

COALCORP MINING INC.

Management Discussion and Analysis of Financial Condition and Results of Operations

Information contained in this discussion is given as of September 8, 2009 unless otherwise indicated.

On May 13, 2009 Coalcorp Mining Inc. (the “**Company**” or “**Coalcorp**”) announced that it would delay the filing of its third quarter interim financial statements, CEO and CFO certifications and related management discussion and analysis (MD&A) for the nine month period ended March 31, 2009 (the “**Third Quarter Interim Financials**”) beyond the filing deadline of May 15, 2009.

On February 18, 2009 the Ontario Securities Commission (the “**OSC**”) issued a temporary management cease trade order related to the Company’s securities against the Chief Executive Officer and the then Chief Financial Officer (Liliana Aleman has since stepped down from that role as announced on March 30, 2009) of the Company for so long as the Second Quarter Interim Financials and the Third Quarter Interim Financials are not filed. The Second Quarter Interim Financials were filed on August 19, 2009. The issuance of such management cease trade order does not affect the ability of persons to trade in their securities of Coalcorp, other than the Chief Executive Officer and Liliana Aleman, the former Chief Financial Officer. However, the OSC, in its discretion, may determine at a later time that it would be appropriate to issue a general issuer cease trade order affecting all of the Company’s securities.

The MD&A should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of the Company for the three and nine month period ended March 31, 2009, and the audited consolidated financial statements with accompanying notes and related MD&A of the Company for the fiscal year ended June 30, 2008. The Company’s consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, all amounts are reported and measured in United States dollars, and all volumes and weights are reported on the metric system.

The MD&A 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”, “goal”, “estimate”, “optimize”, “may”, “will” or other similar words or phrases suggesting future outcomes or other expectations, beliefs, estimates, plans, objectives, assumptions, projections, intentions or statements about future events or performance. Similarly, statements contained in, but not limited to, the sections “Overview”, “Results of Operations”, “Liquidity and Capital Resources”, “Outlook”, “Critical Accounting Policies and Estimates”, “Changes in Accounting Policies”, and “Risks and Uncertainties” 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. Shareholders and prospective investors are cautioned not to place undue reliance on forward-looking information.

By its nature, such information involves assumptions, 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 MD&A depending on, amongst other things, 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 include but are not limited to the supply, demand and prices for the Company's products; dependence on significant customers; deliveries; production levels; production, coal quality, 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; geological technical problems; potential imprecision of reserve estimates; market competition; developments affecting labour relations; environmental regulation; uncertainties associated with estimating the quantity and quality of the coal reserves and resources; and other risk factors listed from time to time disclosed by the Company in its annual report, annual information form and management information circular. The Company does not intend, nor 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. Given coal sales are priced on a per tonne basis, which is standard in the industry, in order for management and investors to understand the corresponding costs and net revenue that relate directly to the selling price per tonne, the following non-GAAP terms are imperative. It allows management and investors to understand, based on what international reports quote as current coal prices, whether on a per tonne basis the company is profitable. "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, sales commissions, quality testing and other selling costs, divided by the number of tonnes sold in the period.

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

Selected Financial Information

(\$ millions)	Three months ended March 31		Nine months ended March 31	
	2009	2008	2009	2008
Revenue from continuing operations	16.2	30.5	38.2	59.4
Loss from continuing operations	(21.1)	(9.3)	(39.1)	(23.7)
Earnings (loss) from discontinued operations	2.1	(43.7)	4.4	(50.6)
Net Loss	(19.0)	(53.0)	(34.8)	(74.3)
Basic earnings (loss) per share (cents):				
Continuing operations	(0.12)	(0.10)	(0.23)	(0.27)
Discontinued operations	0.01	(0.49)	0.03	(0.56)

(\$ millions)	March 31, 2009	June 30, 2008
Total assets	518.2	578.9
Total long-term debt ⁽¹⁾	150.0	149.9

- (1) Supported by restricted cash balances of \$35.5 million on March 31, 2009 and on June 30, 2008. Net long-term debt primarily consists of the 12% senior notes due August 2011 with a principal value of \$115 million.

Overview of the Company's Business

The Company operates the La Francia coal mine located in the Cesar region of Colombia. The Company currently also retains a non-consolidated 60% shareholding in the Caypa coal mine, located in the Guajira region of Colombia, as well as a number of additional exploration concessions in Colombia. The Company also holds an 8.43% interest in Fenoco, which operates a railroad from the Cesar region to Santa Marta.

The Company is currently undertaking a plan (the “**Operational Restructuring Plan**”) to restructure its operations with the objectives to stabilize the current mining operations, preserve liquidity, reduce costs and establish a foundation for a sustainable business.

The Operational Restructuring Plan is a five part plan which has been developed to immediately address a number of structural issues at Coalcorp. The five parts of the Operational Restructuring Plan involve a revised strategic approach in each of the following areas of the organization:

- Coal Contracts and Sales
- Mining Operations
- Port and Rail Access
- Overhead Cost Reductions
- Controls, Compliance and Risk Management

The operational restructuring plan continues to be implemented.

The operating and financial results of the Company for the third quarter of 2009 fiscal year were impacted by the following events:

- Full production being achieved due to the arrival of the new mining equipment in late 2008, which resulted in production of 606k tonnes of coal during the three month period ended March 31, 2009.
- Lower coal sales than anticipated.
- A work stoppage by the unionized employees of Fenoco (railroad operator) from March 24 to April 19, 2009, which affected the coal shipments of all coal producers in Colombia.
- \$20.2 million write-off of GC Coal.
- Termination payment of \$3.9 million to Freight Car America, for cancelling part of the freight cars order.
- Foreign exchange gains of \$13.7 million relating mainly, but not limited to, short-term investments that were denominated in Canadian Dollars from the proceeds of the May 2008 offering.

As a result of these factors, the Company reported an operating loss for the three and nine month period ended March 31, 2009 of \$33.2 million and \$50.7 million, respectively. Taking into account interest, foreign exchange loss/gain and income taxes, the Company's loss from continuing operation is \$21.1 million and \$39.1 million respectively, for the three and nine month periods ended March 31, 2009. The Company's net loss for the three and nine month periods ended March 31, 2009 is \$19.0 million and \$34.8 million, respectively, taking into account earnings from discontinued operations.

