

Consolidated Financial Statements Of

**Coalcorp Mining Inc.**

June 30, 2008 and 2007



## AUDITORS' REPORT

To the Shareholders of Coalcorp Mining Inc.

We have audited the consolidated balance sheets of Coalcorp Mining Inc. as at June 30, 2008 and June 30, 2007 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year ended June 30, 2008 and the thirteen month period ended June 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2008 and June 30, 2007 and the results of its operations and its cash flows for the year ended June 30, 2008 and the thirteen month period ended June 30, 2007 in accordance with Canadian generally accepted accounting principles.

*(Signed) Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada

September 4, 2008

**Coalcorp Mining Inc.**  
**Consolidated Balance Sheets**  
**As at June 30, 2008 and 2007**  
(Expressed in thousands of U.S. dollars)

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		Restated ( Note 5)
Current		
Cash	\$ 4,913	\$ 7,540
Short-term investments	110,103	53,810
Restricted cash (Note 6)	-	12,887
Accounts receivable	6,769	9,053
Inventories (Note 7)	2,107	6,053
Prepaid expenses and deposits	238	314
Current portion of deferred finance charges (Note 3(c))	-	1,558
Assets of discontinued operations (Note 5)	10,463	22,010
	<u>134,593</u>	<u>113,225</u>
Restricted cash (Note 6)	35,500	59,500
Long-term investments (Note 8)	8,244	8,244
Property, plant and equipment (Note 9)	348,898	326,335
Intangible asset (Note 4(a))	23,144	-
Deferred finance charges (Note 3(c))	-	4,869
Assets of discontinued operations (Note 5)	28,519	102,244
	<u>\$ 578,898</u>	<u>\$ 614,417</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 33,166	\$ 42,854
Current portion of long-term debt (Note 10)	87	631
Liabilities of discontinued operations (Note 5)	-	13,853
	<u>33,253</u>	<u>57,338</u>
Long-term debt (Note 10)	149,810	173,300
Asset retirement obligations (Note 11)	1,889	311
Other liabilities	4,112	4,112
Future income taxes (Note 13)	99,196	97,162
Liabilities of discontinued operations (Note 5)	3,851	32,788
	<u>292,111</u>	<u>365,011</u>
Commitments and contingencies (Note 18)		
<b>Shareholders' equity</b>		
Share capital (Note 12)	333,375	252,165
Contributed surplus (Note 12)	140,581	83,477
Accumulated other comprehensive income	4,120	4,120
Deficit	(191,289)	(90,356)
	<u>286,787</u>	<u>249,406</u>
	<u>\$ 578,898</u>	<u>\$ 614,417</u>
Subsequent event (Note 19)		

Approved on behalf of the Board of Directors:

Michael Beckett Director  
Robert Metcalfe Director

See accompanying notes to the consolidated financial statements.

# Coalcorp Mining Inc.

## Consolidated Statements of Operations and Comprehensive Loss

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

	<u>2008</u>	<u>2007</u>
		Restated ( Note 5)
Revenues	<u>\$ 75,245</u>	<u>\$ 56,460</u>
Cost of operations		
Operating costs	67,034	59,712
Depletion and depreciation	<u>7,750</u>	<u>6,594</u>
	<u>74,784</u>	<u>66,306</u>
Earnings (loss) before undernoted items	<u>461</u>	<u>(9,846)</u>
Expenses		
General and administration	15,899	12,478
Stock-based compensation (Note 12)	284	618
Write-off of mineral properties (Note 9)	<u>7,472</u>	<u>13,607</u>
	<u>23,655</u>	<u>26,703</u>
Operating loss from continuing operations before other income (expense) and income taxes	<u>(23,194)</u>	<u>(36,549)</u>
Other income (expense)		
Interest income	5,927	7,663
Financing costs (Note 3(c))	-	(1,352)
Interest on long-term debt (Note 10)	<u>(16,055)</u>	<u>(15,187)</u>
Foreign exchange loss	<u>(2,225)</u>	<u>(18,407)</u>
Loss from continuing operations before income taxes	<u>(35,547)</u>	<u>(63,832)</u>
(Provision for) recovery of income taxes (Note 13)		
Current	(215)	(229)
Future	<u>3,771</u>	<u>9,553</u>
	<u>3,556</u>	<u>9,324</u>
Loss from continuing operations	<u>(31,991)</u>	<u>(54,508)</u>
Loss from discontinued operations (Note 5)	<u>(62,515)</u>	<u>(21,708)</u>
Net loss and comprehensive loss	<u>\$ (94,506)</u>	<u>\$ (76,216)</u>
Basic and diluted loss per share		
From continuing operations	\$ (0.34)	\$ (0.83)
Net	<u>\$ (1.00)</u>	<u>\$ (1.16)</u>
Weighted average number of common shares outstanding (Note 1)	<u>94,405,000</u>	<u>65,819,000</u>

See accompanying notes to the consolidated financial statements.

# Coalcorp Mining Inc.

## Consolidated Statements of Changes in Shareholders' Equity

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

(Expressed in thousands of U.S. dollars)

	Common Shares		Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
	Shares	Amount				
Balance, June 30, 2006	56,844,483	\$ 158,370	\$ 46,535	\$ 4,120	\$ (14,112)	\$ 194,913
Net loss	-	-	-	-	(76,216)	(76,216)
Shares repurchased (Note 11(e))	(46,429)	(129)	-	-	(28)	(157)
Exercise of options	1,071	4	(1)	-	-	3
Issued on private placement, net of issue costs	32,857,143	93,920	35,200	-	-	129,120
Warrants issued on debt financings, net of issue costs	-	-	1,125	-	-	1,125
Stock-based compensation	-	-	618	-	-	618
Balance, June 30, 2007	89,656,268	\$ 252,165	\$ 83,477	\$ 4,120	\$ (90,356)	\$ 249,406
Change in accounting policy (Note 3(c))	-	-	-	-	(6,427)	(6,427)
Balance, July 1, 2007	89,656,268	252,165	83,477	4,120	(96,783)	242,979
Adjustment for rounding of fractional shares on 1-for-7 consolidation in prior year	10	-	-	-	-	-
Net loss	-	-	-	-	(94,506)	(94,506)
Exercise of options	1,429	7	(1)	-	-	6
Issued on private placement, net of issue costs	76,700,000	71,203	56,821	-	-	128,024
Issued for acquisition of GC Coal (Note 4(a) )	6,649,342	10,000	-	-	-	10,000
Stock-based compensation	-	-	284	-	-	284
Balance, June 30, 2008	173,007,049	\$ 333,375	\$ 140,581	\$ 4,120	\$(191,289)	\$ 286,787

See accompanying notes to the consolidated financial statements.

# Coalcorp Mining Inc.

## Consolidated Statements of Cash Flow

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

(Expressed in thousands of U.S. dollars)

	<u>2008</u>	<u>2007</u>
		Restated ( Note 5)
<b>Operating activities</b>		
Net loss from continuing operations	\$ (31,991)	\$ (54,508)
Items not affecting cash:		
Accretion	390	333
Depletion and depreciation	7,750	6,594
Stock-based compensation	284	618
Write-off of mineral properties	7,472	13,607
Amortization of deferred financing charges	-	1,352
Foreign exchange loss	1,937	15,906
Future income tax recovery	(3,771)	(9,553)
Changes in non-cash working capital items (Note 14(a))	7,494	(2,884)
Asset retirement obligations	<u>(556)</u>	<u>-</u>
Cash used in continuing operations	(10,991)	(28,535)
Cash used in discontinued operations	(18,233)	(13,283)
Cash used in operating activities	<u>(29,224)</u>	<u>(41,818)</u>
<b>Investing activities</b>		
Property, plant and equipment expenditures, net of accounts payable and accrued liabilities	(47,124)	(26,423)
(Increase) decrease in short-term investments	(56,292)	3,037
Decrease (increase) in restricted cash related to equipment expenditures	12,887	(12,887)
Acquisition of GC Coal (Note 4(a))	(10,000)	-
Acquisition of Adromi (Note 4(b))	-	(126,390)
Acquisition of long-term investments	<u>-</u>	<u>(607)</u>
Cash used for continuing operations	(100,529)	(163,270)
Cash used for discontinued operations	(5,087)	(16,707)
Cash used for investing activities	<u>(105,616)</u>	<u>(179,977)</u>
<b>Financing Activities</b>		
Proceeds from debt financing, net of issue costs	-	107,139
Proceeds from additional long-term debt	27,788	61,082
Repayment of long-term debt	(50,879)	(4,786)
Decrease (increase) in restricted cash related to long-term debt	24,000	(64,800)
Issue of common shares, net of issue costs	128,227	129,123
Buy-back of common shares	<u>-</u>	<u>(157)</u>
Net cash provided by financing activities	<u>129,136</u>	<u>227,601</u>
(Decrease) increase in cash during the period	(5,704)	5,806
Cash, beginning of period	<u>10,617</u>	<u>4,811</u>
Cash, end of period	<u>\$ 4,913</u>	<u>\$ 10,617</u>
Cash consists of:		
Cash of continuing operations	\$ 4,913	\$ 7,540
Cash of discontinued operations	-	3,077
	<u>\$ 4,913</u>	<u>\$ 10,617</u>

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

See accompanying notes to the consolidated financial statements.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

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### 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, either directly or through its subsidiaries, principally in Colombia.

