Western Canadian Coal

Western Canadian Coal Corp.
Q4-2008 Conference Call
Thursday June 19, 2008 at 12:30am (Vancouver)

OPERATOR: Good morning, ladies and gentlemen, and welcome to the Western Canadian Coal Corp.'s conference call to discuss the Q4-2008 and fiscal 2008 earnings.

At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press the * key followed by 0 for operator assistance at any time.

Before turning the meeting over to management, please be advised that this conference call will contain statements that are forward looking and subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. Refer to yesterday's press release for the associated risks.

I would like to remind everyone that this conference call is being recorded today, June 19th, 2008 at 3:30 p.m. Eastern time and will now turn the meeting over to Mr. John Hogg, President and Chief Executive Officer of Western Canadian Coal. Mr. Hogg, please go ahead.

JOHN HOGG (President and Chief Executive Officer, Canadian Western Coal Corp.):

Thank you, Operator. Good afternoon, ladies and gentlemen, and thank you for joining us today. On the call with me is Jeff Redmond, the company's Director of Finance, who will shortly offer some of the financial details of the quarter, and Greg Jones, our Corporate Counsel, and David Jan, the company's Manager of Investor Relations.

To discuss our mines, I'm starting with Wolverine, where we had a difficult quarter. We did not continue to build upon the successes achieved since the last time we spoke. This was due in part to harsh winter conditions in January and February, and also in part to the continued labour shortages. We have a number of positions open and some in positions with limited experience this quarter, and this caught up with us in this quarter. As a result of this, productivity was down as compared to the prior quarter. We did not move enough waste to get at the coal. Therefore our costs for the quarter were much higher than we would have liked.

However, we remain true to our productivity improvement plan with primary focus of improving productivity and drilling waste removal. And while we entered fiscal quarter one 2009 continuing to struggle operationally, we have seen some successes recently. In fact, May was a record month for BCMs moved, which is a key operating metric for us. With the increased waste removal, we expect the coal release to follow.

Now turning to our Brule mine, the fourth quarter 2008 was a good quarter for the operations. The mine is now operating at an annual run rate of 1.3 million tonnes per year. We expect to be able to maintain our current productivity and cost profile at this mine. I'm also very pleased to add that the mine recently won the 2007 John T. Ryan Safety Award. This marks the fourth safety award achieved at the mine since start-up, thus proving that a safe workplace is a productive workplace.

For fiscal quarter one 2009, we did experience some production issues at the mine as a result of a fault in our South Blind pit. This has been overcome and now we have resumed full production. We recently opened South Brule pit that will provide the opportunity to meet custom production profiles for the year.

Let me now turn it over to Jeff for the financial details, after which I will return with some further comments.

JEFF REDMOND (Director of Finance, Western Canadian Coal Corp.):

Thank you, John. I won't take you through all the details of the press release announcing our results, but will offer the financial highlights for the quarter and year ended March 31st, 2008. I'll also point out that the MD&A and financial statements are posted on SEDAR and our website for those wishing to reference.

Sales in the fourth quarter of 2008 were $75.3 million, or 68 per cent higher than in 2007 for the same quarter. This was based on sales of 865,000 tonnes of coal, which is 82 per cent more than in 2007. The average realized price was C$87.04 per tonne in the fourth quarter of 2008 compared to C$94.43 the prior year. The change is a result in the mix of types of coal sold in 2008 versus 2007 and a stronger Canadian dollar in relation to the U.S. dollar.

Cash costs in the fourth quarter of 2008 were $94.50 per tonne. This consists of $58.48 per tonne of cost at the mine and $26.02 per tonne of costs in transportation. This compares to the fourth quarter 2007 costs at the mine of $59.13 per tonne and $27.42 per tonne in transportation. Some of the change is as a result of coal inventory write-down recorded in the fourth quarter of 2008 and some of the production issues already mentioned by John.

As a result, operating loss in the fourth quarter of 2008 was $15.2 million as compared to $1.1 in the fourth quarter of 2007.

