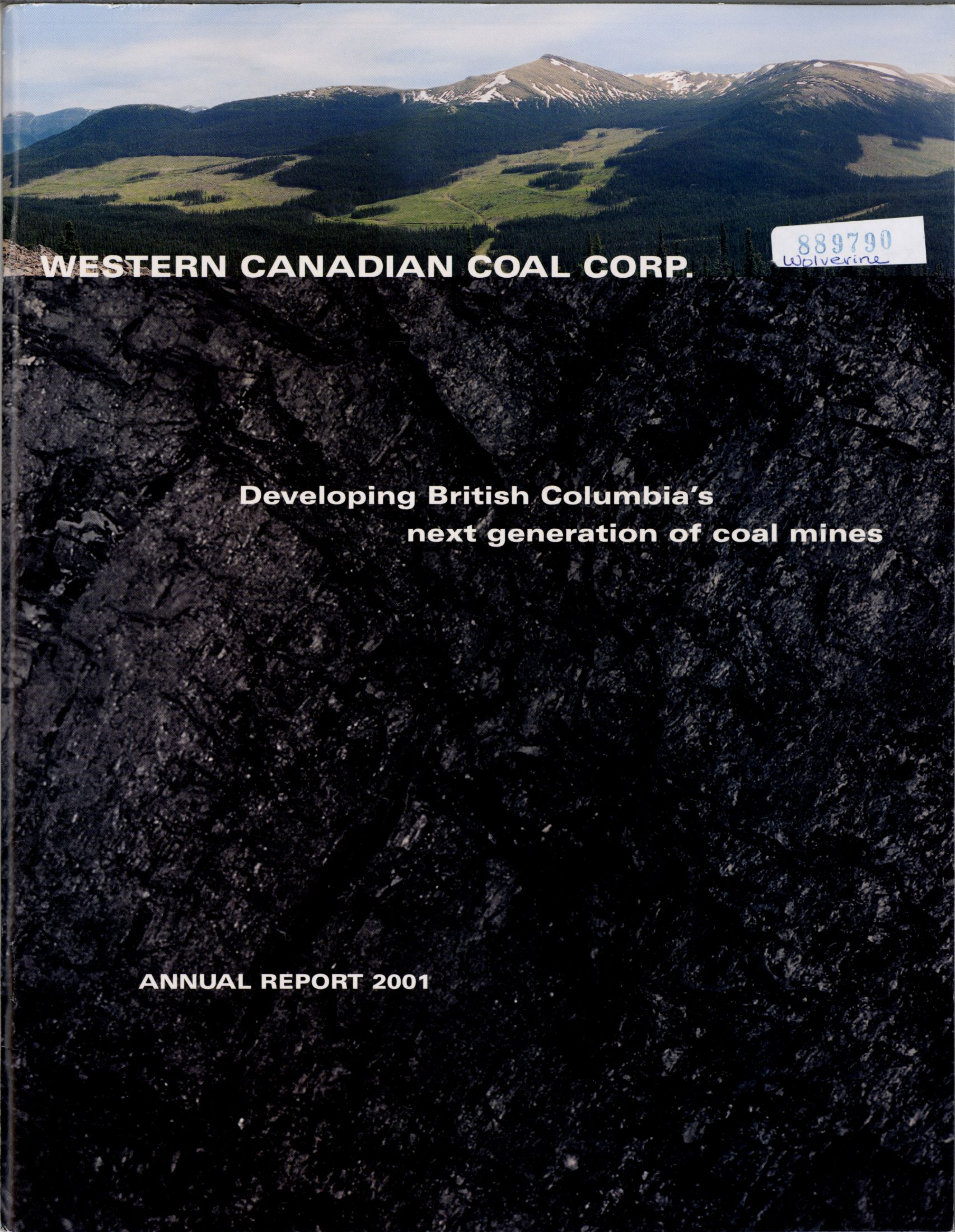


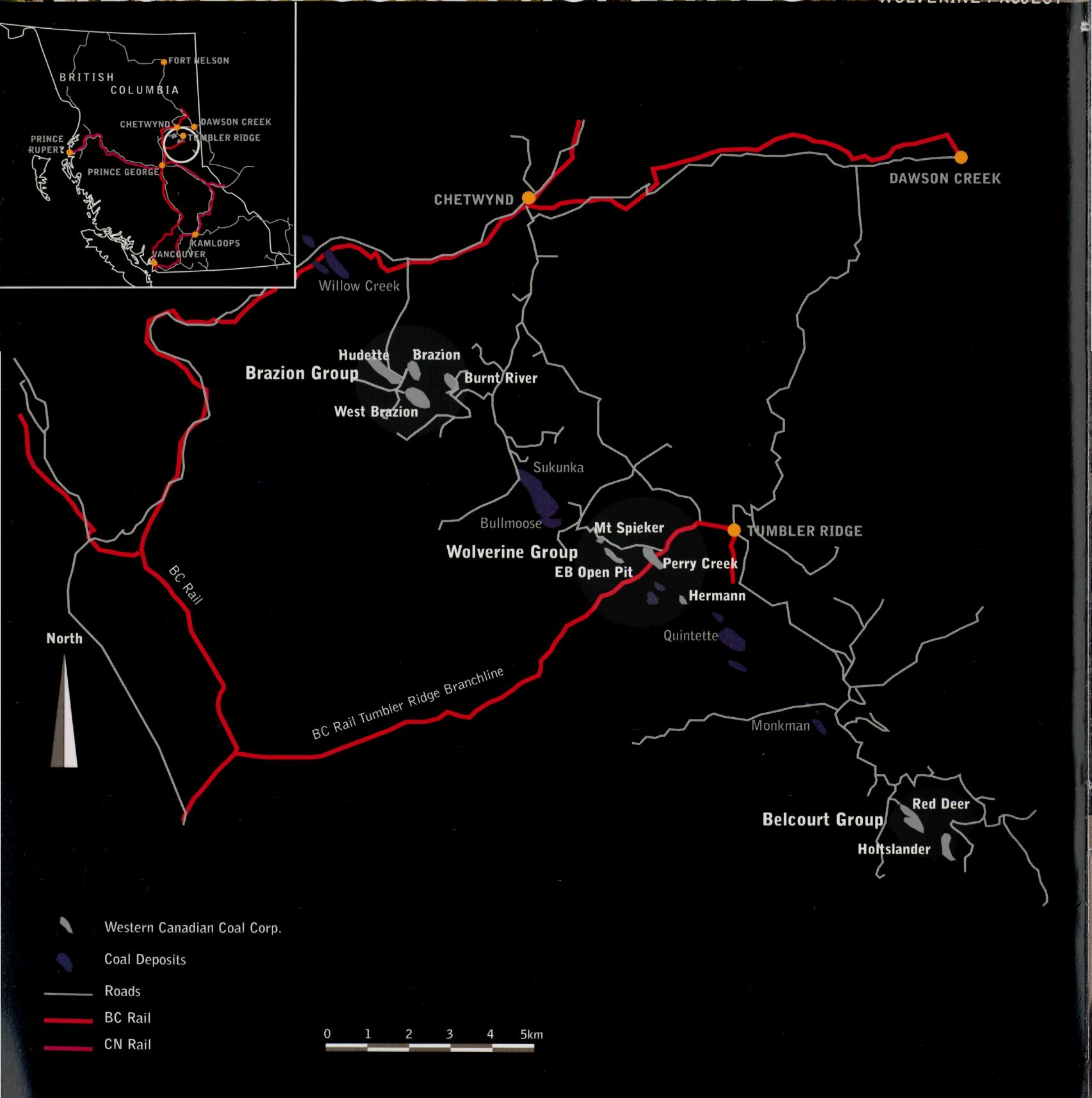
WESTERN CANADIAN COAL CORP.