The Company has changed its fiscal year end from May 31 to June 30 commencing with the thirteen month period ending June 30, 2007. As such, the comparative prior year period comprises the 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.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") 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 further identify and develop its recoverable reserves and resources, complete its infrastructure projects or receive the necessary permitting, the carrying value of the Company's assets could be subject to material adjustment. The Company incurred losses from continuing operations of \$32.0 million and \$54.5 million during the current and prior years, respectively, and had working capital of \$101.3 million at June 30, 2008. These financial statements do not include any adjustments to the recoverability and classification of certain recorded assets amounts and classification of certain liabilities that might be necessary, if the Company were unable to continue as a going concern.

### 2. Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian GAAP and are expressed in U.S. dollars.

(a) *Basis of consolidation*

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

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

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

(b) *Measurement uncertainty*

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

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

(c) *Translation of foreign currencies*

The Company has adopted the United States dollar as its primary currency of measurement and translates transactions denominated in foreign currencies into U.S. dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

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

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

(d) *Short-term investments*

Short-term investments include short-term money market instruments with terms to maturity at the date of issue of between three and twelve months.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

(e) *Inventories*

Coal inventory, valued at the lower of cost and net realizable value, is measured at the average production cost for extraction and is relieved on a first-in, first-out basis when sold. Production costs include direct labour, benefits, direct materials and other direct production costs including depletion and amortization.

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

(f) *Long-term investments*

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

(g) *Property, plant and equipment*

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

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

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

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

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

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

(h) *Intangible asset*

Intangible asset consists of an existing coal sales agency agreement related to the Company's mining operations (Note 4(a)). The cost of repurchasing this future obligation will be amortized over the mineable reserves of the Company's La Francia mine.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

(i) *Impairment of long-lived assets*

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

(j) *Asset retirement obligation costs*

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

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

(k) *Revenue recognition*

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

(l) *Income taxes*

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

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

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

(m) *Stock-based compensation*

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

(n) *Earnings (loss) per share*

Earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting years. Options and warrants as disclosed in Note 12 are antidilutive and, therefore, have not been taken into account in the per share calculations.

### 3. Accounting changes

Effective July 1, 2007, the Company adopted several new accounting standards that have been issued by the 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:

(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.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

(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.

(d) *Derivatives and Hedge Accounting (CICA Sections 3855 and 3865)*

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase and sale. All changes in fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Company elected to apply this accounting treatment for embedded derivatives on the transition date of February 8, 2006. The change in accounting policy had no impact on the 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*.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

(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 and provides guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and liabilities are offset. While the Company is currently evaluating the implications of these standards on its future disclosures, it is not expected to have an impact on the classification and valuation of financial instruments.
- 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 requires, when applicable, the reversal of any inventory write-downs previously recognized. The new accounting standard and any consequential amendments will be effective for the Company beginning July 1, 2008. This new standard is not expected to have a material effect on the Company's consolidated financial statements.
- 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. 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.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

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 February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date for International Financial Reporting Standards ("IFRS") for publicly accountable entities as being January 1, 2011. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosure. The AcSB plans to issue accounting standards, such as *Section 3031, Inventories*, and *Section 3064, Goodwill and Intangible Assets* that are converged in IFRS in the period leading up to the changeover date thus mitigating the impact of IFRS adoption on the changeover date. The Company will be required to prepare IFRS interim and annual financial statements, with comparatives, for its fiscal year beginning on July 1, 2011. The Company has established an IFRS team to develop and implement a plan for IFRS convergence and is commencing with training for key employees. Changes in accounting policies are likely and may materially impact the Company's consolidated financial statements.

#### 4. Acquisitions

(a) *GC Coal Limited ("GC Coal")*

On June 26, 2008, the Company repurchased its existing coal sales agency arrangement through the acquisition of its sales agent, GC Coal, an Irish company, from its shareholders, who are arm's length to the Company. Consideration for the acquisition consisted of the issuance of 6,649,342 common shares in the capital of the Company valued at \$10.0 million and the payment of \$10.0 million in cash. The Company also paid the vendors \$2.0 million in cash on account of sales commissions that were due to GC Coal at the time of closing of the transaction. As part of the acquisition, the Company retained the services of the GC Coal employee who has been primarily responsible for negotiating all of the Company's coal sales agreements to date. The acquisition was considered to be an asset acquisition and the purchase price, including acquisition costs amounting to \$0.3 million and the estimated future income tax liability of \$2.9 million, was allocated to intangible asset.

(b) *La Francia II acquisition – Adromi Capital Corp. ("Adromi")*

On March 22, 2007, the Company exercised its option to acquire 100% of the shares of Adromi, a Panamanian company, which owns 100% of a property (La Francia II) adjacent to the Company's wholly-owned La Francia property. In consideration for the acquisition of Adromi, the Company paid \$126.3 million plus a \$1.00 per tonne royalty on all future production from La Francia II. The acquisition was considered to be an asset acquisition

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and the purchase price was allocated to mining property within property, plant and equipment.

### 5. Discontinued operations

On May 14, 2008, the Company announced that it had determined that all assets not core to the objectives of its new strategic plan would be disposed of or wound down. In particular, this meant the disposition of the Caypa mine and the Cartagena port lands and associated port license. Accordingly, these businesses are classified as discontinued operations.

On June 27, 2008, the Company announced that it had completed an agreement with Xira Investment Inc., an arm's length private company incorporated in Panama, to acquire shares of Carbones Colombianos del Cerrejon, S.A. ("CCC") the holder of the mining contract at Caypa. Consideration consists of up to \$25.0 million, payable in tranches, as well as the payment of a \$1.00 per tonne sales commission on all coal sold by CCC. Under the agreement, the Company is transferring to Xira 40% of its shareholding in CCC in consideration for the immediate payment of \$1.0 million. Subsequent payments of \$7.0 million, \$6.0 million and \$6.0 million will be made 13, 22 and 25 months thereafter. An additional \$5.0 million payment can be received by the Company upon the satisfaction of certain conditions, to be satisfied no later than 28 months from completion. The shares transferred to Xira will be held in escrow and are subject to a pledge held by the Company until all consideration is paid.

Also on June 27, 2008, the Company announced that it had completed an agreement with Lando Industrial Park Inc., a Panamanian joint venture led by a group of Italian private equity investors and Promotora de Energía Electrica de Cartagena & Cia, S.C.A. E.S.P. ("Proelectrica"), to acquire the land associated with the Cartagena port assets, as well as all of the shares of Sociedad Portuaria del Carare S.A. ("Carare"), the holder of the Cartagena port license. Consideration consists of \$20.0 million, of which \$5.0 million was paid at closing. Subsequent payments are to be made of \$10.0 million within 120 days, and \$5.0 million within 485 days, of closing. Proelectrica is a Cartagena, Colombia-based electrical utility, of which 21.7% is owned indirectly by Pacific Rubiales Energy Corp., a TSX-listed oil and gas production company that shares common directors with the Company, all of whom abstained from voting on, and approving, the transaction.

The earnings from the respective discontinued operations are as follows:

	Year ended June 30, 2008			Thirteen months ended June 30, 2007		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
Revenues	\$ 63,408	\$ -	\$ 63,408	\$ 47,087	\$ -	\$ 47,087
Operating costs	(69,747)	-	(69,747)	(63,529)	-	(63,529)
Depletion and depreciation	(5,204)	(11)	(5,215)	(7,325)	-	(7,325)
General and administration	(1,134)	(1,658)	(2,792)	(1,152)	(995)	(2,147)
Writedown of assets	(34,070)	(28,291)	(62,361)	-	-	-
Other expense	(1,018)	(617)	(1,635)	(3,097)	(3,026)	(6,123)
Loss before income taxes	(47,765)	(30,577)	(78,342)	(28,016)	(4,021)	(32,037)
Income taxes	6,938	8,889	15,827	9,257	1,072	10,329
Net loss from discontinued operations	\$ (40,827)	\$ (21,688)	\$ (62,515)	\$ (18,759)	\$ (2,949)	\$ (21,708)
Basic and diluted loss from discontinued operations per share	\$ (0.43)	\$ (0.23)	\$ (0.66)	\$ (0.29)	\$ (0.04)	\$ (0.33)

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During the year ended June 30, 2008, the Company recorded after-tax writedowns of the carrying values of its discontinued operations totalling \$47.6 million or \$0.50 per share to reflect the estimated realizable values of the assets to be obtained upon their disposition. A credit adjusted discount rate of 10% has been applied to the payments to determine the estimated realizable values of the assets.

