



Western Canadian Coal

**Western Canadian Coal Corp.
Q2-2009 Conference Call
Friday November 14, 2008 at 8:00am (Vancouver)**

Company participants:

John Hogg, President & CEO

Jeff Redmond, Director, Finance

OPERATOR: Good morning, ladies and gentlemen, and welcome to the Western Canadian Coal Corp.'s conference call to discuss the Q2 2009 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 your * key followed by the 0 for operator assistance at any time.

Before turning the meeting over to management, please be advised this conference call will contain statements that are forward looking and subject to a number of risks and uncertainties that could cause the 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, November 14th, 2008, at 11:00 a.m. Eastern time.

I will now turn the meeting over to Mr. John Hogg, President and Chief Executive Officer of Western Canadian Coal.

Mr. Hogg, please go ahead.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

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

Thank you. Good morning, 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; Greg Jones, our Corporate Counsel; and David Jan, the Company's Manager of Investor Relations.

First to our mines, and starting with our Wolverine operations. Despite a 6-per-cent increase in productivity in quarter two over quarter one, Wolverine continues to miss our expectations. Primary reasons include the continued labour shortages and high stripping ratios. Turnover of operators on an annual basis is approximately 58 per cent. This is in addition to a shortage of front-line supervisors. However, we hope the downturn in the forestry sector in the region plus curtailments of other miners may help to ease the labour shortage in the near term.

Also, the strip ratio at Wolverine averaged over 15 this past quarter, which is higher than the ratio in the first quarter of 2009 and the life-of-mine ratio of 10. This high-strip ratio has meant lower clean coal production and correspondingly higher per-unit cash costs. As we exited quarter two and entered quarter three, we've seen improvements in productivity by way of total material moved and a lower strip ratio. Our goal now is to consistently improve on these numbers going forward.

However, it's not all bad news. During the second quarter we've seen increased uptime in our equipment which was a key part of the productivity improvement plan. The improvement was achieved mostly through improved maintenance practices. And another positive that was during the second quarter, we obtained the permit to increase production at Wolverine to 3 million tonnes per year.

Now turning to our Brule Mine. The fault we encountered in the first quarter of 2009 has caused a slightly higher stripping ratio and as a result, higher costs than we would have liked.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

However, adjustments to the mine plan should along with productivity improvements mean we'll continue to hit our production target of producing 1.3 million tonnes this year.

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

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

Thank you, John. I won't take you through all the details of yesterday's press release announcing our results but will offer these financial highlights for the quarter ended September 30, 2008. I will also point out that the MD&A and financial statements are posted on SEDAR and our website.

Sales in the second quarter of 2009 were \$167.5 million, or 147% higher than in 2008 for the same quarter. This was based on coal sales of 600,000 tonnes which is 30% lower than in the same quarter of 2008. The average price realized was C\$279 per tonne in the quarter as compared to C\$79 per tonne a year ago. All sales for Q2-2009 were at the contracted price of approximately US\$300 per tonnes for hard-coking coal and US\$248 per tonne for low-vol PCI. The Canadian dollar was \$0.96 for every U.S. dollar, which was approximately the same a year ago.

Cash costs in the second quarter of 2009 were \$131 per tonne. This consists of \$94 per tonne of costs at the mines and \$37 per tonne of costs in transportation. This compares to the second quarter of 2008 costs at the mines at \$54 per tonne and \$30 per tonne in transportation. The increase in transportation costs is a result of higher fuel surcharges and increased contractual transportation rates. The increase at the mines is primarily a result of these factors: 1) a 55% increase in fuel costs; 2) an increase in contractual costs for the mine operations; 3) a higher stripping ratio from higher waste removal and lower coal yield for the areas being mined; and 4) inflationary cost pressures.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

We are starting to see fuel prices drop this quarter, so we expect some relief there going forward. For every \$0.01 per litre change in the price of fuel, the impact on EBITDA on an annualized basis is approximately \$400,000, plus lower fuel surcharges.

For fiscal 2009, based on current production plans, we expect cash costs to be approximately \$120 to \$125 per tonne.

Income from operations during the second quarter of 2009 was \$81.9 million, or 49% of sales.

General administration and selling costs increased to \$6.3 million from \$5 million in the comparable quarter last year. This was primarily due to an increase in sales and marketing expenses which are a direct function of coal prices and an increase to company's compensation programs.

The company achieved net income of \$44.7 million, or \$0.26 and \$0.24 per share on a basic and diluted basis respectively for the second quarter of 2009. On a year-to-date basis, we have earned net income of \$104.5 million or earnings per share of \$0.67, \$0.61 on basic and diluted basis respectively.

