Western Canadian Coal

Q2-2008 Conference Call Transcript
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Company Representatives:

John Hogg, President & CEO

Jeff Redmond, Director, Finance

Greg Jones, Corporate Counsel and Corporate Secretary

OPERATOR: Welcome to the Western Canadian Coal Corp's Conference call to discuss the Q2 2008 results. 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 star followed by zero for Operator assistance at any time.

Before turning 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 on November 15th, 2007 at 10:00 a.m. Pacific Time and we'll now turn the meeting over to Mr. John Hogg, President & CEO of Western Canadian Coal. Please go ahead Mr. Hogg.

JOHN HOGG (President and Chief Executive Officer):

Thank you. Good morning ladies and gentlemen and thank you for joining us today. On the call with me this morning is Jeff Redmond, the Company's Director of

Finance, who will shortly offer some of the financial details of the quarter; Greg Jones, our Corporate Counsel and David Jan, the company's Manager of Investor Relations.

Overall, it was a disappointing quarter for the company excluding the impact of actively increasing Canadian dollar has had on our business, some accounting write-downs we absorbed. We also experienced some operational issues at the Wolverine mine which was a major reason for the disappointment. Let me offer you some colour to this.

At Wolverine, the re-ramp up continues, albeit, much slower than we would like. We have some production issues at the mine. The issues arose from equipment shortages, poor equipment up-time due to maintenance issues and low productivity. The lower than expected production has meant an increase in costs. However, we have done our own work and we believe we know what the issues are on making the needed changes.

Some of the significant initiatives include the following: we have brought in a new mine manager at Wolverine, Mr. Bob Bays is our new GM at the mine. Bob brings over 30 years of experience in the coal industry and has a strong maintenance background, as well as being the mine operator, including experience with several mine start-ups. This is exactly what we need at the moment. I will also be taking a more hands-on approach myself to the operations and along with Bob will drive the necessary changes at the mine.

Since the end of the quarter, we brought in five new trucks and a new shovel. This now means we have the right mix of equipment for optimal mine logistics. We continue to work with our new work force in training and creating the proper culture. As is the case with many greenfield mines we have many operators new to the industry. While they may have considerable operating experience on a truck, we know it takes over a year to get the experience level needed to operate in a coal mine in our environment. With the mine just about a year old, we're getting to the point where our operators are almost there.

We've also worked with our mining contractor to get additional resources at the mine. This includes drilling experts, maintenance supervisors and a consultant to provide re-engineering to optimize mine logistics.

And lastly, at the end of this month we will be moving from our temporary warehouse and truck facilities to a permanent facility. This will allow for an improved warehousing system and improve maintenance practises and for the crews to work indoors. With this facility, we expect maintenance productivity to increase and costs to drop.

Now turning to our Brule Mine: it was good quarter for the operations with the mine now performing as expected at an annual run rate of 1.2 million tonnes per year; a 20 percent increase. We expect to be able to maintain our current cost profile at the mine.

And one more point before passing you to Jeff, we've had our rail car supply issues with CN, our rail provider. We needed approximately 92 trains this quarter to move our coal. For the second quarter we only received eight trains. As you can expect, we are working quite closely with CN to improve this situation. We have started to see improvements, for example, in October we received our full allotment of trains and so far in November we are on schedule.

Now, I would like to turn it over to Jeff for the financial details, after which, I will return with some closing comments. Jeff?

JEFF REDMOND, (Director, Finance)

Thank you, John.

I won't take you through all the details of yesterday's press release but will offer these financial highlights for the quarter ended September 30th, 2007. I'll also point out that the full MD&A and quarter financials are available on SEDAR and our website.

Sales for the quarter were approximately 67.9 million or 25 percent higher than the previous quarter. The operating loss for the quarter was $13.5 million; the operational issues mentioned by John, helped to increase the loss but also approximately 3.3 million of the increased operating loss is from the quarter-over-quarter strengthening of the Canadian dollar. Also, due to the rise of the Canadian dollar, the company's inventory was written down by $2.8 million with net realizable value. Although not included in the he operations, the gains both realized and unrealized of foreign exchange contract of $1.7 million were done to reduce the volatility of our sales revenues. On a year-to-date basis, we have realized 11.2 million in foreign exchange gains.

Also impacting the quarter were higher debt servicing costs of 6.2 million due to the accelerated amortization of deferred financing costs relating to the Wolverine Project facility. The net loss for the quarter was $43.9 million or $0.38 per share. The loss was further impacted by several one-time items. These include the following; the above-mentioned 2.8 million write-down of inventory for net realizable value due to exchange rates; 1.5 million write-down for our holdings in asset backed commercial paper; $2.6 million write-down for a terminated sales contract; $1 million in expenses for abandoned transaction costs, and a $14.7 million for the write-down of the future income tax asset. All of these items account for approximately $26 million on an after-tax basis, or $0.22 per share.