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

	June 30, 2008			June 30, 2007		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
<b>Assets</b>						
Current assets	\$ 910	\$ 9,553	\$ 10,463	\$ 22,010	\$ -	\$ 22,010
Long-term assets	23,677	4,842	28,519	59,795	42,449	102,244
<b>Total assets</b>	<b>24,587</b>	<b>14,395</b>	<b>38,982</b>	<b>81,805</b>	<b>42,449</b>	<b>124,254</b>
<b>Liabilities</b>						
Current	-	-	-	9,853	4,000	13,853
Long-term	-	3,851	3,851	20,664	12,124	32,788
<b>Total liabilities</b>	<b>-</b>	<b>3,851</b>	<b>3,851</b>	<b>30,517</b>	<b>16,124</b>	<b>46,641</b>
<b>Net assets of discontinued operations</b>	<b>\$ 24,587</b>	<b>\$ 10,544</b>	<b>\$ 35,131</b>	<b>\$ 51,288</b>	<b>\$ 26,325</b>	<b>\$ 77,613</b>

### 6. Restricted cash

At June 30, 2008, restricted cash is comprised of term deposits being held against certain long-term debt balances aggregating \$35.5 million (Note 10).

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.

### 7. Inventories

	June 30, 2008	June 30, 2007
Coal inventory	\$ 1,848	\$ 6,053
Materials and supplies	259	-
	<b>\$ 2,107</b>	<b>\$ 6,053</b>

### 8. Long-term investments

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

# Coalcorp Mining Inc.

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### 9. Property, plant and equipment

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

	June 30, 2008			June 30, 2007		
	Cost	Accumulated depreciation/ depletion/ writedowns	Net book value	Cost	Accumulated depreciation/ depletion	Net book value
Mining properties						
La Francia	\$ 108,733	\$ 15,087	\$ 93,646	\$ 97,231	\$ 8,502	\$ 88,729
La Francia II	186,748	-	186,748	186,687	-	186,687
Plant and equipment						
La Francia	4,794	787	4,007	3,080	225	2,855
Other	898	229	669	319	45	274
Construction in progress	59,823	-	59,823	34,539	-	34,539
Other mineral properties	25,085	21,080	4,005	26,858	13,607	13,251
	<b>\$ 386,081</b>	<b>\$ 37,183</b>	<b>\$ 348,898</b>	<b>\$ 348,714</b>	<b>\$ 22,379</b>	<b>\$ 326,335</b>

The Company capitalized \$4.3 million of stripping costs at the La Francia mine during the year ended June 30, 2008 related to development of the pit to provide additional access for future production. No stripping costs were capitalized during the thirteen month period ended June 30, 2007.

During the year ended June 30, 2008, the Company capitalized interest in the amount of \$2.4 million related to construction in progress. There was no interest capitalized during the thirteen month period ended June 30, 2007.

During the year ended June 30, 2008, the Company completed its assessment of several coal exploration properties resulting in writedowns in the amount of \$7.5 million. The concessions were returned to the vendors in lieu of remaining payments amounting to \$3.8 million. The Company recorded writedowns of exploration properties in the amount of \$13.6 million during the thirteen month period ended June 30, 2007, returning the concessions to the vendors in lieu of remaining payments amounting to \$5.7 million.

In May 2008, the Company announced the termination of its exploration joint venture arrangement with BHP Billiton World Exploration Inc., which had been entered into by the parties on April 10, 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.

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## Notes to Consolidated Financial Statements

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### 10. Long-term debt

	June 30, 2008	June 30, 2007
12% Senior secured guaranteed notes due August 31, 2011	\$ 114,244	\$ 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 6)	11,500	11,500
Loans maturing August 2011 through May 2012, interest at LIBOR plus 1.11% payable semi-annually and principal payable at the end of the loans, guaranteed by term deposits in the same amount issued by the Company (Note 6)	24,000	38,000
Capital lease obligations (293 million Colombian pesos) payable monthly through February 2010, bearing interest at DTF plus 12%	153	349
	<b>149,897</b>	173,931
Less: Current portion	87	631
	<b>\$ 149,810</b>	<b>\$ 173,300</b>

As of June 30, 2008, the DTF rate was 9.92% and LIBOR was 3.15%.

On August 17, 2006, the Company completed a \$115.0 million financing that consisted of 115,000 units. Each unit consisted of \$1,000 principal amount senior secured guaranteed note and 30 common share purchase warrants. The notes will mature on August 31, 2011, with an annual interest rate of 12% payable. Each warrant entitles the holder to purchase one common share of the Company at a price of Cdn\$8.40 per common share any time on or before August 17, 2011. The fair value of these warrants of \$1.2 million was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 25%, an average annual risk free rate of 4.5% and an estimated life of 5 years. The notes are being accreted using the effective interest method over the life of the notes to bring the carrying value of the notes to their face value of \$115 million at the maturity date.

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

2009	\$ 87
2010	12,365
2011	801
2012	137,400
	<u>150,653</u>
Unamortized discount on 12% senior notes	(756)
	<u>\$ 149,897</u>

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For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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### 11. Asset retirement obligations

Although the ultimate amount of the asset retirement obligation is uncertain, the fair value of these obligations is based on information currently available, including closure plans and applicable regulations. Significant closure activities include land rehabilitation, demolition of buildings and mine facilities and other costs. The total undiscounted amount of the estimated cash flows required to settle the Company's asset retirement obligations at the end of the La Francia mine's life is approximately \$4.0 million (2007 - \$4.0 million). These obligations, expected to be incurred over the next six years, will be funded from operating cash flows, reclamation deposits and cash on hand. A credit adjusted discount rate of 12% has been applied to expected future cash flows to determine the carrying value of the asset retirement obligations.

The following table summarizes the changes in the Company's asset retirement obligations during the year ended June 30, 2008 and the thirteen month period ended June 30, 2007:

Balance, May 31, 2006	\$	188
Additions		-
Accretion		123
<hr/>		
Balance, June 30, 2007		311
Additions		1,986
Accretion		148
Expenditures		(556)
<hr/>		
Balance, June 30, 2008	\$	1,889

In view of the uncertainties concerning asset retirement obligations, the ultimate costs could be materially different from the amounts estimated. The estimate of the future asset retirement obligation is subject to change based on amendments to applicable laws and legislation. Future changes in asset retirement liabilities, if any, may have a significant impact and would be reflected prospectively, as a change in accounting estimate.

### 12. Share capital

(a) *Authorized*

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

(b) *Issued*

On June 2, 2008, the Company filed a short form prospectus qualifying the distribution of 66,700,000 units of the Company at a price of Cdn\$1.80 per unit to raise gross proceeds of Cdn\$120.0 million. The overallotment option was also exercised consisting of an additional 10,000,000 units for additional gross proceeds of Cdn\$18.0 million. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of Cdn\$2.50 per share until June 5, 2013. The fair value of these warrants of \$56.8 million, after allocated issue costs of \$3.4 million, was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 70%, an average annual risk free rate of 3.0% and an estimated life of 5 years.

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On March 7, 2007, the Company filed a short form prospectus qualifying the distribution of 28,571,429 units of the Company at a price of Cdn\$4.90 per unit to raise gross proceeds of Cdn\$140.0 million. The overallotment option was also exercised consisting of an additional 4,285,714 units for additional gross proceeds of Cdn\$21.0 million. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of Cdn\$8.40 per share until August 17, 2011. The fair value of these warrants of \$35.2 million, after allocated issue costs of \$2.2 million, was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 89%, an average annual risk free rate of 4.1% and an estimated life of 4 years.

(c) *Incentive stock option plan*

Under the Company's stock option plan, the Company may grant options to its directors, officers and employees not to exceed 10% of the issued common shares of the Company. At June 30, 2008, 12,802,577 common shares remain available for grant under the plan. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of grant and an option's maximum term is five years. Options are granted from time to time by the Board of Directors and vest immediately upon grant.

