

Consolidated Financial Statements Of

# **Coalcorp Mining Inc.**

September 30, 2008 and 2007

*The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.*

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

	<b>September 30, 2008</b>	June 30, 2008
	(Unaudited)	
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 7,134	\$ 4,913
Short-term investments	73,939	110,103
Accounts receivable	5,386	6,769
Inventories	5,235	2,107
Prepaid expenses and deposits	345	238
Assets of discontinued operations (Note 3)	15,050	10,463
	<u>107,089</u>	<u>134,593</u>
Restricted cash (Note 4)	35,500	35,500
Property, plant and equipment (Note 5)	357,967	348,898
Intangible asset	23,136	23,144
Other assets (Note 6)	15,979	8,244
Assets of discontinued operations (Note 3)	24,585	28,519
	<u>\$ 564,256</u>	<u>\$ 578,898</u>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 29,561	\$ 33,166
Current portion of long-term debt (Note 7)	81	87
	<u>29,642</u>	<u>33,253</u>
Long-term debt (Note 7)	149,841	149,810
Asset retirement obligations	1,866	1,889
Other liabilities	4,112	4,112
Future income taxes	86,336	99,196
Liabilities of discontinued operations (Note 3)	3,230	3,851
	<u>275,027</u>	<u>292,111</u>
Commitments and contingencies (Note 14)		
<b>Shareholders' equity</b>		
Share capital (Note 8)	333,375	333,375
Contributed surplus (Note 8)	141,217	140,581
Accumulated other comprehensive income	4,120	4,120
Deficit	(189,483)	(191,289)
	<u>289,229</u>	<u>286,787</u>
	<u>\$ 564,256</u>	<u>\$ 578,898</u>

Subsequent event (Note 15)

See accompanying notes to the consolidated financial statements.

# Coalcorp Mining Inc.

## Consolidated Statements of Operations and Comprehensive Income (Unaudited)

For the three months ended September 30,

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

	<u>2008</u>	<u>2007</u>
Revenues	<u>\$ 8,073</u>	<u>\$ 13,545</u>
Cost of operations		
Operating costs	9,607	14,368
Depletion and depreciation	<u>1,416</u>	<u>1,699</u>
	<u>11,023</u>	<u>16,067</u>
Loss before undernoted items	<u>(2,950)</u>	<u>(2,522)</u>
Expenses		
General and administration	3,458	3,470
Stock-based compensation (Note 8)	636	14
	<u>4,094</u>	<u>3,484</u>
Operating loss from continuing operations before other income (expense) and income taxes	<u>(7,044)</u>	<u>(6,006)</u>
Other income (expense)		
Interest income	751	2,262
Interest on long-term debt (Note 7)	(2,825)	(5,051)
Foreign exchange gain	<u>9,075</u>	<u>2,813</u>
Loss from continuing operations before income taxes	<u>(43)</u>	<u>(5,982)</u>
(Provision for) recovery of income taxes		
Current	(100)	(3)
Future	<u>366</u>	<u>521</u>
	<u>266</u>	<u>518</u>
Earnings (loss) from continuing operations	223	(5,464)
Earnings (loss) from discontinued operations (Note 3)	<u>1,583</u>	<u>(2,366)</u>
Net earnings (loss) and comprehensive income (loss)	<u>\$ 1,806</u>	<u>\$ (7,830)</u>
Basic and diluted earnings (loss) per share		
From continuing operations	\$ -	\$ (0.06)
Net	<u>\$ 0.01</u>	<u>\$ (0.09)</u>
Weighted average number of common shares outstanding	<u>173,007,000</u>	<u>89,657,400</u>

See accompanying notes to the consolidated financial statements.

# Coalcorp Mining Inc.

## Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

For the three months ended September 30, 2008

(Expressed in thousands of U.S. dollars)

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	Common Shares		Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total
	Shares	Amount				
Balance, June 30, 2008	173,007,049	\$ 333,375	\$ 140,581	\$ 4,120	\$(191,289)	\$ 286,787
Net earnings	-	-	-	-	1,806	1,806
Stock-based compensation	-	-	636	-	-	636
Balance, September 30, 2008	173,007,049	\$ 333,375	\$ 141,217	\$ 4,120	\$(189,483)	\$ 289,229

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See accompanying notes to the consolidated financial statements.

# Coalcorp Mining Inc.

## Consolidated Statements of Cash Flow (Unaudited)

For the three months ended September 30,

(Expressed in thousands of U.S. dollars)

	<u>2008</u>	<u>2007</u>
<b>Operating activities</b>		
Earnings (loss) from continuing operations	\$ 223	\$ (5,464)
Items not affecting cash:		
Accretion	123	93
Depletion and depreciation	1,416	1,699
Stock-based compensation	636	14
Foreign exchange gain	(8,900)	(3,224)
Future income tax recovery	(366)	(521)
Changes in non-cash working capital items (Note 10(a))	(1,986)	(3,246)
Asset retirement obligations	(86)	-
	<u>(8,940)</u>	<u>(10,649)</u>
Cash used in continuing operations	(8,940)	(10,649)
Cash used in discontinued operations	-	(4,692)
Cash used in operating activities	<u>(8,940)</u>	<u>(15,341)</u>
<b>Investing activities</b>		
Property, plant and equipment expenditures, net of accounts payable and accrued liabilities	(13,572)	(11,856)
Decrease in short-term investments	36,163	36,476
Decrease in restricted cash related to equipment expenditures	-	5,795
Increase in other assets (Note 6)	(7,735)	-
Acquisition of GC Coal	(177)	-
	<u>14,679</u>	<u>30,415</u>
Cash provided by continuing operations	14,679	30,415
Cash provided by (used for) discontinued operations	310	(7,337)
Cash provided by investing activities	<u>14,989</u>	<u>23,078</u>
<b>Financing Activities</b>		
Proceeds from additional long-term debt	-	27,788
Repayment of long-term debt	(18)	(186)
Increase in restricted cash related to long-term debt	-	(25,500)
Issue of common shares	-	6
Share issue costs	(198)	-
	<u>(216)</u>	<u>2,108</u>
Net cash (used in) provided by financing activities	(216)	2,108
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<u>(3,612)</u>	<u>(615)</u>
<b>Increase in cash and cash equivalents during the period</b>	<u>2,221</u>	<u>9,230</u>
Cash and cash equivalents, beginning of period	4,913	10,617
<b>Cash and cash equivalents, end of period</b>	<u>\$ 7,134</u>	<u>\$ 19,847</u>
<b>Cash and cash equivalents consists of:</b>		
Cash and cash equivalents of continuing operations	\$ 7,134	\$ 19,689
Cash and cash equivalents of discontinued operations	-	158
	<u>\$ 7,134</u>	<u>\$ 19,847</u>

### SUPPLEMENTARY INFORMATION (Notes 10(b) and (c))

See accompanying notes to the consolidated financial statements.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 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.

