results for the three and nine month periods ended March 31, 2008 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 retrospective 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 retrospectively 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.
- d. In June 2007, the CICA amended Section 1400, *General Standards of Financial Statement Presentation* to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern.

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Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The amendments to Section 1400 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard is not expected to have an impact on the Company's consolidated financial statements.

- e. In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and development costs*. The Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the standards for its fiscal year beginning July 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to initial recognition and of intangible assets. The Company does not expect that the adoption of this Section will have a material impact on its consolidated financial statements.
- f. In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards ("IFRS") over a transitional period currently expected to be until 2011. In April 2008, the AcSB issued an exposure draft which requires IFRS to replace Canadian GAAP for interim and annual financial periods beginning on or after January 1, 2011, including comparative figures. The impact of this transition on the Company's consolidated financial statements is still being determined. Management continues to monitor these regulatory developments.

3. Restricted Cash

At March 31, 2008, restricted cash is comprised of term deposits being held against certain long-term debt balances aggregating \$49.5 million. At June 30, 2007, restricted cash comprised term deposits being held against certain long-term debt balances aggregating \$59.5 million and \$12.9 million in term deposits coming due within one year supporting letters of credit for equipment purchases.

4. Property, plant and equipment

	March 31, 2008			June 30, 2007		
	Cost	Accumulated depreciation/ depletion/ writedowns	Net book value	Cost	Accumulated depreciation/ depletion/ writedowns	Net book value
Mining properties						
La Francia	\$ 104,250	\$ 13,718	\$ 90,532	\$ 97,231	\$ 8,502	\$ 88,729
La Francia II	186,687	-	186,687	186,687	-	186,687
Plant and equipment						
La Francia	4,692	629	4,063	3,080	225	2,855
Other	982	204	778	319	45	274
Construction in progress	52,725	-	52,725	34,539	-	34,539
Other mineral properties	25,287	19,167	6,120	26,858	13,607	13,251
	\$ 374,623	\$ 33,718	\$ 340,905	\$ 348,714	\$ 22,379	\$ 326,335

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

During the three and nine month periods ended March 31, 2008, the Company capitalized interest in the amount of \$0.8 million and \$1.4 million, respectively, related to construction in progress. There was no interest capitalized during the three and ten month periods ended March 31, 2007.

During the three and nine month periods ended March 31, 2008, the Company completed its assessment of several coal exploration properties resulting in writedowns in the amount of \$1.3 million and \$5.6 million, respectively. The properties were returned to the vendors in lieu of remaining payments amounting to \$3.2 million. During the three and ten month periods ended March 31, 2007, the Company recorded writedowns of exploration properties in the amount of \$0.3 million and \$2.6 million, respectively.

5. Long-term debt

	March 31, 2008	June 30, 2007
12% Senior secured guaranteed notes due August 31, 2011	\$ 114,183	\$ 114,002
Loans maturing December 2007 (987 million Colombia pesos), unsecured, interest at Colombian market weekly average of fixed-term deposits ("DTF") plus 6%, principal and interest payable at the end of the loan	-	500
Loans maturing June 2009 (18,900 million Colombian pesos) repaid in December 2007, 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)	38,000	38,000
Capital lease obligations (333 million Colombian pesos) payable monthly through February 2010, bearing interest at DTF plus 12%	182	349
	163,865	173,931
Less: Current portion	97	631
	\$ 163,768	\$ 173,300

As of May 7, 2008, the DTF rate was 8.93% and LIBOR was 2.85%.

As of March 31, 2008, the principal maturities of long-term debt are as follows for the fiscal years ending June 30:

2008	\$ 24
2009	91
2010	12,566
2011	1,001
2012	151,000
	<u>164,682</u>
Unamortized discount on 12% senior notes	<u>(817)</u>
	<u>\$ 163,865</u>

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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)

6. Share capital

(a) *Authorized*

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

(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 March 31, 2008, 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. There were no changes during the three month period ended March 31, 2008. A summary of the changes in the Company's incentive share option plan for the nine month period ended March 31, 2008 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
Expired	(3,571)	5.25
Balance, March 31, 2008	4,098,101	5.25

The Company did not grant any options during the three month period ended March 31, 2008. The fair value of options granted by the Company during the nine months ended March 31, 2008 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 nine month period ended March 31, 2008 was Cdn \$2.56.

The fair value of options granted by the Company during the three months ended March 31, 2007 was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 132%, 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 three month period ended March 31, 2007 was Cdn \$2.52. For the ten month period ended March 31, 2007, the fair value of options granted was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 121%, 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 ten month period ended March 31, 2007 was Cdn \$2.62.

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

The following table summarizes information concerning outstanding and exercisable options at March 31, 2008:

Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share (Cdn\$)
19,644	0.4	3.85
4,059,885	3.0	5.25
18,572	3.1	6.23
4,098,101	3.0	5.25

(c) *Warrants*

During the nine month period ended March 31, 2008, 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 March 31, 2008, 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.

Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended March 31, 2008 and 2007

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

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		Nine months ended		Ten months ended	
	March 31,		March 31,		March 31.	
	2008	2007	2008	2007	2007	2007
Production royalties	\$ 415	\$ 358	\$ 1,292	\$	\$ 1,286	
Consulting fees	265	15	295		45	
Rent expense	53	-	158		-	

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.

8. Cash flow information

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

	Three months ended		Nine months ended		Ten months ended	
	March 31,		March 31,		March 31,	
	2008	2007	2008	2007	2007	2007
(Increase) decrease in:						
Accounts receivable	\$ 2,865	\$ (584)	\$ 1,656	\$	\$ (7,262)	
Inventories	4,063	(195)	2,300		(2,412)	
Prepaid expenses	(358)	(57)	(244)		(598)	
Increase (decrease) in:						
Accounts payable						
and accrued liabilities	3,695	4,390	2,768		12,764	
	\$ 10,265	\$ 3,554	\$ 6,480	\$	\$ 2,492	

(b) Supplementary information regarding other non-cash transactions

At March 31, 2008, accounts payable and accrued liabilities include non-cash amounts of \$14.4 million (June 30, 2007 – \$22.7 million) related to its purchase commitments in Colombia for plant and equipment expenditures and \$0.6 million (June 30, 2007 - \$4.8 million) related to the acquisition of exploration concession rights in Colombia.

Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended March 31, 2008 and 2007

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

(c) *Other supplementary information*

	Three months ended March 31,		Nine months ended March 31,		Ten months ended March 31,	
	2008	2007	2008	2007	2007	2007
Interest paid	\$ 949	\$ 826	\$ 10,826	\$ -	\$ 6,635	\$ -
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.

(b) *Geographic segments*

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

	March 31, 2008		
	Colombia	Canada/ Other	Total
Property, plant and equipment	\$ 340,795	\$ 110	\$ 340,905
Total assets	\$ 434,547	\$ 79,642	\$ 514,189

	June 30, 2007		
	Colombia	Canada/ Other	Total
Property, plant and equipment	\$ 326,310	\$ 25	\$ 326,335
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 March 31, 2008 and 2007 are as follows:

	Three months ended March 31, 2008		
	Colombia	Canada/ Other	Total
Revenues	\$ 30,487	\$ -	\$ 30,487
Operating costs	(20,663)	-	(20,663)
Depletion and depreciation	(2,531)	(10)	(2,541)
Expenses	(2,818)	(2,413)	(5,231)
Other expense	(9,357)	(2,635)	(11,992)
Loss before income taxes	\$ (4,882)	\$ (5,058)	\$ (9,940)

Property, plant and equipment expenditures	\$ 13,145	\$ 9	\$ 13,154
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Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended March 31, 2008 and 2007

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

	Three months ended March 31, 2007		
	Colombia	Canada/ Other	Total
Revenues	\$ 13,464	\$ -	\$ 13,464
Operating costs	(13,942)	-	(13,942)
Depletion and depreciation	(1,658)	(2)	(1,660)
Expenses	(2,474)	(1,871)	(4,345)
Other expense	(921)	(2,056)	(2,977)
Loss before income taxes	\$ (5,531)	\$ (3,929)	\$ (9,460)
Property, plant and equipment expenditures	\$ 3,100	\$ 1	\$ 3,101

The Company's revenues, expenses and property, plant and equipment expenditures by geographic area for the nine month period ended March 31, 2008 and the ten month period ended March 31, 2007 are as follows:

	Nine months ended March 31, 2008		
	Colombia	Canada/ Other	Total
Revenues	\$ 59,427	\$ -	\$ 59,427
Operating costs	(48,380)	-	(48,380)
Depletion and depreciation	(5,952)	(21)	(5,973)
Expenses	(9,754)	(6,165)	(15,919)
Other expense	(8,972)	(5,636)	(14,608)
Loss before income taxes	\$ (13,631)	\$ (11,822)	\$ (25,453)
Property, plant and equipment expenditures	\$ 38,294	\$ 106	\$ 38,400

	Ten months ended March 31, 2007		
	Colombia	Canada/ Other	Total
Revenues	\$ 44,292	\$ -	\$ 44,292
Operating costs	(42,712)	-	(42,712)
Depletion and depreciation	(5,889)	(6)	(5,895)
Expenses	(7,311)	(5,489)	(12,800)
Other expense	(6,590)	(7,350)	(13,940)
Loss before income taxes	\$ (18,210)	\$ (12,845)	\$ (31,055)
Property, plant and equipment expenditures	\$ 22,904	\$ 14	\$ 22,918

For the nine month period ended March 31, 2008, two customers represented 100% of revenue and 25% of accounts receivable from continuing operations. For the ten month period ended March 31, 2007, one customer represented 100% of revenue from continuing operations.

Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended March 31, 2008 and 2007

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

10. Discontinued operations

As disclosed in Note 12, the Company has determined to sell the Caypa mine and the Cartagena port land and associated port license. Accordingly, these businesses are classified as discontinued operations.