A summary of the changes in the Company's incentive share option plan for the year ended June 30, 2008 and the thirteen month period ended June 30, 2007 is as follows:

	Number of options	Average exercise price Cdn\$
Balance, May 31, 2006	3,861,786	5.25
Granted	250,000	5.25
Exercised	(1,071)	3.85
Cancelled	(13,214)	5.25
Balance, June 30, 2007	4,097,501	5.25
Adjustment for rounding of fractional options on 1-for-7 consolidation in prior year	26	5.25
Granted	405,600	1.59
Exercised	(1,429)	3.85
Cancelled	(3,571)	5.25
Balance, June 30, 2007	4,498,127	4.92

The fair value of options granted by the Company in 2008 and 2007 was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 70% (2007 - 117%), an average annual risk free rate of 3.1% (2007 - 4.1%) and an estimated life of 2.5 years. The weighted average grant date fair value of stock options granted during the year ended June 30, 2008 was Cdn\$0.71 (2007 - Cdn\$2.80) per share.

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The following table summarizes information concerning outstanding and exercisable options at June 30, 2008:

Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share
		Cdn\$
400,000	4.9	1.54
19,649	0.2	3.85
4,059,906	2.8	5.25
18,572	2.9	6.23
4,498,127	3.0	4.92

(d) *Warrants*

During the year ended June 30, 2008, no warrants were exercised and 76,700,000 non-broker warrants with an exercise price of Cdn\$2.50 were issued (Note 12(b)). On September 22, 2007, 214,286 non-broker warrants with an exercise price of Cdn\$4.20 expired unexercised.

During the thirteen month period ended June 30, 2007, no warrants were exercised and 19,878,577 non-broker warrants with an exercise price of Cdn\$8.40 were issued (Notes 10 and 12(b)).

As at June 30, 2008, the following non-broker warrants were outstanding and exercisable:

Outstanding and exercisable	Exercise price	Expiry date
	Cdn\$	
76,700,000	2.50	June 5, 2013
24,642,862	5.60	February 8, 2011
19,878,577	8.40	August 17, 2011

(e) *Normal course issuer bid*

In October, the Board of Directors approved a share purchase plan, under a normal course issuer bid to repurchase and cancel up to 5,000,000 common shares of the Company. The normal course issuer bid commenced October 25, 2006 and terminated on October 24, 2007. There were no share repurchases during the year ended June 30, 2008. 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.

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### 13. Income taxes

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

	2008	2007
Loss from continuing operations before income taxes	\$ 35,547	\$ 63,832
Statutory tax rate	35.00%	36.12%
Expected income tax recovery	\$ 12,441	\$ 23,056
Difference in tax rates between foreign jurisdictions and Canada	(504)	(139)
Non-recognition of tax assets	(7,445)	(10,072)
Impact of tax rate changes and changes in scheduled reversals of temporary differences	(768)	4,890
Foreign exchange differences, non-deductible expenses and other	(168)	(8,411)
Recovery of income taxes	\$ 3,556	\$ 9,324

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) at June 30, 2008 and 2007 are as follows:

	2008	2007
Mineral property exploration and development	\$ (89,166)	\$ (95,616)
Intangible asset	(2,893)	-
Eligible capital expenditures	2,590	2,821
Share issues costs	5,714	5,413
Non-capital loss carryforwards	24,352	7,868
Other	2,156	800
	(57,247)	(78,714)
Valuation allowance related to future tax assets	(41,949)	(18,448)
Net future income tax liability	\$ (99,196)	\$ (97,162)

At June 30, 2008, the Company had Canadian non-capital losses carried forward of approximately \$68.4 million for income tax purposes. The losses may be utilized to reduce future years' taxable income and expire between 2009 and 2028. The Company had Colombian non-capital losses carried forward of approximately \$13.7 million. These losses may be utilized to reduce future years' taxable income and expire between 2009 and 2013. The Company also had Canadian exploration and development expenditures of approximately \$1.6 million and eligible capital expenditures of approximately \$8.9 million. These expenditures may be utilized to reduce future years' taxable income and do not expire.

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### 14. Cash flow information

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

	Year ended June 30, 2008	Thirteen months ended June 30, 2007
(Increase) decrease in		
Accounts receivable	\$ 2,284	\$ (3,030)
Inventories	3,575	(3,662)
Prepaid expenses	76	(184)
Increase (decrease) in		
Accounts payable and accrued liabilities	1,559	3,992
	<u>\$ 7,494</u>	<u>\$ (2,884)</u>

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

At June 30, 2008, accounts payable and accrued liabilities include non-cash amounts of \$15.7 million (June 30, 2007 – \$22.7 million) related to its purchase commitments in Colombia for plant and equipment expenditures and \$0.1 million (June 30, 2007 - \$4.8 million) related to the acquisition of concession rights in Colombia.

(c) *Other supplementary information*

	Year ended June 30, 2008	Thirteen months ended June 30, 2007
Interest paid	\$ 18,581	\$ 14,215
Income taxes paid	105	300

### 15. Related party transactions

The Company incurred the following expenses with companies and individuals related by way of directors and/or officers in common during the year ended June 30, 2008 and the thirteen month period ended June 30, 2007:

	2008	2007
Production royalties	\$ 1,630	\$ 2,075
Consulting and advisory fees	1,060	60
Office rent	210	18
	<u>\$ 2,900</u>	<u>\$ 2,135</u>

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As described in Note 5, the Company sold certain port assets to a related party during the year ended June 30, 2008.

During the thirteen month period ended June 30, 2007, property, plant and equipment expenditures and deferred financing costs included \$0.5 million and \$0.6 million, respectively, for financial advisory fees paid to a company related by way of a common director.

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

### 16. Financial Instruments

(a) The Company has classified financial instruments as follows:

	June 30, 2008	June 30, 2007
Financial assets:		
Held-for-trading, measured at fair value		
Cash	\$ 4,913	\$ 7,540
Short-term investments	110,103	53,810
Restricted cash, including current portion	35,500	72,387
Loans and receivables, measured at amortized costs		
Accounts receivable	6,769	9,053
Amounts receivable related to dispositions of discontinued operations	38,982	-
Financial liabilities:		
Other liabilities, measured at amortized costs		
Accounts payable and accrued liabilities	33,166	42,854
Long-term debt, including current portion	149,897	173,931

The Company had no held-to-maturity financial instruments during the year ended June 30, 2008 or during the thirteen month period ended June 30, 2007.

(b) *Fair values*

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

Long-term investments consist of interests in two privately held Colombian companies. The fair value of these investments cannot be measured reliably. The Company reviewed the carrying value of these investments and determined that no impairment should be recorded as at June 30, 2008.

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

# Coalcorp Mining Inc.

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(c) *Risk management policies and hedging activities*

The Company manages a number of risks in its operations in order to achieve an acceptable level of risk and has procedures to identify and manage significant operational and financial risks. Overall risk management policies cover specific areas such as credit risk, commodity price risk, foreign exchange risk, interest rate risk, use of derivative and non-derivative financial instruments and investment of excess liquidity.

(d) *Credit risk*

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Company. Current credit exposure is on the loss that would be incurred if the Company's counterparties were to default at the same time.

The Company has a credit risk exposure related to its counterparties under its coal sales contracts as disclosed in Notes 18 and 19 to the consolidated financial statements. The Company minimizes credit risk by reviewing the credit risk of the counterparty to the arrangement and has made any necessary provisions related to credit risk at June 30, 2008.

(e) *Commodity risk*

The Company's revenues, earnings and cash flows are directly related to the volume and price of coal sold and are sensitive to changes in market prices for coal over which it has little or no control. The Company has the ability to address its price-related exposures through the use of coal sales contracts, as disclosed in Notes 18 and 19.

(f) *Foreign currency risk*

The Company's operations, principally located in Colombia, routinely transact in the local currency rather than the United States dollar, exposing the Company to potential foreign exchange risk in its financial position and cash flows. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates.

(g) *Interest rate risk*

Interest on the Company's long-term debt is based on both fixed and variable rates and exposes the Company to interest rate risk. The Company has not entered into any derivative agreements to mitigate this risk.