With the higher coal prices being received, our balance sheet continues strengthen. Our working capital position has improved by \$126 million to a net working capital position of \$53 million. We have achieved our goal of being debt-free from any bank obligations at have \$22 million of cash in the bank at quarter end. Also at quarter end, we had \$54 in receivables which have all been subsequently collected, \$31 million in production inventory which has all been sold. Our liquidity is strong. We also have access to the full \$50 million in our credit facilities.

And lastly, subsequent to the quarter, we entered into US\$338 million of foreign exchange contracts that cover approximately 65 per cent of our expected sales in the third and fourth quarter of this fiscal year. These contracts expire monthly between now and April 2009. They are at an

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

average exchange rate of 1.2319. The sales locked in on an annual basis in U.S. dollars and most of our expenses in Canadian dollars, it is our policy to lock up to as much as 75% of our sales in foreign exchange contracts to protect our cash flows.

With that, back to you, John.

JOHN HOGG:

Thanks, Jeff. A few more brief comments before we take questions.

First to the markets. Not surprisingly, given the current global economic conditions, we have seen a softening in the spot markets for metallurgical coal combined with several announcements by steel makers reducing steel production. We have not yet started price negotiations for the next coal year. With the current dynamics in the buyer's favour this time around, we would expect negotiations to commence early in 2009. Therefore it's too early for me to comment on where we think coal prices will be next year.

As for this year, we continue to provide our customers the coal we have under contract. Our hard-coking coal is now firmly established as a blend component with the world's leading steel mills while our low-vol PCI coal has been ranked in the top three in the world. And lastly, we have not had any collection or credit issues with our customers. As a company, we adopted a strategy of selling to the top steel mills in the world. In fact, 78% of our contracted sales are with some of the top 10 steel mills in the world.

As a result of the lack of visibility into next year's coal prices and commitments and given how fast and violent the markets have changed, we are currently developing a cash preservation plan. This includes the following: reviewing all discretionary capital expenditures at all of our

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

operations for the remainder of 2009 and beyond; reviewing all non-discretionary spending to contain mining costs; and reviewing the timing of our expansion plans.

Under different economic conditions we previously had stated our goal to be producing 7 million tonnes of coal per year by 2012. We still believe in the quality of these projects and, as such, continue our planning for growth. We're just reviewing when that expansion will take place. Our strong financial position allows us the flexibility to quickly adjust production to mirror demand.

At this point, the Board and I believe we need to be prudent and cautious in how we deploy our cash resources and grow this company for the long term. While we feel share buybacks and dividend programs do provide short-term shareholder value, given current market conditions, we do not believe at this time this provides the most long-term value for our shareholders.

And lastly, a final word on the ongoing strategic review that the company has embarked on. As noted in our October 17th press release, the process continues, albeit at a slower rate given the economic conditions. I will caution you there is no assurance that the Company will complete the transaction. We rely on the processes determined by our Board which has no preset outcome in place or fixed timeline to make a decision. At this time there is nothing more to report. When there is something material to announce, we will do so. So with that, it would not be appropriate for me to comment further on this.

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 * 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 using a speakerphone before pressing any keys. One moment, please, for your first question.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

Your first question comes from Peter Bracken, of France Asset Wealth Management.

Please go ahead.

PETER BRACKEN: Yes. This is a question for John Hogg. Hello, John.

JOHN HOGG: Hello, there.

PETER BRACKEN: I wanted to just give you a kind of broad brush sense as a shareholder in the business that it would appear that you've missed the boat in the sense that you've had an environment of record coal prices. And within that environment, you've underperformed on production, you're experiencing record costs and you've failed to secure a buyer for the business. And that is set within the context also of now you face no visibility in terms of future coal prices, as you've said in your statement to the stock exchange yesterday, and the prospect of declining coal prices and ongoing productivity issues. I'm not even quite sure whether you can reassure us on the target of 3 million tonne produced this year. So really I'm asking, you know, what reassurances can you give to fairly desperate shareholders like myself?

JOHN HOGG: Well, I think what we can say, first of all, unfortunately we've been caught like everybody else with the current economic climate. It certainly wasn't our plan to see a climate like this.

But first of all, on the production side, I feel comfortable that we can achieve the 3 million tonnes this year and we will satisfy the market with that tonnage.