Developing British Columbia's next generation of coal mines

ANNUAL REPORT 2001

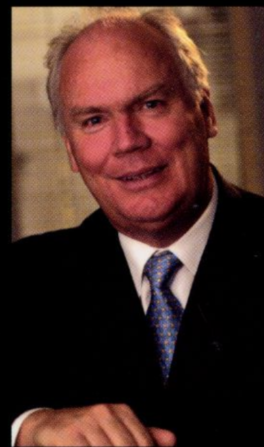
WESTERN COAL PROPERTIES

WOLVERINE PROJECT



CHAIRMAN'S MESSAGE

BRAZION PROJECT



John Byrne, Chairman

The past 16 months has been notable for establishing your Company in a strong position to lead a revival of coal mining and export activity from the north eastern coal fields of British Columbia.

A number of factors have contributed to this achievement. The prime one is that Western Canadian Coal's management has had the foresight to obtain title to the best coal resources in the Peace River coal field at a time when the coal industry was in a long period of recession.

This foresight and persistence during a difficult period leaves Western strategically well placed:

- Extensive coal tonnage, possibly in excess of 250 million tonnes, has been acquired at minimal cost.
- The coal is well located in regard to long-established township, road, rail, port and power facilities.
- The long-term decline in real prices for energy appears to have ended, with demand for thermal and coking coal lifting prices to a sustainable higher level.
- The consolidation of control of the seaborne coal trade is causing import-reliant power stations and steel mills to look for alternatives to the dominant Australian, Indonesian and South African supply sources.

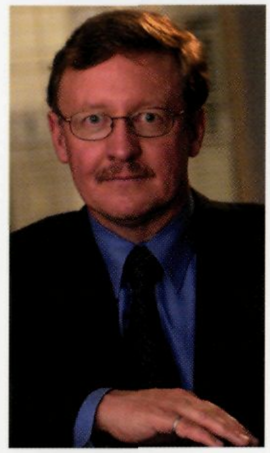
Western's prospects have attracted new investors and allies who have committed to subscribe sufficient funds to take the Wolverine coal deposits through to the full feasibility phase early next year and to advance significantly Western's pre-development work on the Brazion coal deposits. Under a new five-year business plan, Western aims to produce at a rate of 5 million tonnes of coal annually by 2006 and to advance assessment of other deposits with medium to long term development potential.

With its funding arrangements in place and a better outlook for the coal industry generally, your Company is well placed to move forward at an even more rapid pace in the next 12 months.

John Byrne

(Chairman)

PRESIDENT'S REPORT

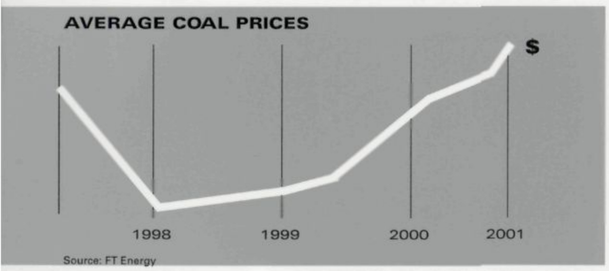


David Fawcett,
President and COO

Western has made substantial progress in the past year and is looking forward to continued growth and project advancement during 2001.

The coal market has seen a dramatic recovery during the past year. Coal prices in all sectors have increased, driven in part by the increase in energy demand and increasing natural gas prices. With the resurgence of coal prices, there has been a marked increase in interest in new coal projects.

To this end, the Company continues to focus its resources on advancing its two primary projects, the Wolverine and the Brazion. The Wolverine project is Western's lead project, with the Brazion project being progressed as a close second. **Western's objective is to develop these projects back-to-back over the next five years so as to achieve annual production levels of five million tonnes at the end of the period in 2006.**

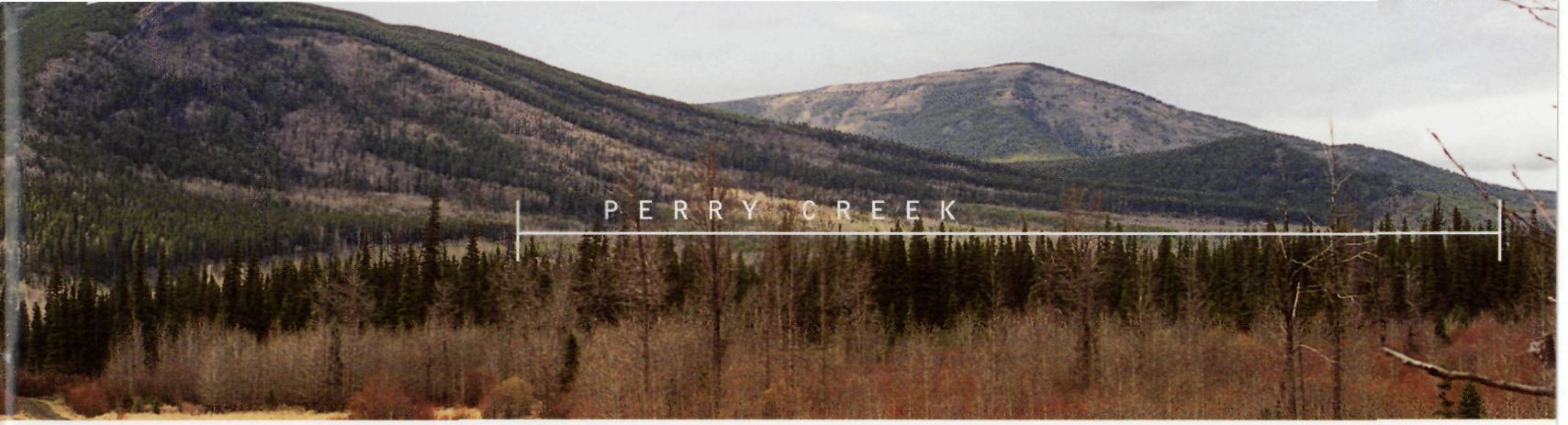


Wolverine Project

The Company continues to evaluate the options for the development of the Wolverine property. The best option appears to be initial development based on open-pit mining (EB North pit), with a phase-in of the underground mine (Perry Creek). This yields the best return, lowest initial capital and a lower level of risk.

Various field programs completed during the year on the Wolverine project, including mapping and an initial drilling program, confirmed the shallow-dipping structure of the underground target (Perry Creek deposit). Norwest Mines Services Ltd. completed a scoping study in January on the potential for an underground mine. The study supports the potential for development of an underground mine based on production of 1.0 million clean tonnes per year of annual production. The conceptual evaluation of development of an underground mine under these conditions showed that such a mine could achieve a favourable pre-tax internal rate of return of 22 % at the low end of this year's coal pricing.