Other expenses to note in the fourth quarter of 2008 as compared to 2007 include general, administration and selling costs increased to $9.8 million in 2008 versus $3.7 million in a comparable quarter last year. This was primarily due to stock option grants that were made during the fourth quarter. Interest, accretion and financing fees of $9.9 million in the fourth quarter of 2008 versus $5.4 million in a comparable quarter last year. The increase is primarily due to penalty fees incurred by the company on its long-term debt and the adjustments to the accretion of the long-term debt financing fees as a result of the change in the debt's estimated life.

Additional investment impairment of $1.8 million in the fourth quarter in relation to the company's asset-backed commercial paper, the company has reassessed the fair value of these instruments based on available information regarding current market conditions, the underlying assets of the company's existing trusts and the indicative values contained in the report issued by J.P. Morgan.

As a result, the net loss in Q4-2008 was $37.8 million, or $0.33 per share versus 3.3 million, or $0.03 per share in Q4-2007.

Fiscal year 2008 versus our fiscal year 2007: Sales in 2008 were $252.5 million, 88 per cent higher than in 2007, which is based on sales of 3 million tonnes of coal as compared to 2007 sales volumes of 1.4 million tonnes, 116 per cent higher.

The average realized price was C$82.97 per tonne in 2008 as compared to C$95.12 per tonne in 2007. The change is a result of lower coal contract prices in 2008 versus 2007 and a stronger Canadian dollar in relation to the U.S. dollar. The 10-per-cent strengthening of the Canadian dollar in relation to the U.S. dollar in 2008 impacted sales by over $29 million. Cash costs in 2008 were $86.10 per tonne. This consists of $59.21 per tonne in costs at the mines and $26.89 per tonne in costs of transportation. This compares to 2007 costs at the mine of $52.44 per tonne and $28.36 per tonne in transportation. The change is a result of higher mining costs, resulting from slower-than-anticipated start-up of the Perry Creek mine and the requisite processing required at the Perry Creek hard-coking coal through the coal preparation plant.

Further, coal inventory write-down of $7.3 million was recorded during the year to write down the inventory to its net realizable value, primarily due to the strengthening of the Canadian dollar. Transportation and other costs have decreased as there is no coal haul required at the Wolverine Mine.

As a result, operating loss in 2008 was $40.6 million as compared to an operating profit of $8.9 million in 2007.

Other expenses to note in 2008 as compared to 2007 include general and administration and selling costs were $22.5 million compared to $13.9 in previous fiscal year and the increase is primarily due to stock-based compensation expense recorded in the year, consulting costs due to various consulting engagements in connection with contemplated transactions and the write-off of previously deferred costs relating to an abandoned transaction.

Interest, depreciation and financing fees were $27.3 million versus $10.5 in fiscal 2007. Included in this balance for the year ended March 31st, 2008 are penalty fees of $3.3 million, financing fees of $950,000 and the adjustment of the financing fees which arose when the long-term debt was refinanced subsequent to year end, investment impairment of $3.3 million and terminated contract expenses of $2.6 million recorded in the previous quarters, $6.8 million of foreign exchange gains in fiscal 2008 versus $900,000 in 2007.

The net loss of 2008 was $106 million, or $0.95 per share versus 13 million, or $0.14 per share in 2007. The 2008 results include $23.5 million, or $0.21 per share of one-time adjustments. These adjustments include the write-off of future income taxes, terminated contract expense, investment impairment allowance, abandoned transaction expenses, and penalty fees on the long-term debt.

Falls Mountain acquisition: On March 31st, 2008 the company's shareholders approved the acquisition of Falls Mountain Coal Inc. Despite the transaction not closing until May 6th, 2008, after our reporting period for accounting purposes, the company had acquired Falls Mountain Coal on March 31st, 2008. Therefore, you'll see the acquisition reflected on our balance sheet. While there's no income statement impact, I'll refer you to financial statement note number 4 for how this transaction was accounted for.