Going forward, I have to say like anybody else would at this stage of the game, next year's a different game. I truly believe it is a short-term situation. Demand for steel will go back up, but we have to position ourselves to take care of our assets that we have during this downturn. I wish that I could answer how long the downturn was going to last. I'm not even going to try to attempt.

Also, on the pricing, again, I cannot answer on what the pricing is going to be next year. What I can tell you, my belief is that the longer-term pricing for metallurgical coal is going to be in

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

that one-mid 100 figure. That's what I sincerely believe. I think we've seen a bubble at the 300 and we're going to come off of that faster than we thought. So we have to take the necessary steps for the shareholder and for the company to protect the assets and be prepared for when the markets move both in volume and in price to a more stabilized position.

PETER BRACKEN: Can I have a secondary question? What is the potential for any cancelled coal contracts at the rates you've already secured.

JOHN HOGG: I believe that our contracts are signed. I cannot give any guarantees. We have not had any indication of anybody wanting to cancel contracts. Coal is still flowing to our customers. We've not seen anything untoward there that may give us great concern. We have seen some ships move around. There is no doubt about that and some delays. But at this point in time, we've seen no indication that anybody wants to cancel any contracts. That would be very unusual, by the way, in the business. And as I said in my comments, we are tied to some of the major steel producers in the world. So we were very selective and I think that's proved to be very good for us in terms of the steel companies that we've been dealing with.

OPERATOR: Your next question comes from Jacob Willoughby, from Paradigm Capital. Please go ahead.

JACOB WILLOUGHBY: Yes. I just had a question about what the company's cash position would be sort of today. And secondly, you talked about the possibility for cancellations and deferrals. But due to the cutback from a lot of steel producers, are you not expecting there to be less demand for your products next year?

JOHN HOGG: I'll let Jeff answer the first one on the cash position now and then I'll take over on the remainder of the question.

JEFF REDMOND: The company had 22 million at the end of September. We've mentioned that the receivables have all come in. We've subsequently collected all of them. The inventory that

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

we had built up at the end of the quarter has all been sold and those have all been received. So without of revealing an absolute number, I think I've given you a pretty good indication where we stand in terms of our cash position and I'll remind you that the company doesn't have any bank debt and we have full access, as of today, to a full \$50 million credit facility.

JOHN HOGG: In response to the second part of your question, we're very much in tune with what's happening with the steel industry and the fact that there's been some major cutbacks and, quite frankly, could be more to come. So we're currently looking at our expansion plans and we will make some decisions over the next week or so on what our intentions are.

But I have to stress, we have every intention of preserving our cash. We recognize the situation out there in the marketplace, we are monitoring it daily. We have our marketing people talking with our customers and obviously at this stage we're not at liberty and certainly we're not getting any feedback on what's going on in terms of next year's prices, but we were conscious of that and we'll make the adjustments accordingly.

Our challenge here, right now, is to make sure that we don't bleed off our cash unnecessarily on projects which obviously are not going to give us a return on our investment.

JACOB WILLOUGHBY: Okay, that's great. If I could just ask a follow-up question, what would be the going-forward stripping ratios you'd expect for this year and next at your mining operations presently?

JOHN HOGG: Right now, through the coal year 2009, we're looking at just over 12 per cent in total. And this is coal year 2009 not fiscal year, so coal year 2009, will probably be in around about the 12 range. For this year, overall, we'll be just slightly higher than 12 if we meet our forecasts over the next few months. That's our Wolverine operation. At our Brule operation, we'll be in the order of around about 3.5-3.6 for 2008 and just over 5 for 2009. And Brule, in 2009, looks as us starting to have to process some of the coal.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

And again, I stress, all of these production plans are currently under review in terms of what's happening in the marketplace.

JACOB WILLOUGHBY: That's great. Thank you.

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

GARY LAMPARD: Good morning, John.

JOHN HOGG: Good morning, Gary.

GARY LAMPARD: I've got a few questions. I'll start with the general market. I know this is playing semantics a bit, but you can confirm you've not had any requests for deferrals or for price reductions on current contracts, is that right?

JOHN HOGG: We'd had no requests for price reductions on contracts. We've certainly seen both deferred by up to a month, in one case, two months.

GARY LAMPARD: Okay. All right, got it. Next question I'd like to ask is to talk about capex. What are you doing at the moment that you absolutely know you will continue with? For example, the money you're spending at Willow Creek, what do you know that you're going to continue with?

JOHN HOGG: Right now, we've probably spent about \$21 million at Willow Creek. That includes the pre-stripping there. I'm going to tell you, Gary, right now that's a subject that we're going through in-house at the moment, and I'm not at liberty to tell you more than that in terms of what our plans are there. But we are certainly looking at what we have to do to curtail costs at that operation under the present climate.