Drilling programs are planned for the summer 2001 to develop a feasibility level database for both the open-pit and underground deposits with the objective of proceeding with a bankable feasibility study in the third quarter. Exploration will also be carried out on the EB Trend with the objective of establishing additional tonnage. Assuming a favourable feasibility study on the Wolverine project is received, the Company will proceed with detailed design and with regulatory approval such that construction could start in early 2003, with production commencing in the 4th quarter.



Brazion Project

During the summer of 2000, geological mapping was completed on the West Brazion property, and a limited drilling program was completed in October. These programs further confirmed the shallow-dipping structure and provided seam thickness and coal quality data. **Given the combination of shallow-dipping seams and favourable topography, West Brazion appears to be amenable to low-cost, open-pit mining. Further, the property is well-located with respect to local infrastructure, with a good network of forestry and oil/gas service roads.** The BC Rail line is 35 km to the north via the Hasler Creek road. Given these attributes, Management believes that West Brazion adds significant value to the Company's asset base, offering another opportunity for early development. With the size of the shallow-dipping structure, the objective for this property is to develop a minimum resource of 30 million tonnes, sufficient to support at least a 15-year mine life at an annual production of 1.5 million tonnes.

The summer 2001 drilling program is planned to establish the limits of the West Brazion deposit and to provide further detail on seam thickness and coal quality. The Company also plans to drill a favourable structure on the Burnt River property to complete the database for feasibility work.

Upon completion of the drilling programs, the Company will proceed with a preliminary feasibility study on the Brazion project, addressing the concept of having a multi-mine development with a central plant and rail loadout.

Above: **Underground resource of shallow-dipping strata.**
Above left: **Geologist mapping with GPS on Wolverine Property.**
Below: **Drilling on the Wolverine Project.**

Financial

The Company recorded a loss from operations of $174,000 for the year ended March 31, 2001, as compared to a loss of $324,000 for the year 2000. The current year's loss was made up entirely of administrative expenses (2000 - $204,000) as expected given the Company's stage of development.

Western financed its operations for the year primarily by completing three private placements of securities for aggregate net proceeds of $650,000 and in addition settled $109,000 of indebtedness through the issuance of shares. At March 31, 2001, the Company had a modest working capital balance of $152,000. This balance was supplemented subsequent to year end by the completion of a private placement of securities for net proceeds of $787,000. In addition, certain outstanding warrants and stock options were exercised by the respective holders after year-end, generating a further $489,000 to the corporate treasury.

A significant portion of the financial backing the Company received during the year was from Deepgreen Minerals Corporation Limited, an Australian company, traded on the Australian stock exchange, with a variety of international resource based investments. By virtue of providing Western with financing for its projects, Deepgreen has become a principle shareholder of the Company. Subsequent to year-end the Company secured another important investor - Mitsui Matsushima Co., Ltd. of Japan. Pursuant to an agreement between Western and Mitsui, Mitsui has been appointed the Company's exclusive agent in Japan and Taiwan for marketing the Company's planned coal production.

Further, Mitsui and Deepgreen have committed to providing Western with additional financing during the coming months as a means of assisting the Company in advancing the Wolverine and Brazion projects. The association of Deepgreen and Mitsui with Western are important milestones as these groups offer not only strong financial backing for the Company's projects, but they also contribute valuable technical and marketing expertise which will be required to see the Company's various projects through to commercial production.

Above: **Drilling on the Wolverine Property.**
Below: **Core samples**

Summation

The Company has built an extensive portfolio of coal assets in northeast British Columbia. With participation from its investors, Western is now poised to advance projects to production, and to contribute to the next generation of coal mines in northeast BC.

David Fawcett

David A. Fawcett
President and COO

PROPERTIES AND PROJECTS

Above: Brazion Project, Central Plant Site

INTRODUCTION

Western controls an extensive portfolio of coal properties in British Columbia, including the Wolverine, Brazion, and Belcourt groups in northeast British Columbia, and the Lillyburt property in the southeast.

The properties in the northeast offer the greatest near term potential given their coal grade, proximity to infrastructure and the exploitable synergies of properties in close proximity. **These properties form an excellent base for the development of British Columbia's next generation of coal mines. Western has set an objective of building 5 million tonnes of annual production over the next 5 years from the northeast properties.**

Development of the coal deposits would take advantage of the infrastructure already established for the northeast coalfields - rail, port, town and other facilities. All stakeholders, including the Government, and the rail and port owners, have an interest in seeing additional development to better use the facilities.

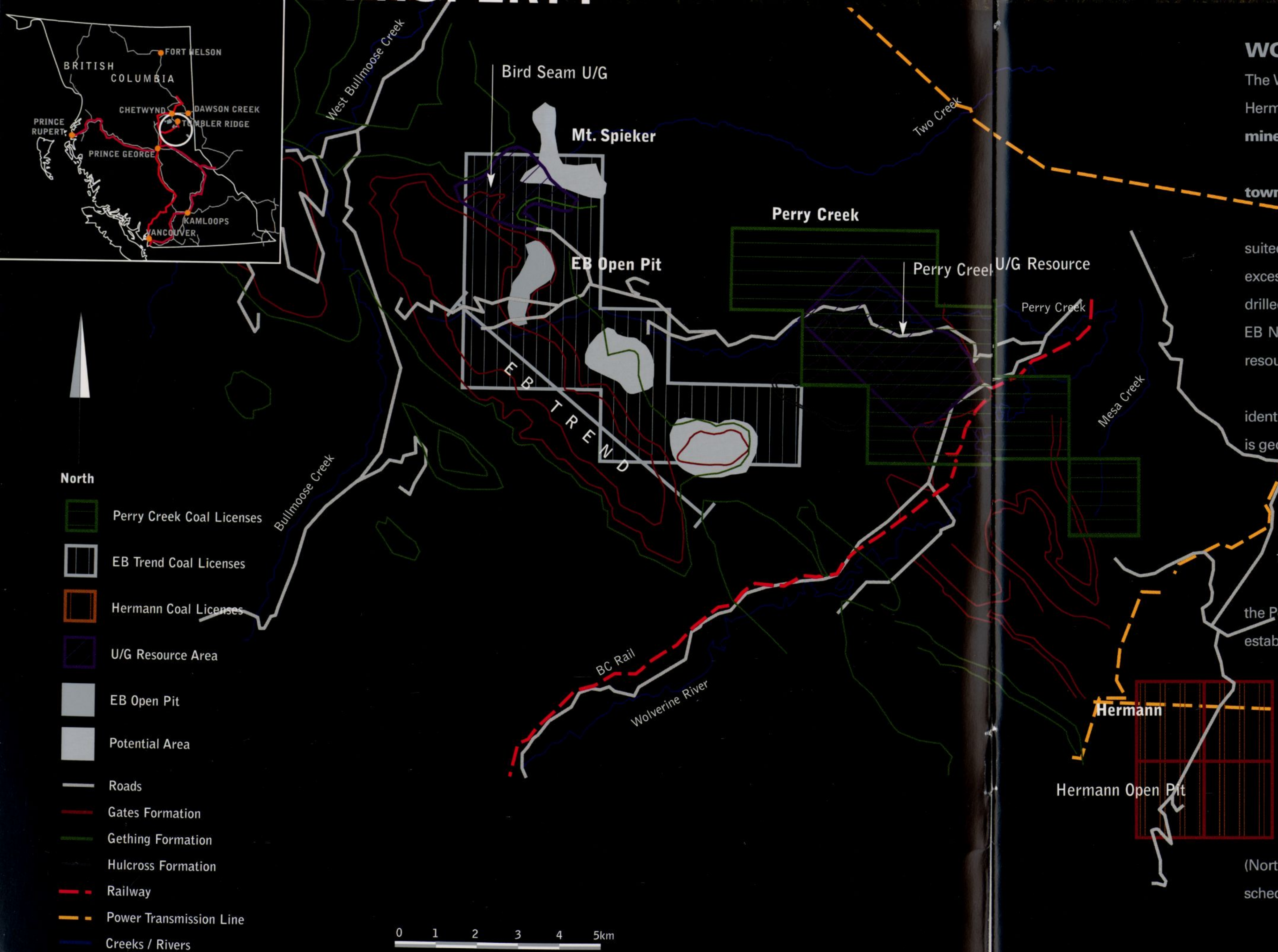
Many of the deposits have had substantial exploration and study work completed. The early feasibility and pre-feasibility work completed on the Belcourt, Burnt River, and Wolverine properties at that time defined large resource and reserve tonnages. Based on Management's analysis of the current and historic information available, a target tonnage has been estimated for each property; the potential tonnage amenable to open-pit and underground mining methods has been estimated to be in excess of 250 million tonnes for 12 identified deposits.

