



Western Canadian Coal

**Western Canadian Coal Corp.
Q3-2009 Conference Call
Friday February 13, 2009 at 8:00am (Vancouver, BC)**

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 Q3 fiscal 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 the star key, followed by zero for Operator assistance at anytime. Before turning the conference over to the management, please be advised that this conference call will contain statements that are forward-looking, 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 February 13th, 2009, 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.

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

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Redmond, the Company's Director of Finance, who will shortly offer some of the financial details of the quarter; Greg Jones, the Company's General Counsel; David Jan, the Company's Manager of Investor Relations; and Adrian Hargrave from Genkos Securities, who is our nomad on the AIM Exchange.

As you know, our third quarter earnings release was delayed by a week. This was a result of additional reporting procedures that were required by the UK regulators. This is reflected in yesterday's press release, with the inclusion of the letters in the end of the release. These additional procedures, which did not impact the results, are required because we are in major discussions with Cambrian Mining; more on the merger later. Unfortunately, we discovered the need for the extra work quite late, so we apologize for the delay.

Now to the business at hand and starting with our Wolverine operations. During the quarter, the mine took an eight-day production curtailment around the December holidays to help balance rising inventory levels. Aside from the curtailment, the lower production levels were also impacted by a high stripping ratio, which continues to hover and disappoint at around about 17 to 1, and lower than expected equipment up-time due to poor availability of parts. The lower production levels caused the unit cash cost to increase; the higher costs are in spite of lower total spending, some of which was due to fuel costs falling 25 percent during the quarter and a 3 percent improvement in productivity, which is measured by total materials moved per day.

Now turning to our Brule mine, despite also taking an eight-day production curtailment around the December holidays, total amount of material handled increased by 5 percent, with the daily average increasing by 17 percent. Overall spending was lower than expected, however, with the lower coal production levels during the quarter increasing the cash costs per tonnes at the mine. Brule continues to meet all of our expectations on productivity.

As for our Willow Creek mine, we started mining operations as originally planned in October with the expectation that clean coal would be available to be sold in January. However, with the rapid

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deterioration of the coal markets, operations were temporarily suspended at the end of November. As one of our cash preservation measures, we decided to suspend development until such time there is clarity in the markets.

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

JEFF REDMOND (Director of Finance, Western Canada Coal Corp.): 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 December 31st, 2008. I'll also point out that the MD&A and financial statements are posted on SEDAR and our website.

Sales in the third quarter of fiscal 2009 were \$176.6 million, or 220 percent higher than the same quarter of fiscal 2008. This was based on coal shipments of 513,000 tonnes, which is 26 percent lower than in the same quarter of 2008. The average price realized in Canadian dollars was \$344 per tonne in the current quarter as compared to \$80 per tonne a year ago. All sales in Q3 2009 were at the contracted price of approximately US \$300 per tonne for hard coking coal and US \$248 per tonne for low-vol PCI. Canadian dollar was \$1.23 for every US dollar, which was approximately 24 percent higher than the same period a year ago.

Cash costs in the third quarter of fiscal 2009 were \$146 per tonne. This consists of \$116 per tonne of costs at the mine and \$30 per tonne of costs in transportation. This compares to the third quarter of fiscal 2008 costs at the mines of \$56 per tonne and \$25 per tonne in transportation. The increase in transportation costs is due to increased contractual transportation rates. The increase at the mines is primarily a result of these factors: 1) a higher stripping ratio from higher waste removal of lower coal yield from the areas being mined; 2) an increase in contractual costs for the mine operation;

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and 3), inflationary cost pressures. The increase in cash costs was despite fuel prices falling 25 percent approximately during the quarter to \$0.74 per litre.

Income from operations during the third quarter of 2009 was \$94.2 million or 53 percent of sales.

General and administration and selling costs increased \$5.5 million from \$3.8 million for 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 in the Company's compensation programs. Coal expiration and other mine costs have increased to \$4.3 million in the current quarter as compared to 1.8 million in the third quarter of 2008. The increase is primarily a result of \$3.1 million of costs relating to the temporary suspension of operations at the Willow Creek mine.