GARY LAMPARD: So the answer to that question is that there's absolutely nothing that you are absolutely convinced you will go ahead with.

JOHN HOGG: I think that is fair to say at this stage of the game, yes.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

GARY LAMPARD: Okay. I'll ask one more set of questions before I jump off. And it's Wolverine, there's a few small questions here, I guess. The stripping ratio guidance has it 12 to 1 for the current financial year. What about next year?

JOHN HOGG: It'll be around about, I'm just looking at my sheet here, it'll be about 12.3, I believe it is, Gary. I'll confirm that with you but I'm pretty sure that's it.

GARY LAMPARD: Okay, so that's financial year 2010, around about 12.3.

JOHN HOGG: Correct.

GARY LAMPARD: Right. Because you report combined costs for both mines, it's obviously difficult to see how vulnerable Wolverine might be, but is there anything that you could share in terms of what you think a breakeven coal price might be for Wolverine and what would be your intentions if the coal prices next year were such that that operation would operate at a loss?

JOHN HOGG: Well, for lots of reasons, that's a difficult one to answer, Gary. I'm sure you realize that. But what I can say, I think we would have to take a hard look if we saw, and I'm not seeing these as the cash costs at Wolverine, but we'd have to look very hard at our operations if we saw prices dropping below the 150 range at Wolverine, most definitely.

GARY LAMPARD: Okay, and I guess implied in there is that you're not willing to run at a loss.

JOHN HOGG: That's what implied. I can say that I'm not prepared to run at a loss. That would not make any sense for this company or the shareholder in the long term.

The bottom line here is this current economic downturn, it's tough to predict how long it's going to be. I'm not even going to try. That's not my job. But looking at it and looking at all the fundamentals out there, one has to assume that steel industry and the economy is going to get back on its feet. But obviously, that's going to take some time. And again, I repeat, our challenge is

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

to make sure that we preserve the company's assets and the cash in the short term until we see where that's going. That's fundamentally our task right now.

GARY LAMPARD: Okay. Thanks, John. I'll jump off now and I'll come back later if there's time.

OPERATOR: Your next question comes from Jacques Wortman, of GMP Securities. Please go ahead.

JACQUES WORTMAN: Hi, good morning. A question for John Hogg. John, I'm really puzzled by the high strip ratio at Wolverine. As you say in the press release, it reached the high watermark of 19. Regarding the high strip, is it a case where you were essentially pre-stripping areas now in preparation for the weaker contract price environment for the 2009 coal year? In other words, are you trying to costs lower for next year by doing some advanced pre-stripping now and you're basically expensing that?

JOHN HOGG: I wished I could say that. No, the high stripping ratio, that was a one-month scenario that we had there where we hit in phase three some very high strip ratio. That is now coming down. A lot of that is the fact, again, if you remember our calls previously, we mentioned that we did not get ourselves out of the hole from the previous year. It was a slower start-up than expected. And that's what we've been really suffering with this year.

And also, we have had a very serious problem in terms of getting labour. What I believe we've going to see, in fact I can tell you we are seeing some improvements in this quarter in terms of our ability to bring people to the mine and in some cases, some qualified people, which has been a great difficulty for us. Although we've got, we've managed to secure people in the past, they haven't always had the skill level, so we've been in a lot of training mode. But I can tell you that is improving. So that turnover in people, and that's just been the economic climate in Canada, was

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

something that we just did not budget for and that really impacted us both in maintenance and in our stripping.

I can tell you on some occasions I was running with many, many trucks that just were standing idle because I didn't have people to operate them. But I can tell you today, as we speak now, we have sufficient operators on site to make sure that all of our equipment is running.

But that's been our biggest challenge. And maybe with the economic climate, one would expect that we would see an improvement in both the numbers available to us and also probably some higher qualifications in that. We've got good people but it is a training challenge for us.

JACQUES WORTMAN: Okay. And if you are able to achieve your 3 million tonne throughput level or your coal production level this year, and I'm a bit sceptical that you can, but if you are able to and let's say you can achieve that and sustain it, what is the sustaining capex if you just stay at that level going forward?

JOHN HOGG: Well, again, on that, I'm going to tell you that we're looking at everything. And we have sustaining capital in Wolverine of about \$2 million next year. Realistically, we may look at how we can defer that or how we can do it differently.

The 3 million tonnes I think is doable this year, from what I'm seeing currently at the mine. And again, I think if we had to, we could continue on that rate next year. That's between the two operations right now, by the way.