In early May, 2009 Compania Carbones del Cesar ("CDC"), an indirect wholly-owned subsidiary of the Company, declared force majeure and ordered the mining contractor to suspend operations at the La Francia Mine as from May 5, 2009. Notwithstanding the above, the mining contractor only suspended operations on June 5, 2009 after formally suspending operations with their own employees on May 28, 2009. An agreement to resume operations was signed on August 12, 2009. The Company expects that operating cash flow will continue to be negative until at least the end of calendar year 2009 as a result of the suspension of operations in May

2009 due to a force majeure event and satisfying remaining volume commitments under lower priced contracts.

In July 2009, SRK Consulting (UK) Ltd (“**SRK**”) completed an updated National Instrument 43-101 technical report (the “**Updated Technical Report**”) which outlines a longer term operational strategy for the La Francia mine (including Blocks ABB and CD) and provides a net present value of the La Francia mine based on a number of assumptions. A copy of the Updated Technical Report is available on the SEDAR website at www.sedar.com and the Company’s website at www.coalcorp.ca.

Depressed valuations for the Company’s public market securities, combined with declining coal prices, continual quarterly losses and a declining cash balance has resulted in the Company assessing whether there has been any impairment to the carrying value of its long lived assets. Taking into account the economic model produced by SRK and the updated technical report, in assessing impairment of the assets, it was concluded that based on this information there has been no impairment and a write down is not necessary.

The board of directors of the Company has initiated a process to consider various strategic alternatives to maximize the value of Coalcorp’s assets, including but not limited to, the possible sale of the La Francia mine and associated infrastructure assets and other potential corporate transactions. The Board has established a Special Committee of directors independent of management and the Company’s significant shareholder, to oversee the strategic review process and make recommendations to the Board.

At March 31, 2009, the Company had a cash position of \$49.9 million, including short-term investments. 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, has severely impacted the Company’s cash position. The Company’s cash position at August 31, 2009 has declined to \$8.6 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. If a sale of La Francia or an alternative transaction or a refinancing of the Company’s balance sheet does not occur, the Company will face a going concern risk by the end of December 2009. See “Liquidity Risk” under the heading Risk Factors.

Results of Operations

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

Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
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	March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
Waste ('000m3)	4,607	2,865	9,445	9,300
Stripping ratio (:1)	7.6	6.9	8.2	7.2
Coal production (tonnes '000)	606	415	1,154	1,292
Cost per tonne ⁽¹⁾				
- mine	\$ 31	\$ 30	\$ 35	\$ 30
- ex mine ⁽²⁾				
FOT	\$ 1	\$ 3	\$ 1	\$ 2
FOB	\$ 28	\$ 23	\$ 27	\$ 23
Sales (tonnes '000)				
FOT mine ⁽³⁾	388	420	777	1,213
FOB port	66	141	138	141
Total Sales	454	561	915	1,354
Net Revenue per tonne ⁽⁴⁾				
FOT mine	\$ 33	\$ 42	\$ 32	\$ 38
FOB port	\$ 57	\$ 91	\$ 95	\$ 91

(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.

(2) "Ex mine costs per tonne" represents the cost of transportation, port handling, quality analysis, Take-or Pay Amortization and other selling costs, divided by the number of tonnes sold in the period either Free on Truck ("FOT") or Free on Board ("FOB"). GC Coal's sales commissions are included only in the Ex mine cost per tonne before June 2008.

(3) For 2008 excludes intercompany sales of 46,274 tons.

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

Revenues

Total coal sales during the three month period ended March 31, 2009 decreased 19%, (to 453,731 from 560,928 tonnes) compared with the same period last year. This decrease is mainly explained by (i) lower coal sales than anticipated, (ii) lower coal demand and declining prices during the first quarter of 2009 Calendar Year ("CY"), and (iii) the Fenoco strike. The average realized price for the quarter ended March 31, 2009 and 2008 was \$36 and \$54 per tonne, respectively, reflecting the weakening coal market conditions between 2008 and 2009. Revenues for the three months ended March 31, 2009 totalled \$16.2 million versus \$30.5 million for the same period in 2008, a 47% decrease, due to the combined effect of lower sales volume and lower realized price.

Coal sales during the nine month period ended March 31, 2009 were 915,443 tonnes, 32% lower than the 1,354,228 tonnes sold in the same period in 2008, as a result of a low sales volumes during the second quarter of 2009 Fiscal Year (“FY”) caused mainly by the work stoppage, in addition to the above explanations that occurred in the three month period ended March 31, 2009. The revenues for the nine months ended March 31, 2009 totalled \$38.2 million compared to \$59.4 million for the same period in 2008, a decrease of 36%.

Production, Operating Costs and Depreciation Expense

Total tonnes of material mined at La Francia during the three and nine month period ended March 31, 2009 was 4.6 million Banked Cubic Meters (“BCM”) and 9.4 million BCM, respectively, compared to 2.9 million BCM and 9.3 million BCM for the same periods in the prior year. This represents an increase in total material mined of 59% for the three month period, and 1% increase for the nine month period. For the three month period, the sharp increase in material mined is mainly the result of higher production capacity of the new mining equipment and the added benefit of the dry season, whereas for the nine month period, the drop in material mined for the second quarter 2009 due to an approximate 4-week work stoppage was compensated by the increase in the third quarter of 2009, resulting in a slight increase between 2008 and 2009.

The Company capitalized \$7.2 million of stripping costs at the La Francia mine during the nine months ended March 31, 2009 related to development of pit A/B at La Francia to provide additional access for future production, compared with \$3.0 million of stripping costs at the La Francia mine during the nine months ended March 31, 2008.

The total strip ratio increased by 10% to 7.6 from 6.9 during the three month period ended March 31, 2009 compared to the three month period ended March 31, 2008, and increased by 14% to 8.2 from 7.2 during the nine month period ended March 31, 2009 compared to the nine month period ended March 31, 2008. The reason for the increase in strip ratio relates to the new development phases that were initiated at the mine in the first nine months of fiscal year 2009 to be consistent with the proposed SRK mine plan.

