

Consolidated Financial Statements
(In U.S. dollars)

COALCORP MINING INC.

Three months and six months ended
December 31, 2008 and 2007
(Unaudited)

COALCORP MINING INC.

Consolidated Balance Sheets
(In thousands of U.S. dollars)

(Unaudited)	December 31, 2008	June 30, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 41,858	\$ 4,913
Short-term investments (note 13(b))	164	110,103
Accounts receivable	6,285	6,769
Inventories (note 4)	6,300	2,107
Prepaid expenses and deposits	4,680	238
Assets of discontinued operations (note 2)	14,435	10,463
	<u>73,722</u>	<u>134,593</u>
Restricted cash (note 3)	51,832	35,500
Property, plant and equipment (note 5)	364,806	348,898
Intangible asset (note 16)	23,015	23,144
Other assets (note 7)	15,979	8,244
Assets of discontinued operations (note 2)	18,052	28,519
	<u>\$ 547,406</u>	<u>\$ 578,898</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 30,575	\$ 33,166
Current portion of long-term debt (note 8)	61	87
	<u>30,636</u>	<u>33,253</u>
Long-term debt (note 8)	149,900	149,810
Asset retirement obligations	1,912	1,889
Other liabilities	4,112	4,112
Future income taxes	83,779	99,196
Liabilities of discontinued operations (note 2)	3,113	3,851
	<u>273,452</u>	<u>292,111</u>
Shareholders' equity:		
Share capital (note 9)	333,375	333,375
Contributed surplus	143,531	140,581
	<u>476,906</u>	<u>473,956</u>
Accumulated other comprehensive income	4,120	4,120
Deficit	(207,072)	(191,289)
	<u>(202,952)</u>	<u>(187,169)</u>
	273,954	286,787
Commitments and contingencies (note 15)		
	<u>\$ 547,406</u>	<u>\$ 578,898</u>

See accompanying notes to consolidated financial statements.

COALCORP MINING INC.

Consolidated Statements of Operations and Loss and Comprehensive Loss
(In thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Revenue	\$ 13,910	\$ 15,396	\$ 21,983	\$ 28,941
Cost of operations:				
Operating costs	11,423	13,349	21,030	27,717
Depletion and depreciation	1,701	1,734	3,117	3,432
	13,124	15,083	24,147	31,149
Earnings (loss) before the undernoted	786	313	(2,164)	(2,208)
Expenses:				
General and administration	3,289	2,982	6,747	6,452
Restructuring charges (note 6)	2,332	–	2,332	–
Stock-based compensation (note 9)	2,314	–	2,950	14
Write-off of mineral properties (note 5)	3,283	4,223	3,283	4,223
	11,218	7,205	15,312	10,689
Operating loss from continuing operations before other income (expenses) and income taxes	(10,432)	(6,892)	(17,476)	(12,897)
Other income (expenses):				
Interest	766	1,541	1,517	3,576
Interest on long-term debt (note 8)	(2,689)	(4,084)	(5,514)	(8,953)
Foreign exchange (loss) gain	(5,839)	(96)	3,236	2,761
	(7,762)	(2,639)	(761)	(2,616)
Loss from continuing operations before income taxes	(18,194)	(9,531)	(18,237)	(15,513)
Income taxes (recovery):				
Current	372	10	472	13
Future	(307)	(543)	(673)	(1,064)
	65	(533)	(201)	(1,051)
Loss from continuing operations	(18,259)	(8,998)	(18,036)	(14,462)
Earnings (loss) from discontinued operations (note 2)	670	(4,523)	2,253	(6,889)
Net loss for the period and comprehensive loss	\$ (17,589)	\$ (13,521)	\$ (15,783)	\$ (21,351)
Basic and diluted loss per share:				
Continuing operations	\$ (0.11)	\$ (0.10)	\$ (0.10)	\$ (0.16)
Net	(0.10)	(0.15)	(0.09)	(0.24)
Weighted average number of common shares outstanding	173,007,049	89,657,697	173,007,049	89,656,920

See accompanying notes to consolidated financial statements.

COALCORP MINING INC.

Consolidated Statements of Changes in Shareholders' Equity
(In thousands of U.S. dollars, except share amounts)

Six months ended December 31, 2008 and 2007
(Unaudited)

	Common shares		Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
	Shares	Amount				
Balance, June 30, 2007	89,656,268	\$ 252,165	\$ 83,477	\$ 4,120	\$ (96,783)	\$ 242,979
Loss for the period	—	—	—	—	(21,351)	(21,351)
Exercise of options	1,429	7	(1)	—	—	6
Stock-based compensation	—	—	14	—	—	14
Balance, December 31, 2007	89,657,697	\$ 252,172	\$ 83,490	\$ 4,120	\$ (118,134)	\$ 221,648
Balance, June 30, 2008	173,007,049	\$ 333,375	\$ 140,581	\$ 4,120	\$ (191,289)	\$ 286,787
Net loss for the period	—	—	—	—	(15,783)	(15,783)
Stock-based compensation	—	—	2,950	—	—	2,950
Balance, December 31, 2008	173,007,049	\$ 333,375	\$ 143,531	\$ 4,120	\$ (207,072)	\$ 273,954

See accompanying notes to consolidated financial statements.