JACQUES WORTMAN: What's that, the 2 million sustaining?

JOHN HOGG: Well, you said, I believe you said three. So 3 million between the two.

JACQUES WORTMAN: Yes, yes. That's right. Okay, I understand. Okay. But you're saying that your sustaining capital for next year would be \$2 million and you're trying to defer that small amount?

JOHN HOGG: That's right, yes.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

JACQUES WORTMAN: So what's the sustaining, I guess, at Brule or Willow Creek?

JOHN HOGG: That's it, that's all, 2 million total. We've got very little at Brule. We're actually doing the set bond at Brule. Now that doesn't include any expansion plans at Brule. That just considers Brule as a 1.3 million operation. Obviously our plans, we're looking at expanding the Brule and again, that's all under review. But just to keep it going as it is, between Wolverine and Brule, we'd be in the \$2 million range.

JACQUES WORTMAN: Okay, thanks. I appreciate the colour.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press the * followed by the 1. As a reminder, if using a speakerphone, please lift the handset before pressing the keys.

Your next question comes from James Tierney, of Shamrock Investments. Please go ahead.

JAMES TIERNEY: Yes. Good morning, gentlemen. I'd just like to have a little clarification of one of the sentences in your release. You say that 65 per cent of this year's coal production volume is sold on long-term contracts for the next three to five years. Is that saying that roughly 65 per cent of the 3 million tonnes is pre-sold for the next three to five years?

JEFF REDMOND: What that is saying, in fact, is that we have under contract 65 per cent of our production. So the contracts are set with fixed volumes price resets on an annualised basis and for the next three to five years, that's what we have in place.

JAMES TIERNEY: Okay, so it's subject to a price readjustment?

JEFF REDMOND: Correct, yes.

JAMES TIERNEY: Okay, thank you.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

JOHN HOGG: Which, by the way, is typical in the coal industry. Nothing unusual about that. Most companies, steel mills deal on that basis. They will sign 10 contracts for volume and negotiate prices on an annual basis.

OPERATOR: Your next question is a follow-up question from Gary Lampard, of Canaccord Adams. Please go ahead, sir.

GARY LAMPARD: Yes, thanks. I have a couple more. It looks like you probably had pretty large increases in fuel surcharges during the quarter. Can you quantify that in any way and give us an idea of when they might come off, given that fuel prices have fallen as they have already?

JEFF REDMOND: I can take sort of a global approach at that, Gary.

GARY LAMPARD: Okay.

JEFF REDMOND: We look at budgeting about 44 million litres of fuel in our production. We're roughly halfway through the year. When we were at the end of June, we were seeing \$1.32. At the end of September we were seeing \$1.16 and we're currently seeing about \$0.96. Our fuel costs represent about 20 per cent of our total production costs.

JOHN HOGG: And where we have fuel surcharges with contractors and service providers, they are typically adjusted on a monthly basis.

JEFF REDMOND: That's right.

JOHN HOGG: Relative to the rack rate for the product.

GARY LAMPARD: Okay, so it's a reasonable expectation then that transportation, if fuel prices stay where they are, that transportation costs, this quarter, will be better for you than they were last quarter?

JEFF REDMOND: Yes, and that, again, Gary, comes back to sort of the mix and how we disclose our transportation costs with Brule and Wolverine.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call

GARY LAMPARD: Yes, okay, and a final question is one on tax. When do you think you'll actually be paying cash tax at a 30-something-per-cent rate?

JEFF REDMOND: Well, the company has about \$93 million in losses carried forward and in excess of 400 million in tax pools that we will certainly use to shield taxes. That said, we're probably looking at between 18 and 22 per cent this year and we would expect to begin paying taxes in to the fourth quarter and be in a tax-owing position certainly by the end of March this year. And then we would get up to about a 34-per-cent rate in the following fiscal year.

GARY LAMPARD: Okay. So that 18-per-cent rate, that's a statutory rate for the current financial year? That's your best guess at the moment.

JEFF REDMOND: That's a blended statutory rate which would take into consideration sort of federal, provincial and the B.C. mining taxes.

GARY LAMPARD: Okay. All right, that's great. Thanks.

OPERATOR: Gentlemen, there are no further questions at this time. Please continue.

JOHN HOGG: Thank you, Operator, and ladies and gentlemen, once again, for your interest in the company. Please call David Jan or myself if you have any further questions. Thank you.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.

Western Canadian Coal Corp. – Second Quarter 2009 Conference Call