Western has initiated independent third party studies to establish and classify the resources on its properties. A scoping study was completed on a potential underground mine (Wolverine - Perry Creek) in January 2001.

The Wolverine and Brazion projects both offer the opportunity for smaller, lower capital cost projects with potential for development within a short time frame. They both have expansion potential as the resources are further defined and studies completed. Given these opportunities, production is being planned for 2003 for the Wolverine project, and for 2004 for the Brazion project.

This summary has been prepared by the management of Western. The data and documentation, including maps, surface mapping, drill hole logs, and coal quality, are available from the Coal Assessment reports and feasibility work filed with the Provincial Government. All tonnages and interpretations are subject to change as new work is done on the properties and deposits.

WOLVERINE PROPERTY



WOLVERINE

The Wolverine property (24 coal licenses) is divided into three areas – Mt. Spieker / EB Trend, Perry Creek, and Hermann. **These properties lie on the coal trend between the existing Bullmoose and Quintette mines.** They include seams from both the Gates and Gething Formations.

The Wolverine property is on rail with good existing road access and only 23 km from the town of Tumbler Ridge.

Substantial exploration work has been completed. Previous work identified substantial coal resources suited to open-pit and underground mining. The previous work on the Mt. Spieker / EB North area, costing in excess of $3 million, included 40 drill holes (>8000 m), 7 adits, and 55 trenches. An additional 25 holes were drilled in the Perry Creek area. The Hermann property has been extensively drilled with 167 holes completed. EB North lies at the north end of a structural trend (EB Trend) showing potential for extension of open-pit resources along the trend with favourable mining conditions.

In addition to the open-pit potential with the EB North, a significant underground prospect has been identified adjacent to the rail with an area suitable for locating a processing plant. The underground prospect is geologically similar to reserve blocks located at Grande Cache, Alberta, where Smoky River Coal operated underground mines for more than 30 years. The coal is of metallurgical quality.

Western completed a field program on the Wolverine property in July 2000 to better establish the coal seams and overall structure, with particular emphasis on the Perry Creek area. The program included field verification of past work, geological mapping with GPS survey, and trenching.

The field observations and initial review of data confirms the presence of shallow-dipping strata on the Perry Creek deposit suited to underground mining, in addition to the open-pit and underground resources established for the Mt. Spieker portion of the property.

Western's strategy is to develop the open-pit mine (EB North) first at a production level of 1 million tonnes. Once the surface mine is in full production, an initial underground mine is planned. The underground mine could be phased up to 1 million tonnes annually.

In January 2001, Norwest Mine Services completed a scoping study on the underground mine potential for the Perry Creek deposit. The study supports the potential for development of an underground mine based on annual production of 1.0 million tonnes of metallurgical coal.

Western is proceeding with a work program of drilling and coring on Perry Creek and EB Pit (North), and reconnaissance drilling on EB Trend, to be followed by a bankable feasibility study which is scheduled to be complete in March 2002.

BRAZION GROUP PROPERTIES

BRAZION GROUP

The Brazion Group includes four properties southwest of Chetwynd - Burnt River, West Brazion, Brazion, and Hudette (under application), which form the Brazion project.

The most attractive option for this Group appears to be to develop a central washing and coal handling site (about 28 km south of the rail line) for the four properties, with a common loadout system at the rail. Centralized facilities would offer economies of scale, capital reduction, and improved operating parameters, including potential for blending and multi-product production. Alternatively, the properties have potential for individual mines.

Following completion of the 2001 summer drilling programs, Western plans to carry out a preliminary feasibility study for the Brazion Group of properties to select the best mining options.

Given the potential tonnage on each property, Western is targeting a build-up of annual production of 3 million tonnes, with initial production in 2004.

West Brazion

The West Brazion property (6 coal licenses) is located southwest of the Burnt River property. West Brazion licenses were added to Western's portfolio in 1999-2000. Early exploration work by Teck Corporation had identified the presence of Gething Formation coal; and based on limited data had characterized seams as Upper Gething with low to mid-volatile matter contents and FSIs of 4 to 7 ½ (moderate to good coking indicies).

Based on surface mapping and one drillhole completed in October 2000, Western has now confirmed the presence of shallow-dipping coal-bearing strata in a favourable mining situation. Work verified prior drill hole locations and a coal showing previously reported in Teck's Coal Assessment Report 687. Coal quality analyses show that the coal is of coking quality.

Given the combination of shallow-dipping seams and favourable topography, West Brazion may be amenable to low-cost, open-pit mining. Further, the property is well-located with respect to local infrastructure, with a good network of forestry and oil/gas service roads, and a BC Rail line 35 km to the north via the Hasler Creek road. Given these attributes, Management believes that West Brazion adds significant value to the Company's asset base, including another opportunity for early development. Given the size of the shallow-dipping structure, the objective for this property is to develop a minimum resource of 30 million tonnes, sufficient to support a minimum 15-year mine life at an annual production of 1.5 million tonnes.

The 2001 work program includes drilling to delineate the deposit and to enhance the stratigraphic interpretation, establish seam thickness, and further develop a coal quality database.

Above: **West Brazion Property**

- shallow-dipping seams in favourable terrain
- viewed from central plant site
- Burnt River property approx. 15km from central plant site

Above: Hudette Property
Below: Burnt River Property

Burnt River

The Burnt River property (7 coal licenses), is located about 50 km by road south of Chetwynd, B.C. and is accessed by good all-weather roads.

The previous coal license holder (Teck Corporation) conducted extensive exploration in the main deposit, mainly from 1977 to 1985. This adds substantial value to the current planning, permitting new work to start at an advanced stage. The early work included 234 drillholes (~12 900 m) and related coal sampling / coal quality test work, as well as a large bulk sample program in 1985 which shipped 43 000 tonnes of coal to overseas customers. Reported exploration investment expenditures exceeded $2 million, not including bulk sample costs.

Teck Corporation's "Burnt River Coal Project Stage I Report" (1981) identified resources of 23 million tonnes of coal in the Gething Formation at a low waste-to-coal ratio. Geological plans indicated additional coal measures for which resource estimates were not quantified. A raw thermal coal product was proposed, with minimum processing required due to low coal ash levels. Western has not had the resource estimate or coal quality verified by an independent third party.