COALCORP MINING INC.

Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Cash flows used in operating activities:				
Loss from continuing operations	\$ (18,259)	\$ (8,998)	\$ (18,036)	\$ (14,462)
Items not involving cash:				
Accretion	105	102	228	195
Depletion and depreciation	1,701	1,734	3,117	3,432
Stock-based compensation	2,314	—	2,950	14
Write-off mineral properties	3,283	4,223	3,283	4,223
Foreign exchange loss (gain)	3,833	180	(4,395)	(3,408)
Future income taxes	(307)	(543)	(673)	(1,064)
Change in non-cash operating working capital (note 11(a))	1,548	(1,906)	(438)	(5,152)
Asset retirement obligations	—	—	(86)	—
Cash flows used in continuing operations	(5,782)	(5,208)	(14,050)	(16,222)
Cash flows used in discontinued operations	—	(967)	—	(5,658)
Cash flows used in operating activities	(5,782)	(6,175)	(14,050)	(21,880)
Cash flows (used in) from financing activities:				
Proceeds from additional long-term debt	—	—	—	27,788
Repayment of long-term debt	(20)	(33,808)	(38)	(33,994)
Decrease in restricted cash related to long-term debt	—	35,500	—	10,000
Issue of common shares	—	—	—	6
Share issue cost	—	—	(198)	—
Cash flows (used in) from financing activities	(20)	1,692	(236)	3,800
Cash flows from (used in) investing activities:				
Property, plant and equipment expenditures, net of accounts payable and accrued liabilities	(18,535)	(13,390)	(32,107)	(25,246)
Asset retirement obligations	—	(198)	—	(198)
Decrease in short-term investments	73,776	5,338	109,939	41,814
Decrease (increase) in restricted cash related to equipment expenditures	(16,332)	5,257	(16,332)	11,051
Increase in other assets	—	—	(7,735)	—
Acquisition of GC Coal Limited	—	—	(177)	—
Cash flows from (used in) continuing investing activities	38,909	(2,993)	53,588	27,421
Cash flows from (used in) discontinued investing activities	7,700	(1,972)	8,010	(9,308)
Cash flows from (used in) investing activities	46,609	(4,965)	61,598	18,113
Foreign exchange (loss) gain on cash and cash equivalents held in foreign currency	(6,083)	100	(10,367)	(151)
Increase (decrease) in cash and cash equivalents	34,724	(9,348)	36,945	(118)
Cash and cash equivalents, beginning of period	7,134	19,847	4,913	10,617
Cash and cash equivalents, end of period	\$ 41,858	\$ 10,499	\$ 41,858	\$ 10,499

Supplemental cash flow information (note 11)

See accompanying notes to consolidated financial statements.

COALCORP MINING INC.

Notes to Consolidated Financial Statements

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

Three months and six months ended December 31, 2008 and 2007

(Unaudited)

Coalcorp Mining Inc. (the "Company") is a Canadian-based coal mining and development company which is focused on the exploration, development and exploitation of coal and coal-related assets, either directly or through its subsidiaries, principally in Colombia.

At December 31, 2008, the Company had a cash position of \$42.0 million. The impact of the suspension of operations, the reduction in coal production, the lack of port access and coal sales, the ongoing capital commitments for mine development and transportation infrastructure, the ongoing interest payments on the senior notes and the recent non-payment by Xira Investment Inc. ("Xira") of \$7.0 million related to the sale of the 40% interest in the Caypa mine (note 2(a)), has severely impacted the Company's cash position. The Company's cash position at July 31, 2009 has declined to \$11.8 million. Given the Company's interest payments on the senior notes, its capital expenditures and commitments for calendar year 2009 and its negative operating cash flow, the Company will have depleted its cash position by the end of calendar year 2009 or early 2010. If a sale of La Francia or a refinancing of the Company's balance sheet does not occur, the Company faces a going concern risk.

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, sell its coal 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 \$18.0 million for the six months ended December 31, 2008 and \$32.0 million during the year ended June 30, 2008, and had working capital of \$43.1 million at December 31, 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.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)

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

Three months and six months ended December 31, 2008 and 2007

(Unaudited)

1. Basis of presentation:

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP for interim financial statements. Accordingly, these interim consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. Operating results for the three months and six months ended December 31, 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 annual consolidated financial statements.

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 ("Section 3862"), and Section 3863, Financial Instruments - Presentation ("Section 3863"), which replaced 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. The new disclosures resulting from adoption of this standard are included in note 13.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)

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

Three months and six months ended December 31, 2008 and 2007

(Unaudited)

1. Basis of presentation (continued):

- (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 10.
- (c) The Company adopted the CICA Handbook Section 3031, Inventories ("Section 3031"), 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 ("Section 1400"), 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 months and six months ended December 31, 2008.
- (e) Future accounting pronouncements:
 - (i) In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets ("Section 3064"), replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. Section 3064 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 Section 3064 will have a material impact on its consolidated financial statements.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of U.S. dollars, except share and per share amounts)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

1. Basis of presentation (continued):

- (ii) The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations ("Section 1582"), Section 1601, Consolidated Financial Statements ("Section 1601"), and Section 1602, Non-Controlling interest ("Section 1602"). These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements and impact to the consolidated financial statements of the new standards.