Revenues: during the quarter, approximately 737,000 tonnes of coal were produced from the company's property and 856,000 tonnes of coal were sold for total revenue of $67.9 million. The average selling price was US$75.57, compared to the first quarter, a higher proportion of revenue related to the company's ultra low volatile PCI coal.

For the quarter ended September 30th, 2006, the company sold 142,000 tonnes of PTI for total revenue of 10.7 million. The average selling price during that quarter was 67.50 US. The increase in sales over the same quarter last year is due to the inclusion of hard coking sales volume from Wolverine, which commenced commercial production October 2006. Hard coking coal also has a higher price than PTI coal; however, revenues during the quarter were offset by considerably stronger Canadian dollar.

Cost of goods sold: the Company's cost of goods sold include costs of production mining costs, transportation costs and non-cash charges such as depletion, amortization and accretion. Mining costs or costs of production, for the quarter were $47 million or 54.92 per tonne. This includes the write-down of the Company's inventory of $2.8 million.

Transportation and related costs are 26.1 million for the quarter or $30.44 per tonne. Total cash costs for the quarter were therefore $85.36 per tonne. The total costs of goods sold for the quarter however, including non-cash charges, totalled

80.6 million or 95.08 per tonne. This compares to 10.1 million or 71.29 per tonne during the same quarter in the prior fiscal year which did not include production from Wolverine.

Costs during the recent quarter were higher than the first quarter due primarily to the production issues at Perry Creek Mine, as previously discussed by John.

Other expenses: other expenses during the quarter ended September 30th, 2007 amounted to 15.8 million compared to 6.4 million during the second quarter of 2006. Other expenses include the usual G&A and coal exploration expenses offset by interest income on our investments and unrealized foreign exchange gains on our US dollar forward contracts.

For the quarter ending September 30th, 2007, they also include interest and financing costs related to Wolverine. There were two one-time items recorded and other expenses during the quarter; 1.5 million related to the impairment of Company's asset backed commercial papers and 2.6 million related to terminated contracts, most of which were previously mentioned.

The terminated sales contract dispute related to performance bonds posted on a cancelled sales contract that were called by the former customer. The Company does not agree with the exercising of the bonds and is currently reviewing its options.

G&A costs for the quarter were almost 5 million versus 3.5 million in the same quarter a year ago. The increase primarily relates to cost of selling more coal and the resources needed to support that growth over the prior year. This quarters G&A also included the previously mentioned one-time write-down of $1 million in expenses related to abandon the transaction cost.

During the quarter ended September 30th, 2007, we recorded $1 million in exploration expenses compared to a year ago when we recorded 2.7 million. Last year, considerably more work was being done on the Belcourt Saxon properties, whereas this year those expenses are winding down as the Joint Venture is concluding on its feasibility studies. Of the $1 million for the quarter, 287,000 represent a proportionate share of the Belcourt Saxon Joint Venture expenditures.

During the quarter ended September 30th, 2007, we recorded 6.2 million in interest and financing costs compared to virtually nothing in the previous year's quarter; these relate to Wolverine. The previous year, these costs were deferred prior to production.

Other income during the quarter ended September 30th, 2007 amounted to 535,000 which primarily represents an unrealized gain on our US forward contracts. Other income earned during the second quarter of 2006 amounted to 440,000 which was primarily invested income on deposits and foreign exchange gains.

Net loss: the combination of all the factors described above was that the Company had an overall loss of 43.9 million for the quarter. The net loss this quarter reflects the increase in operating costs, other expenses, several one-time adjustments, an increase in financing costs and a write-down of future income tax assets of $14.7 million. During the quarter ended September 30th, 2006, the Company recorded a net loss of 4.8 million after a future income tax recovery of 1.1 million. The write-down of the future income tax asset, which is a non-cash item, is a requirement of Canadian GAAP. GAAP suggests that when there's a more likely than not scenario that the Company cannot generate sufficient tax book income to the future to realize such an asset, it must be written down. Since the Company requires capital to bridge operations until higher coal prices are realized next year, we are unable to, at the moment, provide favourable evidence that the more likely than not scenario is realizable at this time.

Financial position: the Company's aggregate operating, investing and financing activities during the quarter resulted in a net decrease in cash of $23.1 million. During the quarter, the Company raised $5 million from a related party loan and paid down the Wolverine project facility $20 million, following (phon) currencies of 2 million.