The earnings from the respective discontinued operations are as follows:

	Three months ended March 31, 2008			Three months ended March 31, 2007		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
Revenues	\$ 16,054	\$ -	\$ 16,054	\$ 3,029	\$ -	\$ 3,029
Operating costs	(12,201)	-	(12,201)	(8,610)	-	(8,610)
Depletion and depreciation	(1,211)	-	(1,211)	(1,992)	-	(1,992)
General and administration	(362)	(350)	(712)	(296)	(185)	(481)
Writedown of assets	(35,777)	(17,941)	(53,718)	-	-	-
Other income (expense)	(1,504)	(1,267)	(2,771)	542	(168)	374
Loss before income taxes	(35,001)	(19,558)	(54,559)	(7,327)	(353)	(7,680)
Income taxes	6,283	4,561	10,844	234	-	234
Net loss from discontinued operations	\$ (28,718)	\$ (14,997)	\$ (43,715)	\$ (7,093)	\$ (353)	\$ (7,446)
Basic and diluted loss from discontinued operations per share	\$ (0.32)	\$ (0.17)	\$ (0.49)	\$ (0.11)	\$ (0.01)	\$ (0.12)

	Nine months ended March 31, 2008			Ten months ended March 31, 2007		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
Revenues	\$ 39,907	\$ -	\$ 39,907	\$ 35,056	\$ -	\$ 35,056
Operating costs	(39,577)	-	(39,577)	(44,231)	-	(44,231)
Depletion and depreciation	(4,447)	-	(4,447)	(7,218)	-	(7,218)
General and administration	(1,027)	(1,055)	(2,082)	(912)	(567)	(1,479)
Writedown of assets	(35,777)	(17,941)	(53,718)	-	-	-
Other expense	(1,202)	(983)	(2,185)	(2,151)	(1,569)	(3,720)
Loss before income taxes	(42,123)	(19,979)	(62,102)	(19,456)	(2,136)	(21,592)
Income taxes	6,937	4,561	11,498	1,117	-	1,117
Net loss from discontinued operations	\$ (35,186)	\$ (15,418)	\$ (50,604)	\$ (18,339)	\$ (2,136)	\$ (20,475)
Basic and diluted loss from discontinued operations per share	\$ (0.39)	\$ (0.17)	\$ (0.56)	\$ (0.31)	\$ (0.04)	\$ (0.35)

During the three and nine month periods ended March 31, 2008, the Company recorded after-tax writedowns of the carrying values of its discontinued operations totalling \$42.9 million or \$0.48 per share to reflect the estimated realizable values of the assets to be obtained upon their disposition.

Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended March 31, 2008 and 2007

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

The carrying values of the net assets related to the discontinued operations are as follows:

	March 31, 2008			June 30, 2007		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
Assets						
Current assets	\$ 28,475	\$ -	\$ 28,475	\$ 22,010	\$ -	\$ 22,010
Long-term assets	24,639	28,913	53,552	65,937	42,816	108,753
Total assets	53,114	28,913	82,027	87,947	42,816	130,763
Liabilities						
Current	13,604	4,000	17,604	9,853	4,000	13,853
Long-term	14,710	8,913	23,623	26,806	12,491	39,297
Total liabilities	28,314	12,913	41,227	36,659	16,491	53,150
Net assets of discontinued operations	\$ 24,800	\$ 16,000	\$ 40,800	\$ 51,288	\$ 26,325	\$ 77,613

11. Commitments and contingencies

- (a) The Company has entered into various contracts as at March 31, 2008 to deliver 17.6 million tonnes of coal from its La Francia mine at an average FOB port price, subject to quality adjustments, of \$51 per tonne as follows:

Fiscal years ending June 30,	Tonnes	Average FOB port price per tonne
2008	500	\$ 61
2009	3,425	51
2010	3,430	49
2011	3,145	50
2012	3,100	51
2013	2,740	50
2014	1,260	50
	<u>17,600</u>	51

In addition, at March 31, 2008, the Company has also entered into various contracts to deliver 2.9 million tonnes of coal from its Caypa mine at an average FOB port price, subject to quality adjustments, of \$61 per tonne. It is expected that these coal sales commitments will be assumed by the purchaser in a sale transaction as contemplated in Note 12.

- (b) At March 31, 2008, the Company has a letter of credit outstanding in support of certain of its obligations related to Caypa mine operations in the amount of \$4.3 million. The letter of credit has been guaranteed with a cash deposit of an equal amount.

Coalcorp Mining Inc.

Notes to the interim consolidated financial statements (Unaudited)

For the interim periods ended March 31, 2008 and 2007

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

- (c) At March 31, 2008, the Company is contractually obligated under take-or-pay contracts with respect to 1.6 million tonnes of coal valued at \$7.3 million annually at a third party port facility until 2012 and up to 2.45 million tonnes of coal valued at an average of \$5.3 million per annum of capacity on the Fenoco rail line for a period of six years. It is expected that up to 1.0 million tonnes of the port related take-or-pay contracts will be assumed by the purchaser in a sale transaction as contemplated in Note 12.
- (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.