Given the factors explained above, coal production increased 46% to 606,351 tonnes from 414,786 tonnes during the three month period ended March 31, 2009 compared to the three month period ended March 31, 2008, and decreased 11% to 1,154,334 tonnes from 1,291,667 tonnes during the nine month period ended March 31, 2009 due to a higher strip ratio compared to the nine month period ended March 31, 2008.

The mine cost per tonne, which includes direct operating costs and mine overheads, increased from \$30 to \$31 in the three month period ended March 31, 2009 compared with the same period in 2008, as well as increasing from \$30 to \$35 for the nine month period ended March 31, 2009 compared with same period in 2008. In addition to the reasons already noted above, other factors contributing to the variation in mine cost per tonne include:

- (i) The mine overhead costs increased 36% in the three month period ended March 31, 2009, mainly explained by an 85% increase in salaries and wages and a 24% increase in repairs and maintenance. The increase in salaries and wages was the result of a substantial increase in extra hours worked at the mine and the implementation of recommendations from the Hay Study, which determined that the mine employees were underpaid in comparison to other coal mining companies in the region. For the nine month period ended March 31, 2009, the mine overhead costs increase 46%, mainly explained by an 84% increase in salaries and wages. Comparing the mine overhead in per tonne terms for the three and nine month period ended March 31, 2009, the cost per tonne decreased 7%, and increase 63%, respectively.
- (ii) An increase in royalties, as determined by the Colombian government mining authority and based on international coal prices during the nine months of 2009. Royalties per tonne increased by approximately \$2, compared with the respective period in 2008.

Depreciation and depletion of property, plant, equipment and mining properties totalled \$2.9 million or \$4.79 per tonne produced during the three months ended March 31, 2009, a decrease of approximately 21% on a per tonne basis compared with the third quarter last year due to the increase of 48% in volume produced in the same period. For the nine month period ended March 31, 2009 the total depreciation and depletion totalled \$6.0 million or \$5.22 per tonne produced, compared to \$6.0 million or \$4.62 per tonne produced in the same period last year.

General and Administration Expenses

General and Administrative expenses were \$4.1 million and \$3.9 million for the three month period ended March 31, 2009 and 2008, respectively, and \$10.8 million and \$10.3 million for the nine month period ended March 31, 2009 and 2008, respectively. The increase in the third quarter of 2009, compared with the same period in the prior year, is mainly related to the Restructuring Plan the Company is currently undertaking.

Restructuring Charges

The Company recorded \$1.2 million and \$3.5 million in restructuring charges for the three and nine months ended March 31, 2009 respectively, related to the agreements to terminate employment contracts with certain directors, executive officers and employees of the Company.

Railcar Purchase Agreement Termination Fee

The Company entered into an agreement with Freight Car of America Inc. on July 25, 2008 to acquire an additional 143 freight cars. The Company entered into a revocation agreement on January 26, 2009 in order to acquire only 35 cars. The Company currently has 178 rail cars and 4 locomotives with an annual nominal capacity of approximately 2.6 million tonnes. The Company

agreed to pay a termination payment of \$3.9 million and applied the amount of the advance payment of \$4.2 million to the acquisition of the 35 freight cars.

Intangible Asset Write-off

In March 2009 the Company recorded a \$20.2 million net write-off related to GC Coal Limited, its previous sale agent that was acquired by the Company in June 2008. The cancellation of certain long-term contracts, resulted in an impairment of the carrying value of the intangible asset.

Other Income and Expense

Interest income earned on cash, short-term investments and restricted cash balances during the third quarter of 2009 amounted to \$0.7 million, down from \$1.0 million earned during the third quarter of 2008, largely as a result of lower interest rates and reduced restricted cash balances in the current quarter. Presently, the Company maintains its short-term investments in cash. The Company does not invest in asset-backed securities.

Total interest expense incurred during the three and nine month periods ended March 31, 2009 amounted to \$2.8 million and \$8.3 million, respectively, compared to \$3.6 million and \$12.9 million from same periods last year. The composition of the interest expense is explained below:

- Interest on long-term debt comprises 12% interest payable semi-annually on the \$115 million senior notes due August 2011 of \$3.5 million and \$10.4 million for three and nine month periods ended March 31, 2009, respectively, and interest on bank loans undertaken by the Colombian operations to finance local infrastructure development and working capital requirements of \$0.5 million and \$1.2 million for the three and nine month periods ended March 31, 2009, respectively. The bank loans in Colombia are supported by restricted cash deposits generating interest income as mentioned above.
- From the interest expense explained above, the Company capitalized \$1.1 million and \$3.4 million for the three and nine month periods ended March 31, 2009, respectively, as it related to rail spur construction in progress. During the three and nine month period ended March 31, 2008, \$0.8 million and \$1.4 million was capitalized related to rail spur construction in progress. The reduction in interest rates had a positive impact in reducing total interest costs in the three and nine month period ended March 31, 2009.

Foreign Exchange Gains

The Company's foreign currency exchange risk positively affected its monetary assets and liabilities denominated in currencies other than U.S. dollars. For the three months ended March 31, 2009, the net foreign exchange gain amounted to \$13.7 million, and for the nine months ended March 31, 2009 the net foreign exchange gain amounted to \$17.0 million, as explained below:

- 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 three and nine month periods ended March 31, 2009, the non-cash gain was \$11.7 million and \$24.6 million, respectively, related to the Company's future income tax liability.
- A significant portion of the Company's short-term investments during the nine months ended March 31, 2009, were denominated in Canadian dollars. As the Canadian dollar devalued against the U.S. dollar during the first nine months of 2009 (especially during the second quarter), the Company recorded \$8.5 million in cash foreign exchange loss related to these investments. For the three month period ended March 31, 2009, the appreciation of the Canadian dollar versus the US dollar resulted in a cash gain of \$1.9 million. Most of the Company's restricted cash and long-term debt balances are now denominated in U.S. dollars.