As discussed in our financials and the MD&A, the Company's got a capital obligations in respect to completing the Wolverine mine and ongoing debt servicing obligations. The Company's ability to meet these financial obligations will depend on its ability to raise sufficient additional debt end for equity. While we have been successful in the past arranging the capital required to operate the business, there is no certainty that this required capital is available to the Company. You can expect more on this in due course. At this point, we are in negotiations, so it is premature to discuss it further.

Back to you, John.

JOHN HOGG:

Thank you, Jeff. I would like to say that the search for new capital is without a doubt, a top priority in the near term for the Company. We have engaged advisors and are pleased to have Mark Burridge, our largest shareholder's CEO, assist us with this process. We expect to be in a position to announce more detail shortly.

Now, I'd like to talk about the near term pipeline of projects we have in progress. At Wolverine, our Perry Creek Mine is permitted for 2.4 million tonnes per year, although we've experienced a hiccup in getting to that run rate, we will get there. We're also in the process obtaining permits to expand production to 3 million tonnes at the Wolverine Project for the increased production coming from the EB and Hermann Mines which is situated on the property. We expect to get the 3 million tonne permit within the next few months.

At Brule, we are at a run rate of 1.2 million tonnes per year. We have successfully obtained the permit to produce 2 million tonnes per year and we are currently looking at synergy opportunities between Brule and Falls Mountain before expanding production at Brule. And as for Falls Mountain, we have commenced a drill program to confirm the deposits on that property. We are also looking at the permits required to restart the property. We still believe we are the logical operators of that property given the synergies with our Brule mine and we continue to work with Cambrian, our largest shareholder and owner of Falls Mountain on a transaction.

Another few quick comments on the markets. Since the Company was a new player in the marketplace, our customers wanted to try out our coal before making a longer term commitment. We are pleased to say that the customers are very satisfied with the quality of our coal and it is being well received in the marketplace. So with that in mind, we are looking for future security through our current negotiations with our some of our customers for long term contracts. The negotiations are strictly on terms and volumes and as is tradition in the coal business, prices are negotiated annually. The current contracts being negotiated are between two to five years in length.

As for the spot market, we've seen spot contracts for hard coking and PCI coal for as much as $35 per tonne or more higher than current contract prices. Our most recent contract was at US$120 per tonne. With the well documented supply constraints in Australia and the US expected to continue next year and combined with continued strong demand from steel mills in Asia, Eastern Europe and the Americas, we believe contract coal prices will be significantly higher than the upcoming year. We expect negotiations for the 2008 coal year to start in the coming months.

Aside from the short term supply issues, we still foresee global growth in demand from metallurgical coal, especially for the high quality hard coking coals and PCI coals which we produce. I'd also like to remind you that we are still one of the few locations in the world with no infrastructure constraints as our terminal at Prince Rupert and rail provider has excess capacity. This has been very advantageous for us with our customers as it ensures they get their coal in a timely manner.

With that, Operator, we are ready to take questions and I'll hand the call back to you.

OPERATOR:

Thank you. Ladies and gentlemen, we will now conduct a question-and-answer session. If you have a question, please press the star followed by the one 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 speaker phone before pressing any keys.

Your first question comes from Onno Rutten of Scotia Capital. Pease go ahead.

ONNO RUTTEN (Scotia Capital):

Yes, good morning John and good morning everyone on the line. A few questions; first of all with regards to your coal reserves. In the press release today you state that you have changed the long term cost presumption for producing the coal at Wolverine. Should we be concerned about a reserve in Hermann that might be eminent, especially if you also rise in the Canadian dollar?

JOHN HOGG:

I'm sorry I didn't catch that question.

ONNO RUTTEN

In your press release, you state that the cash cost for operations presumed in the he long term at Wolverine has increased from 62 to $72 per tonne.

JOHN HOGG:

Yes.

ONNO RUTTEN

Are you concerned about the needs to impair your reserves? In other words, would you need to do a revaluation of your reserve position at Wolverine?

JOHN HOGG:

No, no. Our reserves do not change. The increased costs are being impacted mainly by increases in delivery rates and some changes we've made in terms of the knowledge we've gained in operating the mine and recognizing that some of our original assumptions were incorrect. So, we've made some changes to adjust that but in terms of the reserve base and the overall amount of coal there, nothing changes.

ONNO RUTTEN

Okay, thank you. Secondly, you talk about the encouraging negotiations that are ongoing with the coal – with the steel makers with regards to long term off-stake contract. Are these steel makers, to any degree, concerned about your capital structure and your ability to deliver, let's say on a two to five year time horizon?