12. Subsequent event

On May 14, 2008, the Company announced that as a result of the strategic alternatives review process commenced in February 2008 and after detailed financial analysis, it believes that the inherent value of its assets is significantly in excess of any and all proposals received as a result of the strategic review process and therefore has developed a new strategic plan to unlock this value and to enhance value for shareholders. In addition, the Company announced that it has launched a proposed public offering of units in the provinces of Ontario, British Columbia, Alberta and Manitoba (collectively, the "Offering Jurisdictions") and private placement in the US and UK. The offering will be led by GMP Securities L.P. Canaccord Capital Corporation, Loewen Ondaatje, McCutcheon Limited and Macquarie Capital Markets Canada Ltd. are also part of the underwriting syndicate. In connection with the proposed offering of units, the Company has filed a preliminary short form prospectus with the securities regulatory authorities in each of the Offering Jurisdictions. The terms of the offering, including the number of securities offered and the offering price, will be determined at the time of pricing; however, it is anticipated that the Company will raise gross proceeds of \$120 million through the financing. The proceeds of this financing will be used to fund capital expenditures for mine development, mining equipment, rail and other mine infrastructure expansion expected to total \$120 million over the next 18 months at its La Francia properties. In conjunction with the strategic review process the Company also determined that all assets not core to its objectives, including the Caypa mine and Cartagena port lands and associated port license, should be disposed of or wound down. The Company is currently evaluating offers received for the sale of each of these non-core assets.

Management's Discussion & Analysis

May 14, 2008

Three- And Nine-Month Periods Ended March 31, 2008

The financial statements present the results of Coalcorp Mining Inc. (the "Company") for the three- and nine-month periods ended March 31, 2007 with comparatives for the three- and ten-month periods ended March 31, 2007 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 nine-month periods ended March 31, 2008 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, port handling costs and selling commissions, 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 La Francia's third quarter coal production to 415,000 tonnes from 358,000 in third quarter a year ago.
- La Francia's stripping ratio of 7.1:1 and its mine operating cost of \$31 per tonne were both in line with expectations for the third quarter.
- Revenues from mining operations averaging \$55 per tonne significantly exceeded operating costs, generating a quarterly operating profit from continuing operations before other income/expense and income taxes of \$2.1 million; combined with working capital initiatives, third quarter operating cash flow was \$12.2 million.
- Implemented contract mining arrangement with Masering S.A. to provide established leadership and additional mining equipment essential to expand production and improve operating efficiencies.
- Announced Fenoco rail spur construction to commence early May.
- Developed new strategic plan, including announcement of a proposed \$120 million financing, to unlock inherent value of the Company's assets and as a means for enhancing shareholder value.

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.

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.

Strategic Alternatives Review

As announced in February 2008, the Board of Directors of the Company approved a process to review strategic alternatives with the objective of maximizing shareholder value and retained GMP Securities L.P. and Endeavour International Financial Corporation as its advisors, as well as retained Steffen, Robertson and Kirsten (UK) Ltd (“SRK”) to review the company’s operations at La Francia. As a result of the review and after detailed financial analysis, the Company and its advisors believe that the inherent value of its assets is significantly in excess of any and all proposals received as a result of the strategic review process and therefore has developed this new strategic plan to unlock this value and as a means for enhancing value for shareholders.

The features of this strategy are:

- Raising \$120 million through a proposed financing (the “Financing”), led by GMP Securities L.P.
- A focus on further developing the Company’s core assets, consisting of the two areas within the La Francia I mine (pits A/B) and the development of the C area at La Francia I and the D area at La Francia II, as well as its infrastructure assets, comprising interests in the Fenoco rail line and the proposed ports at Barranquilla and Capulco (collectively the “continuing operations”).
- The already announced agreement with Masering S.A. in which Masering will work with its consortium partners (the “Masering Consortium”) to expand the pit and introduce new equipment to the extraction process.
- The acquisition of additional mining equipment to be used at La Francia I and II to assist in ramping up production to the projected 6.0 million tonnes per annum by 2010.
- Revising the current mine plan at La Francia I and performing advance waste stripping at Pit C, as well as the retainer of SRK to assist the Company in operating and expanding La Francia I and II.
- The disposition of non-core assets, comprising the Cartagena port lands and the Caypa mine.
- Implementing cost-cutting measures, focusing on general and administrative expenses and including a 25% salary reduction for senior management. The Company has also made an offer to re-purchase its coal sales agency arrangement with GC Coal, its coal marketing agent.

As a result of the Company’s decision to dispose of its interests in the Caypa mine and the Cartagena port lands and associated port license, these businesses are classified as discontinued operations. Reference should be made to Note 10 to the interim consolidated

financial statements for details of the results of the discontinued operations for the three- and nine months periods ended March 31, 2008 and for the three- and ten-months periods ended March 31, 2007 and the carrying values of the net assets related to the discontinued operations at March 31, 2008 and June 30, 2007.