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 a loss from continuing operations of \$32.0 million during the year ended June 30, 2008 and had working capital of \$77.4 million at September 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 unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. Operating results for the three month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending June 30, 2009. These interim consolidated financial statements follow the same accounting policies as the audited consolidated financial statements of the Company for the year ended June 30, 2008, except for the new policies disclosed below. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's 2008 annual audited consolidated financial statements and notes thereto.

Effective July 1, 2008, the Company adopted several new accounting standards that have been issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a retrospective basis with no restatement of prior period financial statements. The new standards are as follows:

- (a) The Company adopted the new recommendations of CICA *Section 3862, Financial Instruments Disclosures* and *Section 3863, Financial Instruments Presentation*, which replace *Section 3861, Financial Instruments Disclosure and Presentation*. The objective of the disclosure requirements of Section 3862 is to provide information about the significance of financial instruments to the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward standards for the presentation of financial instruments and non-financial derivatives 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.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 2007

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

- (b) The Company adopted the CICA Handbook *Section 1535, Capital Disclosures*, which specifies the disclosure of an entity's objectives, policies and processes for managing capital and how it is meeting those objectives. The new disclosures resulting from adoption of this standard are included in Note 9.
- (c) The Company adopted the CICA Handbook *Section 3031, Inventories*, which replaced *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 adoption of this new standard had no impact 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. 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 had no impact on the Company's consolidated financial statements for the three month period ended September 30, 2008.
- (e) *Future accounting pronouncements*
  - a. 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.
  - b. 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 has started the implementation process. Training for key employees has begun and will continue throughout the implementation. Detailed analysis of the differences between IFRS and the Company's accounting policies and assessments of the various alternatives for first time adoption of IFRS will commence during the next quarter. The impact of the conversion on our business activities, information technology, data systems, internal controls over financial reporting and disclosure controls will be assessed as part of the overall plan. Changes in accounting policies are likely and may materially impact the Company's consolidated financial statements.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 2007

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

### 3. 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 transferred 40% of its shareholding in CCC to Xira 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 and \$7.7 million in October 2008. A payment of \$2.3 million, including interest from October 2008, is due by March 2009 and the final payment of \$5.0 million is due by October 2009. 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 for the three month periods ended September 30, 2008 and 2007 are as follows:

	2008			2007		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
Revenues	\$ -	\$ -	\$ -	\$ 6,159	\$ -	\$ 6,159
Operating costs	-	-	-	(8,117)	-	(8,117)
Depletion and depreciation	-	-	-	(1,311)	-	(1,311)
General and administration	-	-	-	(224)	(309)	(533)
Other income (expense)	620	963	1,583	903	339	1,242
Loss before income taxes	620	963	1,583	(2,590)	30	(2,560)
Income taxes	-	-	-	194	-	194
Net loss from discontinued operations	\$ 620	\$ 963	\$ 1,583	\$ (2,396)	\$ 30	\$ (2,366)
Basic and diluted loss from discontinued operations per share	\$ -	\$ 0.01	\$ 0.01	\$ (0.03)	\$ -	\$ (0.03)

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

### For the three months ended September 30, 2008 and 2007

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

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

	September 30, 2008			June 30, 2008		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
<b>Assets</b>						
Current assets	\$ 5,582	\$ 9,468	\$ 15,050	\$ 910	\$ 9,553	\$ 10,463
Long-term assets	19,625	4,960	24,585	23,677	4,842	28,519
<b>Total assets</b>	<b>25,207</b>	<b>14,428</b>	<b>39,635</b>	<b>24,587</b>	<b>14,395</b>	<b>38,982</b>
<b>Liabilities</b>						
Current	-	-	-	-	-	-
Long-term	-	3,230	3,230	-	3,851	3,851
<b>Total liabilities</b>	<b>-</b>	<b>3,230</b>	<b>3,230</b>	<b>-</b>	<b>3,851</b>	<b>3,851</b>
<b>Net assets of discontinued operations</b>	<b>\$ 25,207</b>	<b>\$ 11,198</b>	<b>\$ 36,405</b>	<b>\$ 24,587</b>	<b>\$ 10,544</b>	<b>\$ 35,131</b>

#### 4. Restricted cash

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

#### 5. Property, plant and equipment

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

	September 30, 2008			June 30, 2008		
	Cost	Accumulated depreciation/ depletion/ writedowns	Net book value	Cost	Accumulated depreciation/ depletion/ writedowns	Net book value
<b>Mining properties</b>						
La Francia	\$ 113,537	\$ 16,309	\$ 97,228	\$ 108,733	\$ 15,087	\$ 93,646
La Francia II	186,767	-	186,767	186,748	-	186,748
<b>Plant and equipment</b>						
La Francia	5,185	949	4,236	4,794	787	4,007
Other	922	282	640	898	229	669
Construction in progress	64,910	-	64,910	59,823	-	59,823
Other mineral properties	25,266	21,080	4,186	25,085	21,080	4,005
	<b>\$ 396,587</b>	<b>\$ 38,620</b>	<b>\$ 357,967</b>	<b>\$ 386,081</b>	<b>\$ 37,183</b>	<b>\$ 348,898</b>

The Company capitalized \$3.7 million of stripping costs at the La Francia mine during the three months ended September 30, 2008 related to development of the pit to provide additional access for future production. No stripping costs were capitalized during the three month period ended September 30, 2007.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 2007

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

During the three months ended September 30, 2008, the Company capitalized interest in the amount of \$1.1 million related to construction in progress. There was no interest capitalized during the three month period ended September 30, 2007.

### 6. Other assets

	September 30, 2008	June 30, 2008
Long-term investments	\$ 8,244	\$ 8,244
Advance to mining contractor	7,735	-
	<b>\$ 15,979</b>	<b>\$ 8,244</b>

In September 2008, the Company advanced \$7.7 million to the mining contractor consortium at the La Francia mine to assist in funding the downpayment and fees required by the mining consortium under its financing arrangements for the new mining equipment being acquired in the latter half of 2008 to support the expansion of mining operations at La Francia. Following an initial 12-month grace period, the advance will be repaid to the Company on a quarterly basis over a three-year period through a discount to the fees payable to the mining consortium for mining services performed.