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3, Business Combinations. Section 1581 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IAS 27, Consolidated and Separate Financial Statements, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

- (iii) In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of U.S. dollars, except share and per share amounts)

Three months and six months ended December 31, 2008 and 2007
(Unaudited)

1. Basis of presentation (continued):

(iv) In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date for 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 and Section 3064, which are converged with 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 impact of the conversion on the Company's business activities, information technology, data systems, internal controls over financial reporting and disclosure controls will be assessed as part of the overall plan.

2. Discontinued operations:

(a) 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, through its subsidiary, Andean Coal Corporation B.V.I. ("Andean") entered into a sale and purchase agreement (the "SPA"), with Xira, a company incorporated in Panama, to sell 40% of its interest in 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 SPA, Andean 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, respectively, from the closing date. An additional \$5.0 million payment can be received by the Company upon the exercising of its option to dispose of the remaining 60%, and upon the satisfaction of certain conditions, to be satisfied no earlier than 28 months from completion or December 31, 2010. The shares transferred to Xira are held in escrow and are subject to a pledge held by the Company until all consideration is paid.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)

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

Three months and six months ended December 31, 2008 and 2007

(Unaudited)

2. Discontinued operations (continued):

On May 4, 2009, Andean commenced an arbitration proceeding at the ICC International Court of Arbitration against Xira by delivering to the International Chamber of Commerce Secretariat a Requisition for Arbitration. The dispute relates to alleged breaches by Xira under the SPA. Among the breaches presented in the claim is that CCC management, under the direction of Xira, entered into an extraordinary transaction with an off-shore Panamanian entity. Andean believes this agreement was made without any commercial rationale and without ascertaining the beneficial ownership of the counterparty. Andean is asking an arbitration panel, among other things, to declare that the SPA is null and void and, in the alternative, an Order requiring Xira to pay damages to Andean in the amount of \$5.0 million for breach of the SPA. Xira filed an Answer and Counterclaim on May 26, 2009. The parties are currently in the process of selecting arbitrators. Once the arbitration panel is formed, a process for the arbitration will be set.

On July 27, 2009, Xira failed to make payment of the \$7.0 million instalment that was due and payable on July 27, 2009 to Andean. The instalment payment was required to be made by Xira to Andean under the terms of the SPA, which set out the terms upon which Xira purchased 40% of the issued share capital of CCC. It is the Company's position that Xira's failure to make the due instalment payment constituted a violation of the terms of the SPA. Andean delivered a notice dated July 29, 2009 to Xira stating that Andean was exercising its right to terminate the SPA in accordance with its terms (the "Notice of Termination"). Xira is contesting the Notice of Termination.

- (b) On June 27, 2008, the Company announced that it had completed an agreement with Lando Industrial Park Inc., a Panamanian joint venture led by a group of Italian private equity investors and Promotora de Energía Eléctrica de Cartagena & Cia, S.C.A. E.S.P. ("Proeléctrica"), to acquire the land associated with the Cartagena port assets, as well as all of the shares of Sociedad Portuaria del Carare S.A., 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, was paid in March 2009 and the final payment of \$5.0 million is due by October 2009. Proeléctrica is a Cartagena, Colombia-based electrical utility, of which 21.7% is owned indirectly by Pacific Rubiales Energy Corp., a TSX-listed oil and gas production company that shared common directors with the Company at the time of closing, all of whom abstained from voting on, and approving, the transaction.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)

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

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(Unaudited)

2. Discontinued operations (continued):

The earnings from the respective discontinued operations are as follows:

	Six months ended December 31, 2008			Six months ended December 31, 2007		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
Revenue	\$ –	\$ –	\$ –	\$ 23,853	\$ –	\$ 23,853
Operating costs	–	–	–	(27,376)	–	(27,376)
Depletion and depreciation	–	–	–	(3,236)	–	(3,236)
General and administration	–	–	–	(666)	(705)	(1,371)
Other income (expense)	982	1,271	2,253	303	284	587
Earnings (loss) before income taxes	982	1,271	2,253	(7,122)	(421)	(7,543)
Income tax recovery	–	–	–	(654)	–	(654)
Net earnings (loss) from discontinued operations	\$ 982	\$ 1,271	\$ 2,253	\$ (6,468)	\$ (421)	\$ (6,889)
Basic and diluted gain (loss) from discontinued operations per share	\$ –	\$ 0.01	\$ 0.01	\$ (0.08)	\$ –	\$ (0.08)

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)

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

Three months and six months ended December 31, 2008 and 2007

(Unaudited)

2. Discontinued operations (continued):

	Three months ended December 31, 2008			Three months ended December 31, 2007		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
Revenue	\$ -	\$ -	\$ -	\$ 17,694	\$ -	\$ 17,694
Operating costs	-	-	-	(19,258)	-	(19,258)
Depletion and depreciation	-	-	-	(1,924)	-	(1,924)
General and administration	-	-	-	(442)	(396)	(838)
Other income (expense)	362	308	670	(601)	(56)	(657)
Earnings (loss) before income taxes	362	308	670	(4,531)	(452)	(4,983)
Income tax recovery	-	-	-	(460)	-	(460)
Net earnings (loss) from discontinued operations	\$ 362	\$ 308	\$ 670	\$ (4,071)	\$ (452)	\$ (4,523)
Basic and diluted gain (loss) from discontinued operations per share	\$ -	\$ -	\$ -	\$ (0.05)	\$ -	\$ (0.05)