Results of Continuing Operations

As a result of the factors discussed above, the Company recorded losses from continuing operations of \$21.1 million or \$0.12 loss per share in the three months ended March 31, 2009 compared with a loss from continuing operations of \$9.3 million or \$0.10 loss per share in the three months ended March 31, 2008. For the nine month period ended March 31, 2009, the Company incurred losses from continuing operations of \$39.1 million, compared to losses of \$23.7 million in the period ended March 31, 2008.

Results of Discontinued Operations

The Company recorded earnings from discontinued operations of \$2.1 million in the three month period ended March 31, 2009, of which \$0.9 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 \$0.4 million related to the Cartagena port assets. The balance of \$0.8 million, in making up the \$2.1 million, relates to a tax adjustment.

Net Loss

The Company recorded a net loss of \$19.0 million or \$0.11 loss per share in the third quarter of 2009 compared with a net loss of \$53.0 million or \$0.59 loss per share in the third quarter of 2008. For the nine month period ended March 31, 2009, the Company recorded a net loss of \$34.8 million or \$0.20 loss per share, compared with a net loss of \$74.3 million or \$0.83 loss per share in the same period last year.

Summary of Quarterly Results (unaudited)

2009

2008

2007

	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial									
(\$millions except per share)									
Revenue	\$ 16.2	\$ 13.9	\$ 8.1	\$ 15.8	\$ 30.5	\$15.4	\$13.5	\$ 12.2	\$ 13.5
(Loss)/ Earnings from									
continuing operations	(21.1)	(18.3)	0.2	(8.3)	(9.3)	(9.0)	(5.5)	(24.9)	(8.9)
Net (Loss)/ Earnings	(19.0)	(17.6)	1.8	(20.2)	(53.0)	(13.5)	(7.8)	(26.1)	(16.4)
(Loss)/ Earnings per share									
from continuing operations	(0.12)	(0.11)	(0.00)	(0.08)	(0.10)	(0.10)	(0.06)	(0.03)	(0.14)
Net (Loss)/ Earnings per share	(0.11)	(0.10)	0.01	(0.19)	(0.59)	(0.15)	(0.09)	(0.29)	(0.26)
Cash (used in) provided by									
continuing operations	(5.2)	(5.8)	(8.9)	(8.6)	14.0	(5.2)	(10.7)	(7.1)	(10.3)
Capital expenditures	(7.9)	(18.5)	(13.6)	8.7	13.1	(13.4)	(11.9)	3.6	3
Operations									
Production (000's tonnes)	606	254	295	338	415	493	384	390	358
Stripping ratio (:1)	7.6	8.9	8.7	9.8	7.0	5.9	9.2	10.6	10.8
Cost per tonne									
- mine	31	\$ 38	\$ 40	\$ 44	\$ 31	\$ 25	\$ 34	\$ 38	\$ 38
- ex mine	1	9	1	6	8	2	3	3	2
Sales (000's tonnes)	454	210	251	395	561	415	377	360	368
Average revenue per tonne	\$ 36	\$ 65	\$ 32	\$ 40	\$ 54	\$ 37	\$ 36	\$ 34	\$ 37

Liquidity and Capital Resources

The cash balances and short-term investment balances at March 31, 2009 were \$49.9 million versus \$115.0 million at June 30, 2008. Restricted cash balance at both March 31, 2009 and June 30, 2008 was \$35.5 million.

As a result of low priced coal contracts, the Fenoco strike which began on March 24, 2009, and the lower than anticipated coal deliveries, cash flow from operations during the third quarter 2009 was negative. The Company expects that operating cash flow will continue to be negative until at least the end of calendar year 2009 as a result of the suspension of operations in May due to a force majeure event and satisfying remaining volume commitments under lower priced contracts.

At March 31, 2009, the Company had a cash position of \$49.9 million, including short-term investments. 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, has severely impacted the Company’s cash position. The Company’s cash position at August 31, 2009 has declined to \$8.6 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. If a sale of La Francia or an alternative transaction or a refinancing of

the Company's balance sheet does not occur, the Company will face a going concern risk by the end of December 2009. See "Liquidity Risk" under the heading Risk Factors.

Net Cash Used in Operating Activities

During the three months ended March 31, 2009, the Company spent \$5.2 million of cash in continuing operations, which is a result of a lower than expected sales, higher operating costs due to higher mining production, and higher royalties (see Revenues and Production and Operating Cost explanations), coupled with fixed costs related to the mine, and Bogota and Toronto corporate offices. This is compared to cash from continuing operations of \$14.1 million during the three month period ended March 31, 2008. Coal inventories increased 106% during the third quarter 2009 to 296,945 tonnes from 144,325 tonnes in the second quarter of 2009, as a result of reduced deliveries to customers and higher coal production due to the new mining equipment. No cash was spent on discontinued operations in the third quarter fiscal 2009.

During the nine months ended March 31, 2009, the Company spent \$19.3 million of cash in continuing operations, compared to \$1.0 million in the same period last year. No cash was spent on discontinued operations in the nine month period ended March 31, 2009 whereas a total of \$8.8 million was spent in discontinued operations in the nine month period ended March 31, 2008.

Other Investing Activities

Property, plant and equipment expenditures, net of accounts payable and accrued liabilities, amounted to \$7.9 million during the three months ended March 31, 2009, explained as follows : (i) \$2.9 million in property, plant and equipment, mainly related to rail spur infrastructure development, (ii) \$1.1 million of capitalized interest, (iii) \$2.7 million in pre-stripping development and (iv) \$1.2 million increase in accounts payable and accrued liabilities.

As of March 31, 2009, the Company has written off \$11.2 million in mineral properties in the last two years and nine months, related to mining concessions. For the three month period ended March 31, 2009 the Company wrote off \$7,000 compared to a \$1.3 million write off in the same period ended March 31, 2008. For the nine month period ended March 31, 2009 the Company wrote of \$3.3 million compared to a \$5.6 million write off in the same period ended March 31, 2008.

The restricted cash balance in the third quarter of 2009 totalled \$35.5 million, compared with \$51.8 million in the second quarter 2009. The decrease is due to the release of a Letter of Credit to purchase the freight cars from Freight Car America for \$16.3 million.

In the third quarter of 2009, the Company received \$2.3 million cash proceeds from the sale of the Cartagena port assets (discontinued operations).