### 7. Long-term debt

	September 30, 2008	June 30, 2008
12% Senior secured guaranteed notes due August 31, 2011	\$ 114,304	\$ 114,244
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	24,000
Capital lease obligations (258 million Colombian pesos) payable monthly through February 2010, bearing interest at DTF plus 12%	118	153
	<b>149,922</b>	<b>149,897</b>
Less: Current portion	81	87
	<b>\$ 149,841</b>	<b>\$ 149,810</b>

As of September 30, 2008, the DTF rate was 10.8% and LIBOR was 4.0%.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

### For the three months ended September 30, 2008 and 2007

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

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

Balance of 2009	\$	60
2010		12,357
2011		801
2012		137,400
		<u>150,618</u>
Unamortized discount on 12% senior notes		(696)
	\$	<u>149,922</u>

#### 8. Share capital

(a) *Authorized*

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

(b) *Incentive stock option plan*

Under the Company's stock option plan, the Company may grant options to its directors, officers and employees not to exceed 10% of the issued common shares of the Company. At September 30, 2008, 11,464,298 common shares remain available for grant under the plan. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of grant and an option's maximum term is five years. Options are granted from time to time by the Board of Directors and vest immediately upon grant.

A summary of the changes in the Company's incentive share option plan for the three months ended September 30, 2008 is as follows:

	Number of options	Average exercise price Cdn\$
Balance, June 30, 2008	4,498,127	4.92
Granted	1,386,500	1.63
Expired	(19,649)	3.85
Cancelled	(28,572)	5.25
Balance, September 30, 2008	<u>5,836,406</u>	<u>4.14</u>

The fair value of options granted by the Company during the three months ended September 30, 2008 was determined using the Black-Scholes option pricing model assuming no dividends are to be paid, a weighted average volatility of 62%, an average annual risk free rate of 2.8% and an estimated life of 2.5 years. The weighted average grant date fair value of stock options granted during the three months ended September 30, 2008 was Cdn\$0.45 per share.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 2007

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

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

Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share
		Cdn\$
500,000	4.9	1.33
400,000	4.7	1.54
886,500	5.0	1.80
4,031,334	2.5	5.25
18,572	2.6	6.23
5,836,406	3.2	4.14

(c) *Warrants*

As at September 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

## 9. Capital disclosures

The Company's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital the Company includes, as disclosed on its balance sheet: deficit; capital stock; long-term debt, including the current portion; restricted cash; short-term investments; and cash and cash equivalents.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, repay outstanding debt, issue new debt (secured, unsecured, convertible and/or other types of debt instruments), refinance existing debt with different characteristics, acquire or dispose of assets or adjust the amount of cash and short-term investments balances. The Company is currently not subject to any externally imposed capital requirements.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 2007

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

### 10. Cash flow information

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

	Three Months Ended		
	September 30,		
	2008		2007
(Increase) decrease in			
Accounts receivable	\$ 1,530	\$	(4,724)
Inventories	(2,958)		(136)
Prepaid expenses	(101)		(236)
Increase (decrease) in			
Accounts payable and accrued liabilities	(457)		1,850
	\$ (1,986)	\$	(3,246)

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

At September 30, 2008, accounts payable and accrued liabilities include non-cash amounts of \$12.7 million (June 30, 2008 – \$15.7 million) related to its purchase commitments in Colombia for plant and equipment expenditures.

(c) *Other supplementary information*

	Three Months Ended		
	September 30,		
	2008		2007
Interest paid	\$ 414	\$	796
Income taxes paid	-		-

### 11. 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 three month periods ended September 30, 2008 and 2007:

	2008		2007	
Production royalties	\$	295	\$	384
Consulting and advisory fees		15		15
Office rent		53		53
	\$	363	\$	452

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

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 2007

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

### 12. Financial Instruments

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

	September 30, 2008	June 30, 2008
Financial assets:		
Held-for-trading, measured at fair value		
Cash and cash equivalents	\$ 7,134	\$ 4,913
Short-term investments	73,939	110,103
Restricted cash	35,500	35,500
Loans and receivables, measured at amortized costs		
Accounts receivable	5,386	6,769
Amounts receivable related to dispositions of discontinued operations	39,635	38,982
Financial liabilities:		
Other liabilities, measured at amortized costs		
Accounts payable and accrued liabilities	29,561	33,166
Long-term debt, including current portion	149,922	149,897

The Company had no held-to-maturity financial instruments during the three month periods ended September 30, 2008 and 2007.

(b) *Short-term investments, restricted cash and cash equivalents*

The Company's short-term investments are comprised of the following:

	September 30, 2008	June 30, 2008
Canadian dollar denominated investments		
Bankers' acceptances	\$ 9,502	\$ 53,280
Commercial paper	8,122	3,481
Discounted notes	42,806	39,143
GIC	189	196
U.S. dollar denominated investments		
Commercial paper	-	14,003
Discounted notes	13,320	-
	<b>\$ 73,939</b>	<b>\$ 110,103</b>

The Company's cash balances are deposited with major Canadian and Colombian financial institutions, the majority of which have stable, investment grade ratings from internationally recognized ratings agencies. As at September 30, 2008, \$5.1 million of the Company's cash balances were held in Colombian banks (June 30, 2008 - \$2.3 million).

The Company's restricted cash deposits of \$35.5 million are held in the U.S. branch of a major Colombian bank with a Ba2-stable rating from Moody's Investors Services.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

### For the three months ended September 30, 2008 and 2007

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

(c) *Allowance for credit losses*

The Company's accounts receivable, none of which are past due as of the reporting dates, are comprised of the following:

	<b>September 30, 2008</b>	June 30, 2008
Trade receivables	\$ 329	\$ 874
Allowances for doubtful accounts	-	-
Recoverable sales and use taxes	2,857	4,570
Other	2,200	1,325
	<b>\$ 5,386</b>	<b>\$ 6,769</b>

(d) *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 September 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.

(e) *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.

(f) *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 Note 14. 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 September 30, 2008.

(g) *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 Note 14.