Results of Operations

Key operating and financial performance metrics for the Company's La Francia mine are set out below:

	Three months ended March 31,		Nine months ended March 31,	Ten months ended March 31,
	2008	2007	2008	2007
Waste (000m ³)	2,957	3,874	9,393	11,734
Stripping ratio (:1)	7.1	10.8	7.3	9.1
Coal production (tonnes 000)	415	358	1,292	1,286
Cost per tonne ⁽¹⁾				
Mine	\$ 31	\$ 31	\$ 30	\$ 31
Ex mine	\$ 7	\$ 2	\$ 4	\$ 2
Coal sales (tonnes 000)				
FOT mine	420	368	1,213	1,236
FOB port	141	-	141	-
Total	561	368	1,354	1,236
Revenue ⁽²⁾				
FOT mine	\$ 42	\$ 37	\$ 38	\$ 36
FOB port	\$ 92	\$ -	\$ 92	\$ -
Total	\$ 55	\$ 37	\$ 44	\$ 36

(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, port handling and selling commissions, 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 from continuing operations during the three month period ended March 31, 2008 increased to \$30.5 million based on sales of 561,000 tonnes at an average realized price of \$55 per tonne delivered compared with \$13.5 million from 368,000 tonnes sold at an average realized price of \$37 per tonne during the second quarter last year. Coal inventories at La Francia decreased as expected during the current quarter to improve operating cash flow. Revenue per tonne in the third quarter benefited from the delivery of 141,000 tonnes on an FOB port basis at an average realized price of \$92 per tonne.

Revenues from continuing operations for the nine month period ended March 31, 2008 totalled \$59.4 million based on sales of 1.4 million tonnes at an average realized price of \$44 per tonne compared with \$44.3 million from 1.2 million tonnes at \$36 per tonne during the ten month period ended March 31, 2007.

Production and Cost of Operations

La Francia's coal production in the third quarter of fiscal 2008 increased to 415,000 tonnes from 358,000 tonnes in the third quarter last year. At the La Francia mine, a total of 3.4 million tonnes of material were mined at an average stripping ratio of 7.1:1, a significant improvement from the 10.8:1 stripping ratio experienced in the third quarter last year when the Company undertook a program of pre-stripping at the mine unrelated to production in the quarter. As recently announced, the Company has made arrangements with the Masering Consortium, to expand mine contractor resources at La Francia to increase equipment capacity to meet future increased production rates commencing toward the end of this calendar year.

Coal production from La Francia totalled 1.3 million tonnes during the nine months ended March 31, 2008, comparable to the 1.3 million tonnes produced from the mine during the ten months ended March 31, 2007.

Mine operating costs at La Francia averaged \$31 per tonne produced during the three month period ended March 31, 2008, up from \$25 per tonne in the second quarter as the stripping ratio returned to its expected level for this stage of the mine. In addition, with the devaluation of the Colombian peso relative to the U.S. dollar in recent months, the direct cost per tonne has increased by about 10% compared with previous experience. The Company believes that the Colombian peso is currently stabilizing. Included in mine operating costs in the third quarter are royalties averaging approximately \$3 per tonne. In addition, the Company paid selling commissions of approximately \$2 per tonne and, for the FOB port deliveries, incurred costs of transporting the coal to port and port handling costs of another \$20 per FOB tonne delivered.

Depreciation and depletion of property, plant, equipment and mining properties amounted to \$2.5 million during the third quarter bringing the total for the nine month period ended March 31, 2008 to \$6.0 million or approximately \$4 per tonne. The Company expects that depreciation and depletion charges per tonne will increase moderately in the future as capital investments in mine development, equipment and infrastructure are added, tempered by the addition of incremental reserves at the mine.

Expenses

General and administrative expenses amounted to \$3.9 million during the third quarter, including approximately \$0.5 million incurred with respect to the strategic review process, bringing the total for the nine month period ended March 31, 2008 to \$10.3 million compared with \$9.9 million during the ten month period ended March 31, 2007. The Company expects general and administration expenses to decrease in the future as it implements cost-cutting measures incorporated in its strategic plan, including a 25% salary reduction for senior management.

During the third quarter the Company completed its assessment of several additional coal exploration properties acquired in the previous year resulting in a writedown of \$1.3 million. The properties were turned back to the vendors in lieu of remaining acquisition payments amounting to \$1.3 million. For the nine month period ended March 31, 2008, writedowns of mineral exploration properties amounted to \$5.6 million compared with \$2.6 million during the ten month period ended March 31, 2007. The Company has also announced the termination of its exploration joint venture arrangement with BHP Billiton World Exploration Inc., which had been entered into by the parties in April 2007. Under the arrangement, BHP had agreed to expend a minimum of \$2.5 million per year over three years in exploring the Company's exploration properties.

Other Income (Expense)

Interest income earned on cash, short-term investments and restricted cash balances during the third quarter amounted to \$1.0 million bringing the total for the nine month period ended March 31, 2008 to \$4.8 million compared with \$3.9 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 \$3.6 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 third quarter, the Company capitalized \$0.8 million of interest related to its expenditures on construction in progress. Year-to-date, interest expense totalled \$12.9 million, net of \$1.4 million of capitalized interest, compared with \$10.0 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 related to continuing operations in Colombia, amounting to \$50 million at March 31, 2008, are supported by restricted cash deposits in the same amount.