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

	December 31, 2008			June 30, 2008		
	Caypa	Cartagena	Total	Caypa	Cartagena	Total
Assets:						
Current	\$ 7,517	\$ 6,918	\$ 14,435	\$ 910	\$ 9,553	\$ 10,463
Long-term	18,052	-	18,052	23,677	4,842	28,519
	25,569	6,918	32,487	24,587	14,395	38,982
Liabilities:						
Long-term	-	3,113	3,113	-	3,851	3,851
Net assets of discontinued operations	\$ 25,569	\$ 3,805	\$ 29,374	\$ 24,587	\$ 10,544	\$ 35,131

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)

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

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(Unaudited)

3. Restricted cash:

At December 31, 2008, restricted cash comprises term deposits being held against certain long-term debt balances aggregating \$35.5 million (June 30 - \$35.5 million) (note 8) and amounts held in escrow with a Canadian bank of \$16.3 million (Cdn. \$20.0 million) relating to a railcar purchase agreement with Freight Car of America ("FCA"). Subsequent to December 31, 2008, the Company renegotiated the contract with FCA to reduce the number of railcars purchased and, as a result, the Company incurred a termination fee of \$3.9 million. The amounts held in escrow of Cdn. \$20.0 million were subsequently released to the Company.

4. Inventories:

	December 31, 2008	June 30, 2008
Coal inventory	\$ 5,312	\$ 1,848
Materials and supplies	988	259
	\$ 6,300	\$ 2,107

5. Property, plant and equipment:

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

	December 31, 2008			June 30, 2008		
	Cost	Accumulated depletion and depreciation	Net book value	Cost	Accumulated depletion and depreciation	Net book value
Mining properties:						
La Francia	\$ 115,118	\$ 17,361	\$ 97,757	\$ 108,733	\$ 15,087	\$ 93,646
La Francia II	186,781	-	186,781	186,748	-	186,748
Plant and equipment:						
La Francia	13,451	1,068	12,383	4,794	787	4,007
Other	922	563	359	898	229	669
Construction in progress	67,039	486	66,553	59,823	-	59,823
Other mineral properties	14,202	13,229	973	25,085	21,080	4,005
	\$ 397,513	\$ 32,707	\$ 364,806	\$ 386,081	\$ 37,183	\$ 348,898

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
(Tabular amounts in thousands of U.S. dollars, except share and per share amounts)

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5. Property, plant and equipment (continued):

During the quarter, the Company ceased exploration on certain non-core properties due to recent exploration results and, as such, wrote off the carrying amount of the properties of \$3.3 million during period.

The Company capitalized \$4.5 million of stripping costs at the La Francia mine during the six months ended December 31, 2008 related to development of the pit to provide additional access for future production. No stripping costs were capitalized during the six months ended December 31, 2007.

During the six months ended December 31, 2008, the Company capitalized interest in the amount of \$2.3 million related to construction in progress. There was \$0.7 million interest capitalized during the six months ended December 31, 2007.

6. Restructuring charges:

In October and November 2008, the employment agreements of certain directors, executive officers and employees 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 was terminated. As part of the agreements, the Company paid \$1.2 million as of December 31, 2008, and has an obligation to pay a remaining amount of \$2.3 million on March 2, 2009. The Company has recorded a charge of \$2.3 million for the six months ended December 31, 2008. The Company has paid \$0.5 million of the remaining amounts to date and is currently disputing certain payments remaining outstanding at December 31, 2008 (note 15(c)).

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
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7. Other assets:

	December 31, 2008	June 30, 2008
Long-term investments, mainly investment in Fenoco	\$ 8,244	\$ 8,244
Advance to mining contractor	7,735	-
	\$ 15,979	\$ 8,244

On September 12, 2008, the Company advanced \$7.7 million to its mining contractor consortium ("Masering" or "CMC Consortium") to assist the CMC Consortium in funding the down payment and fees required under its financing arrangements for the new mining equipment being leased in the latter half of calendar 2008 to support the expansion of the mine's production capacity. Under the original terms of the Memorandum of Understanding ("MOU") signed with the Masering in April 2008, the advance will be repaid to the Company on a quarterly basis over a three-year period, following an initial 12 month grace period beginning on the date the advance payment was made, through a discount to the fees payable to CMC Consortium for mining services performed. Under the terms of an amendment to the original mining contract signed on August 12, 2009, the grace period was extended and repayment, in the form of quarterly installments, will begin on April 1, 2010.

8. Long-term debt:

	December 31, 2008	June 30, 2008
12% Senior secured guaranteed notes, due August 31, 2011	\$ 114,364	\$ 114,244
Loans maturing March 2010, interest at LIBOR plus 2.01% payable semi-annually and principal payable at the end of the loans, guaranteed by a term deposit in the same amount issued by the Company	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	24,000	24,000
Capital lease obligations (258 million Colombian pesos) payable monthly through February 2010, bearing interest at the Colombian Fixed Term Deposit Rate ("DTF") plus 12%	97	153
	149,961	149,897
Less current portion	61	87
	\$ 149,900	\$ 149,810

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8. Long-term debt (continued):

As of December 31, 2008, the DTF rate was 10.9% and LIBOR was 1.75%.