Kevin James,
Vice President, Exploration

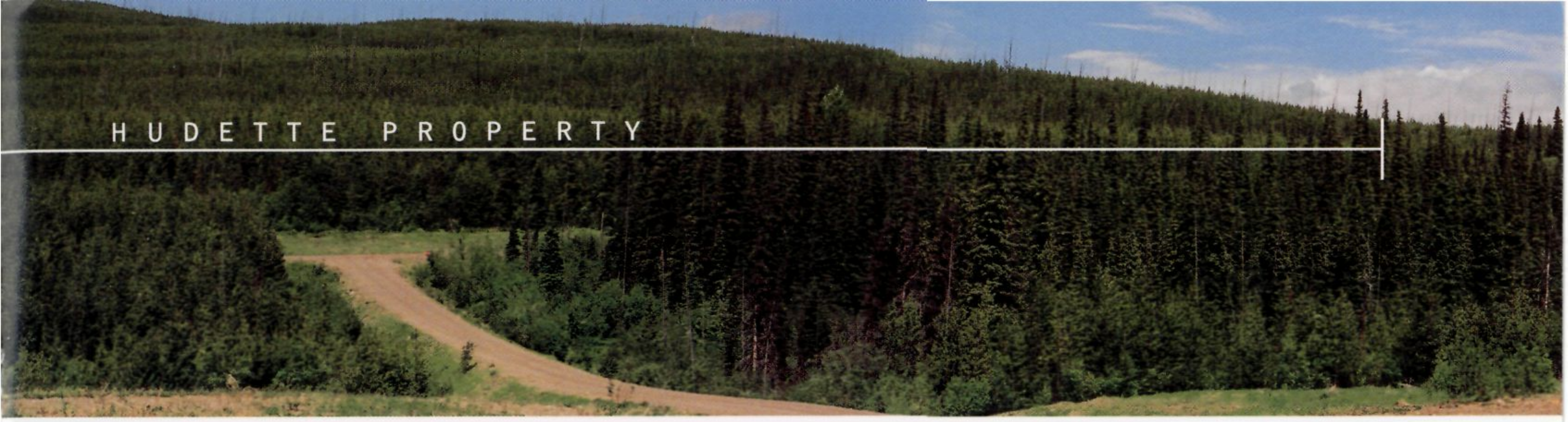
Western conducted field mapping on the Burnt River property in June and July 2000. Work confirmed the location of a number of previous coal showings and identified potential for additional resource development on trends parallel to the main deposit.

Given their high carbon and energy contents, product coals from the main deposit at Burnt River are now expected to compete in the higher priced specialty markets. They are well-suited to the growing low-volatile, pulverized coal injection (PCI) market.

In 2001, Western will complete a drill program on a structure parallel to the main deposit that appears to contain low-ratio tonnage in a mining situation favorable to an attractive start-up pit that could form an early stage of the Brazion project.

Brazion

The Brazion property (4 coal licenses) lies on relatively unexplored Gething coal measures southwest of Chetwynd. Surface exposures in a road cut show potential for surface mine



development. The deposit is about 30 km from rail via the Hasler Creek Forestry Road. Future development of this deposit would take advantage of central processing and coal loadout facilities developed for the larger Brazion project.

The 2001 program will include drilling to enhance the stratigraphic interpretation, establish seam thickness, and further develop a coal quality database.

Hudette

The Hudette property comprises 10 coal licenses that are under application. The area had exploration completed in the late seventies and early eighties; 20 holes were completed. Drilling demonstrated the presence of the Gething coal seams in mineable situations; however, the extent of mineable areas resource tonnage has not been established.

Based on extension of the shallow-dipping strata at West Brazion, and direct observation at Hudette showing flat-lying strata, Western is targeting location of additional resources in favourable mining situations.

The 2001 work program will include compilation and interpretation of existing information, plus initial drilling to improve the stratigraphic interpretation, establish seam thickness, and further develop a coal quality database.

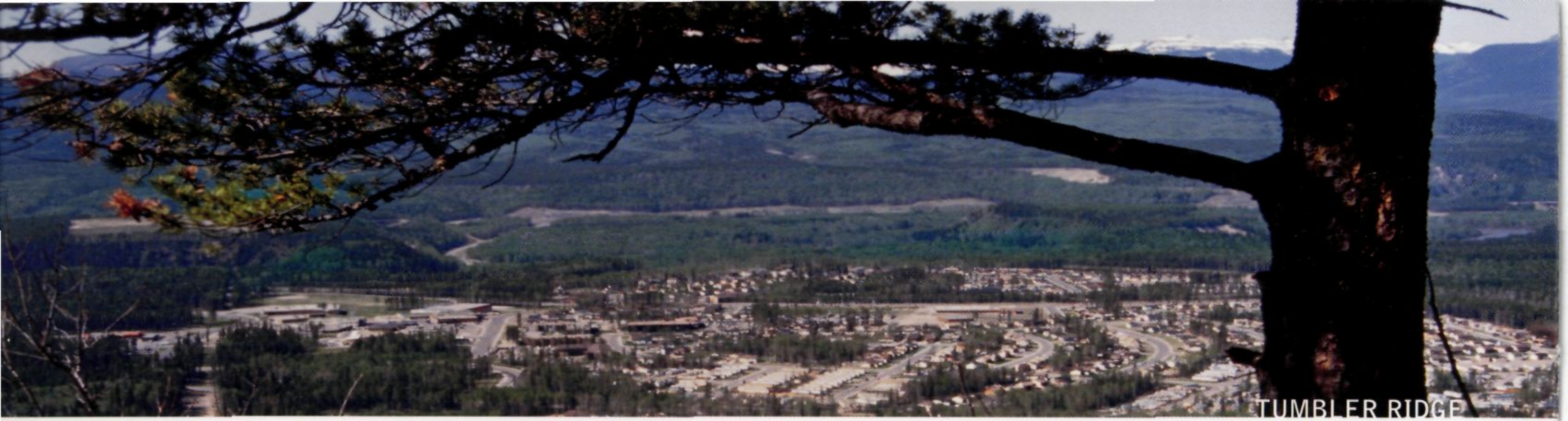
BELCOURT

The Belcourt property (7 coal licenses) is located about 85 km south of Tumbler Ridge. The property comprises two deposits, Red Deer and Holtslander, within the same coal trend, for which the resources and topography are favourable to mining. The coal of economic interest belongs to the Gates Formation.

The Belcourt property was extensively explored in the late seventies and early eighties by Denison Mines Ltd. culminating in a full feasibility study on the Red Deer (northern Belcourt) deposit in 1982.

The coal from the Belcourt deposits is classified as hard coking, with low ash, sulphur, and phosphorus contents, and with excellent coking characteristics.

Above: **Hudette Property, flat-lying strata indicating favourable mining conditions.** Below: **Belcourt Property, Red Deer deposit**



Above: Tumbler Ridge; centre for the Wolverine Project
Below: Chetwynd; centre for the Brazion Project.