The Company's foreign currency risk also 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 devaluation of the Colombian peso relative to the U.S. dollar in recent months caused the Company to record a foreign exchange loss of \$9.4 million during the third quarter compared with a \$0.4 million foreign exchange gain during the third quarter last year. For the nine month period ended March 31, 2008, the non-cash foreign exchange loss amounted to \$6.5 million, of which \$7.3 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 ten month period ended March 31, 2007, the foreign exchange loss amounted to \$6.3 million, of which \$4.8 million related to the translation of its future income tax liability.

Loss from Continuing Operations

As a result of the factors discussed above, the Company recorded a loss from continuing operations of \$9.3 million or \$0.10 per share in the third quarter compared with a loss from continuing operations of \$8.9 million or \$0.14 per share in the third quarter last year.

For the nine month period ended March 31, 2008, the Company recorded a loss from continuing operations of \$23.7 million or \$0.27 per share compared with a loss from continuing operations of \$29.6 million or \$0.51 per share during the ten month period ended March 31, 2007.

Loss from Discontinued Operations

The Company recorded a loss from discontinued operations of \$43.7 million or \$0.49 per share in the third quarter compared with a loss from discontinued operations of \$7.4 million or \$0.12 per share during the third quarter last year. For the nine month period ended March 31, 2008 the loss from discontinued operations was \$50.6 million or \$0.56 per share compared with a loss from discontinued operations of \$20.5 million or \$0.35 per share during the ten month period ended March 31, 2007. The loss from discontinued operations during the three and nine months periods ended March 31, 2008 includes after-tax writedowns of the Caypa mine and the

Cartagena port totaling \$42.9 million or \$0.48 per share to reflect the estimated proceeds to be realized on the disposition of these assets.

Net Loss

The Company reported a net loss in the third quarter of \$53.0 million or \$0.59 per share compared with a net loss of \$16.4 million or \$0.26 per share in the third quarter last year. For the nine months ended March 31, 2008, the Company reported a net loss of \$74.3 million or \$0.83 per share compared with a net loss of \$50.1 million or \$0.86 per share in the ten month period ended March 31, 2007.

Net Cash Used in Operating Activities

As a result of increasing realized coal prices per tonne delivered and managing its working capital, including reducing its coal inventories, the Company generated cash from operating activities during the third quarter of \$12.2 million compared with a use of cash of \$8.5 million in the third quarter last year. Cash used in operating activities during the nine month period ended March 31, 2008 of \$9.8 million was significantly lower than the prior year period as a result of improving performance in each of the last two quarters.

Capital Expenditures

Capital expenditures on continuing operations amounted to \$13.2 million during the third quarter, including \$0.8 million of capitalized interest on construction in progress. Of this total, \$9.7 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. The Company also spent \$3.5 million on mine exploration and development at La Francia during the third quarter. A further \$14.4 million of committed expenditures related to the rail spur project is included in accounts payable and accrued liabilities at March 31, 2008.

For the nine month period ended March 31, 2008, capital expenditures on continuing operations totalled \$38.4 million, of which \$29.5 million was spent on the Company's infrastructure development projects related to the Fenoco rail connection and the ports. Drawdowns of restricted cash totalling \$12.9 million were used to fund a portion of these capital expenditures.

Contractual Obligations

The Company's obligations under long-term debt and take-or-pay contract commitments as of March 31, 2008 are as follows:

Millions	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
Long term debt ¹	\$ 0.1	\$ 13.6	\$ 151.0	\$ -	\$ 164.7
Purchase obligations ²	12.9	25.3	20.6	4.4	63.2
Total obligations	\$ 13.0	\$ 38.9	\$ 171.6	\$ 4.4	\$ 227.9

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 provide funding for the Company's continuing operations in Colombia and the

\$115 million 12% senior secured note due August 2011. Excludes \$12.5 million of bank debt of discontinued operations due in 4-5 years but is expected to be repaid with supporting restricted cash deposits prior to disposal of discontinued operations.

- 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. It is expected up to 1.0 million tonnes per annum of the port related take-or-pay contract will be assumed by the purchaser in the disposal of the discontinued operations.

Summary of Quarterly Results

(\$ millions except per share)	Fiscal 2008			Fiscal 2007			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1 ⁽¹⁾
Revenue from continuing operations	\$ 30.5	\$ 15.4	\$ 13.5	\$ 12.2	\$ 13.5	\$ 12.7	\$ 18.1
Loss from continuing operations	(9.3)	(9.0)	(5.4)	(24.9)	(8.9)	(14.6)	(6.1)
Loss from discontinued operations	(43.7)	(4.5)	(2.4)	(1.2)	(7.5)	(8.4)	(4.6)
Net loss	(53.0)	(13.5)	(7.8)	(26.1)	(16.4)	(23.0)	(10.7)
Basic and diluted loss per share:							
Continuing operations	(0.10)	(0.10)	(0.07)	(0.28)	(0.14)	(0.26)	(0.11)
Discontinued operations	(0.49)	(0.05)	(0.02)	(0.01)	(0.12)	(0.15)	(0.08)
Net loss	(0.59)	(0.15)	(0.09)	(0.29)	(0.26)	(0.41)	(0.19)

(1) 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 cash and short-term investments of \$26.3 million at March 31, 2008. The Company's working capital at March 31, 2008 was \$10.6 million.