Fiscal 2009 guidance: Finally, to close, we are still on track for fiscal 2009 to produce approximately 1.8 million tonnes of hard-coking coal, 200,000 tonnes of mid-vol PCI and approximately 1.7 million tonnes of low-vol PCI. We still expect to produce this for between $90-$95 per tonne, which is pretty much what we've spent in Q4 of 2008. Our capital expenditures for fiscal 2009 will be approximately $90 million, of which $43 million will be production equipment which we anticipate leasing. The majority of the capex this year will go towards getting the Willow Creek mine from our Falls Mountain acquisition in compliance to commence operations commercially in Q3 of fiscal 2009.

With that, back to you, John.

JOHN HOGG:

Thanks, Jeff. Turning to our markets, all of the company's expected hard-coking coal production and ultra-low PCI production for fiscal year 2009 is under contract and have been sold at prices over $300 U.S. per tonne for our hard coking-coal and approximately $248 U.S. per tonne for our low-vol PCI coal, both of which are in line with other major producers.

We only had 155,000 tonnes carried over from our 2007 coal contracts which were shipped early in May 2008. We have now commenced shipments on the new coal prices. We believe demand for metallurgical coal will continue to be strong in the next few years, which is consistent with many industry analysts. We believe continued strong demand by steelmakers, especially those in India, China, and other parts of the Asia, coupled with the continued supply constraints in Australia, coal prices remain very robust over the next few years.

Now a few quick comments on our projects: The company has seen tremendous growth over the past three years. In 2006, we had produced just over 700,000 tonnes of coal; and in just two short years produced over 3 million tonnes in 2008, a three-fold increase. And also during that time span, we also built a modern, efficient plant at Wolverine, on time and on budget.

However, we are not done. We expect to be producing over 7 million tonnes of coal per year by 2012. Growth to 7 million tonnes per year will come from expanding production at our current Wolverine property to 3.5 million tonnes, through expanding our very successful Brule mine to 2 million tonnes, and expanding the recently acquired Willow Creek mine to 1.5 million tonnes per year.

And this doesn't include our 50-per-cent joint venture interest in the Belcourt-Saxon properties. We are in the final stages of completing a feasibility study on these properties and expect to have that report available shortly. The potential there is to produce at least 4 million tonnes per year by 2013.

At Willow Creek, we have commenced refurbishing of the plant and readying the pit for mining. We are still on track to produce low-vol PCI coal at a run rate of 60,000 tonnes per month, commencing in fiscal quarter 03-2009. This will ramp to 900,000 tonnes by the end of next year.

It's probably not surprising with such rapid growth over the past few years we have experienced growing pains. However, I can assure you we are working hard to overcome these. We have a core team of dedicated and experienced people that will oversee the development of the projects, an experience required to operate these mines in a cost-effective manner.

And lastly, a final word on the ongoing strategic review that the company has embarked on. Several third parties have expressed an interest in continuing further in the process outlined by the board. I will caution you there is no assurance that the company will complete a transaction. We rely on the process as determined by our board which has no preset outcome in place or fixed timeline to make a decision. So with that, it would not be appropriate for me to comment further on the strategic review.

Operator, that concludes our prepared comments. We are ready to take questions as I hand the call back to you.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press the * key followed by the 1 on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys. One moment, please, for your first question. Again, ladies and gentlemen, if there are any questions at this time, please press the * key followed by the 1. As a reminder, if you're using a speakerphone, please lift the handset before pressing any keys.

Your first question comes from Gary Hon, of Canaccord Adams. Please proceed. Mr. Hon, your line is open.

JOHN HOGG: Hello.

OPERATOR: The next question comes from Mike Plaster, of Salman Partners. Please proceed.

JOHN HOGG: Operator, we're not getting the questions.

OPERATOR: Mr. Plaster?

MIKE PLASTER:

Yes, hi. Good afternoon. Just on the cost front, the labour challenges that you had in the quarter, have you had any progress towards improving the situation there?