On September 12, 2008, the Company advanced \$7.7 million to its mining contractor consortium (also called the "**Masering/CMC Consortium**") to assist the 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 mining contractor consortium 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 the mining 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 instalments, will begin on April 1, 2010.

Financing Activities

In the third quarter of 2009 a minor debt repayment of less than \$0.1 million was made, compared to \$2.9 million of repayment of long-term debt during the third quarter of 2008. In the nine month period ended March 31, 2009 the company used \$0.3 million in financing activities mainly related to the accrual of June 2008 public offering share issue costs, compared to \$0.9 million generated in the same period last year explained by net effect of proceeds from new long-term debt, repayment of long-term debt and decrease in restricted cash.

Use of Proceeds from June 2008 Public Offering

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 March 31, 2009, the Company had unrestricted cash and short-term investments of \$49.9 million remaining from these proceeds.

As of March 31, 2009, the Company had spent \$78.3 million from the net proceeds of the offering. The use of funds from the offering through to March 31, 2009 and the estimated remaining future expenditures for the key capital projects currently underway is summarized as follows:

(\$ Million)	Spent from June 2008 to March 2009	Estimated remaining expenditures (recoveries)	Total
Uncommitted Expenditures			
Commissioning of rail infrastructure, including spur line, loading systems, stockyard, rail loop and balance of capital contribution to main Fenoco rail line.	16.2	7.1	23.3
Mine equipment (advance to Masering/CMC)	7.7		7.7
Pre-stripping operating costs, Pits A/B	11.5	3.2	14.7
Acquisition of additional rolling stock	7.9	0.4	8.3
Committed Expenditure-Rail Spur		4.3	4.3
Total Expenditures	43.3	15.0	58.3

Other Expenditures

Temporary Increase coal Inventories (1)	8.5	(8.5)	-
Caypa mine capitalization (2)	5.0		5.0
GC Coal Acquisition (3)	10.0		10.0
Cash Loss on foreign exchange	8.5		8.5
Cash flow in operations	3.0		3.5
Total Other expenditures	35.0	(8.0)	27.0
Total	78.3	7.0	85.3

¹ Represents the increase in coal stockpile inventories for the nine months period ended March 31, 2009 related to the timing of delivery against coal sales contracts. Expected recovery in second half of 2009 as coal deliveries increase, exceeding production.

² Represents \$5.0 million invested in Caypa mine in Q4 of 2008.

³ \$10.0 million part payment to acquire GC Coal in Q4 of 2008.

Commitments & Expenditures

The table provides a summary of commitments and expenditures over the next few years.

Contractual Obligations ('000)

	Less than 1 year	1 Year	2 Years	3 years	4 years	Total
Long term debt ¹	5	12,354	800	137,400	-	150,559
Purchase obligations ²	3,881	5,942	6,240	6,552	6,879	29,494
Account payables	23,445	-	-	-	-	23,445
Accrued liabilities	11,134	-	-	-	-	11,134
Total obligations	38,465	18,296	7,040	143,952	6,879	214,632

¹ Represents repayment of long-term bank loans used to provide funding for the Company's operations in Colombia and \$114 million of senior notes due August 2011.

² Represents take-or pay ("ToP") contract with respect to capacity on the Fenoco rail line of up to 2.45 million tonnes per annum over the next 5 years.

Given the Company's interest payments on the senior notes, its capital expenditures and commitments for calendar year 2009 listed above 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 an alternative transaction or a refinancing of the Company's balance sheet does not occur, the Company faces a going concern risk. See "Liquidity Risk" under the heading Risk Factors.

Capital Expenditures & Commitments

Capital expenditures are expected to total approximately \$29.4 million during calendar year 2009, a large part of the amount relates to the rail spur, rail cars, and the access fee, as shown in the following table:

Estimated Capital Expenditure and Commitments, Calendar Year 2009 (\$ million)

	2009 CY
Mine	2.1
Fenoco Access Fee	4.8
Fenoco Take or Pay 2008	4.2
Rail Spur	11.0
Puerto Nuevo	3.0
Rail Cars	4.1
Others	0.2
Total	29.4

The total Access Fee payable to Fenoco is \$14.0 million. As of March 31, 2009 the Company had paid \$10.3 million. The remaining amount of \$3.7 million will be paid before April 30, 2010.

FCA Rail Car Cancellation

The Company entered into an agreement with Freight Car of America Inc. on July 25, 2008 to acquire an additional 143 freight cars. The Company entered into a revocation agreement on January 26, 2009 in order to acquire only 35 cars. The Company currently has 178 rail cars and 4 locomotives with an annual nominal capacity of approximately 2.6 million tonnes incorporating Fenoco's railway line capacity and constraints. The Company agreed to pay a termination payment of \$3.9 million and applied the amount of the advance payment of \$4.2 million to the acquisition of the 35 freight cars.

Proceeds from Asset Sales

In June 2008, the Company, through its subsidiary, Andean Coal Corporation B.V.I. ("**Andean**"), 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 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 transferred shares are held in escrow and are subject to a pledge held by the Company until all consideration is paid.

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 Carbones Colombianos del Cerrejon S.A. (“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 for breach of the SPA.

On July 14th, 2009, CCC informed the Company that it would not pay it \$1.00 per tonne commission on its coal sales, due to a possible fine that the Colombian tax authorities may levy on CCC. The Company contested CCC’s non payment of the sales commissions, on the basis that the allegations by CCC are not covered under the scope of the indemnities agreed upon in the relevant agreements.

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. The Company is initiating a second arbitration due to the non-payment of \$7.0 million discussed above.

In June 2008, the Company also sold its Cartagena port assets for \$20.0 million, of which \$5.0 million was paid at closing, \$7.7 million was paid in October, a payment of \$2.3 million including interest from October 2008 was received in March 2009 with the remaining \$5.0 million due in October 2009.

Debt

As at March 31, 2009, long-term debt totalled \$150 million (refer Note 9 to the Interim Financial Statements), 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. On December 31, 2008, the Company paid \$7.0 million of interest and on June 30 and December 31, 2009, the Company has an obligation to pay \$7.0 million of interest on each date related to the 12% senior notes.