The Company has recently announced a new strategic plan focused on its core assets, consisting of the two areas within the La Francia I mine (pits A/B) and the development of the C area at La Francia I and the D area at La Francia II, as well as its infrastructure assets, comprising interests in the Fenoco rail line and the proposed ports at Barranquilla and Capulco.

The execution of the new strategic plan requires the expenditure of the following capital investments over the next 18 months to complete the commissioning of the Company's rail infrastructure connecting the La Francia mine to the Fenoco line and the expansion of production from the La Francia mine to 6.0 million tonnes per annum by 2010:

Commissioning of rail infrastructure, including spur line, loading systems, stockyard, rail loop and balance of capital contributions to main Fenoco rail line	\$25 M
Mine equipment and infrastructure funding	\$30 M
Expansion of infrastructure	\$15 M
Pre-stripping operating costs	\$30 M
Other expenditures, including exploration drilling and acquisition of additional rolling stock	<u>\$20 M</u>
Total	\$120 M

In conjunction with the expansion of production at La Francia I and II, construction of the rail spur to connect La Francia with the Fenoco line has commenced and is expected to be finished in September 2008. Once complete, the Company is expected to have up to 3.5 million tonnes capacity of annual rail access to ship its coal to the northern ocean ports near Santa Marta. The Company has also commenced the process of requesting from Fenoco an additional 2.5 million tonnes of annual rail access for 2010 and later. If successful, this is expected to provide the Company not only with additional capacity to transport the increased tonnage, but will allow the Company to transport its coal at a significantly reduced cost to that currently experienced.

The Company retained SRK to assist with reviewing the overall mining operations at La Francia I and II, and in particular to assess the potential to expand from the current operations of under 2.0 million tonnes per annum ("mtpa") to 6.0 mtpa as quickly as possible. The Company anticipates that, focusing only on the reported coal reserve tonnage of 74.99 million tonnes at La Francia I and II, the expected mine life at a rate of 6.0 mtpa will be 12 to 14 years. A key component of this increase in production will be the implementation of the previously announced Masering Consortium contract mining arrangement.

SRK has estimated that the Company's current equipment complement limits the extraction capability to just under 2.0 mtpa. The implementation of the contract mining arrangement with the Masering Consortium will see the introduction of new waste stripping equipment onto the site to increase production, consisting of four Rh120 excavators. This equipment has the capacity to produce an additional 2.0 mtpa, which equals a combined capacity (with the current contractor and existing equipment) of approximately 4.0 mtpa.

In addition, additional facilities will be required to maintain the mining equipment, store the fuel, house the workers, etc. The Company anticipates that a cash outlay will be required by Masering in the order of \$60.0 million, with approximately \$50.0 million to be dedicated to the acquisition of additional mining equipment to increase production from 4.0 mtpa to 6.0 mtpa and \$10.0 million for the infrastructure, to which the Company has allocated \$30.0 million of capital investment.

SRK is in the process of reviewing the mine design and plan, and will be recommending several changes with a view to expanding the mine operations and shortening waste haulage distances, resulting in cost savings. The Company is currently redesigning the mine by introducing two additional 30 metre deep working benches in the southwest advancing wall, while at the same time reducing the current upper bench to ensure a 30 metre level between all benches. The benches will be interconnected with 20 metre wide ramps in the advancing wall. Waste stripping, at an estimated cost of \$30.0 million, will be required in the advance areas before coal can be recovered, equivalent to two advance cuts to a depth of 20 metres, priced at current mining rates. Converting the current mining profile will include the removal of the two non-coaling benches at the surface, and three development benches.

The Company has allocated an additional \$15.0 million capital investment towards the expansion of infrastructure and facilities that will be required by the Company to implement its plan to expand production. This includes the construction of offices and accommodation, the expansion of the coal stocking facilities, and the construction of site haul roads and de-watering infrastructure, as well as the anticipated costs for attaining expansion permits and associated consultants' fees.

Additionally, the Company has allocated \$20.0 million for other costs associated with the expansion of production, primarily the need to acquire additional rolling stock as production

approaches the anticipated 6.0 mtpa level. The Company also intends to continue exploration drilling, focusing on the La Francia properties.

On May 14, 2008, the Company announced the launch of a proposed public offering of units in the provinces of Ontario, British Columbia, Alberta and Manitoba (collectively, the "Offering Jurisdictions") and private placement in the US and UK. The offering will be led by GMP Securities L.P.; Canaccord Capital Corporation, Loewen Ondaatje, McCutcheon Limited and Macquarie Capital Markets Canada Ltd. are also part of the underwriting syndicate. In connection with the proposed offering of units, the Company has filed a preliminary short form prospectus with the securities regulatory authorities in each of the Offering Jurisdictions. The terms of the offering, including the number of securities offered and the offering price, will be determined at the time of pricing; however, it is anticipated that the Company will raise gross proceeds of \$120 million through the financing, the proceeds of which will be used to fund its capital investment programs as outlined above. Any excess funds will be used for the general working capital requirements of the Company.

The Company also expects to generate additional funds from the disposition of its non-core assets, specifically the Caypa mine and the Cartagena port land and associated port license. While definitive sales agreements are still being negotiated, the Company expects to be able to successfully complete these transactions in the near term.