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 2007

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

(h) *Foreign currency risk*

As at September 30, 2008, a significant portion of the Company's short-term investments were held in Canadian dollars. In addition, 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.

(i) *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.

(j) *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.

### 13. 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:

	September 30, 2008		
	Colombia	Canada/ Other	Total
Property, plant and equipment	\$ 357,859	\$ 108	\$ 357,967
Intangible asset	-	23,136	23,136
Total assets	428,746	135,510	564,256

  

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

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

For the three months ended September 30, 2008 and 2007

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

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

Three months ended September 30, 2008			
	Colombia	Canada/ Other	Total
Revenues	\$ 8,073	\$ -	\$ 8,073
Operating costs	(9,607)	-	(9,607)
Depletion and depreciation	(1,252)	(164)	(1,416)
Expenses	(1,644)	(2,450)	(4,094)
Other income (expense)	12,083	(5,082)	7,001
Earnings (loss) before income taxes	\$ 7,653	\$ (7,696)	\$ (43)
Property, plant and equipment expenditures	\$ 13,572	\$ -	\$ 13,572

Three months ended September 30, 2007			
	Colombia	Canada/ Other	Total
Revenues	\$ 13,545	\$ -	\$ 13,545
Production costs	(14,368)	-	(14,368)
Depletion and depreciation	(1,696)	(3)	(1,699)
Expenses	(1,629)	(1,855)	(3,484)
Other income (expense)	1,562	(1,538)	24
Loss before income taxes	\$ (2,586)	\$ (3,396)	\$ (5,982)
Property, plant and equipment expenditures	\$ 11,814	\$ 42	\$ 11,856

For the three month periods ended September 30, 2008 and 2007, one customer represented 94% and 100%, respectively, of revenues and trade accounts receivable from continuing operations.

### 14. Commitments and contingencies

- (a) The Company has entered into various contracts as at September 30, 2008 to deliver 30.5 million tonnes of coal, including buyers' options, from its La Francia mine at an average FOB port price, subject to quality adjustments, of \$81.21 per tonne as follows:

Fiscal years ending June 30,	Tonnes (000's)	Average FOB port price per tonne
Balance of 2009	2,834	\$ 68.03
2010	5,129	78.59
2011	6,300	82.25
2012	6,300	82.25
2013	5,924	88.49
2014	3,991	79.89
	30,478	\$ 81.21

# Coalcorp Mining Inc.

## Notes to Consolidated Financial Statements (Unaudited)

### For the three months ended September 30, 2008 and 2007

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

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 September 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.
- (a) 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.

#### 15. Subsequent event

On November 4, 2008, the employment agreements of six executive officers of the Company were amended to provide that the employment of such individuals will continue until March 2, 2009, after which time their employment with the Company will be terminated. In addition, as of September 1, 2008, the Company owed a termination payment to a former employee, now a consultant to the Company. As consideration for the amendments to the employment agreements and in satisfaction of termination payments due to the executive officers and the consultant, the Company will issue common shares from treasury, subject to receipt of applicable shareholder and regulatory approvals, having an aggregate value of \$3.9 million to the executive officers and the consultant at a price per common share equal to the volume weighted trading price of the common shares on the TSX during the prior 20 trading day period.

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

**November 12, 2008**

First Quarter Ended September 30, 2008

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The financial statements present the results of Coalcorp Mining Inc. (the "Company") for the three months ended September 30, 2008 ("Fiscal 2009") with comparatives for the three month period ended September 30, 2007 ("Fiscal 2008") and accompanying notes in accordance with Canadian generally accepted accounting principles. The following comments analyze the factors which affected the Company's operations for the three months ended September 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 Colombia; 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 other selling costs, 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.

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

**Selected Financial Information**

(\$ millions except per share)	First Quarter 2009	First Quarter 2008
Revenue from continuing operations	\$ 8.1	\$ 13.5
Earnings (loss) from continuing operations	0.2	(5.4)
Earnings (loss) from discontinued operations	1.6	(2.4)
Net earnings (loss)	1.8	(7.8)
Basic and diluted earnings (loss) per share:		
Continuing operations	-	(0.09)
Discontinued operations	0.01	(0.03)
Net loss	0.01	(0.09)
Total assets at quarter end	564.3	485.6
Total long-term debt at quarter end <sup>(1)</sup>	149.9	194.7

(1) Supported by restricted cash balances of \$35.5 million in September 30, 2008 and \$79.0 million in September 30, 2007. Net long-term debt primarily comprises the 12% senior notes due August 2011 with a principal value of \$115 million.

**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.

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.

## Results of Operations

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

	Three months ended	
	2008	September 30, 2007
Waste (000m <sup>3</sup> )	2,564	3,528
Stripping ratio (:1)	8.7	9.2
Coal production (tonnes 000)	295	384
Cost per tonne <sup>(1)</sup>		
Mine	\$ 40	\$ 35
Ex mine	\$ 1	\$ 2
Coal sales (tonnes 000)		
FOT mine	251	377
FOB port	-	-
Total	251	377
Revenue <sup>(2)</sup>		
FOT mine	\$ 32	\$ 36
FOB port	-	-
Total	\$ 32	\$ 36

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

### First Quarter Ended September 30, 2008

#### Revenues

Revenues from continuing operations totalled \$8.1 million based on sales of 251,000 tonnes at an average realized price of \$32 per tonne delivered during the three months ended September 30, 2008 compared with \$13.5 million from 377,000 tonnes sold at an average realized price of \$36 per tonne during the three month period ended September 30, 2007. All coal sales were delivered on an FOT mine basis in both the current quarter and the comparable period last year. A lower level of coal production and timing of deliveries against coal sales contracts were the primary factors affecting revenues in the current quarter compared with the first quarter last year. 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". The Company also expects total revenues will increase in the second quarter as production levels increase and coal stockpiles are reduced to meet delivery commitments.

#### Production, operating costs and depreciation expense

In the first quarter of 2009, a total of 4.1 million tonnes of material were mined at the La Francia mine, including 1.2 million tonnes of pre-stripping material that was capitalized to mine development costs in accordance with the Company's new mine plan. Coal production amounted to 295,000 tonnes at an average stripping ratio, excluding the development material, of 8.7:1, a slight improvement from the preceding quarter but higher than the 8.0:1 ratio expected for the current quarter. While the production stripping ratio through July and August averaged 6.7:1, September's mining operations were severely hampered by rain resulting in a stripping ratio for the month of 13.5:1. Lost time was 30% higher than

projected in September due to the extreme rainfall, a factor affecting producers in the entire region. Quarterly production rates are expected to increase during the next quarter as the rains subside and as a result of expanding mine contractor resources with the Masering Consortium and the delivery of additional, larger-sized mining equipment through December 2008.