Cash & Short Term Investments

In the third quarter of 2009, the Company converted CDN\$20 million, related to the FCA restricted cash which was released, to US\$.

At March 31, 2009, the Company had a cash position of \$49.9 million, which included short term investments. Considering the continuation of negative operating cash flow, capital commitments for mine development and transportation infrastructure, interest on senior notes and uncertainty over proceeds from asset sales, the Company announced on August 4, 2009 the commencement of a strategic review process which could include a sale of the Company's La Francia mine and associated infrastructure.

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. Please see the Risk Factors section.

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 balances are currently held as cash. 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 capital commitments and expenditures may require additional financing, which may be substantial. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Corporation. See "Liquidity Risk" under the heading Risk Factors.

Outlook

A primary focus for calendar year 2009 will be execution of the Operational Restructuring Plan which is intended to stabilize operations and position the Company to achieve positive operating cash flow in calendar year 2010. The Company will also focus on reviewing various strategic alternatives to maximize the value of Coalcorp's assets, including but not limited to, the possible sale of the La Francia mine and associated infrastructure assets and other potential corporate transactions.

For the current calendar year, the Company's projected production is approximately 1.2m tonnes. The reduction in production is primarily as a result of the suspension of operations in November and the work stoppage in May due to a force majeure event, port access constraints and reduced equipment availability from the mining contractor.

At March 31, 2009, the Company had a cash position of \$49.9 million, including short-term investments. 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, has severely impacted the Company's cash position. The Company's cash position at August 31, 2009 has declined to \$8.6 million. Given the Company's interest payments on the senior notes, its capital expenditures and commitments for calendar year 2009 listed above and its negative operating cash flow, the Company will have depleted its cash position by the end of calendar year 2009. If a sale of La Francia or an alternative transaction or a refinancing of the Company's balance sheet does not occur, the Company will face a going concern risk by the end of December 2009. See "Liquidity Risk" under the heading Risk Factors.

There is no guarantee or certainty that the Company will be able to execute on its Operational Restructuring Plan or that if executed, that the Company will achieve positive cash flow in calendar year 2010. Further, there is no guarantee that a transaction will result from the initiation of the strategic review process that will create increased value for Coalcorp and its stakeholders.

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 March 31, 2009 and 2008:

(\$ '000)	Three months ended March 31,		Nine months ended March 31,	
	2009	2008	2009	2008
Production royalties	607	415	1,156	1,292
Consulting and advisory fees	-	265	30	295
Rent Expenses	41	53	147	158
	648	733	1,333	1,745

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 March 31, 2009 and 2008, the Company incurred production royalties payable to Blue Pacific Assets Corp. ("**Blue Pacific**") amounting to \$607,000 and \$415,000, respectively, related to the February 2006 acquisition of the La Francia mine. The royalty of \$607,000 to Blue Pacific has been accrued but has not been paid. (see Contingencies note *Blue Pacific Royalty*)

Risks and Uncertainties

Implementation of Restructuring Plan

The successful implementation of the Operational Restructuring Plan announced by the Company on April 24, 2009 is subject to a number of uncertainties including, but not limited to

the ability to successfully restructure certain coal contracts, securing port access, renegotiation of a new mining contract with the Company's coal mining contractor, ensuring the successful start-up of rail operations and further reducing overhead costs. As a number of such developments 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 restructuring plan nor is there any guarantee that the execution of the Operational Restructuring Plan will result in positive operating cash flow.

Liquidity Risk

There is no assurance that the Company's business will generate sufficient cash flow from operations in the future to make necessary capital expenditures and service its current debt, in which case the Company may require additional financing, dispose of certain assets or seek to refinance some or all of its debt. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

At March 31, 2009, the Company had a cash position of \$49.9 million, including short-term investments. 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, has severely impacted the Company's cash position. The Company's cash position at August 31, 2009 has declined to \$8.6 million. Given the Company's interest payments on the senior notes, its capital expenditures and commitments for calendar year 2009 listed above and its negative operating cash flow, the Company will have depleted its cash position by the end of calendar year 2009. If a sale of La Francia or an alternative transaction or a refinancing of the Company's balance sheet does not occur, the Company will face a going concern risk by the end of December 2009.

In Colombia, contracts such as the mining concession contracts to which CDC is a party require the Company to obtain performance bonds to cover obligations under the concession contract. See 'Risks and Uncertainties – Mining Risks and Insurance'. In the event that the Company is unable to obtain such performance bonds on terms acceptable to the Company, the Company may be required to post collateral in the form of cash to secure its obligations under its mining concession contracts. Depending on the amount that may be required to be posted as cash collateral, providing such cash collateral may materially impact the Company's cash position and result in a liquidity risk to the Company.

The Company has potential off balance sheet liabilities relating to certain of its coal sales contracts under which, the Company has not yet completely satisfied its coal delivery obligations. Customers under those coal sales contracts may request the Company to satisfy their coal requirements by obtaining coal from other coal suppliers, and seeking cash settlement from the Company. Such off balance sheet liabilities may crystallize in the form of cash settlements

that may be paid by the Company to satisfy certain of its coal delivery obligations under those coal sales contracts. Depending on the amount that may be paid as cash settlements, payment of such cash settlements may materially impact the Company's cash position and may result in a liquidity risk to 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. 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.

Colombia has suffered from periods of criminal violence over the past four decades, primarily due to the activities of guerrilla groups, paramilitary groups and drug cartels. In response, the Colombian government under President Uribe, has implemented various security measures and has strengthened its military and police forces by creating specialized units. Despite these efforts, drug-related crime, guerrilla activity and paramilitary activity continue to exist in Colombia. These activities, their possible escalation and the violence associated with them may have a negative impact on the Colombian economy or on the Company in the future.

The Colombian government and the Colombian Central Bank have historically exercised and continue to exercise, substantial influence over the Colombian economy; they occasionally make significant changes in monetary, fiscal and regulatory policy. Changes in macroeconomic policies could materially and adversely affect the Company's business.