During the third quarter, the Company repaid \$2.9 million of bank debt in Colombia using cash from operations. For the nine months ended March 31, 2008, financing activities provided cash of \$0.9 million comprising the excess restricted cash balances returned in the second quarter following the repayment of bank loans in Colombia that had been borrowed between June and August of 2007.

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 nine-month periods ended March 31, 2008, the Company incurred production royalties payable to Blue Pacific Assets Corp. ("Blue Pacific") amounting to \$415,000 and \$1,292,000, respectively, related to the February 2006 acquisition of the La Francia mine. During the three- and ten-month periods ended March 31, 2007, these royalties amounted to \$358,000 and \$1,286,000, respectively.

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.

The Company also paid consulting fees of \$15,000 in each of the first three quarters of the current and prior fiscal years to a company related by way of a common director plus a consulting fee in the amount of \$250,000 in the third quarter this year related to the strategic review process.

Risks and Uncertainties

Implementation of New Strategic Plan

The successful implementation of the Strategic Plan announced by the Company on May 14, 2008 is subject to a number of conditions including, but not limited to, the successful completion of the financing, the ability of the Company to revise the current mine design and plan at La Francia to allow for the expansion of production from 2.0 mtpa to 6.0 mtpa within the projected timelines, the ability of Masering S.A. to obtain the necessary equipment for the implementation of the new mine plan and its ability, in conjunction with the existing mine operators, to deliver on the commitments undertaken in their agreement with the Company, the ability of the Company to secure additional rail and port capacity to match anticipated increases in production, and the ability of the Company to dispose of non-core assets within the timeframe and in the manner anticipated. As a number of such conditions are beyond the control of the Company, there can be no assurance that they will be met and, consequently, that the Company will be able to successfully implement some or all of the Strategic Plan. In addition to the Masering agreement, a further agreement regarding mining operations and continued use of the equipment under the Masering agreement must be negotiated prior to the end of December 2008. If the Company does not reach an agreement with Masering, the Company may be required, at the election of the Masering Consortium, to purchase additional equipment which will require additional funds. There can be no assurance that such additional funds will be available on terms acceptable to the Company, if at all, and might involve substantial dilution to existing shareholders of the Company.

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.

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.

Permitting for Diversion of Calenturitas River

In respect of the proposed development of Pit C at La Francia I and Pit D at La Francia II, the Company is currently in the process of obtaining the required permit allowing deviation of the Calenturitas River which presently runs partially over the area. There can be no assurance that this permit will be awarded to the Company in time to meet the timelines contemplated by the Strategic Plan or at all. In the event that the permit is denied by the relevant authorities, the coal reserves attributed to Pit C at La Francia I and Pit D at La Francia II, as reported in the Marston Report, could be adversely affected through the exclusion of reserve tonnage below design limitations or the reduction of reserve classification (confidence) levels from proven to probable or otherwise. In the event that the Calenturitas River cannot be diverted, a re-evaluation of the reserves may be necessary.

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 comprise 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 March 31, 2008.

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 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.

General Standards of Financial Statement Presentation

In June 2007, the CICA amended *Section 1400, General Standards of Financial Statement Presentation* to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The amendments to Section 1400 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard is not expected to have an impact on the Company's consolidated financial statements.

Goodwill and Other Intangible Assets

In February 2008, the CICA issued *Section 3064, Goodwill and Intangible Assets*, replacing *Section 3062, Goodwill and Other Intangible Assets* and *Section 3450, Research and development costs*. The Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the standards for its fiscal year beginning July 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to initial recognition and of intangible assets. The Company does not expect that the adoption of this Section will have a material impact on its consolidated financial statements.

Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards ("IFRS") over a transitional period currently expected to be until 2011. In April 2008, the AcSB issued an exposure draft which requires IFRS to replace Canadian GAAP for interim and annual financial periods beginning on or after January 1, 2011, including comparative figures. The impact of this transition on the Company's consolidated financial statements is still being determined. 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 March 31, 2008, 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 nine- month periods ended March 31, 2008 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 continues to expect to produce 1.8 million tonnes of coal at La Francia during fiscal 2008 with an average mine stripping ratio for the year of approximately 7.2:1 and a reduction in its mine cost per tonne produced compared with fiscal 2007. Sales already booked for La Francia's production for the balance of fiscal 2008 represent 0.5 million tonnes equivalent to an FOB port price averaging \$61 per tonne.

As a result of the mine development and operating initiatives being undertaken at La Francia Pit A/B, preliminary estimates of coal production for fiscal 2009 are 3.4 million tonnes at La Francia with a mine stripping ratio of about 6.6:1. Sales already booked for La Francia's coal production for fiscal 2009 represent 3.4 million tonnes FOB port at an average of \$51 per tonne.

At March 31, 2008, the Company had also entered into various contracts to deliver 13.7 million tonnes of La Francia's coal over its 2010 through 2014 fiscal years at an average FOB port price of \$50 per tonne.

Outstanding Share Data

As at May 14, 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	89,657,707	-	-	-	-
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.