(h) *Country risks*

The Company's principal mineral projects are located in Colombia and consequently the Company is subject to certain risks, 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.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

### 17. 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 areas are as follows:

	June 30, 2008		
	Colombia	Canada/ Other	Total
Property, plant and equipment	\$ 347,015	\$ 106	\$ 347,121
Intangible asset	-	23,144	23,144
<b>Total assets</b>	<b>406,396</b>	<b>172,502</b>	<b>578,898</b>

	June 30, 2007		
	Colombia	Canada/ Other	Total
Property, plant and equipment	\$ 326,310	\$ 25	\$ 326,335
<b>Total assets</b>	<b>\$ 461,192</b>	<b>\$ 153,225</b>	<b>\$ 614,417</b>

The Company's revenues, expenses and property, plant and equipment expenditures by geographic areas are as follows:

	Year ended June 30, 2008		
	Colombia	Canada/ Other	Total
Revenues	\$ 75,245	\$ -	\$ 75,245
Operating costs	(67,034)	-	(67,034)
Depletion and depreciation	(7,721)	(29)	(7,750)
Expenses	(13,461)	(10,194)	(23,655)
Other expense	(3,178)	(9,175)	(12,353)
<b>Loss before income taxes</b>	<b>\$ (16,149)</b>	<b>\$ (19,398)</b>	<b>\$ (35,547)</b>
Property, plant and equipment expenditures	\$ 47,013	\$ 111	\$ 47,124

	Thirteen months ended June 30, 2007		
	Colombia	Canada/ Other	Total
Revenues	\$ 56,460	\$ -	\$ 56,460
Production costs	(59,712)	-	(59,712)
Depletion and depreciation	(6,586)	(8)	(6,594)
Expenses	(18,372)	(8,331)	(26,703)
Other income (expense)	(19,634)	(7,649)	(27,283)
<b>Loss before income taxes</b>	<b>\$ (47,844)</b>	<b>\$ (15,988)</b>	<b>\$ (63,832)</b>
Property, plant and equipment expenditures	\$ 26,406	\$ 17	\$ 26,423

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

For the year ended June 30, 2008, one customer represented 77% of revenues and 13% of accounts receivable from continuing operations. For the thirteen month period ended June 30, 2007, one customer represented 100% of revenue and 6% of accounts receivable from continuing operations.

### 18. Commitments and contingencies

- (a) The Company has entered into various contracts as at June 30, 2008 to deliver 18.2 million tonnes of coal, including buyers' options, from its La Francia mine at an average FOB port price, subject to quality adjustments, of \$51.53 per tonne as follows:

<b>Fiscal years ending June 30,</b>	<b>Tonnes (000's)</b>	<b>Average FOB port price per tonne</b>
2009	<b>3,097</b>	\$ 56.05
2010	<b>3,910</b>	51.08
2011	<b>3,410</b>	50.51
2012	<b>3,410</b>	50.51
2013	<b>3,014</b>	50.37
2014	<b>1,386</b>	50.25
	<b>18,227</b>	\$ <b>51.53</b>

In addition, in conjunction with the acquisition of La Francia in February 2006, the Company assumed a contract for the sale of coal to a Chilean company for a total of 600,000 tonnes at \$31.50 per tonne. Upon acquisition, the fair value adjustment on this contract of approximately \$4.1 million was recorded in other liabilities and will be recognized as revenue as the coal is sold to the third party. Although the Company had reached a tentative agreement with the third party to defer the settlement of this sale contract until January 2009 through December 2010, the final delivery dates have yet to be determined.

- (b) At June 30, 2008, the Company is contractually obligated under take-or-pay contracts for up to 2.45 million tonnes valued at \$5.3 million per annum of capacity on the Fenoco rail line for a period of six years.
- (c) 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.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements

For the year ended June 30, 2008 and the thirteen month period ended June 30, 2007

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

### 19. Subsequent event

On September 2, 2008, the Company announced that it has entered into additional contracts to deliver 12.5 million tonnes of coal from its La Francia mine at an average FOB port price, subject to quality adjustments, of \$122.90 per tonne during 2009 through 2013. In addition, the Company reached agreement to re-phase the delivery dates for certain of its existing contracts. As such, the Company's current coal sales contracts, including deliveries since July 1, 2008, are summarized as follows:

<b>Fiscal years ending June 30,</b>	<b>Tonnes (000's)</b>	<b>Average FOB port price per tonne</b>
2009	<b>3,402</b>	\$ 65.16
2010	<b>4,810</b>	80.55
2011	<b>6,300</b>	82.25
2012	<b>6,300</b>	82.25
2013	<b>5,924</b>	88.49
2014	<b>3,991</b>	79.89
	<b>30,727</b>	\$ <b>80.99</b>

## **Management's Discussion & Analysis**

**September 4, 2008**

Fourth Quarter and Year Ended June 30, 2008

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The financial statements present the results of Coalcorp Mining Inc. (the "Company") for the year ended June 30, 2008 ("Fiscal 2008") with comparatives for the thirteen month period ended June 30, 2007 ("Fiscal 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 year ended June 30, 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 "Results of Operations", "Liquidity and Capital Resources" and "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 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.

### Selected Annual Information

(\$ millions except per share)	2008	2007 <sup>(1)</sup>
Revenue from continuing operations	\$ 75.2	\$ 56.5
Loss from continuing operations	(32.0)	(54.5)
Loss from discontinued operations	(62.5)	(21.7)
Net loss	(94.5)	(76.2)
Basic and diluted loss per share:		
Continuing operations	(0.34)	(0.83)
Discontinued operations	(0.66)	(0.33)
Net loss	(1.00)	(1.16)
Total assets	578.9	614.4
Total long-term debt <sup>(2)</sup>	149.9	173.9

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

(2) Supported by restricted cash balances of \$35.5 million in 2008 and \$59.5 million in 2007. Net long-term debt comprises 12% senior notes due August 2011.

### 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, until June 27, 2008, 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.

## Highlights

- Developed and initiated implementation of a new strategic plan, including completion of a Cdn\$138 million financing, to unlock inherent value of the Company's assets and as a means for enhancing shareholder value.
- Implemented contract mining arrangement with Masering S.A. ("Masering") to provide established leadership and additional mining equipment essential to expand production and improve operating efficiencies at the Company's La Francia mine.
- Commenced construction phase of the Fenoco rail spur in early May 2008, an integral part of the Company's cost-cutting measures that will increase operating margins when rail transportation begins in the second quarter of Fiscal 2009.
- Increased La Francia mine revenues to \$43 per tonne, covering its cost of operations and reducing Fiscal 2008's operating loss and cash used in continuing operations by more than \$10 million versus the prior year.
- Implemented cost-cutting measures to reduce general and administrative expenses, including a 25% salary reduction for senior management, and elimination of selling commissions through the re-purchase of its coal sales agency agreement.
- Completed the disposition of the Company's non-core assets in June 2008.

## Strategic Alternatives Review

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 believed 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 developed a new strategic plan to unlock this value and as a means for enhancing value for shareholders.

The key features of this strategy are:

- Raising Cdn\$138 million through a bought-deal 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 agreement in April 2008 with Masering in which Masering will work with its consortium partners (the “Masering Consortium”) to expand the pit and introduce new equipment to the extraction process at Pit A/B and which will be critical in bringing pit C into production.
- The acquisition of additional mining equipment to be used at La Francia I to assist in ramping up production to the projected 6.0 million tonnes per annum by calendar 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 production at La Francia I (specifically Pit C at La Francia I) .
- 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, including a 25% salary reduction for senior management, and re-purchasing its coal sales agency arrangement with GC Coal Ltd. (“GC Coal”), its coal marketing agent, to reduce selling expenses related to future production.

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 5 to the consolidated financial statements for details of the results of the discontinued operations for the year ended June 30, 2008 and for the thirteen-month period ended June 30, 2007 and the carrying values of the net assets related to the discontinued operations at June 30, 2008 and 2007.

## Results of Operations

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

	Three months ended		Year	Thirteen
	2008	June 30, 2007	ended June 30, 2008	months ended June 30, 2007
Waste (000m <sup>3</sup> )	2,976	4,132	12,369	15,866
Stripping ratio (:1)	8.8	10.6	7.6	9.5
Coal production (tonnes 000)	338	390	1,630	1,677
Cost per tonne <sup>(1)</sup>				
Mine	\$ 44	\$ 32	\$ 33	\$ 31
Ex mine	\$ 6	\$ 3	\$ 4	\$ 2
Coal sales (tonnes 000)				
FOT mine	346	360	1,559	1,596
FOB port	49	-	190	-
Total	<u>395</u>	<u>360</u>	<u>1,749</u>	<u>1,596</u>
Revenue <sup>(2)</sup>				
FOT mine	\$ 31	\$ 34	\$ 37	\$ 35
FOB port	103	-	95	-
Total	<u>\$ 40</u>	<u>\$ 34</u>	<u>\$ 43</u>	<u>\$ 35</u>

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

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

#### **Fourth Quarter Ended June 30, 2008**

Revenues from continuing operations during the fourth quarter ended June 30, 2008 increased to \$15.8 million based on sales of 395,000 tonnes at an average realized price of \$40 per tonne delivered compared with \$12.2 million from 360,000 tonnes sold at an average realized price of \$34 per tonne during the fourth quarter last year. Revenue per tonne in the current quarter benefited from the delivery of 49,000 tonnes on an FOB port basis at an average realized price of \$103 per tonne.