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

2009	\$	39
2010		12,357
2011		801
2012		137,400
		<hr/> 150,597
Unamortized discount on 12% senior notes		(636)
		<hr/> \$ 149,961

9. 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 December 31, 2008, 11,505,014 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.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
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9. Share capital (continued):

A summary of the changes in the Company's incentive stock option plan for the six months ended December 31, 2008 is as follows:

	Number of options	Weighted average exercise price
Options outstanding, June 30, 2008	4,498,127	\$ 4.92
Granted	6,686,500	1.76
Expired	(19,649)	3.85
Cancelled	(5,369,287)	1.84
Options outstanding, December 31, 2008	5,795,691	4.13

The fair value of options granted by the Company during the three months and six months ended December 31, 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 six months ended December 31, 2008 was Cdn. \$0.45 per share.

Subsequent to December 31, 2008, the Company granted 9,750,000 options to directors and officers of the Company with exercise prices ranging from Cdn. \$0.75 to Cdn. \$1.50 per share.

(c) Warrants:

As at December 31, 2008, the following non-broker warrants were outstanding and exercisable:

Number of warrants	Exercise price (Cdn. \$)	Expiry date
76,700,000	\$ 2.50	June 5, 2013
24,642,862	5.60	February 8, 2011
19,878,577	8.40	August 17, 2011
121,221,439		

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
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10. 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.

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.

11. Consolidated statements of cash flows:

(a) Change in non-cash operating working capital:

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Accounts receivable	\$ (899)	\$ 2,150	\$ 631	\$ (2,574)
Inventories	(1,233)	(1,627)	(4,191)	(1,763)
Prepaid expenses and deposits	(4,335)	349	(4,436)	113
Accounts payable and accrued liabilities	8,015	(2,778)	7,558	(928)
	<u>\$ 1,548</u>	<u>\$ (1,906)</u>	<u>\$ (438)</u>	<u>\$ (5,152)</u>

(b) Supplemental disclosure of non-cash transactions:

At December 31, 2008, accounts payable and accrued liabilities include non-cash amounts of \$5.9 million (June 30, 2008 - \$15.7 million) related to its purchase commitments in Colombia for plant and equipment expenditures.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
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11. Consolidated statements of cash flows (continued):

(c) Supplemental cash flow information:

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Interest paid	\$ 7,269	\$ 9,418	\$ 7,683	\$ 10,538
Taxes paid	372	10	472	13

12. 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 months and six months ended December 31, 2008 and 2007:

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Production royalties	\$ 254	\$ 493	\$ 549	\$ 877
Consulting and advisory fees	15	15	30	30
Office rent	53	53	106	105
	\$ 322	\$ 561	\$ 685	\$ 1,012

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 (continued)
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13. Financial instruments:

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

	December 31, 2008	June 30, 2008
Financial assets		
Held-for-trading, measured at fair value:		
Cash and cash equivalents	\$ 41,858	\$ 4,913
Short-term investments	164	110,103
Restricted cash	51,832	35,500
Loans and receivables, measured at amortized cost:		
Accounts receivable	6,285	6,769
Amounts receivable related to dispositions of discontinued operations	32,487	38,982
Financial liabilities		
Other liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	30,575	33,166
Long-term debt, including current portion	149,961	149,897

The Company had no held-to-maturity financial instruments during the six months ended December 31, 2008.

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Notes to Consolidated Financial Statements (continued)
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13. Financial instruments (continued):

(b) Short-term investments and restricted cash:

The Company's short-term investments comprise the following:

	December 31, 2008	June 30, 2008
Canadian dollar-denominated investments:		
Bankers' acceptances	\$ –	\$ 53,280
Commercial paper	–	3,481
Discounted notes	–	39,143
GIC	164	196
U.S. dollar-denominated investments:		
Commercial paper	–	14,003
	<u>\$ 164</u>	<u>\$ 110,103</u>

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 December 31, 2008, \$6.4 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, with the remaining \$16.3 million being held with a Schedule 1 Canadian bank.

(c) Allowance for credit losses:

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

	December 31, 2008	June 30, 2008
Trade receivables	\$ 1,021	\$ 874
Recoverable sales and Value Added Tax ("VAT")	3,821	4,131
Other	1,443	1,764
	<u>\$ 6,285</u>	<u>\$ 6,769</u>

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
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13. Financial instruments (continued):

(d) Fair values:

The fair values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities 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, therefore, 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 December 31, 2008.

The fair value of long-term debt is based on quoted market values on the Toronto Stock Exchange. At December 31, 2008, the debt was trading at \$0.40.

(e) Risk management policies and hedging activities:

Current management has identified material weaknesses in procedures to identify and manage operational and financial risks. Management is currently working to ensure that the correct procedures are in place to manage the number of risks related to the Company's operations in order to achieve an acceptable level of risk.