Interest costs of \$2.9 million for the three months ended December 2008 are \$2.5 million lower than in the same period of 2007. This is due to the Company's improved net debt levels. The Company also had \$5.4 million of foreign exchange gains earned in the current quarter and \$3.4 million of unrealized gains in foreign exchange contracts. We have subsequently turned some of the unrealized gains into realized gains of \$4.9 million, as we closed US \$145 million of foreign exchange contracts in January of 2009.

The Company achieved net income of \$62.5 million or \$0.30 and \$0.29 per share on a basic and diluted basis, respectively, for the third quarter of fiscal 2009. On a year-to-date basis, net income is \$167 million or earnings per share of \$0.96 and \$0.84 on a basic and diluted basis, respectively.

With the higher coal prices being received, our balance sheet continues to be stronger. When comparing the December 2008 to the March 2008 balance sheet, our working capital position has improved by \$183 million to a net working capital position of \$110 million. Our net debt position has improved by \$181 million to \$47 million. Included in the net working capital is \$77 million of cash, 47 million of trade receivables, which have all been subsequently collected, and \$35 million of coal

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inventory. I would also like to point out that we have not had nor expect any collection or credit issues with our customers who would also have access to \$30 million in our revised credit facilities.

With that, back to you, John.

JOHN HOGG: Thanks, Jeff. A few more comments before we take questions. As to the markets, not surprisingly, given the current global economic conditions, virtually all steel makers around the world have announced production curtailments. All producers have responded to the lower demand with production cutbacks as well. We have not yet started price negotiations for the next year, but I would expect these negotiations to start over the next few weeks. Therefore, it's too early for me to comment on where we think coal prices will be next year, given the high level of uncertainty in the steel markets and the economy as a whole.

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 being ranked in the top three in the world. While some customers' orders have been deferred, no customers have cancelled orders. As a result, although we expect customers to meet their coal contract commitments for price and volumes over the next few months, shipments during the fourth quarter are expected to be less than the original projections.

As a result of the lack of visibility into next year's coal prices and volume commitments and given how fast volatile markets have changed, we have implanted a cash preservation plan and this includes the following: minimizing all discretionary capital expenditures at all of our operations, reviewing all non-discretionary spending to contain costs, and deferring the timing of our expansion plans. This has included the temporary suspension of operations at the Willow Creek mine, reducing production at the Brule mine from an annual run rate of 1.3 million tonnes to 750,000 tonnes per year and giving notice to employees at Wolverine that operations may be curtailed after May the 18th of

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2009. Until then, operations at Wolverine will continue. We have also given notice to our Wolverine mine contractor that after May, the Company will be conducting the mining operation, which will lower the cash costs at the mine. We have made these decisions to provide the Company flexibility and match production with the lower demand. As a result, our immediate challenge is to reduce costs and improve productivity to allow our mines to remain competitive. I want to stress that we will not operate our mines at a loss.

We recently released a 43-101 technical report on the Belcourt-Saxon coal properties in which we have a 50 percent economic interest. Highlights of the report include the potential for four million tonnes of coal production per year, 86 million tonnes of proven run of mine reserves, which could provide for 15 years of production, and a 167 million tonnes of measured and indicated resources. This property bolsters our production and reserve profile by 50 percent, which confirms the value of the property for the Company. However, given the large capital costs to develop the project and the current economic environment, we are uncertain of the development and timing of the project.

And lastly, a final word on the proposed merger with Cambrian Mining, our largest shareholder. On December 24th, it was announced that we are in discussions on a potential merger with Cambrian. The transaction will have every Cambrian shareholder receiving 0.75 of a Western share in exchange for a Cambrian share. Cambrian's coal assets include two coal mines in West Virginia, which produces approximately one million short tons of metallurgical and thermal coal and an interest in a UK thermal coal mine. The Cambrian coal mines bring geographic and product diversity to Western's Northern BC assets.

I will also point out that Cambrian currently owns 71.2 million shares of Western and holds 29 million of Western's convertible debentures, all of which may be subject to tax restructuring, may be cancelled upon the merger. This will help share liquidity as it will remove the Cambrian overhang. We recently loaned to Cambrian US\$ 32 million, net of the repayment of the C\$5 million related party loan,

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which we used to meet their debt obligations. In our view, to have Cambrian refinance the loan from third parties would have made it very disadvantageous for the proposed merger so we stepped in.