The Company produced a total of 338,000 tonnes of coal at an average mine cost of \$44 per tonne from its La Francia mine during the fourth quarter ended June 30, 2008 compared with 390,000 tonnes at an average mine cost of \$32 per tonne in the fourth quarter last year. The \$12 year-over-year increase in mine cost per tonne can be attributed to the change in the mine plan, the expansion of the mine contractor consortium and an increase in royalty rates. The changeover in mining operations in the fourth quarter of 2008 to effect the new mine plan in the strategic plan resulted in the temporary production of coal from smaller seams and other areas of the mine where the stripping ratio is higher than the mine average. This resulted in incremental waste costs of approximately \$7 per tonne in the current quarter. In addition, with the formation of the Masering Consortium in the fourth quarter of 2008, certain one-time costs of about \$4 per tonne were incurred related to historical production mined by the existing contractor. Also, in light of the increasing market prices for thermal coal, the Colombian government increased the local royalty rate for coal mined in the Cesar region that increased La Francia's mine costs starting April 1, 2008 by \$1 per tonne.

General and administrative expenses in the fourth quarter of 2008 of \$5.6 million included approximately \$1.9 million incurred with respect to the strategic review process. As described more fully in the discussion of the results for the year ended June 30, 2008, the Company initiated a number of steps in the fourth quarter to reduce its future general and administrative expenses, including a 25% salary reduction for senior management that was effected on May 16, 2008.

During the fourth quarter of 2008, the Company recorded a writedown of its mineral exploration properties of \$1.9 million and a foreign exchange gain of \$4.3 million compared with an \$11.0 million writedown of its exploration properties and a \$12.2 million foreign exchange loss in the fourth quarter last year. The decrease in these non-cash items relative to last year helped to reduce the loss from continuing operations in the current quarter to \$8.3 million or \$0.08 per share compared with a loss from continuing operations of \$24.9 million or \$0.28 per share in the fourth quarter last year.

After the results of discontinued operations, the Company recorded a net loss of \$20.2 million or \$0.19 per share during the fourth quarter of 2008 compared with a net loss of \$26.1 million or \$0.29 per share in the corresponding period last year.

## **Year Ended June 30, 2008**

### *Revenues*

Revenues from continuing operations totalled \$75.2 million based on sales of 1.7 million tonnes at an average realized price of \$43 per tonne delivered during the year ended June 30, 2008 compared with \$56.5 million from 1.6 million tonnes sold at an average realized price of \$35 per tonne during the thirteen month period ended June 30, 2007. Revenue per tonne in the current year benefited from the delivery of 190,000 tonnes on an FOB port basis at an average realized price of \$95 per tonne. The Company expects that revenue per tonne will increase in the future as a result of the restructuring of its coal sales contracts with an existing customer as described under "Liquidity and Capital Resources".

### *Production and Cost of Operations*

In Fiscal 2008, a total of 14.0 million tonnes of material were mined at the La Francia mine yielding 1.6 million tonnes of coal at an average stripping ratio of 7.6:1, an improvement from the 9.5:1 stripping ratio last year and slightly higher than the remaining life of mine ratio of 6.5:1. Quarterly production rates are expected to increase by the beginning of calendar 2009 as a result of expanding mine contractor resources with the Masering Consortium and the delivery of additional, larger-sized mining equipment through November 2008.

Mine operating costs averaged \$33 per tonne produced at La Francia during Fiscal 2008 compared with \$31 per tonne last year. While the devaluation of the Colombian peso relative to the U.S. dollar in the second half of Fiscal 2008 resulted in an increase in the direct cost per tonne by about 16% compared with the prior year, reductions in both the stripping ratio and indirect mine costs helped to mitigate some of this impact on the total mine operating cost per tonne. In Fiscal 2008, royalties averaged \$3 per tonne and selling expenses averaged \$4 per tonne. Selling expenses comprised sales commissions averaging \$2 per tonne sold plus transportation and port handling costs of about \$20 per FOB tonne delivered. With the acquisition of GC Coal in June 2008 as part of the strategic plan, the Company has eliminated selling commissions on the future production from its La Francia mine. While the Company expects that transportation and port handling costs will increase in the future as it begins to increasingly sell its coal at higher prices on an FOB port basis once construction of rail access to the Fenoco line is completed in the second quarter of Fiscal 2009, rail transportation costs are expected to be about 60% lower than the current trucking costs. This should provide the Company with a significantly reduced cost to that currently experienced and a corresponding improvement in cash margins from its future coal production.

Depreciation and depletion of property, plant, equipment and mining properties amounted to \$7.8 million or about \$4 per tonne sold during the year ended June 30, 2008, consistent with the previous year. The Company expects that depreciation and depletion charges per tonne will increase in the future as a result of the strategic plan capital investments at the La Francia mine and the rail infrastructure.

### *Expenses*

General and administrative expenses amounted to \$15.9 million during the year ended June 30, 2008, up from the \$12.5 million incurred in the prior year period. Fiscal 2008 includes approximately \$2.4 million incurred in connection with the strategic review process, primarily for advisory fees and costs associated with data rooms, professional fees and travel expenses. Amongst the strategic plan initiatives, the Company has initiated several cost-cutting measures expected to reduce its ongoing general and administrative expenses by approximately \$2.0 million annually. Actions taken to-date include a 25% reduction in senior management salaries effective May 16, 2008, a 30% headcount reduction in its Colombian administrative personnel

following the disposition of the non-core assets, closure of its Cartagena port office, and reductions in other consulting and professional fees arrangements.

Stock-based compensation expense of \$0.3 million was recorded during the year ended June 30, 2008 related to the granting of 405,600 stock options to executives and employees under the Company's stock option plan compared with \$0.6 million related to stock option grants totalling 250,000 in the prior year.

During the last two and a half years, the Company had acquired a number of prospective coal exploration properties in Colombia, some of which were near its existing La Francia mine and others in the Santander and Guajira departments. Following an extensive evaluation of the exploration potential of these properties, the Company wrote-off \$7.5 million of mineral properties acquisition payments during Fiscal 2008 and \$13.6 million in Fiscal 2007, turning back many of the properties to the vendors in lieu of further payments. The Company has several prospective properties remaining. In May 2008, the Company 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. The Company's near term focus of its exploration activities will be to determine whether any resources not currently classified as reserves at the La Francia property may be upgraded to reserves.

#### *Other Income (Expense)*

Interest income earned on cash, short-term investments and restricted cash balances during Fiscal 2008 amounted to \$5.9 million, down from \$7.7 million earned during the prior year as a result of cash used to fund capital expenditures and operating activities in the current year. The Company maintains its short-term investments in secure, high quality and highly liquid investments with a maturity of not greater than 90 days. The Company has no exposure to asset-backed securities.

Interest on long-term debt comprises the 12% interest payable semi-annually on the \$115 million senior notes due August 2011 and interest on bank loans undertaken by the Colombian operations to finance local infrastructure development and working capital requirements. The bank loans in Colombia are supported by restricted cash deposits generating interest income included above. During Fiscal 2008, the Company capitalized \$2.3 million of interest related to its expenditures on construction in progress.

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. For the year ended June 30, 2008, the non-cash foreign exchange loss amounted to \$2.2 million, of which \$2.9 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 thirteen month period ended June 30, 2007, the foreign exchange loss amounted to \$18.4 million, of which \$16.1 million related to the translation of its future income tax liability.

#### *Income Taxes*

The Company recorded a tax recovery of \$3.6 million during the year ended June 30, 2008. Reference should be made to Note 13 to the consolidated financial statements for a

reconciliation of the actual tax recovery to the expected tax recovery at the Canadian statutory tax rate.

*Loss from Continuing Operations*

As a result of the factors discussed above, the Company recorded a loss from continuing operations of \$32.0 million or \$0.34 per share in the year ended June 30, 2008 compared with a loss from continuing operations of \$54.5 million or \$0.83 per share in the thirteen month period ended June 30, 2007.

*Loss from Discontinued Operations*

The Company recorded a loss from discontinued operations of \$62.5 million or \$0.66 per share in Fiscal 2008 compared with a loss from discontinued operations of \$21.7 million or \$0.33 per share during Fiscal 2007. The loss from discontinued operations during the current year includes after-tax writedowns of the Caypa mine and the Cartagena port totaling \$47.6 million or \$0.50 per share to reflect the estimated realizable proceeds to be obtained upon their disposition.

*Net Loss*

The Company recorded a net loss of \$94.5 million or \$1.00 per share in Fiscal 2008 compared with a net loss of \$76.2 million or \$1.16 per share in the prior year period.

*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 reduced its use of cash in continuing operations in Fiscal 2008 to \$11.0 million compared with a use of cash in continuing operations of \$28.5 million in Fiscal 2007. Cash used in discontinued operations increased to \$16.9 million in Fiscal 2008 from \$13.3 million last year.