Norwest Mine Services Ltd. completed a preliminary feasibility study in May 2000. The study was based on the development of a 2 million tonne-per-year surface mine operation, initially mining the Red Deer deposit, with a shift to the Holtslander deposit for the remainder of the project life. The study identified a combined total coal resource of 141 million tonnes for the Red Deer and Holtslander blocks. Of this, the surface mineable run-of-mine (ROM) coal tonnage amounts to 44.3 million tonnes at an average strip ratio of 5.8:1 bank cubic metres of waste to 1 ROM tonne of coal.

The Belcourt project has been deferred in support of advancing the more strategically located Wolverine and Brazion projects as described above.

LILLYBURT

The Lillyburt deposit is located south of Fording Coal's Coal Mountain mine in southeast BC. In the past, the coal has been classified as thermal, but it does have coking characteristics and semi-soft coking products could potentially be produced. Coal Assessment Report #406 prepared by Crows Nest Resources Limited in 1981, and filed with the Government, provides a tonnage estimate described by the following quote from the report: "Total indicated resources of coal underlying the east block of the property are estimated to be some 133 million tonnes. Geological in-place "reserves" are calculated to be 24.8 million tonnes with an overburden ratio of 3.8 cubic metres rock per tonne coal." Western has not had this estimate verified by an independent third party.

SUMMARY

Western Canadian Coal Corp. has properties and projects with potential tonnage to meet its objective of building 5 million tonnes of production in five years. With the Wolverine and Brazion properties, Western is advancing projects which diversify development and product options, and offer opportunity for early-stage development.

In-fill drilling will set the stage for feasibility studies in 2001. Additional exploration will increase the resource base for future development. When the planned programs are completed, these properties are expected to add significantly to the value of the property portfolio, and form the basis for development of BC's next generation of coal mines.

AUDITORS' REPORT

To the Shareholders of
WESTERN CANADIAN COAL CORP.

We have audited the consolidated balance sheets of **WESTERN CANADIAN COAL CORP.** as at March 31, 2001 and 2000, and the consolidated statements of operations and deficit, cash flows and deferred exploration expenditures for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2001 and 2000 and the results of its operations, exploration expenditures, and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been consistently applied.

Manning Elliott

"Manning Elliott"
Chartered Accountants

Vancouver, British Columbia
June 13, 2001

CONSOLIDATED BALANCE SHEETS

WESTERN CANADIAN COAL CORP.

March 31

ASSETS	2001	2000
CURRENT ASSETS		
Cash and cash equivalents	$ 295,808	$ 114,665
Accounts receivable	76,748	2,863
	372,556	117,528
RECLAMATION DEPOSITS	23,000	5,000
FURNITURE AND EQUIPMENT (net of accumulated amortization of $1,240 (2000 – $641))	2,461	2,931
COAL PROPERTIES (Note 3)	262,249	245,370
DEFERRED EXPLORATION EXPENDITURES (Schedule)	783,701	464,048
	$ 1,443,967	$ 834,877
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 207,365	$ 137,459
Advances from officers and directors (Note 4)	13,000	63,000
	220,365	200,459
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (Note 5)	1,880,962	1,117,462
DEFICIT	(657,360)	(483,044)
	1,223,602	634,418
	$ 1,443,967	$ 834,877

Approved by the Directors

Director　　　　Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

WESTERN CANADIAN COAL CORP.

Years ended March 31

EXPENSES	2001	2000
Management fees	$ 53,000	$ 46,000
Legal and accounting	31,742	34,461
Consulting	31,736	35,850
Rent	19,075	17,788
Transfer agent and listing fees	15,262	9,453
Office and sundry	10,503	22,097
Project evaluation	7,072	4,136
Telephone	4,684	3,111
Advertising and promotion	2,013	15,285
Travel	1,095	11,679
Licenses, dues and fees	1,000	2,953
Amortization	599	216
Interest and bank charges	471	1,177
LOSS FROM OPERATIONS	(178,252)	(204,206)
OTHER INCOME (EXPENSE)		
Interest	3,936	6,908
Other	—	312
Write-down of coal licenses and deferred exploration expenditures	—	(126,756)
	3,936	(119,536)
LOSS FOR THE YEAR	(174,316)	(323,742)
DEFICIT AT BEGINNING OF YEAR	(483,044)	(159,302)
DEFICIT AT END OF YEAR	$ (657,360)	$ (483,044)
Weighted average number of shares outstanding	7,720,752	6,908,762
Loss per share	$ (0.02)	$ (0.05)

CONSOLIDATED STATEMENTS OF CASH FLOWS

WESTERN CANADIAN COAL CORP.

Years ended March 31

CASH FLOWS FROM OPERATING ACTIVITIES	2001	2000
Loss for the year	$ (174,316)	$ (323,742)
Items not involving cash:		
Amortization	599	216
Write-down of coal licenses and deferred exploration expenditures	—	126,756
	(173,717)	(196,770)
Changes in non-cash working capital balances:		
Accounts receivable	(73,885)	15,399
Accounts payable (net of non-cash items)	128,906	95,745
	(118,696)	(85,626)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deferred exploration expenditures	(319,653)	(270,987)
Reclamation deposits	(18,000)	—
Acquisition of coal properties	(16,879)	(80,538)
Purchase of capital assets	(129)	(2,076)
	(354,661)	(353,601)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from issue of shares	654,500	480,418
Advances from officers and directors	—	60,000
	654,500	540,418
CHANGE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	181,143	101,191
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	114,665	13,474
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 295,808	$ 114,665
Cash and cash equivalents included in the cash flow statement consist of the following:		
Cash	$ 45,808	$ 114,665
Term deposits	250,000	—
	$ 295,808	$ 114,665

CONSOLIDATED STATEMENTS OF DEFERRED EXPLORATION EXPENDITURES

WESTERN CANADIAN COAL CORP.

Years ended March 31, 2001 and 2000

	Belcourt	Burnt River	West Brazion	Wolverine	Other	Total
EXPENDITURES						
Balance at March 31, 1999	$ 273,939	$ —	$ —	$ —	$ 3,626	$ 277,565
Coal licenses	65,459	6,249	—	—	3,676	75,384
Consultants and valuations	55,366	10,375	—	—	—	65,741
Prefeasibility study	48,000	—	—	—	—	48,000
Drafting	22,201	19,829	—	—	—	42,030
Geological database	—	30,000	—	—	—	30,000
Field costs	9,618	214	—	—	—	9,832
Expenditures written-off on abandoned properties	(84,504)	—	—	—	—	(84,504)
	116,140	66,667	—	—	3,676	186,483
Balance at March 31, 2000	390,079	66,667	—	—	7,302	464,048
Prefeasibility study	57,000	—	—	—	—	57,000
Coal licenses	15,903	14,406	8,482	4,212	5,260	48,263
Consultants and valuations	7,853	4,006	28,325	95,065	—	135,249
Drilling	—	—	22,253	12,942	—	35,195
Field costs	1,118	3,033	29,230	9,532	—	42,913
Drafting	—	—	805	228	—	1,033
	81,874	21,445	89,095	121,979	5,260	319,653
Balance at March 31, 2001	$ 471,953	$ 88,112	$ 89,095	$ 121,979	$ 12,562	$ 783,701

March 31, 2001

1. NATURE OF OPERATIONS

The Company is primarily engaged in the business of acquiring, exploring and developing coal properties.

Realization of the cost of the coal properties and exploration expenses is dependent upon the Company's ability to finance and develop the coal resources, and its ability to profitably sell any coal produced. Although management believes that it is pursuing a course of action that will accomplish these objectives, the outcome of these matters is uncertain.