JOHN HOGG:

They certainly haven't indicated that to date. They're well aware of the situation with the Company. They also well recognize that coal prices are going to be considerably higher; they are not obviously telling us that but the clear indications they recognize that. One other important thing, although our costs are still showing an upward trend in terms of what the original feasibility study said, we're still well within the pipe when we look at our competitors both in Canada and our long term costs in Canada and in Australia.

ONNO RUTTEN

Okay, thank you. And then last question on the near term outlook. Weather conditions are mentioned in the press release as being quite severe for this time of the year and secondly, there's the comment, are you expecting mainly to shift mid-fall PCI from Wolverine in the upcoming quarter?

JOHN HOGG:

No. Our intent is to be shipping metallurgical coal from Wolverine. We still have a small tonnage of Mid-Vol, but the majority of the coal will be hard coking coal.

ONNO RUTTEN

So, you did already ship a lot of that Mid-Vol during Q3 or during the past quarter?

JOHN HOGG:

Just let me have a look and see if I can give you some figures on it. We actually shipped from readily in quarter to 150,000 tonnes, unfortunately I don't have – but I can get back to you. I don’t have the exact figure we've got left. I think we have 200,000 tonnes left.

JEFF REDMOND:

No, 258 year-to-date shipped.

JOHN HOGG:

258 year-to-date shipped; so I can't tell you exactly what I've got at the port right now but if you wish, we can get back to you. Okay?

ONNO RUTTEN

Yes, but it sounds like a small amount then. Okay.

JOHN HOGG:

Yes. Yes, we got through the bulk of that product; we will always have some. That's to be expected and we certainly have a much better understanding of where it is in the mine now as we went into a very detailed drilling program.

ONNO RUTTEN

Okay. And the weather conditions are not a concern?

JOHN HOGG:

The weather conditions typically, at this time of the year, we'll start to see the snow coming in and that’s happened. This year, I'm pleased to say, that I believe we will be far more prepared for it. If you recall last year, it was really our first year of operation and the other thing of course I mentioned is that we are, as we speak, preparing to move into our new maintenance shop which is going to have a big impact on the ability to do maintenance in both a timely manner and also make sure that we do good maintenance of projects because we will be in a much cleaner environment. As you know, last year we didn't have a maintenance shop so people were working out in the extreme conditions. So I believe with all of these facets now in place, we will see, what I would call a typical operation through the winter months in northeast B.C.

ONNO RUTTEN

Okay, good luck. Thank you very much.

OPERATOR:

Your next question comes from Peter Epstein of PWP Hedge Funds. Please go ahead.

JOHN HALE (PWP Hedge Funds):

Hi. It's actually John Hale for Peter. Could you just clarify your position on the transportation logistic situation? I thought towards the end of the call, you commented that there was excess capacity on the rail lines but then earlier in the call, I may have miss heard this but I thought you said you had a shortage of train cars. Was that the issue? Can you just clarify?

JOHN HOGG:

I did. When I talk about excess capacity, I'm talking about the use of the track in Prince Rupert and from Tumbler Ridge to Prince George. There is adequate capacity so long as the railroads provide the rolling stock; that's the locomotives and the train sets and the crews to man those train sets. That has been one of the issues that we have been working with CN on and as I said, I'm pleased to report that we've actually had another train set put into the system and we're looking towards them improving that even further. So, when I say it's got excess capacity and if you look at the time between trains, there's lots of capacity on the rail side. It’s not an overloaded system.

JOHN HALE:

Okay and is the shortage the actual locomotives or is it the labourer that operates the locomotives?

JOHN HOGG:

It's all by CN; it's a combination of some rolling stock and of crews.

JOHN HALE:

Okay. Thank you.

JOHN HOGG:

Once again, I must say they are taking it serious and are making corrections.

JOHN HALE:

Okay and how much capital do you think you need? How big of a raise of capital are you looking to do here?

JEFF REDMOND:

Right now we're looking at a capital rate of 15 million and given our current sort of production profile and our working capital requirements, we view this as being sufficient liquidity to get us into next years coal pricing.

JOHN HALE:

Okay. Thank you.

JOHN HOGG:

Beyond that, we will need to look a talk some additional capital obviously, to bring Pine Valley (Willow Creek) on board.

OPERATOR:

Your next question comes from Mike Plaster of Salman Partners. Please go ahead.

MIKE PLASTER (Salman Partners):

Thanks very much. Actually, you just sort of touched on what I was going to ask you there with the -- you're obviously still looking at exercising your option to purchase Falls Mountain. Can we assume that you might be looking at some sort of financing package that would allow you to proceed with that as well as raising the 15 million that you just mentioned?