Mine operating costs averaged \$40 per tonne produced at La Francia during the first quarter of 2009 compared with \$35 per tonne during the same period last year. The impact on direct mining costs of the improved stripping ratio in the current quarter compared with the first quarter last year was offset by the effect of the year-over-year strengthening of the Colombian peso relative to the U.S. dollar. A \$3 per tonne increase in indirect mine costs, principally related to the rental of heavy machinery and services to repair and maintain the roads and other works at the mine, together with a \$2 per tonne increase in the local mining region royalty rate since January 1, 2008 contributed to the increase in total mine operating costs from a year ago. In the first quarter of 2009, royalties averaged \$5 per tonne and ex mine costs averaged less than \$1 per tonne. With the acquisition of GC Coal in June 2008 as part of the strategic plan, the Company eliminated selling commissions on the future production from its La Francia mine that historically had averaged almost \$2 per tonne. 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. However, rail transportation costs are expected to be about 60% lower than the current trucking costs, providing 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 \$1.4 million or almost \$6 per tonne sold during the three months ended September 30, 2008, an increase of about 23% on a per tonne basis compared with the first quarter last year due to additional capital expenditures and the commencement of amortization of the intangible asset related to the acquisition of GC Coal. 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.

#### *General and administrative expenses*

General and administrative expenses amounted to \$3.5 million during the three months ended September 30, 2008, equivalent to the \$3.5 million incurred in the first quarter last year. The costs in the current quarter include the benefit of strategic plan initiatives including a 25% reduction in senior management salaries effective May 16, 2008 and a 30% headcount reduction in its Colombian administrative personnel following the disposition of the non-core assets. However, general and administrative expenses in the current quarter included \$0.7 million of additional costs stemming from the strategic plan implementation (including mine planning), increased legal fees and costs related to the implementation of a new ERP system in its Colombian operations to improve its management information capabilities.

Stock-based compensation expense of \$0.6 million was recorded during the three months ended September 30, 2008 related to the granting of 1.4 million stock options to the new CEO and COO and various other employees under the Company's stock option plan.

#### *Other income and expense*

Interest income earned on cash, short-term investments and restricted cash balances during first quarter of 2009 amounted to \$0.8 million, down from \$2.3 million earned during the first quarter last year largely as a result of lower interest rates and reduced restricted cash balances in the current year. At the present time, the Company maintains its short-term investments in secure, high quality and highly liquid investments with a maturity of not greater than 30 days. The Company does not invest in 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. Total interest costs incurred during the three months ended September 30, 2008 amounted to \$3.9 million, of which \$1.1 million was capitalized related to expenditures on the rail spur construction in progress. During the three months ended September 30, 2007, total interest costs amounted to \$5.1 million, of which no amounts

were capitalized. The reduction in interest rates, as noted above, had a positive impact on reducing total interest costs in the current quarter. In addition, reductions in the amount of Colombian local bank debt outstanding, and related restricted cash deposits, in the second and fourth quarters of 2008 also had a positive impact on reducing interest costs in the current quarter compared with the first quarter last year.

In addition to the impact of exchange rate impacts on operating costs, the Company's foreign currency risk also pertains to its monetary assets and liabilities denominated in currencies other than the U.S. dollar. For the three months ended September 30, 2008, the net foreign exchange gain amounted to \$9.1 million. 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 Colombian peso-denominated foreign currency exposure is its future income tax liability. As a result of the weakening of the Colombian peso against the U.S. dollar during the first quarter of 2009, the Company recorded a \$12.5 million non-cash foreign exchange gain related to its future income tax liability. A significant portion of the Company's short-term investments during the three months ended September 30, 2008 were denominated in Canadian dollars. As the Canadian dollar devalued against the U.S. dollar, reaching approximately 94 cents by the end of the quarter, the Company recorded a \$3.2 million foreign exchange loss related to these investments. All of the Company's restricted cash and most of its long-term debt balances are denominated in U.S. dollars and therefore unaffected by exchange rate movements. During the three month period ended September 30, 2007, the foreign exchange gain amounted to \$2.8 million, of which \$2.6 million related to the translation of its Colombian peso-denominated future income tax liability.

#### *Results of continuing operations*

As a result of the factors discussed above, the Company recorded earnings from continuing operations of \$0.2 million or \$0.00 per share in the three months ended September 30, 2008 compared with a loss from continuing operations of \$5.4 million or \$0.06 per share in the first quarter last year.

#### *Results of discontinued operations*

The Company recorded earnings from discontinued operations of \$1.6 million or \$0.01 per share in the first quarter of 2009, of which \$1.0 million related to the accretion of interest on the discounted value of proceeds receivable from the sale in June 2008 of the Caypa mine and the Cartagena port assets and \$0.6 million related to a foreign exchange gain on revaluation of Colombian-peso denominated future income tax liability associated with the discontinued operations. This compares with a loss from discontinued operations of \$2.4 million or \$0.03 per share during the first quarter last year principally related to the Caypa mine operations.

#### *Net earnings (loss)*

The Company recorded net earnings of \$1.8 million or \$0.01 per share in the first quarter of 2009 compared with a net loss of \$7.8 million or \$0.09 per share in the first quarter last year.

#### *Net Cash Used in Operating Activities*

During the three months ended September 30, 2008, the Company used \$8.9 million of cash in continuing operations, including a temporary \$3.0 million increase in inventories, compared with cash used of \$10.6 million during the same period last year. Coal inventories increased during the first quarter as result of the timing of deliveries against coal contracts and are expected to decrease in the next quarter as scheduled deliveries are executed. Cash used in discontinued operations in the first quarter last year of \$4.7 million brought the total cash used in operating activities in the first quarter last year to \$15.3 million.

It is expected that cash flow from continuing operations will continue to improve in the second half of fiscal 2009 as revenue per tonne and production levels 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 \$13.6 million during the three months ended September 30, 2008. Of this total, \$8.6 million was spent on the Company's infrastructure development projects related to the

Fenoco rail connection and upgrading program, including \$1.1 million of capitalized interest. A further \$12.7 million of committed expenditures related to the rail projects is included in accounts payable and accrued liabilities at September 30, 2008, the majority of which will be spent over the next four months. The Company also capitalized \$3.7 million of pre-stripping development costs on La Francia Pit A/B under its new mine plan and \$0.8 million of exploration and development costs related to Pit C. The balance of capital expenditures amounting to \$0.5 million included ERP-related computer equipment, exploration property acquisition costs and other mine site capital assets.