(i) Credit risk:

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

The Company has a credit risk exposure related to its counterparties under its coal sales contracts as disclosed in note 15. The Company minimizes credit risk by reviewing the credit risk of the counterparty to the arrangement and has made any necessary provisions, if required, related to credit risk at December 31, 2008. Maximum credit risk exposure as at December 31, 2008 related to coal sales is approximately \$1.0 million.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
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13. Financial instruments (continued):

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company invests surplus cash in highly-rated and highly-liquid instruments to ensure risk to the Company's assets is minimized.

The Company manages its liquidity risk by ensuring that there is a sufficient capital to meet short-term and long-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and short-term investments. The Company believes that these sources will be sufficient to cover the likely short-term and long-term cash requirements. Senior management is also actively involved in the review and approval of planned expenditures by regularly monitoring cash flows from operations and anticipated investing and financing activities.

Due to the historical losses and macroeconomic and business risks it faces in its business, the Company may not have generated and/or be able to generate sufficient cash flow from operations to be able to repay financial obligations due in 2011, thus exposing the Company to refinancing risk.

Future negative cash flows will continue to deplete cash reserves in the near term. Steffen, Robertson and Kirsten Consulting (UK) Ltd. has completed a life-of-mine plan in conjunction with an updated NI 43-101 reserves report, which defines a longer-term operational strategy and determines the asset value of the Company.

The Board of Directors has undertaken a process to assess strategic alternatives that could result in a sale of the mine. If a sale or refinancing of the Company's balance sheet does not occur, the Company faces a going concern risk.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
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13. Financial instruments (continued):

(iii) Commodity price 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 15. If the number of tonnes sold increases by 5%, it has an effect of increasing revenues by approximately \$680,000.

(iv) Foreign currency risk:

As at December 31, 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. If the exchange rate moves 1% in either direction, it has an effect of approximately \$160,000 on foreign exchange profits or losses.

(v) 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.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)
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13. Financial instruments (continued):

(vi) 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.

14. 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:

December 31, 2008	Colombia	Canada and other	Total
Property, plant and equipment	\$ 364,709	\$ 97	\$ 364,806
Intangible asset	–	23,015	23,015
Total assets	435,851	111,555	547,406

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)

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14. Segmented information (continued):

June 30, 2008	Colombia	Canada and other	Total
Property, plant and equipment	\$ 348,792	\$ 106	\$ 348,898
Intangible asset	–	23,144	23,144
Total assets	406,396	172,502	578,898

The Company's revenue, expenses and property, plant and equipment expenditures by geographic for the three and six months ended December 31, 2008 and 2007 areas are as follows:

	Three months ended December 31, 2008			Six months ended December 31, 2008		
	Colombia	Canada and other	Total	Colombia	Canada and other	Total
Revenue	\$ 13,910	\$ –	\$ 13,910	\$ 21,983	\$ –	\$ 21,983
Operating costs	(11,423)	–	(11,423)	(21,030)	–	(21,030)
Depletion and depreciation	(1,570)	(131)	(1,701)	(2,822)	(295)	(3,117)
Expenses	(6,455)	(4,763)	(11,218)	(8,099)	(7,213)	(15,312)
Other income (expense)	3,590	(11,352)	(7,762)	15,673	(16,434)	(761)
Earnings (loss) from continuing operations before income taxes	\$ (1,948)	\$ (16,246)	\$ (18,194)	\$ 5,705	\$ (23,942)	\$ (18,237)
Property, plant and equipment expenditures	\$ 18,304	\$ –	\$ 18,304	\$ 31,876	\$ –	\$ 31,876

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Notes to Consolidated Financial Statements (continued)

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14. Segmented information (continued):

	Three months ended December 31, 2007			Six months ended December 31, 2007		
	Colombia	Canada and other	Total	Colombia	Canada and other	Total
Revenue	\$ 15,396	\$ –	\$ 15,396	\$ 28,941	\$ –	\$ 28,941
Operating costs	(13,349)	–	(13,349)	(27,717)	–	(27,717)
Depletion and depreciation	(1,726)	(8)	(1,734)	(3,421)	(11)	(3,432)
Expenses	(5,308)	(1,897)	(7,205)	(6,937)	(3,752)	(10,689)
Other income (expense)	(1,176)	(1,463)	(2,639)	385	(3,001)	(2,616)
Loss from continuing operations before income taxes	\$ (6,163)	\$ (3,368)	\$ (9,531)	\$ (8,749)	\$ (6,764)	\$ (15,513)
Property, plant and equipment expenditures	\$ 13,335	\$ 55	\$ 13,390	\$ 25,149	\$ 97	\$ 25,246

For the six months ended December 31, 2008 and 2007, one customer represented 67% and 100%, respectively, of revenue from continuing operations.

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Notes to Consolidated Financial Statements (continued)
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15. Commitments and contingencies:

- (a) The Company has entered into various contracts as at December 31, 2008 to deliver 30.2 million tonnes of coal, including buyers' options, from its La Francia mine at a weighted average price, subject to quality adjustments, of \$77.69 as follows:

	Tonnes (In thousands) ⁽¹⁾	Average price per tonne
Balance of 2009	3,429	\$ 60.49
2010	5,320	75.83
2011	6,000	79.45
2012	6,000	79.45
2013	5,990	83.36
2014	3,485	81.64
	<u>30,224</u>	<u>77.69</u>

⁽¹⁾The Company as at December 31, 2008 has entered into two long-term contracts with Glencore International A.G. ("Glencore"): (i) 2007-003 contract for 13.75 million tonnes, including buyer's option, (ii) 2008-011 contract for 13.75 million tonnes, including buyer's option. In addition, the Company has one short-term contract for 0.3 million tonnes for delivery in 2009. There is an amendment to the 2007-003 contract, signed in August 2008, which specifies that volumes under this contract must be satisfied first on a monthly basis before accessing the higher-priced 2008-011 contract.