The Company's business also may be affected by changes in other governmental policies, as well as by labour costs, changes in interest rates, social instability and other political, diplomatic, social or economic developments in Colombia, which may affect Colombia or the international markets. The president of Colombia has considerable power to determine governmental policies and actions that relate to the Colombian economy and, consequently, it cannot be assured that future developments in government policies or in the Colombian economy will not impair the Company's business or financial condition.

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, atmospheric emissions, hazardous wastes management, releases of various substances and wastes produced in association with certain mining industry operations, such as seepage and used tires from waste disposal areas, which would result in environmental pollution. 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. Failure to comply with environmental regulations may result in imposition of fines and penalties and could adversely affect the Company in a variety of other ways, including adverse effects on its reputation. Future operations and financial results may vary as a result of such regulations. Compliance with these regulations and new or existing regulations that may be applicable to the Company in the future could increase its cost base and adversely affect its operations and financial results. For instance, mining companies that operate in the area are expecting that rules be issued regulating the relocation of communities inhabiting said area, such as The Hatillo community for which a relocation process already started. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees.

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. For instance, to comply with forestry permits, the Company must make important investments in forestry compensation measures to reforest certain areas 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. Failure to comply with these forestry compensations may result in the imposition of fines and penalties. Also among the permits the Company will require is a permit allowing deviation of the Calenturitas River which currently runs partially over certain of the lands in La Francia II. There can be no assurance that this permit and all other 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 years. Prior acquisitions and business combinations (including the acquisition of La Francia II) involve inherent risks, including assumption of transaction costs, risk of non-completion, undisclosed liabilities, assimilation and successfully managing growth. While the Company conducts due diligence and takes steps to ensure successful assimilation, factors beyond the Company's control could influence the results of acquisitions.

Additional Mining Concessions May Not Be Granted

The Company as of March 31, 2009 had no outstanding applications for additional mining concessions. 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.

Legislation in Colombia is frequently changed, particularly with respect to taxation. There can be no assurance that further taxes that may adversely affect the Company's financial condition will not be imposed. In addition, national and local tax collection authorities have varying interpretations of tax regulations. There can be no further assurance that tax authorities, either local or national, will interpret and construe tax laws and regulations in the same way that the Company does. Differing interpretations may result in future tax litigation and associated costs.

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, including infrastructure development, 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 develop its business.

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. In that sense the Colombian Central Bank may limit, on a temporary basis, the remittance of funds abroad by Colombian residents whenever the international reserves of Colombia fall below an amount equivalent to three months worth of imports. 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. Spot price volatility could have a significant impact on the future revenues and profitability of the Company. Coal demand and price are determined by numerous factors beyond the control of the

Company including the demand for electricity, the availability of competitive coal supplies, international exchange rates and political and economic conditions and production costs in major coal producing regions. The Company's dependence on foreign markets may result in instability due to political and economic factors in those foreign jurisdictions which is beyond the control of the Company. The combined effects of any or all of these factors on coal price or volume are impossible for the Company to predict. If realized coal prices fall below the full cost of production of any of the Company's operations and remain at such level for any sustained period, the Company will experience losses, which may be significant, and may decide to discontinue affected operations, forcing the Company to incur closure or care and maintenance costs, as the case may be.

Transportation and Port Costs

Disruption in or increased costs of transportation and port services could make coal a less competitive source of energy or could make the Company's coal less competitive than other sources of coal. The coal industry depends on rail, trucking, ocean-going vessel and barge transportation to deliver shipments of coal to customers, and transportation and port costs are a significant component of the total cost of supplying coal. Disruptions of these transportation or port services because of weather-related problems, insurgency, strikes, lock-outs, transportation delays or other events could temporarily impair ability to supply coal to customers and may result in lost sales, an eventually in a temporarily cease of operation at the mine. 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 production at the Company's mining properties and/or the Company may be required to use more expensive transportation alternatives. Currently, the Company does not have any guaranteed port access.

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, delay or suspension of deliveries under, coal supply agreements; 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 there from 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.

In Colombia, contracts such as the mining concession contracts to which CDC is a party require the Company to obtain performance bonds to cover obligations under the contract. In the case of CDC's mining concessions, such bonds are subject to periodic review by Ingeominas, the Colombian state entity which oversees mining resources, and terms and conditions of these bonds may be revised from time to time based on different factors, such as production forecasts and amendments of the approved mining plan.

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

As outlined in Note 7 to the interim consolidated financial statements, the employment of six executive officers was terminated 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 result in some disruption to the operations of the Company. 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. As of March 31, 2009, the Company did not have in place a policy for managing or controlling foreign currency risks.

The Company has Colombian currency exposure. An appreciation of the Colombian Peso results in lower income since nearly all of the Company's revenues are denominated in U.S. dollars. In the past, revaluation of the Peso relative to the U.S. dollar has occurred and future revaluations could thus negatively affect the Company. If the Peso increases in value against the U.S. dollar, the Company's revenue would be adversely affected.

The Company has raised funds through equity issues in Canadian dollars, but most of its capital expenditures are in U.S. dollars. Consequently, the Company can be significantly affected by changes in the exchange rates between the Canadian dollar and the U.S. dollar.

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.

Off Balance Sheet Liabilities

The failure of the Company to fulfill its obligations under its existing coal sales contracts could result in the crystallization of significant off-balance sheet liabilities. This could have a material impact on the Company's liquidity position or significantly increase the level of financial obligations for the Company. See footnote 16 (a) to the unaudited consolidated financial statements of the Company for the three and nine month period ended March 31, 2009 for a description of the various coal supply contracts entered into by the Company.

Contingencies

AES Arbitration

In connection with the acquisition of La Francia in February 2006, CDC 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.

Negotiations with CMC

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 operation of the new equipment without requiring CDC to assume those equipment leases. The August agreement also includes, amongst other things, an early termination option for CDC, a final settlement and mutual waiver of any current or future claims related to the mining contract, including any claims occurring prior to August 12, 2009.

La Libertad

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

Notice of Derivative Legal Action

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 Corporations 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 certain of the directors 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 followed the terminations for cause effective February 27, 2009, of three former executive officers of the Company. Each of these individuals is 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 hereof, 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 Corporations Act* (British Columbia) as stated in the Notice of Derivative Legal Action.