*Other investing activities*

During the three months ended September 30, 2008, the Company advanced \$7.7 million to its mining contractor consortium (also called the "Masering Consortium") at the La Francia mine to assist the consortium in funding the downpayment and fees required under its financing arrangements for the new mining equipment being acquired in the latter half of 2008 to support the expansion of the La Francia mine's production capacity to 4.0 million tonnes of coal per annum. Following an initial 12-month grace period, this advance will be repaid on a quarterly basis over a three-year period through a discount to the fees payable to the mining consortium for mining services performed.

Investing activities in the first quarter of 2009 also included the payment of \$0.2 million of accrued costs related to the acquisition of GC Coal.

In the first quarter of 2009, the Company also received the remaining \$0.3 million of the initial cash proceeds due on closing of the sale of the discontinued operations. See "*Liquidity and Capital Resources*" for a discussion on the timing of future proceeds receivable.

*Financing activities*

Cash used in financing activities in the first quarter of 2009 included the repayment of capital lease obligations in Colombia and \$0.2 million of accrued share issue costs related to the June 2008 public offering. In the first quarter last year, the Company borrowed \$27.8 million from two Colombian banks supported by restricted cash deposits amounting to \$25.5 million. These loans were repaid later in fiscal 2008.

**Contractual Obligations**

\$000	Less than 1 year	1 – 3 years	4 - 5 years	After 5 years	Total
Long term debt <sup>1</sup>	81	13,137	137,400	-	150,618
Purchase obligations <sup>2</sup>	5,807	11,073	11,631	1,476	29,987
<b>Total obligations</b>	<b>5,888</b>	<b>24,210</b>	<b>149,031</b>	<b>1,476</b>	<b>180,605</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 notes 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 over the next 7 years.

## Summary of Quarterly Results

	2009		2008				2007	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Financial</b>								
(\$millions except per share)								
Revenue	\$ 8.1	\$ 15.8	\$ 30.5	\$ 15.4	\$ 13.5	\$ 12.2	\$ 13.5	\$ 12.7
Earnings (loss) from continuing operations	0.2	(8.3)	(9.3)	(9.0)	(5.4)	(24.9)	(8.9)	(14.8)
Net earnings (loss)	1.8	(20.2)	(53.0)	(13.5)	(7.8)	(26.1)	(16.4)	(23.0)
Earnings (loss) per share from continuing operations	-	(0.08)	(0.10)	(0.10)	(0.06)	(0.028)	(0.14)	(0.26)
Net earnings (loss) per share	0.01	(0.19)	(0.59)	(0.15)	(0.09)	(0.29)	(0.26)	(0.41)
Cash (used in) provided by continuing operations	(8.9)	(8.6)	14.0	(5.1)	(11.3)	(7.1)	(10.3)	(6.7)
Capital expenditures	13.6	8.7	13.1	13.4	11.9	3.6	3.0	6.6
<b>Operations</b>								
Production (000's tonnes)	295	338	415	493	384	390	358	391
Stripping ratio (:1)	8.7	8.8	7.1	5.9	9.2	10.6	10.8	8.7
Cost per tonne								
- mine	\$ 40	\$ 44	\$ 31	\$ 26	\$ 35	\$ 32	\$ 31	\$ 32
- ex mine	1	6	7	1	2	3	2	2
Sales (000's tonnes)	251	395	561	416	377	360	368	352
Average revenue per tonne	\$ 32	\$ 40	\$ 54	\$ 37	\$ 36	\$ 34	\$ 37	\$ 36

## Liquidity and Capital Resources

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 Steffen, Robertson and Kirsten (UK) Ltd. ("SRK Consulting") 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 Pits A/B and C at La Francia I in order to reach the planned capacity of approximately 6.0 mtpa by the end of calendar 2010. SRK Consulting'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.

In June 2008, the Company completed a public offering of 76.7 million units, each unit comprising one common share and one common share purchase warrant entitling 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. As of September 30, 2008, the Company has unrestricted cash and short-term investments of \$81.1 million remaining from these proceeds.

To-date the Company has spent approximately \$46 million from the net proceeds of the offering. The use of funds from the offering through to September 30, 2008 and the estimated remaining future expenditures for the key capital projects currently underway is summarized as follows:

\$millions	Spent to September 2008	Estimated remaining expenditures (recoveries)	Total
<b>Committed expenditures:</b>			
Commissioning of rail infrastructure, including spur line, loading systems, stockyard, rail loop and balance of capital contributions to main Fenoco rail line	\$ 12.3	\$ 14.8	\$ 27.1
Mine equipment – 2008 deliveries to meet expansion to 4.0 mtpa capacity	7.7	-	7.7
Pre-stripping operating costs, Pits A/B and B Prima	8.0	6.7	14.7
Acquisition of additional rolling stock – bottom discharge coal railcars	-	18.8	18.8
	28.0	40.3	68.3
<b>Uncommitted expenditures:</b>			
Mine equipment – 2009 deliveries to meet expansion to 6.0 mtpa capacity	-	20.0	20.0
Acquisition of additional rolling stock – 3 locomotives	-	8.3	8.3
	28.0	68.6	96.6
<b>Other expenditures:</b>			
Temporary increase in coal inventories <sup>1</sup>	3.0	(3.0)	-
Expenditures related to non-core assets and GC Coal acquisition, recoverable from future proceeds receivable <sup>2</sup>	15.0	(15.0)	-
<b>Total</b>	<b>\$ 46.0</b>	<b>\$ 50.6</b>	<b>\$ 96.6</b>

<sup>1</sup> Represents the increase in coal stockpile inventories in Q1 of 2009 related to the timing of delivery against coal sales contracts. Expected recovery in Q2 of 2009 as coal deliveries exceed production.

<sup>2</sup> Represents \$5.0 million invested in Caypa mine in Q4 of 2008 that will be recovered through the July 2009 payment by the purchaser related to sale of the Company's 40% interest in the mine. Also includes \$10.0 million paid to acquire GC Coal in Q4 of 2008 that will be recovered from sale proceeds receivable from the sale of the Company's port assets as discussed below.