JEFF REDMOND:

Yes Mike, it would be two separate sort of scenarios. One is sort of looking at what our requirements would be to get us through to the end of the year and then also taking a separate look, and there are a number of options available, but to take a separate look at sort of rolling that asset into the mix with our current portfolio.

MIKE PLASTER:

Okay. You mentioned you might be making an announcement some time soon; can you elaborate any more as to when we might see that? Is that sort of within a few weeks or months or...?

JEFF REDMOND:

It's sort of -- right now, it's a bit premature to say but we will certainly bring it to the markets attention as soon as we're aware and we've got hard facts to go with.

MIKE PLASTER:

Okay. And just on your expectations from an operational standpoint. Where you see costs going this quarter, next quarter and also the incentive pricing? I mean, you sort of talked about some of the progress you’re making towards reducing of costs payable to quantify that at all and also for the incentive pricing.

JOHN HOGG:

It's tough to do that Mike, right now. As I mentioned on the pricing, I think you can clearly see what's happening in the market place, not only with Western but with other coal companies, particularly on the spot market; the demands out there. And our costs, with the initiatives that we've got in place, I would expect to see some positive changes over the next few months. Bear in mind, we are going into winter again.

MIKE PLASTER:

Okay. And just finally on foreign exchange and your sensitivities; are you able to give any sort of specifics in terms of what the impact is, either with or without your hedge quote or either top line or bottom line?

JEFF REDMOND:

Well, when we started the year in April, the dollar was 1.17 and it went – and it did go down to $0.90 last week and we've seen some significant volatility there; 60-year sort of swing and then on Monday there was a 36-year swing the other way. And you know Mike, I'll refer to you back to the Chairman’s message that was just recently posted and put out in a press release just, I guess, late last week.

MIKE PLASTER:

Okay. Thanks very much.

OPERATOR:

Your next question comes from Gary Lampard of Canaccord Adams. Please go ahead.

GARY LAMPARD:

Yes, thanks. I've got a couple of questions; the first one is specific on the operational issues at Wolverine. When I guess, in a model, I'm working out that your operating costs, including transport at Wolverine, were about $97 Canadian at (inaudible) this quarter and if when you answer it, if you could confirm whether that's close enough within a couple of dollars or so, that would be helpful.

JEFF REDMOND:

You're exact with your -- is that cash costs or depletion, including depletion?

GARY LAMPARD:

Cash.

JEFF REDMOND:

Yes. Well, I'll have to get back to you to kind of give you a more specific range there, but I just need to go back to that Gary, and review it.

GARY LAMPARD:

Okay. That would be helpful. And then when, with the new life of mine plan with a life of mine cost of $72 Canadian, you're obviously expecting very large improvements. What -- you've touched through some of the issues, which is equipment shortages, maintenance, et cetera. Can you also, you also talk about strip ratios? The strip ratio was 5.8 to 1, I think it was in the quarter just gone; what are you expecting life of nine? And can you also give us an idea of what you're expecting for the current quarter and for next year?

JOHN HOGG:

Yes; looking at our life of mine plan, I think what you're talking on, by the way is the, is a rock haul business?

GARY LAMPARD:

That's right.

JOHN HOGG:

You're looking at about 6.2 to 1, and on a clean basis 8.9. One of the problems we have in the near term is because we're so behind on our waste removal we'll see some increases in strip ratio over the next few years. Not -- not huge, but there are increases, as you well recognize with all the difficulties we've had. We have not moved the waste material to get at the coal. So what we're looking at, for instance, for I'm going to call it the forecast October to March of this year, on a raw coal basis, we're looking at about 5.8 to 1.

GARY LAMPARD:

Okay.

JOHN HOGG:

Our plan for next year, we're looking at about 6.76, 6.8 to 1.

GARY LAMPARD:

Was it 6 point, 6 to 6.8 to 1, is that right?

JOHN HOGG:

Six point 7.6.

GARY LAMPARD:

Okay. Okay. Second, second question; general one on liquidity because obviously bridging the gap between now and next year's coal prices is fairly important. Your contractual obligation for the next 12 months are 54 million; how much of that is this quarter and next quarter?

JEFF REDMOND:

We would have seen all of those been realized, 54 million; those would be realized all this quarter. Is that right?

GARY LAMPARD:

I doubt that's correct. I'm talking on page 17 of the MD&A and it is payments due by year less than one year, it says 54 million.

JEFF REDMOND:

Oh, my apologies; I thought you were making clear…

GARY LAMPARD:

Yes.

JEFF REDMOND:

I thought you were making reference to something else.

GARY LAMPARD:

Nope.

JEFF REDMOND:

And so can you repeat the question?

GARY LAMPARD:

For the 54 million of commitments in the next 12 months, of that 54 million, what's the value this quarter and what's the value next quarter?