JOHN HOGG:

Yes, we have, Mike. We've made substantial progress in acquiring some technical people. We're still struggling in terms of some of the equipment operators. We have a relatively young workforce up there and we have a very extensive training program in place. We've actually increased our training capacity. We now have five trainers in place. And that is certainly helping. But we all see some improvements. We've recently had a number of people apply to us from the forestry industry, which has seen a downturn in British Columbia, as you're probably aware. So that is helping us.

MIKE PLASTER:

Okay, and with the rising cost of fuel, etc., is your previous guidance of $95 a tonne, I think that was the previous cost for fiscal 09, is that still reflecting your current expectations?

JOHN HOGG:

It is, Mike. But I think as you recognize, fuel is something that's... it certainly hasn't stabilized as yet. We included some increase in fuel that we anticipated, but right now I'm expecting the way it's going that we'll see that even up very quickly. So it is subject greatly to the fuel and also our ability to get through this amount of waste that we have to move to get the coal production back to the targeted levels that we require.

MIKE PLASTER:

Okay. And just in terms of your growth profile, you've obviously got the plans in place, as you outlined, to ramp up your production over the next few years. Just wondering if you could talk for a moment about your customer base and your progress with respect to growing that, as your production ramps up?

JOHN HOGG:

What I can say, Mike, is this year, pretty much everything that we've put out there for sale is completed. Almost all of it under... all of it under contract to five-year contracts. We have a number of those customers that are interested in taking coal from our Willow Creek operation, both the PCI which we are bringing on to start, that's the 60,000 tonnes a month expected in the third quarter of this fiscal year. And then they're also interested in taking some of the metallurgical coal that we'll be producing there later next year.

So right now, we are in a very strong position. The customer base, the current one is very interested in taking additional coal. We also have a number of potential customers that obviously we haven't been able to satisfy because we don't have the coal available. Again, they are quite prepared and ready to sign contracts once we are able to do that as our profile ramps up.

MIKE PLASTER:

Great. Thank you very much.

OPERATOR:

Your next question comes from Gary Hahn, of Canaccord Adams. Please proceed.

GARY HON:

Hi. Would you be able to tell us the spread between PCI and hard-coking coal in term of sales at Wolverine?

JOHN HOGG:

I'm sorry (inaudible) that question. What was that?

JEFF REDMOND:

Sorry, is that for the upcoming fiscal year or the current fiscal year that we've just...?

GARY HON:

The current.

JOHN HOGG:

Can you repeat it, please?

GARY HON:

Yes, I just want to know the spread between PCI and hard-coking coal in terms of sales at Wolverine.

JOHN HOGG:

Roughly 200,000.

JEFF REDMOND:

Yes, just slightly more than 200,000 and the balance being made up of the hard-coking coal.

GARY HON:

That's for Q4, right?

JEFF REDMOND:

Yes, that's for the year to date.

GARY HON:

Okay, and what about going forward, like say for fiscal year 2009, would you be able to give us some guidance?

JEFF REDMOND:

Approximately 200,000.

JOHN HOGG:

Yes.

GARY HON:

Okay. All right, thank you.

OPERATOR:

Mr. Hogg, there are no further questions at this time. please continue.

JOHN HOGG:

In summary, while there is a lot going on in the company, I can reassure you that everyone is strongly committed to driving the productivity improvement plan to lower costs and increase production while continuing to grow the company. 2008 was a watershed year in the company's development as we believe we have turned the corner on the tough times.

We have experienced our share of difficulties, but through the dedication and hard work of all of our employees, the employees of our contractors and the guidance provided by our board of directors, I can say we have come out of it as a stronger company and one that is well positioned to reap the benefits of higher demand and the coal prices for our products for the upcoming years.

Thank you for listening to us today. Please call should you have any further questions.

OPERATOR:

Ladies and gentlemen, this concludes our conference call for today. Thank you for participating. You may now disconnect your line.