Since inception the efforts of the Company have been devoted to the development of its coal resources. To date, the Company has not earned significant revenues and is considered to be in the development stage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles.

b) Principles of consolidation

These consolidated financial statements include the accounts of Western Canadian Coal Corp. ("WCCC" or the "Company") and its 100% owned subsidiary Western Coal Corp. ("WCC") and Ensync Resource Management Inc. ("Ensync"), which is 100% owned by WCC. All of these companies are incorporated under the British Columbia Company Act.

All significant intercompany transactions and balances have been eliminated on consolidation.

c) Amortization

Furniture and equipment is recorded at cost and is amortized over its estimated useful life under the declining balance method at 20% per annum.

The Company applies one-half of the annual amortization in the year of acquisition.

d) Resource properties

i) Deferred Exploration Expenditures — The Company is in the exploration stage and defers all exploration expenditures until such time as the projects are put into commercial production, sold or abandoned. Should a property be deemed uneconomic, the expected amount of recoveries less relevant costs, is written off.

ii) Valuation — The values shown for coal licenses and for deferred exploration expenditures represent costs to date where such costs are not expected to exceed the amount to be recovered in future periods. This assessment has been made based on available information about exploration activities carried out on the properties, the work program in place to explore the properties, the results achieved to date and plans for future exploration work on

the properties, and the sufficiency of the remaining lease term on the properties to conduct the necessary studies or exploration work. However, it is possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amount.

iii) Cost of Maintaining Resource Properties — The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

iv) Amortization — The deferred exploration expenditures and coal licenses will be amortized on a units-of-production basis.

e) Loss per share

Equivalent shares, stock options and pending subscriptions have been excluded from the calculation as their effect would be anti-dilutive. The Company uses the weighted average number of shares outstanding during the period to calculate loss per share.

f) Land reclamation and environmental remediation costs

During the course of acquiring and exploring coal properties, the Company must comply with government regulations with regard to environmental protection.

The costs of complying with these requirements are capitalized, when incurred, as deferred costs until such time as the properties are put into commercial production, at which time the costs incurred will be charged to operations on a unit-of-production basis over the estimated mine life. Upon abandonment or sale of a property, all deferred costs relating to the property will be expensed in the year of such abandonment or sale.

The cost and extent of future site cleanup, reclamation or remediation for work programs will be estimated during the planning stages, at which time a reclamation security bond will be provided to the British Columbia Ministry of Energy, Mines and Petroleum Resources and recorded as such.

g) Use of estimates

The Company uses estimates in preparing its consolidated financial statements based on the best information available at the balance sheet date. These estimates are reviewed and adjusted regularly to ensure that such estimates are reasonable. Future events may result in revisions of these estimates.

h) Future income taxes

The Company accounts for income taxes under the accrual method under which future income tax assets and liabilities are computed based on enacted rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Financial instruments

The Company's financial instruments consist of cash and term deposits, accounts receivable, accounts payable and accrued liabilities, and advances from officers and directors. In management's opinion the Company is not exposed to significant interest rate, currency exchange rate or credit risk arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

j) Cash and cash equivalents

The Company considers cash and cash equivalents to be cash and short-term investments with maturities of three months or less from the original date of acquisition.

3. COAL PROPERTIES

Northeastern British Columbia

a) The Company acquired and holds coal licenses which cover the Red Deer and Holtslander deposits and as a condition of the acquisition has agreed to pay an annual royalty of 0.75% of the selling price of coal sales from the properties to certain shareholders who are also directors, being D. Austin, D. Fawcett and K. James (see Note 6).

b) The Company acquired and holds coal licenses which cover the West Brazion and Wolverine deposits (including Mount Spieker). Pursuant to the terms and conditions of the agreements, the Company has agreed to pay an annual royalty of 1% of the selling price of coal sales from these properties to certain shareholders including D. Fawcett and K. James, directors of the Company (see Note 6).

c) The Company acquired and holds coal licenses which cover the Burnt River deposit.

d) During the year ended March 31, 2001, the Company made an application for coal licenses covering the Hudette deposit.

	2001	2000
Coal licenses recorded at cost	$ 194,501	$ 177,622
Less: amount written off	(42,252)	(42,252)
	152,249	135,370
Southeastern British Columbia		
Coal licenses covering the Lillyburt deposit recorded at cost	110,000	110,000
	$ 262,249	$ 245,370

4. ADVANCES FROM OFFICERS AND DIRECTORS

The advances are non-interest bearing with no set terms of repayment and have been made by officers and directors of the Company or by companies controlled by officers and directors and have been recorded at their exchange amounts.

During the year ended March 31, 2000, certain officers, directors and shareholders incurred expenditures on behalf of the Company amounting to $63,000. These expenditures related to coal license applications on the Wolverine (including Mount Spieker) and Burnt River deposits (see Notes 3.b and 3.c). As consideration for these officers, directors and others making the advances, the Company agreed to pay a 1% coal sales royalty to them on any coal sales from the Wolverine (including Mount Spieker) and West Brazion deposits.

During the year ended March 31, 2001, the Company entered into agreements with certain *officers and directors to settle $50,000 of the total advances of $63,000 through the issuance of shares* (see Note 5).

5. SHARE CAPITAL

Included in consideration is $415,500 for 1,376,250 (2000 - $303,000 for 926,250) flow-through shares pursuant to which the Company has incurred exploration expenditures and renounced these in favour of the investors.

The shares issued to seed investors for cash and for the Lillyburt coal licenses are subject to a pooling agreement of the shareholders. As a condition of the listing of the shares on the Canadian Venture Exchange, these shares are subject to the Exchange's Seed Share Resale Restrictions.

Authorized share capital consists of 100,000,000 common shares without par value, of which the following have been issued:

Issued	Number of Shares	Consideration
Balance, March 31, 1999	5,870,063	$ 637,044
For cash received upon Initial Public Offering, April 28, 1999, (net of share issue costs of $250,832)	1,125,000	480,418
Balance, March 31, 2000	6,995,063	1,117,462
For cash received from a brokered private placement of special warrants (net of share issue costs of $16,000)	1,000,000	184,000
For cash received from a non-brokered private placement of special warrants	499,000	124,750
As consideration for indebtedness to directors and officers	166,667	50,000
As consideration for indebtedness to third parties	196,667	59,000
For cash received from a non-brokered private placement of units	*975,000*	*341,250*
For cash receivable from the exercise of stock options	15,000	4,500
Balance, March 31, 2001	9,847,397	$ 1,880,962

5. **SHARE CAPITAL** (Continued)

Financings

During the year ended March 31, 2001, the Company completed the following financings:

In May 2000, the Company completed a brokered private placement of 1,000,000 special warrants at $0.20 per special warrant for gross proceeds of $200,000. Upon filing of an Annual Information Form by the Company, each special warrant was deemed to be exercised into one common share and one warrant for no additional consideration. Each warrant entitled the holder to acquire an additional share at a price of $0.25 per share until May 29, 2001, thereafter at an exercise price of $0.35 per share, expiring on May 29, 2002.

In July 2000, the Company completed a non-brokered private placement of 499,000 special warrants at $0.25 per special warrant for gross proceeds of $124,750. Upon filing of an Annual Information Form by the Company, the special warrants were deemed to be exercised into 450,000 flow-through common shares and 49,000 common shares and 499,000 warrants for no additional consideration. Each warrant entitles the holder thereof to acquire one additional common share at a price of $0.30 per share until July 11, 2001, thereafter at an exercise price of $0.35 per share, expiring on July 11, 2002.