JEFF REDMOND:

Let me get back to you Gary and I'll give you the breakdown, but what this table looks at is sort of 12 months out from the current reporting period, so from September 1st through to of course it's from October 1st through to September 30th, 2008. So, if I could get back to you and we can go through that that would probably give you a better answer.

GARY LAMPARD:

Okay. And then one final question before I hop off for others; it's talking about the Falls Mountain, Pine Valley assets and that transaction. I see that one of the options is that if the transaction hasn't taken place by I think it's March next year, then Cambrian has the option to purchase the Brule deposit, and just some colour on whether or not you've had those discussions with Cambrian. Whether that's a, still a potential outcome and this might be jumping the gun a bit, but an idea of the potential valuation of the Brule access?

JOHN HOGG:

We really haven't had those discussions yet, Gary. One of the things is that we -- Cambrian have been extremely supportive and obviously recognize that we're obviously the best operator for that mine, particularly with the Brule Project. So, we right now, have been focusing on our efforts on how we bring this transaction to a conclusion.

And if we did go to value it, I'll let Jeff answer that.

JEFF REDMOND:

We would -- I believe under the agreement, the agreement, there's a clause in there that would go to an outside independent valuator and we would then use that as the sort of go-forward number. But you know, as John mentioned, Cambrian has been extremely supportive and they're, you know, it makes good sense for that asset to be part of our current portfolio. Given the synergies and you know, the production possibilities with Brule and the type of coal also, as well.

GARY LAMPARD:

Okay. I'll jump off the call now and let somebody else have a go.

JOHN HOGG:

Thank you.

OPERATOR:

Your next question comes from Lee Goldman of First Asset Funds. Please go ahead.

LEE GOLDMAN (First Asset Funds):

Yes; a question regarding your outstanding convertible debentures. In the indenture, it states that payment on the debentures will not occur in the event of a default on the senior indebtedness. So, in your press release you say that you're in violation of certain financial covenants regarding the current ratio and covenants relating to financial planning in certain mine information to the lenders. Can you just confirm that you are not in default though, on your senior indebtedness?

JEFF REDMOND:

We are not; we have a waiver.

LEE GOLDMAN:

Okay.

JEFF REDMOND:

We sought and received a waiver and one of the things that, because of the accounting technicalities and point to, I guess it's in note nine in the financial statements, we were required to sort of disclose that on a go-forward basis. The Company was then unable to, at September 30th; demonstrate that it was going to be in compliance with an absence of third party -- outside financing, that we'd be in compliance with the current ratio. So therefore, because of the technical guidance, the accounting guidance that we were required to adhere to because of the nature of the financial statements, we had to disclose it as such.

So, we have sought and received waivers…

LEE GOLDMAN:

Okay.

JEFF REDMOND:

And sort of right now, the Company's not in default of any of its senior debt obligations.

LEE GOLDMAN:

And those waivers are a limited time of how does that work?

JEFF REDMOND:

They'll be required at each reporting period and you know, we'll deal with them on a go-forward basis.

LEE GOLDMAN:

Okay. Thanks very much.

OPERATOR:

Your next question comes from Tim Dudley of Arbuthnut Securities. Please go ahead.

TIM DUDLEY (Artbuthnot Securities):

Yes. My first question is regarding the yield of the Perry Creek Mine, tonnes from the mine of 58.6 percent versus what you're expecting and just wondering what was the cause of that.

And secondly, whether the area that you've identified at, I think, lower quality in the pit. Is that an effect of weathering or is that something that's more to do with the, you know, the long-term nature of the deposit?

JOHN HOGG:

It's a combination of things, not just one. First of all certainly, we have got a lower yield out of the, the low PCI, which we expected because of the inabilities to process the very fine component of that.

Secondly, we have to maximize the production out of the pit, we have been taking more dilution within the pit itself and that's been a conscious decision based on the plant capacity we have. It's a relatively small amount of money to process the additional product through the plant and recover the valuable coal out of it. So, those are the two main areas that we -- that has impacted the yield.

We also have seen a difference in yield in the two phases of the pit and we're doing some work on that right now; I can't give you a clear answer why that is but there is a definite difference in the yield from phase one to phase two.

TIM DUDLEY:

Thanks. And the second question I have is regarding your transport costs. In proportion, you know, they're quite large and 26 million for the quarter. I'm just wondering whether you can give us a break up of how much of that's attributable to the rail transportation, how much is attributable to the haulage from the Brule Mine?

JOHN HOGG:

I really can't give you that information; splitting it down, as they are confidential agreements between each of the parties.