For the balance of the 2009 fiscal year, sales under Prodeco IV contract, will be delivered on a FOT basis. The remaining quantity of coal to be delivered under this contract at December 31, 2008 is 777,864 tonnes. All the remaining future coal commitments from 2009 to 2014 are expected to be delivered on a FOB basis.

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15. Commitments and contingencies (continued):

Subsequent to December 31, 2008, the Company commenced arbitration proceedings against Glencore with respect to a February 2007 coal sales agreement entered between the Company and Glencore. Subsequently, the Company received notice from Glencore that it was terminating the February 2007 coal sales agreement, seeking unspecified damages, and was terminating an additional August 2008 coal sales agreement between a subsidiary of the Company and Glencore. The terminated agreements represented a base quantity (excluding buyers' option) of 25 million tonnes at an average price of \$86 per tonne over the following six years, thereby reducing sales commitments by over 80%. The Company filed a Statement of Claim for arbitration on May 15, 2009 and Glencore filed a Statement of Defense and Counterclaim on May 29, 2009. A Reply and Defense to Glencore's Counterclaim was filed by the Company on June 24, 2009 and Glencore filed a Reply to Defense to Counterclaim on July 7, 2009. Given the process is at an early stage, the outcome of these proceedings is unknown.

As the Company is now discharged from its obligations under the terminated contracts with Glencore, the Company is currently in discussions with other customers for coal sales.

In connection with the acquisition of La Francia in February 2006, Compania Carbones del Cesar ("CDC"), an indirect wholly owned subsidiary of the Company, assumed a contract dated as of August 30, 2004, and amended on June 16, 2005, for the sale of coal to AES Gener, S.A. ("AES"), a Chilean company, for a total of 600,000 tonnes at \$31.50 per tonne (the "AES Contract"). On March 15, 2006, CDC notified AES that it was ceasing further shipments to AES under the AES Contract, and on May 26, 2006, AES sent notice to CDC that it considered CDC to be in breach of the AES Contract. CDC and AES attempted to amicably resolve their dispute through negotiations under the AES Contract over the course of the following two years. On December 1, 2008, AES filed a Petition for an Order to Compel Arbitration in the State of New York. The Petition to Compel Arbitration was served on CDC on or about April 2009, approximately five months after the initial filing. On June 4, 2009, CDC filed an Opposition to the Petition to Compel Arbitration setting out various reasons seeking denial of the Petition to Compel Arbitration. On June 15, 2009, AES filed a Reply to the Opposition to Compel Arbitration. Arbitration proceedings have not commenced as of the date hereof. Due to the early stages of proceedings, possible negotiations and a possible settlement between the parties and uncertainty on whether arbitration or litigation is preferred, the potential impact on the Company is unclear at this time.

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15. Commitments and contingencies (continued):

On January 22, 2009, La Libertad International Group SA ("La Libertad") informed CDC that it was declaring force majeure under a contract for delivery in 2009. The contract for plus/minus 10% 120,000 tonnes at \$119 per tonne FOB. CDC is exploring legal options to enforce its right to have La Libertad honour the performance of the contract.

- (b) At December 31, 2008, CDC is contractually obligated under take-or-pay contracts for up to 2.45 million tonnes valued at a maximum of \$7.2 million per annum of capacity on the Fenoco rail line for a period of six years.
- (c) Further to the Company's press release announcement on March 5, 2009 relating to an internal review and investigation being conducted by the Company, and the terminations of five employees resulting from that review, the Company has received statements of claims issued in Ontario from each of those individuals claiming, among other things, wrongful dismissal and seeking damages. The five former employees seek aggregate of damages of approximately \$2.64 million as well as special damages. It is the Company's position that these claims are without merit and it intends to vigorously defend itself against these actions (note 6). The Company was served on March 31, 2009 with statements of claims issued in Ontario from each of the terminated former employees. Requests for particulars and inspection of documents were sought on June 8, 2009. Plaintiff's counsel has advised that they intend to amend the statements of claims before responding.
- (d) In April 2008, CDC entered into a Memorandum of Understanding (the "MOU") with Consorcio Minero del Cesar ("CMC"), the consortium providing mining contractor services at La Francia. On December 11, 2008, the MOU was extended to April 30, 2009. Under the MOU, in the event that CDC and CMC fail to reach a definitive agreement to replace or amend the current mining contract, CMC will have the option of electing to either: (i) continue operating with its equipment, (ii) require CDC to assume the leases of the new equipment, or (iii) require CDC to pay the cost of relocating its equipment off-site. On June 1, 2009, CMC exercised the option to require CDC to assume the equipment leases. On August 12, 2009, it was agreed that the MOU be terminated and amendments to the original mining contract were made, which results in CMC continuing operations of the new equipment without requiring CDC to assume those equipment leases. The August agreement also includes a final settlement and mutual waiver of any current or future claims related to the mining contract and occurring prior to August 12, 2009.