In July 2000, the Company issued 363,334 common shares as consideration for settling $109,000 of indebtedness including $50,000 owed to directors of the Company.

In February 2001, the Company completed a non-brokered private placement of 975,000 units at $0.35 per unit for gross proceeds of $341,250. Each unit consists of one common share and one warrant. Each warrant entitles the holder thereof to acquire one common share at a price of $0.40 per share until March 7, 2002, thereafter at $0.45 per share until expiring on March 7, 2003.

Escrowed shares

The shares issued for the WCC acquisition together with certain shares held by related parties are subject to an escrow agreement. As at March 31, 2001, 3,194,668 shares remained in escrow (2000 - 3,879,240). The shares are scheduled to be released from escrow as follows: 684,572 shares in April for each of the years 2001 to 2004 inclusive with the remainder to be released in April 2005.

Stock options

The Company's stock options outstanding at March 31, 2001 and 2000 and the changes for the year are as follows:

	Directors and Officers	Others	Number of Options	Exercise price per share
Balance at March 31, 1999	700,000	—	700,000	$ 0.30
Granted	80,000	45,000	125,000	0.30
Cancelled	(205,000)	—	(205,000)	0.30
Balance at March 31, 2000	575,000	45,000	620,000	0.30
Granted	125,000	—	125,000	0.30
Exercised	(15,000)	—	(15,000)	0.30
Balance at March 31, 2001	685,000	45,000	730,000	

All stock options outstanding at March 31, 2000 will expire on April 27, 2001.

All stock options granted during fiscal 2001 will expire on February 20, 2006.

All of these options have vested except for 62,500 of the directors and officers stock options which vest on August 20, 2001.

Agent's options

In connection with the brokered private placement of 1,000,000 special warrants at $0.20 per special warrant completed during the year ended March 31, 2001, the Company issued 150,000 options ("Agent's Options") to its agents with respect to the offering. Each Agent's Option entitles the holder thereof to purchase one unit at a price of $0.20 per unit until May 29, 2001. Each unit consists of one common share and one warrant. Each warrant entitles the holder thereof to acquire one common share at a price of $0.25 per share until May 29, 2001, thereafter at an exercise price of $0.35 per share until May 29, 2002.

Warrants

The Company's warrants outstanding at March 31, 2001 and 2000 and the changes for the year are as follows:

	Number of share represented	First anniversary exercise price per share	Second anniversary exercise price per share
Balance at March 31, 2000	—	$ —	$ —
Issued on December 19, 2000	1,000,000	0.25	0.35
Issued on December 19, 2000	499,000	0.30	0.35
Issued on March 13, 2001	975,000	0.40	0.45
Balance at March 31, 2001 (See Note 7)	2,474,000		

6. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2001, the Company incurred management fees of $10,500 (March 31, 2000 — $16,000) to companies controlled by D. Austin, a director. In addition, management fees of $42,500 (March 31, 2000 — $30,000) and consulting fees of $18,500 (March 31, 2000 — $35,000) were paid to a company controlled by the president, D. Fawcett. During the year ended March 31, 2001, the Company incurred accounting, consulting, and administration fees of $10,900 (2000 — $21,590) to a company controlled by R. McMorran, an officer. During the year ended March 31, 2001, the Company also incurred geological consulting fees of $48,750 (March 31, 2000 — $42,500) to a company controlled by K. James, an officer.

Included in accounts payable and accrued liabilities at March 31, 2001, are $21,400 (2000 — $18,575) due to a company controlled by the president and $21,200 (2000 — $12,500) due to companies controlled by directors. During the year ended March 31, 2001, $50,000 of the total accounts payable and advances owing to directors was settled in exchange for shares of the Company (see Notes 4 and 5).

During the year, the Company paid $2,500 per month to a company controlled by the president pursuant to a management agreement. Effective February 1, 2001, for a period of two years, the Company is

6. RELATED PARTY TRANSACTIONS (Continued)

committed to pay $7,500 per month pursuant to a renewal of this management agreement. The Company is also committed to pay management fees of $1,500 per month to a company controlled by D. Austin, a director, pursuant to a management agreement expiring in April 2002.

Under certain defined triggering events, the Company controlled by the president is entitled to receive a fee equal to 24 months service under the management agreement and a buy-out of existing options under specified terms.

Accounting, consulting, administration, and geological consulting fees are paid on an hourly basis to companies controlled by R. McMorran and K. James, officers of the Company.

Certain directors and officers of the Company are the beneficiaries of the coal sale royalty agreements described in Note 3. a) and 3. b).

The transactions described above have been recorded at amounts which management has determined to approximate market terms.

7. SUBSEQUENT EVENTS

a) Exercise of stock options and agent's options

On April 24, 2001, certain employees, officers and directors of the Company exercised 570,000 stock options at $0.30 per share to acquire 570,000 shares for gross proceeds to the Company of $171,000 (See Note 5).

On May 28 and 29, 2001, the Company issued 150,000 common shares at $0.20 per share on exercise of 150,000 Agent's Options (see Note 5) and 150,000 common shares at $0.25 per share on exercise of 150,000 warrants respectively for aggregate gross proceeds to the Company of $67,500 (See Note 5).

b) Stock options

On May 3, 2001, the directors of the Company authorized the granting of 795,000 incentive stock options to its directors, officers, employees and consultants at an exercise price of $0.45 per share, vesting as to 50% on the date of grant and 50% six months from the date of grant and expiring five years from the date of grant, subject to the approval of the Canadian Venture Exchange.

c) Exercise of warrants

On May 8, 2001, the Company issued 1,000,000 common shares at $0.25 per share on the exercise of 1,000,000 warrants (see Note 5) for gross proceeds to the Company of $250,000.

d) Non-brokered private placement

On May 11, 2001, the Company authorized a non-brokered private placement of 1,500,000 units at $0.55 per unit. Each unit consists of one common share and one two-year warrant. Each warrant entitles the holder thereof to acquire one additional common share at $0.65 per share during the two-year exercise period. The financing was subsequently approved by The Canadian Venture Exchange and a finder's fee is applicable to a portion of the financing.

CORPORATE INFORMATION

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David Fawcett 2,4
Delta, BC

Peter Maher 3
Melbourne, Australia

Shoichiro Yonezawa
Tokyo, Japan

1 Member of the Audit Committee
2 Member of the Compensation Committee
3 Member of the Corporate Governance Committee
4 Member of the Technical Committee

OFFICERS:

John Byrne
Chairman

David Fawcett
President & Chief Operating Officer

Robert G. McMorran, C.A.
Chief Financial Officer & Secretary

Kevin James
Vice President, Exploration

AUDITORS:

Manning Elliott
Vancouver, BC

SOLICITORS:

Devlin Jensen
Vancouver, BC

TRANSFER AGENT / REGISTRAR:

Computershare Trust Company of Canada
Vancouver, BC

STOCK EXCHANGE LISTING:

Canadian Venture Exchange (CDNX)
Symbol: **WTN**

Left to right:
David Austin, Shoichiro Yonezawa, Ken Bates, David Fawcett, John Byrne. (absent: Peter Maher)

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