Glencore Arbitration

On January 26, 2009, the Company commenced arbitration proceedings against Glencore International AG ("Glencore") for unspecified damages with respect to a February 2007 coal sales agreement ("the February 2007 Agreement") entered between the Company and Glencore. Glencore is pursuing a counterclaim in relation to the February 2007 Agreement for unspecified damages.

In addition, on March 19, 2009, the Company received notice from Glencore that it was terminating an additional August 2008 coal sales agreement (the "August 2008 Agreement") entered between a subsidiary of the Company, Compañía Carbones del Cesar ("CDC") and Glencore. CDC therefore commenced further arbitration proceedings against Glencore on 22 April 2009 for unspecified damages in connection with the termination of the August 2008 Agreement.

The written pleadings stages of both the arbitrations are now at an end and the parties are in the document production stage. Given that the process is at an early stage, the outcome of these proceedings is unknown.

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 80%. Given the termination of the 2007 and 2008 Agreements, the Company is currently in discussions with other customers for coal sales.

Statements of Claims from Terminated Employees

Further to the Company's press released 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 aggregate of damages being claimed is 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. 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.

Claim under Libel and Slander Act

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.

Notice of Claim by Bondholders

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 due August 31, 2011 (the "**Notes**") issued 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 greater than 27% 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.

Application against the Company and certain Directors and its Significant Shareholder

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 (“**Pala**”) 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 Coalcorp, 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.

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

Blue Pacific Royalty

Coalcorp entered into an agreement with Blue Pacific Assets Corp. (“Blue Pacific”) on September 27, 2005, and entered into a subsequent agreement with Blue Pacific on April 16, 2007 (collectively, the “Blue Pacific Royalty Agreements”), which provided for among other things, the payment of a royalty by Coalcorp of USD\$1.00 per tonne to Blue Pacific on all coal production at La Francia mine. The obligations of Coalcorp under the Blue Pacific Royalty Agreements were guaranteed by Compania Carbones del Cesar (“CDC”), an indirect wholly-owned subsidiary of Coalcorp.

As a result of internal investigations of certain prior transactions entered into by prior management, and pending the outcome of those investigations, Coalcorp ceased to make payments to Blue Pacific under the Blue Pacific Royalty Agreements as of April, 2009.

Pursuant to a letter dated as of July 15, 2009, Blue Pacific, through its counsel, demanded the minimum estimated payment of USD\$607,000 from Coalcorp claiming under the Blue Pacific Royalty Agreement. The letter stated that if such amount was not paid by either Coalcorp or CDC by July 24, 2009, that Blue Pacific will pursue its legal remedies by way of a civil action at

the Ontario Superior Court of Justice. Pursuant to a subsequent letter dated as of August 5, 2009, sent by Blue Pacific to CDC, Blue Pacific claimed the amount of USD\$634,591 under the Blue Pacific Royalty Agreement. Aside from the above letters, there have been no formal actions commenced against either Coalcorp or CDC to date.

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 there from 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 there from 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 managements' 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 undiscounted cash flows and any excess is written down against operations based on the difference between the carrying value and the discounted cash flows.

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 under NI 43-101 standards based on a professional evaluation using Canadian regulatory 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 undiscounted future value of the Company's estimated asset retirement obligations at March 31, 2009.

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 10 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 and nine month period ended March 31, 2009.

Credit Risk and Fair Value of Financial Assets and Liabilities

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.

Future accounting pronouncements:

- i. 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*. *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.
- ii. The CICA issued three new accounting standards in January 2009: *Section 1582, Business Combinations*, *Section 1601, Consolidated Financial Statements* and *Section 1602, Non-Controlling interest*. 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 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. The section 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 IFRS 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.

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.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* requires the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) to certify on the design of disclosure controls and procedures and internal control over financial reporting as at March 31, 2009. Management of the Company, with the participation of the CEO and CFO, are responsible for establishing and maintaining adequate internal control over financial reporting.

During the year to date, the Company has undergone a number of significant changes in their structure, business plans and in management, most notably, a new interim CEO, Joseph Belan, and a new CFO, Liliana Aleman, were appointed in December 2009. Liliana Aleman subsequently stepped down from her role as CFO in March 2009 and the position of CFO has not been filled as of this date. Given these changes, the Company is currently in the process of realigning and, in some cases, establishing a new internal control framework, including disclosure controls and procedures. The design of this framework is still being completed. All of these changes have contributed to the Company’s delay in filing interim financial statements and not meeting its regulatory filing requirements.

The Company does not currently have a CFO and the CEO is acting as the de facto CFO with the assistance of consultants.

As at March 31, 2009, the certifying officers have concluded the disclosure controls and procedures and internal control over financial reporting were both not effective due to the material weakness in design described below.

The Company maintained an insufficient complement of personnel proficient in the application of Canadian generally accepted accounting principles (“GAAP”) to

allow timely filing of financial statements. Specifically, management is based in Colombia and lacks experience with Canadian GAAP and Canadian regulatory requirements. This deficiency, which is pervasive in nature, did not result in any adjustments to the interim financial statements, but creates a reasonable possibility that a material misstatement in the financial statements will not be prevented or detected on a timely basis. This deficiency did contribute to the late filing of these interim second quarter financial statements.

Changes in internal control over financial reporting

The appointment of the new CEO during the second quarter and the lack of a CFO has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management will continue to remediate the material weakness through the following:

- recruitment of qualified persons to assist in the implementation of a sound internal control framework
- assistance from accounting and finance consultants in completing the financial statement preparation
- assistance from accounting and finance consultants in documenting and testing of key internal controls
- provide appropriate training to accounting personnel regarding the period end financial reporting process and procedures

Outstanding Share Data

As of March 31, 2009, 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 14,642,589 stock options outstanding, which if exercised, would result in proceeds of approximately Cdn\$31.6 million.

Additional Information

Additional information relating to Coalcorp Mining Inc., including the Company's Annual Information Form, is available for viewing on SEDAR at www.sedar.com and at the Company's web site at www.coalcorp.ca. The Company cautions that information contained on, or accessible through these websites is current only as of the date of such information and may be superseded by subsequent events of filings.

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