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Notes to Consolidated Financial Statements (continued)

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15. Commitments and contingencies (continued):

- (e) On March 3, 2009, the Company received notice from a group of former officers and directors of the Company, including three previously terminated executive officers and its former Chief Executive Officer, of their intention to commence a court application for leave to file a derivative legal proceeding in the Company's name under the *Business Companies Act* (British Columbia) (the "Notice of Derivative Legal Action").

The Notice of Derivative Legal Action asks the Company to commence a legal proceeding to seek unspecified damages against four of the six recently elected directors, a newly appointed director and certain of the recently appointed officers of the Company and shareholders in respect of alleged negligence, default, oppressive conduct and omissions, breach of duty or breach of trust.

The Notice of Derivative Legal Action follows the terminations effective February 27, 2009, of three former executive officers of the Company. Each of these individuals are among the parties delivering the Notice of Derivative Legal Action.

The Company has established a special committee of directors to consider the Notice of Derivative Legal Action and will be responding after the special committee has examined the substance of the allegations set out therein.

As of the date thereof, the Company is not aware of the commencement of the court application for leave to file a derivative legal proceeding in the Company's name under the *Business Companies Act* (British Columbia) as stated in the Notice of Derivative Legal Action.

- (f) On April 8, 2009, the Company's counsel received a letter notifying the Company of a proposed claim under the Libel and Slander Act. The allegation is that the Company made defamatory statements in certain of its prior press releases that referred to the conduct of prior management of the Company. The claim is made by terminated employees of the Company, as well as former members of management of the Company. The claim seeks, among other things, general and aggravated damages in the amount of \$10 million, punitive damages in the amount of \$1 million and costs. On June 4, 2009, the Company was served under the Libel and Slander Act. The Company filed its Notice of Intention to Defend against the claim under the Libel and Slander Act on July 14, 2009. It is the Company's view that these claims are frivolous and without merit.

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(Unaudited)

15. Commitments and contingencies (continued):

- (g) On April 15, 2009, the Company received a letter from Equity Transfer & Trust Company, as trustee of the Company's outstanding 12% Series A Notes (note 8) due August 31, 2011 (the "Notes") pursuant to an indenture dated as of August 17, 2006 as amended and supplemented (the "Indenture"), enclosing a notice signed by certain holders of the aggregate principal amount of \$34,362,000 of the Notes, representing approximately 30% of the issued and outstanding principal amount of the Notes, claiming that the Company failed to issue a Change of Control Notice and Purchase Notice pursuant to Sections 4.2 and 4.3 of the Indenture, and if such failure is not remedied within 60 days, the holders will exercise all their rights under the Indenture, including declaring the principal amount of, and any Premium (as defined in the Indenture) if any, and any accrued and unpaid interest on, the Notes to be due and payable (the "Notice"). It is the Company's position that it is not in default of these provisions of the Indenture and has sent a response letter informing the trustee of this position. The Company has not received a response to that letter or any further correspondences on this matter as of the date hereof. The potential impact on the Company is paying a premium of approximately \$3.5 million on the Notes and having to pay the capital and interest due, earlier than anticipated.
- (h) An application has been filed in Ontario against the Company and certain of its directors as well as its significant shareholder, Pala Investments Holdings Limited, under the *Securities Act* (Ontario) and the *Business Corporations Act* (British Columbia). The application was filed by certain former directors and officers of the Company, being Serafino Iacono, Miguel de la Campa, Michael Davies, Jose Francisco Arata, Efrain Carrera and Juan Manuel Pelaez.

The allegations include that certain named current directors of the Company acted in a manner that is oppressive and unfairly prejudicial to the claimants. The claimants are seeking, among other things, an order to remove certain directors and unspecified damages. The application was served on the Company on July 7, 2009 but has yet to be served on any of its directors.

The Company believes that the claims are baseless and without merit and if served will vigorously defend itself against such claims.

- (i) At December 31, 2008, CDC is contractually obligated to different contractors for \$6.1 million related to the rail spur.

COALCORP MINING INC.

Notes to Consolidated Financial Statements (continued)

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

Three months and six months ended December 31, 2008 and 2007

(Unaudited)

16. Subsequent events:

As disclosed in the June 30, 2008 consolidated financial statements, the Company repurchased its existing coal sales agency arrangement through the acquisition of its sales agent, GC Coal Limited, an Irish company, from its shareholders. This transaction resulted in an intangible asset. As required by Canadian GAAP and the Company's accounting policies, the intangible asset is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Management has performed an analysis on the carrying value of the intangible asset recorded on the balance sheet at December 31, 2008. Based on this analysis on this date, there is no indication that there is an impairment in the carrying value of this intangible asset.

Subsequent to the December 31, 2008 balance sheet date, in March 2009, the cancellation of certain long-term contracts occurred, which resulted in an impairment of the carrying value of the intangible asset. This will result in the asset and related future tax liability being fully written off in Q3 2009, for a net charge of \$20.2 million to the statement of operations.