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 is well advanced and is now expected to be finished by the end of December 2008. This represents about a six-week delay from previous expectations due in large part to heavy rainfall impacting construction activities. Preoperative testing and personnel training on the load

out system is scheduled to commence in mid-November. 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 Consulting estimated that the Company's current mining equipment complement limits the extraction capability to just under 2.0 mtpa. The implementation of the contract mining arrangement with the Masering Consortium includes the introduction of new waste stripping equipment onto the site to increase production, consisting of four Rh120 excavators, two of which have been received and the remaining two are expected to arrive in December. This equipment has the capacity to produce an additional 2.0 mtpa, which equals a combined capacity (with the current contractor and existing equipment) of approximately 4.0 mtpa. As noted under "*Results of Operations – Capital Expenditures*", the Company funded \$7.7 million during the three months ended September 30, 2008 toward the mining consortium's acquisition of this equipment.

To reach the 6.0 mtpa milestone, additional mining equipment will be required. The ordering and delivery of the larger excavation fleet (Rh200) and associated 140t haul trucks will require considerable lead time, with commissioning on site by approximately mid-2009. It will also require the negotiation of further agreements with the Masering Consortium or other operators. The Company currently anticipates that a cash outlay of approximately \$20 million may be required to be dedicated to the acquisition of the remaining equipment.

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 \$11.4 million, \$8.0 million of which has already been spent, will be required in the advance areas of Pit A/B before coal can be recovered. In addition, the Company will require approximately \$3.3 million of pre-stripping costs, to be incurred in the third quarter of 2009, to develop the B Prima area for production commencing in the fourth quarter.

SRK Consulting, in conjunction with the Company's mine planning personnel, 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 new mine plan will consider expansion of the current Pit A/B operations, extending from the existing depth of 175m to potentially 250m to 300m deep. This would not only add to the Company's mineable reserves, it would extend the mine life in Pit A/B, thereby affording the Company additional time to address certain environmental and regulatory matters associated with the development of Pit C, including the relocation of the town of El Hatillo and the diversion of the Calenturitas River. While a decision has not yet been reached, this mine expansion plan would require additional capital and development expenditures to be funded through existing cash balances and cash flows from operations.

To maximize the Company's ability to ship its coal to port under the most cost effective means as production increases toward the 6.0 mtpa level, the Company will also need to acquire additional rolling stock. Given the long lead time for ordering and delivery of the locomotives and bottom discharge coal railcars, the Company is currently finalizing its commitments with suppliers for these items. The total cost is approximately \$27 million and may increase by \$2.8 million if the Company deems that a fourth locomotive is required or if there is escalation in the cost of raw materials used in the manufacture of the rolling stock between the time of order and delivery.

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 30.5 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. The Company has allocated its coal sales commitments to specific fiscal years as disclosed in Note 14 to the interim consolidated financial statements based upon production estimates and anticipated scheduled deliveries in the forward contracts. While the coal sales contracts generally do not require cash settlement by the Company to satisfy coal sales commitments when a production shortfall occurs, the Company and the counterparties have historically worked together to re-allocate coal sales to a different period when there are changes in actual production levels and/ or delivery schedules.

In June 2008, the Company disposed of 40% of its interest in the Caypa mine for \$25.0 million, payable in tranches, as well as the payment of a \$1.00 per tonne sales commission on all coal sold by the Caypa mine. Under the agreement, the Company transferred 40% of its shareholding to the purchaser 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 transferred shares will be held in escrow and are subject to a pledge held by the Company until all consideration is paid.

In June 2008, the Company also sold its Cartagena port assets for \$20 million, of which \$5.0 million was paid at closing and \$7.7 million was paid in October. A payment of \$2.3 million, including interest from October 2008, is due by March 2009 and the remaining \$5.0 million is due by October 2009.

As at September 30, 2008, long-term debt, including \$0.1 million 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 recent global economic conditions increase the Company's exposure to certain credit, liquidity and market related risks that may impact its liquidity and capital resources over the next 12 months as set out below:

- As at September 30, 2008, the Company's cash and short-term investments amount to \$81.1 million. Committed capital expenditure requirements over the next 12 months total \$40.3 million and it is expected that some portion of the uncommitted capital expenditures for the locomotives and second mine equipment package may be required for deposits and/or down payments. In October 2008, the Company received \$7.7 million of proceeds related to the sale of its Cartagena port assets. A further \$2.3 million is due by March 2009 and \$7.0 million related to the Caypa sale is due in July 2009. Cash flows from mining operations in the second quarter of 2009 are expected to be nearing breakeven, including the benefit of inventory reduction, and turn positive in the latter half of fiscal 2009 as production rates and contracted coal prices increase and cost savings are realized from switching to rail transportation. On December 31, 2008 and June 30, 2009, the Company has an obligation to pay \$6.9 million of interest on each occasion related to the 12% senior notes. The remaining cash balances and operating cash flows should be more than sufficient to cover general and administrative expenses, mine site exploration, long-term debt repayments and other existing liabilities as they become due over the next 12 months.
- The Company continues to hold a large portion of its short-term investments in Canadian dollars. The recent volatility in the Canadian dollar relative to the U.S. dollar, trading as low as 77 cents in October 2008, exposes the Company's U.S. dollar value of its cash and short-term investments denominated in Canadian dollars to exchange risk. These funds are principally being held to finance the Company's capital investment program as outlined above. The Company is currently adapting its cash management strategy to delay conversion of its Canadian dollar balances to U.S. dollars, where possible, until the foreign exchange markets stabilize. Certain capital expenditures have not yet been committed related to the expansion of production and rail capacity from 4.0 mtpa to 6.0 mtpa and could be delayed if necessary without impacting the Company's ability to generate positive operating cash flows in the short-term. Reference should be made to Note 12 to the interim consolidated financial statements at September 30, 2008 for a breakdown of the Company's short-term investments by currency type.