Net cash used in operating activities decreased to \$29.2 million in Fiscal 2008 from \$41.8 million last year as a result of the improvement in cash flows from continuing operations. It is expected that cash flow from continuing operations will continue to improve in Fiscal 2009 as revenue per tonne and production increase and operating, general and administrative costs decrease as a result of cost-cutting measures in the strategic plan.

*Capital Expenditures*

Capital expenditures amounted to \$47.1 million during the year ended June 30, 2008. Of this total, \$33.0 million was spent on the Company's infrastructure development projects related to the Fenoco rail connection and upgrading program and on property acquisitions and development costs related to the Barranquilla and Capulco ports. A further \$15.7 million of committed expenditures related to the rail projects is included in accounts payable and accrued liabilities at June 30, 2008 that will be spent by the end of December 2008. The Company also spent \$11.1 million on property, plant and equipment at its La Francia mine and \$3.0 million on mineral property acquisitions and exploration activities.

**Contractual Obligations**

\$000	Less than 1 year	1 – 3 years	4 - 5 years	After 5 years	Total
Long term debt <sup>1</sup>	87	13,166	137,400	-	150,653
Purchase obligations <sup>2</sup>	4,558	10,901	11,576	2,952	29,987
<b>Total obligations</b>	<b>4,645</b>	<b>24,067</b>	<b>148,976</b>	<b>2,952</b>	<b>180,640</b>

- <sup>1</sup> Represents repayment of long-term bank loans supported by restricted cash deposits of a like amount used as collateral for the loans (back-to-back loans) which are used to providing funding for the Company's operations in Colombia and \$115 million note due August 2011.
- <sup>2</sup> Represents take-or pay contract with respect to capacity on the Fenoco rail line of up to 2.45 million tonnes per annum for a period of 7 years.

## Summary of Quarterly Results

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1 <sup>(1)</sup>
<b>Financial</b> (\$millions except per share)								
Revenue	\$ 15.8	\$ 30.5	\$ 15.4	\$ 13.5	\$ 12.2	\$ 13.5	\$ 12.7	\$ 18.1
Loss from continuing operations	(8.3)	(9.3)	(9.0)	(5.4)	(24.9)	(8.9)	(14.8)	(5.9)
Net loss	(20.2)	(53.0)	(13.5)	(7.8)	(26.1)	(16.4)	(23.0)	(10.7)
Loss per share from continuing operations	(0.08)	(0.10)	(0.10)	(0.06)	(0.028)	(0.14)	(0.26)	(0.11)
Per share	(0.19)	(0.59)	(0.15)	(0.09)	(0.29)	(0.26)	(0.41)	(0.19)
Cash (used in) provided by continuing operations	(8.6)	14.0	(5.1)	(11.3)	(7.1)	(10.3)	(6.7)	(4.4)
Capital expenditures	8.7	13.1	13.4	11.9	3.6	3.0	6.6	13.2
<b>Operations</b>								
Production (000's tonnes)	338	415	493	384	390	358	391	538
Cost per tonne								
- mine	\$ 44	\$ 31	\$ 26	\$ 35	\$ 32	\$ 31	\$ 32	\$ 30
- ex mine	6	7	1	2	3	2	2	1
Sales (000's tonnes)	395	561	416	377	360	368	352	516
Average revenue per tonne	\$ 40	\$ 54	\$ 37	\$ 36	\$ 34	\$ 37	\$ 36	\$ 35

(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 unrestricted cash and short-term investments of \$115.0 million at June 30, 2008. The Company's working capital at June 30, 2008 was \$101.3 million.

In May 2008, the Company 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 Company retained SRK to assist with reviewing the overall mining operations at the La Francia property, 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 is dependent on the development of Pit C at La Francia I in order to reach the planned capacity of approximately 6.0 mtpa by the end of calendar 2010. SRK's technical report dated May 2008 entitled "Technical Report La Francia I and II Blocks A, B, C and D"

reported an estimated proven coal reserve of 21.9 million tonnes for Pit A/B and 17.7 million tonnes for Pit C, for a total proven coal reserve at the La Francia I property of 39.6 million tonnes. The Company has also identified measured and indicated resources at the La Francia property that are not yet classified as reserves, and will determine whether portions of such resources may be upgraded to reserves as the development of the property progresses.

The Company's strategic plan focuses on these almost 40 million tonnes of reported coal reserves, without accounting for reserves that may be added as the Company reviews and revises its current mining plan. A key component of this increase in production will be the implementation of the previously announced Masering Consortium contract mining arrangement. 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 mtpa by the end of calendar 2010:

Commissioning of rail infrastructure, including spur line, loading systems, stockyard, rail loop and balance of capital contributions to main Fenoco rail line	\$17 M
Mine equipment (lease initial payment)	10 M
Expansion of infrastructure	45 M
Pre-stripping operating costs, Pits A/B	9 M
Pre-stripping operating costs, Pit C	17 M
Acquisition of additional rolling stock	<u>15 M</u>
Total	\$122 M

In conjunction with the expansion of production at the La Francia property, construction of the rail spur to connect La Francia with the Fenoco line has commenced and is expected to be finished by the end of October 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.

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, currently expected to be delivered to site by the end of November 2008, 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. The ordering and delivery of the larger excavation fleet (Rh200) and associated 140t haul trucks will require considerable lead time, resulting in a 12-month programme with commissioning on site by approximately mid-2009. It will also require the negotiation of further agreements with the Masering Consortium or other operators. Therefore, assuming satisfactory arrangements with the Masering Consortium are achieved, the Company expects that production will reach the 6.0 mtpa milestone by the end of calendar 2010. The Company anticipates that a cash outlay over two years of approximately \$30 million will be required to be dedicated to the acquisition of equipment, of which approximately \$10 million funded by the financing relates to the acquisition of equipment in the first year. The balance is expected to be financed from operating cash flows.

The Company will be required to expand existing infrastructure and facilities in order to implement its plan to expand production, in particular through the development of Pit C at La Francia I. This includes, among other items, the construction of maintenance shops, a crushing plant, all mine service and infrastructure, the moving of the town of El Hatilo and a palm oil plantation and also the initial phase of the diversion of the Calenturitas River. SRK estimated these infrastructure costs to total \$45 million.

SRK is in the process of reviewing the La Francia I Pit A/B 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 \$13.0 million, \$4.0 million of which has already been spent, will be required in the advance areas before coal can be recovered.

Waste stripping, at an estimated cost of \$17.0 million, will be required in the advance areas of Pit C before coal can be recovered, equivalent to two advance cuts to a depth of 20 metres, priced at current mining rates.

Additionally, the Company will need to acquire additional rolling stock, at an estimated cost of \$15.0 million, as production approaches the anticipated 6.0 mtpa level.

On June 5, 2008, the Company completed a 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, led by GMP Securities L.P. also included Canaccord Capital Corporation, Loewen Ondaatje, McCutcheon Limited and Macquarie Capital Markets Canada Ltd. as part of the underwriting syndicate. In connection with the offering of units, the Company filed a preliminary short form prospectus on June 2, 2008 with the securities regulatory authorities in each of the Offering Jurisdictions qualifying the distribution of 66,700,000 units of the Company at a price of Cdn\$1.80 per unit to raise gross proceeds of Cdn\$120.0 million. The overallotment option was also exercised consisting of an additional 10,000,000 units for additional gross proceeds of Cdn\$18.0 million. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of Cdn\$2.50 per share until June 5, 2013. Net proceeds from the offering amounted to \$128.2 million.

On June 26, 2008, the Company repurchased its existing coal sales agency arrangement through the acquisition of its sales agent, GC Coal, an Irish company, from its shareholders, who are arm's length to the Company. Consideration for the acquisition consisted of the issuance of 6,649,342 common shares in the capital of the Company valued at \$10.0 million and the payment of \$10.0 million in cash. The Company also paid the vendors \$2.0 million in cash on account of sales commissions that were due to GC Coal at the time of closing of the transaction. As part of the acquisition, the Company retained the services of the GC Coal employee who has been primarily responsible for negotiating all of the Company's coal sales agreements to date. The acquisition was considered to be an asset acquisition and the purchase price, including acquisition costs amounting to \$0.3 million and the estimated future income tax liability, was allocated to intangible asset.

On June 27, 2008, the Company announced that it had completed an agreement with Xira Investment Inc., an arm's length private company incorporated in Panama, to acquire shares of Carbones Colombianos del Cerrejon, S.A. ("CCC") the holder of the mining contract at Caypa. Consideration consists of up to \$25.0 million, payable in tranches, as well as the payment of a \$1.00 per tonne sales commission on all coal sold by CCC. Under the agreement, the Company is transferring to Xira 40% of its shareholding in CCC in consideration for the immediate payment of \$1.0 million. Subsequent payments of \$7.0 million, \$6.0 million and \$6.0 million will be made 13, 22 and 25 months thereafter. An additional \$5.0 million payment can be received by the Company upon the satisfaction of certain conditions, to be satisfied no later than 28 months from completion. The shares transferred to Xira will be held in escrow and are subject to a pledge held by the Company until all consideration is paid.