TIM DUDLEY:

Okay. Then can you shed some light on -- is the agreement a fixed price contract, or you know, how is that the contract structured for those two (inaudible)?

JOHN HOGG:

The rail contract is a fixed rate per car and each car is handling around about 100 tonnes and the term is 2000 and yes -- I'll confirm the term, I believe it's 2009, but if you wish, I'll confirm it for you.

TIM DUDLEY:

Okay. And with the haulers contract, is that up per tonne?

JOHN HOGG:

(Inaudible). Let me just finish on that for you quickly. That's Wolverine and Brule; that's a different term and I don't have it in my head right now, but it is a different term.

TIM DUDLEY:

Okay. Thanks very much.

OPERATOR:

Your next question comes from Eldon Brown of GMP Securities. Please go ahead.

ELDON BROWN (GMP Securities):

Hi John. A bunch of my questions have been covered already, but I'll just try and keep it brief here. With regards to the permitting at Willow Creek that you need to investigate for re-operations, is that preventing you -- I remember it was part of the arrangement that until you complete a transaction with Cambrian that they would allow you, at a small price, to use the Willow Creek load-out. Is that preventing you from using the Willow Creek load-out right now, or would that not make any sort of financial advantage anyway at the moment?

JOHN HOGG:

We've looked at doing that. Well, first of all, we could get a permit to use the load-out if we so required. We actually investigated that and as part of the investigation and study we determined that currently it didn't make any financial sense to use that load-out for the Brule coal.

What would really help there would be to have a connecting road between the Brule Mine and the Pine Valley Mine, which would take us off of the main highway and we actually have a plan for that. We haven't executed it for a number of reasons but if we did that, it would certainly be an advantage to using the Brule load-out; but currently under present conditions, no.

ELDON BROWN

Okay so currently, at the moment, there's not a non-highway access road between the two mines. Okay.

JOHN HOGG:

Correct.

ELDON BROWN

That's excellent. And how long do you think the permitting process would take to re-open it once it's initiated?

JOHN HOGG:

Probably require to get to the 900,000 tonne level.

ELDON BROWN

Sorry, this isn't the load-out; (inaudible) to the increase in coal production, yes.

JOHN HOGG:

The load-out? Very quickly; it's -- we could probably do it within probably a month, subject to the availability of people within the various departments being available.

ELDON BROWN

Okay.

JOHN HOGG:

It's not a long process.

ELDON BROWN:

Okay.

JOHN HOGG:

Sorry, I thought you meant the whole mine.

ELDON BROWN:

Yes. No, no. I understand that you already probably had that in process to try and increase production there as soon as possible.

With regards to the upcoming, like with the forward sales contract negotiations, you said that it's typical that you're brushing the $35 step-up in prices year-over-year here. Did you briefly comment that you had -- do you have some contracts in place for the $120 a tonne already?

JOHN HOGG:

We have some -- sold some coal on the spot market.

ELDON BROWN: Oh, okay.

JOHN HOGG:

But it's not a contract in tonnage.

ELDON BROWN Okay, so you are having -- so any spot market you have sold some extra coal at 120?

JOHN HOGG:

Yes, yes.

ELDON BROWN

And the negotiation -- it would probably be ongoing now. Do you have any anticipation of what month those might be announced, or for the pricing might, could be announced or firmed up in?

JOHN HOGG:

It would be difficult for me to tell you, but other than to say that typically, it's in the new year some time.

ELDON BROWN:

Okay.

JOHN HOGG:

I call, as we're in the mating season right now, or we're coming into the mating season.

ELDON BROWN:

Okay, so it would probably be post the financing, so you wouldn't be able to have a contract pricing again before the…

JOHN HOGG:

We may have contracts, but we won't have the prices for the contracts.

ELDON BROWN:

Okay.

JOHN HOGG:

(Inaudible) contracts.

ELDON BROWN

Okay. I can see that providing some support to the case of the price (inaudible).

JOHN HOGG:

No. Let me make that very clear, we're very close to achieving contracts with a number of steel mills. In relation to what pricing we'll get from them next year that probably won't occur until some time in the new year.

ELDON BROWN

Okay, terrific. And then really I just, I think I have one more here. With regards to the long-term (inaudible) mine cost increases of the 62.16 to about the 72 say; on the 72, what would the breakdown be between transportation costs and mine operating costs in the same way sort of, you know, in the current quarter unfortunately, it's like 85, which was 38.55? What would the two component pieces be to get to the 72?

JOHN HOGG:

Could I get back to you on that? I don't have the figures in my head. As I recall, most of it's actually at the mine site. There is some obviously for, into the transportation, but…

ELDON BROWN:

Okay.