- To minimize the Company's exposure to credit risk, the Company holds its cash balances predominantly in a major Canadian financial institution with an AA- rating from Standard & Poor's. All excess cash is invested under a conservative investment policy with maturities currently limited to 30 days or less in high quality, highly liquid investments. The Company does not invest in asset-backed securities. In Colombia, the Company holds its primary cash balances in internationally-recognized banks with stable, investment grade ratings.
- The Company's revenues are exposed to fluctuations in world prices for thermal coal. As noted above, the Company took steps in September 2008 to restructure its forward coal sales, locking in additional forward sales at an average of \$123 per tonne over the next six years. With recent speculation that thermal coal prices could decline in 2009, the Company has significantly reduced its exposure to price volatility on its operating cash flows for the next 12 months.
- The Company is subject to counterparty risk related to its coal sales forward contracts, most of which are with one major, international customer. Amounts receivable for deliveries are due within seven business days from the bill of lading date. Historically, the Company has not written off any accounts receivable related to its coal sales. The credit risk exposure for the Company is the ability of its major counterparty to honour its obligations under the coal sales commitments. The Company continues to monitor its credit risk related to this counterparty.
- The Company's operations are principally located in Colombia and routinely transact in the local Colombian peso, which has also experienced some volatility relative to the U.S. dollar in 2008. Since June 30, 2008, the Colombian peso has weakened 20% relative to the U.S. dollar, thereby having a positive impact on the Company's U.S. dollar equivalent operating costs and reducing certain Colombian-peso denominated capital costs while at the same time contributing to foreign exchange losses on its working capital balances held in Colombia.

### **Related Party Transactions**

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

During the three month periods ended September 30, 2008 and 2007, the Company incurred production royalties payable to Blue Pacific Assets Corp. ("Blue Pacific") amounting to \$295,000 and \$384,000, 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 years to Endeavour Financial Ltd., a company related by way of common directors.

In June 2007, the Company entered into a 5-year lease agreement with Blue Pacific for administrative office space in its Bogota, Colombia location. Monthly rent expense of \$17,500 is payable to Blue Pacific under this agreement. In October 2008, the Company re-located its Bogota office and terminated the lease agreement with Blue Pacific.

### **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 Pit 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 Pit 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 waste 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 acquisitions of La Francia II and GC Coal) 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; however, this is somewhat mitigated by the Company's forward sale of a significant portion of its projected production over the next six years. 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 and develop greater access to ports, 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 consortium of general contractors to conduct mining operations. An interruption in or the termination of any contract or business arrangement with this consortium, 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 upon the efforts of key management. As outlined in Note 15 to the interim consolidated financial statements, the employment of six executive officers will terminate on March 2, 2009. While the Company is taking steps to transition the duties and responsibilities of these individuals, there can be no assurance that the loss of any of these people will not have an adverse effect on the Company and its business. 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 year 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 \$4 million undiscounted future value of the Company's estimated asset retirement obligations at September 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, 2008, the Company adopted several new accounting standards that have been issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting policy changes were adopted on a retrospective basis with no restatement of prior period financial statements. The new standards are as follows:

#### *Financial Instruments Disclosure and Presentation*

The Company adopted the new recommendations of CICA *Section 3862, Financial Instruments Disclosures* and *Section 3863, Financial Instruments Presentation*, which replace *Section 3861, Financial Instruments Disclosure and Presentation*. The objective of the disclosure requirements of Section 3862 is to provide information about the significance of financial instruments to the Company's financial position and performance, the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward standards for the presentation of financial instruments and non-financial derivatives 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.

### *Capital Disclosures*

The Company adopted the CICA Handbook *Section 1535, Capital Disclosures*, which specifies the disclosure of an entity's objectives, policies and processes for managing capital and how it is meeting those objectives. The new disclosures resulting from adoption of this standard are included in Note 9 to the interim consolidated financial statements.

### *Inventories*

The Company adopted the CICA Handbook *Section 3031, Inventories*, which replaced *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 adoption of this new standard had no impact 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 had no impact on the Company's consolidated financial statements for the three month period ended September 30, 2008.

## **New Accounting Pronouncements**

### *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 has started the implementation process. Training for key employees has begun and will continue throughout the implementation. Detailed analysis of the differences between IFRS and the Company's accounting policies and assessments of the various alternatives for first time adoption of IFRS will commence during the next quarter. The impact of the conversion on our business activities, information technology, data systems, internal controls over financial reporting and disclosure controls will be assessed as part of the

overall plan. 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 September 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 three month period ended September 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**

Mining at the La Francia property over the balance of fiscal 2009 will continue to be focused on Pit A/B and the adjacent B Prima property. During the second quarter 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. October's production rebounded to 132,000 tonnes of coal at a stripping ratio, excluding pre-stripping development tonnes, of 8.6:1. With the seasonal rains beginning to subside in early November and the new excavating equipment coming into operation, production for the second quarter is planned to reach 500,000 tonnes. One factor impacting the Company's ability to achieve this production level in the second quarter is the timing of resolution of a work stoppage that commenced on November 7, 2008 by the mining contractor's unionized employees. While the Company is not a party to the labour dispute, it is

monitoring events as the mining contractor negotiates a resolution. The work stoppage is currently limited only to the production operations at the La Francia mine. All other activities at the mine, including rail spur construction, are continuing.

During the second half of fiscal 2009, quarterly production rates on Pit A/B are expected to begin to increase, benefitting from the additional mining equipment and the mine redesign activities currently underway. The commencement of development activities on the 1.7 million tonnes B Prima property has been pushed back to the third quarter due to delays in obtaining some permits. Production from B Prima is now expected to begin in the fourth quarter.

For fiscal 2009, the La Francia mine is expected to produce 3.0 million tonnes of coal with a mine stripping ratio related to production of less than 8:1 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 December 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 \$20 per tonne on an FOB port basis, are expected to decline by \$8-\$10 per tonne once the railway becomes operational. Sales already booked for fiscal 2009, including deliveries in the first quarter, include 3.1 million tonnes at an FOB port equivalent price averaging \$65 per tonne.

### Outstanding Share Data

As at November 12, 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 5,836,406 stock options outstanding, which if exercised, would result in proceeds of approximately Cdn\$24.2 million.

On November 4, 2008, the employment agreements of six executive officers of the Company were amended to provide that the employment of such individuals will continue until March 2, 2009, after which time their employment with the Company will be terminated. In addition, as of September 1, 2008, the Company owed a termination payment to a former employee, now a consultant to the Company. As consideration for the amendments to the employment agreements and in satisfaction of termination payments due to the executive officers and the consultant, the Company will issue common shares from treasury, subject to receipt of applicable shareholder and regulatory approvals, having an aggregate value of \$3.9 million to the executive officers and the consultant at a price per common share equal to the volume weighted trading price of the common shares on the TSX during the prior 20 trading day period.

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