Also on June 27, 2008, the Company announced that it had completed an agreement with Lando Industrial Park Inc., a Panamanian joint venture led by a group of Italian private equity investors and Promotora de Energía Eléctrica de Cartagena & Cia, S.C.A. E.S.P. ("Proeléctrica"), to acquire the land associated with the Cartagena port assets, as well as all of the shares of Sociedad Portuaria del Carare S.A. ("Carare"), the holder of the Cartagena port license. Consideration consists of \$20.0 million, of which \$5.0 million was paid at closing. Subsequent payments are to be made of \$10.0 million within 120 days, and \$5.0 million within 485 days, of closing. Proeléctrica is a Cartagena, Colombia-based electrical utility, of which 21.7% is owned indirectly by Pacific Rubiales Energy Corp., a TSX-listed oil and gas production company that shares common directors with the Company, all of whom abstained from voting on, and approving, the transaction.

On September 4, 2008, the Company announced that it has agreed with an existing customer to restructure its forward coal sales. The agreement provides for the sale of an additional 12.5 million tonnes of coal from its La Francia mine at an average FOB port sales price averaging \$123 per tonne, with deliveries commencing in calendar 2009. The net effect on all of the Company's forward sales commitments over the next six years is that a total of 30.7 million tonnes of coal has now been presold at a combined average FOB port price of \$81 per tonne. The completion of this restructuring is integral to the strategic plan in that it provides surety of price to much of the anticipated expanded capacity of La Francia at a significantly higher price than the Company is realising on its current sales and results in an overall restructuring of the Company's forward sales contracts at a higher combined average FOB price.

During Fiscal 2008, the Company decreased its bank debt in Colombia by \$24.3 million using restricted cash balances and cash from operations. As at June 30, 2008, long-term debt, including amounts due within the next 12 months, totalled \$149.9 million, of which \$35.5 million is supported by restricted cash balances. The net balance of long-term debt principally comprises the Company's 12% senior notes due August 31, 2011. The senior notes resulted from a \$115.0 million financing completed on August 17, 2006 consisting of 115,000 units, each unit comprised of a \$1,000 principal amount senior secured guaranteed note and 30 common share purchase warrants. The notes will mature on August 31, 2011, with an annual interest rate of 12% payable. Each warrant entitles the holder to purchase one common share of the Company at a price of Cdn\$8.40 per common share any time on or before August 17, 2011.

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

cancelled 46,429 common shares for a total cost including transaction fees of \$0.2 million. There were no repurchases under the bid in Fiscal 2008.

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

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

### **Related Party Transactions**

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

During Fiscal 2008 and Fiscal 2007, the Company incurred production royalties payable to Blue Pacific Assets Corp. ("Blue Pacific") amounting to \$1,630,000 and \$2,075,000, respectively, related to the February 2006 acquisition of the La Francia mine.

The Company paid financial advisory fees of \$5,000 per month in each of the current and prior fiscal years to Endeavour Financial Ltd. ("Endeavour"), a company related by way of a common director, plus consulting and advisory fees in Fiscal 2008 in the amount of \$1,000,000 related to the strategic review process. During Fiscal 2007, the Company paid a financial advisory fee of \$600,000 to Endeavour in relation to the senior notes financing and a financial advisory fee of \$500,000 in relation to the Company's acquisition of Adromi Capital.

In June 2008, as described under "*Liquidity and Capital Resources*", the Company sold certain non-core port assets to a related party.

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.

### **Risks and Uncertainties**

#### *Implementation of 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 ability of the Company to revise the current mine design and plan at La Francia I and La Francia II (in particular with respect to bringing Block C at La Francia I into production) to allow for the expansion of production from 2.0 mtpa to 6.0 mtpa within the projected timelines, the ability of the Company to obtain required permits and to commence production at Block D, the ability of the Masering 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 costs associated with the acquisition of rolling stock and completion of the Fenoco rail spur not materially exceeding

expected costs. 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. The failure to successfully implement the Strategic Plan, or parts of it, may have a material adverse effect on 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, the La Francia mine currently relies 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, any coal reserves attributed to Pit D at La Francia II 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, 2008. 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 \$5 million undiscounted future value of the Company's estimated asset retirement obligations at June 30, 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.

#### *Derivatives and Hedge Accounting (CICA Sections 3855 and 3865)*

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase and sale. All changes in fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Company elected to apply this accounting treatment for embedded derivatives on the transition date of February 8, 2006. The change in accounting policy had no impact on the 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 and provides guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and liabilities are offset. While the Company is currently evaluating the implications of these standards on its future disclosures, it is not expected to have an impact on the classification and valuation of financial instruments.

#### *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 requires, when applicable, the reversal of any inventory write-downs previously recognized. The new accounting standard and any consequential amendments will be effective for the Company beginning July 1, 2008. This new standard is not expected to have a material effect on the Company’s consolidated financial statements.

### *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 February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the mandatory changeover date for International Financial Reporting Standards (“IFRS”) for publicly accountable entities as being January 1, 2011. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosure. The AcSB plans to issue accounting standards, such as *Section 3031, Inventories*, and *Section 3064, Goodwill and Intangible Assets* that are converged in IFRS in the period leading up to the changeover date thus mitigating the impact of IFRS adoption on the changeover date. The Company will be required to prepare IFRS interim and annual financial statements, with comparatives, for its fiscal year beginning on July 1, 2011. The Company has established an IFRS team to develop and implement a plan for IFRS convergence and is commencing with training for key employees. Changes in accounting policies are likely and may materially impact the Company’s consolidated financial statements.

## **Regulatory Policies**

### *Certification of disclosures in annual and interim filings*

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

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

In addition, the certifying officers of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Following the acquisitions in February 2006, work is ongoing to improve and modernize these controls and to ensure that they remain consistently applied. The Company realized that with the increasing complexity of the business and more demanding filing requirements of the TSX that additional financial personnel were needed. In addition, the Company does not have the number of employees that would allow for sufficient division of duties and responsibilities. As a result, the Company implemented plans for the availability of more experienced dedicated financial resources, management involvement in the authorization of material transactions and the performance of detailed analysis during its financial close processes in order to ensure the financial statements present fairly in all material respects. Management and the Board of Directors are working to mitigate the risk of a material misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. The Company has continually had in place systems relating to internal control over financial reporting and will continue to monitor internal controls as the Company's business evolves.

The certifying officers have evaluated the design of the Company's internal control over financial reporting. Based on this evaluation as of June 30, 2008, the certifying officers have concluded that the Company's internal control over financial reporting, as defined in 52-109, is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of the financial statements for the year ended June 30, 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**

Pursuant to the new strategic plan, mining at the La Francia property in Fiscal 2009 will be focused on Pit A/B and the adjacent B Prima property. During the first half of the fiscal year, mine redesign activities in Pit A/B will continue with excess stripping costs to gain access to new areas being capitalized and quarterly production rates at levels comparable to the recent trend. In the second quarter of Fiscal 2009, development activities will commence on the 1.7 million

tonnes B Prima property where production is expected to begin in the third quarter. During the second half of Fiscal 2009, quarterly production rates are expected to begin to increase, benefitting from the additional mining equipment and the mine redesign activities currently underway. For Fiscal 2009, the La Francia mine is expected to produce 3.4 million tonnes of coal with a mine stripping ratio related to production of approximately 7.7:1 and a mine operating cost per tonne comparable to Fiscal 2008. Coal is expected to be delivered by truck to port through the end of October 2008 at which point the Company's rail connection to the Fenoco line is expected to be operational and rail shipments may commence. Ex mine costs, currently averaging approximately \$22 per tonne on an FOB port basis, are expected to decline by \$2 per tonne with the elimination of the sales commission at the beginning of Fiscal 2009 and by a further \$8-\$10 per tonne once the railway becomes operational. Sales already booked for Fiscal 2009 include 3.4 million tonnes at an FOB port equivalent price averaging \$65 per tonne.

### Outstanding Share Data

As at September 4, 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	173,007,049	-	-	-	-
Warrants	CCJ.WT	24,642,862	24,642,862	5.60	Feb. 8, 2011	138,000,000
Warrants	CCJ.WT.A	19,878,577	19,878,577	8.40	Aug. 17, 2011	166,980,000
Warrants	CCJ.WT.B	76,700,000	76,700,000	2.50	June 5, 2013	191,750,000

Additionally, the Company has 4,969,555 stock options outstanding, which if exercised, would result in proceeds of approximately Cdn\$22.6 million.

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