JOHN HOGG:

We'll get back to you, if that's okay with you.

ELDON BROWN

Okay and that's reasonable because I'm trying to determine is right now, it ran about $55 a tonne at this site this quarter and if the long-term number isn't too far down from there, it's to what extent efficiencies really improved your situation before the better pricing comes in.

JOHN HOGG:

Yes, we'll get back to you on that.

ELDON BROWN

Okay. Great, well thank you.

OPERATOR:

Ladies and gentlemen if there are any additional questions at this time, please press the star followed by the one. As a reminder, if you are using a speakerphone, please lift the handset before pressing the keys.

Your next question is a follow-up question from Onno Rutten of Scotia Capital. Please go ahead.

ONNO RUTTEN

Yes, thank you for the second opportunity. Three very small questions: one the later party loan for 5 million; there was a clause in there, I believe, that if you would take more than $10 million you would have to repay that loan. Is that clause going to be bigger?

JEFF REDMOND:

That was, in fact, in our disclosure and I think it's something that we'll be discussing with Cambrian as we go forward with this next equity raise.

ONNO RUTTEN

But if you target an equity raise of 50 million, currently the covenant would require you to repay the loan, correct?

JEFF REDMOND:

Under the current, yes.

ONNO RUTTEN

Okay, thank you. Secondly, the Canadian dollar's hedging; you have an agreement in place, I understand, until the end of the calendar year 2007 at, I believe, 101 or 102. Do you have currently any currency hedges in place for the calendar Q1 of 2008?

JEFF REDMOND:

No. Right now, we're on the sidelines and as I mentioned in the call previously, you know, with sort of a 60-year swing in strengthening of the Canadian dollar and then as of recently, the Monday, there was a 36-year bump. There's a lot of volatility there right now, so we're currently sitting on the sidelines.

And one of the things, as we go into our budgeting season, which is starting in early December, we'll look at our whole strategy for the balance of next year's coal year and it will also help when we have pricing in hand, to sort of set the mark there and allow us to, you know, focus on operations versus the currency gain.

ONNO RUTTEN

Yes, but my second question is specifically for the first quarter because, except for some minor spot sales…

JEFF REDMOND:

I think what we will definitely look at it on a short-term basis and we will, we will address it, but as I said there's been a lot of volatility and we'll do our best to sort of lock exchange gains against -- lock exchange pressures against the expected shipments.

ONNO RUTTEN

Okay, perfect. Thank you very much.

OPERATOR:

Your next question is a follow-up question from Gary Lampard of Canaccord Adams Capital. Please go ahead.

GARY LAMPARD

Yes, thanks; three more actually. The first one is just a follow on from Arno. In the notes, it says that you have the option to extend that currency hedging to March 2008 at 1.01. Is that correct?

JEFF REDMOND:

The bank; it's the bank's option.

GARY LAMPARD

Okay. Got it; yes, misunderstood. Okay, second question: in order to improve the operational efficiency at Wolverine, what additional CAPEX do you think might be required?

JOHN HOGG:

It's not a huge amount, Gary; I'd have to get back to you. It's probably another loader and then some replacement. So in actual fact, any additional equipment is very limited.

GARY LAMPARD

Okay. And the third one; probably a bit of a sticky question to ask today, but in terms of a change of ownership or somebody wanting to come in and buy Western Canadian, is there anything in any of the debt or perhaps with the convertible equity, that would make this difficult to do?

JEFF REDMOND:

Gary, rather than answering that one off the top of my head, let David and I go and we'll take a look at all of the agreements and just, just give you the right sort of answer here with regards to that.

GARY LAMPARD

Okay.

JEFF REDMOND:

And I think there's some, there may be, in the convertible debentures, I think there's a clause there with respect to change of ownership.

GREG JONES (General Counsel):

There's some change in control.

JOHN HOGG

There's change in control provisions there, but we will, we can obviously sort of get into the details, you know, after this call with you.

GARY LAMPARD

Okay that's fine. Yes okay, thanks a lot.

OPERATOR:

Gentlemen, we have no further questions at this time, please continue.

JOHN HOGG:

Thank you, Operator. In summary, it was a difficult quarter for the Company. While there's not much we can do with the rapid increase in the Canadian dollar, the growing pains we are experiencing in the operations can be overcome. Everyone in the Company's confident and focused on increasing production, reducing costs, while maximizing the value of each tonne of coal we sell.

We know what the operational issues are and we have a plan in place to correct them, and with new leadership in the mine can to do it.

While it may not be evidenced in our results immediately, we will get it right and when we do, it will coincide with a significant increase in coal prices.

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

OPERATOR:

Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation; you may now disconnect your line.

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