Due to UK takeover rules, we are restricted to what we can and cannot say on the proposed merger. We cannot say anything that is not already in the public domain, as anything beyond that may jeopardize the merger, which is why Cenkos is participating on the call. By way of example, we cannot provide fourth quarter 2009 cost guidance or fiscal 2010 guidance of any type, as this is considered a profit forecast which is disallowed during an offer period.

As you can appreciate, there is still much work to be done to come to a definitive agreement, including further due diligence, obtaining 43-101 report on the West Virginia mines and defining the structure of the merger. Once a definitive agreement is signed, we will provide pro forma financials, guidance, and we'll endeavour to give shareholders the information needed to approve the merger.

One last thing; both companies are very mindful of the related party issues involved and, as such, have struck independent committees to review and approve the loan and proposed merger.

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

OPERATOR: Ladies and gentlemen, we will now conduct a question and answer session. If you have a question, press star, followed by the one on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be posed in the order they are received. Please lift your handset if you're using a speaker phone before pressing (unintelligible). One moment, please, for your first question. Your first question comes from Mike Plaster from Salman Partners. Please go ahead.

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MIKE PLASTER: Thanks very much. Good morning. John, I'll start with the PCI market. There's been some news lately on lower volume expectations in the market in general. I wonder if you could give us your thoughts on that and what you've been hearing from your customers for their PCI tonnage next year?

JOHN HOGG: I think everybody is well aware of the fact, Mike, that the PCI market has been hit very badly as a result of the cutback to the steel mills. It's still unclear what's going to occur next year. I think it's going to totally depend on the level of production at the steel mills. They're holding back on PCI so that they can manage their coke inventories; that's the main reason that it's being held back. So I think it's going to be totally driven by how quickly they can get their production levels back up.

MIKE PLASTER: Okay. And then on the coking coal side, have you been getting many inquiries recently for spot tonnage?

JOHN HOGG: We have seen a number of inquiries for spot tonnage, Mike, and we are currently in the process of responding to them.

MIKE PLASTER: Okay. And I guess, for Wolverine, could you give us an update on the employee situation up there? You know, since giving the workers notice last month, have you had any worker retention issues? Have you lost any workers up there?

JOHN HOGG: To our surprise, Mike, we expected and forecasted when we did this that we would probably lose 10 to 15 percent of the workforce; that has not occurred. And, secondly, the numbers that we have lost, we have actually managed to replace, and that's being driven by the overall economic climate. I was going to say in Western Canada, but I believe it's the rest of the world where a number of mines and activities at the oil sands operations, in particular, have been slowed down. So there is more opportunity for us to acquire their people, even though it's on a short-term basis because of the cutbacks elsewhere in Western Canada.

MIKE PLASTER: That's good. Do you expect to be able to retain a lot of the contract crews?

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JOHN HOGG: We do. That's our expectation and that's how we initially set up the contract with our contractor, that we would have the opportunity to acquire those people and all of the employees in the main were employed on that basis that there would be an opportunity to stay on once the contractor left site. So our expectation is we will have a high percentage of those individuals staying with us.

MIKE PLASTER: Good. And can you give us some more detail on some of the other cost reduction plans that you have in place at both of the mines?

JOHN HOGG: Yes. I can't give you a lot, of course, but I can tell you at Brule, as you know, we've curtailed production there, and we are looking at our contractor to do a number of things differently to reduce costs. For instance, in the cutback, he's only using his larger equipment of his fleet so that's certainly going to help us on the cost profile. In our Wolverine operation, we are looking at different arrangements of shifts at the process plant, which should keep our costs in line and, of course, the big factor, Mike, is the strip ratio and we've been rather disappointed with that. We haven't seen it come down as fast as we expected, and on the other end, we've also made some deliberate decisions to continue moving through, what I call the high block of waste in phase three as quickly as we can, so that there will be a significant drop as we get into the first quarter of fiscal 2010. But there's a number of other strategies that we've got in place regarding vendors which I obviously don't want to mention here, but we are looking at other strategies as well.

MIKE PLASTER: And are you still seeing transportation costs coming down this quarter?

JOHN HOGG: From a fuel basis, they should come down, Mike, but one of the things we've been hit with – and I think we mentioned it in our report – is a Carbon Tax, which has been imposed by the Province of British Columbia, so there's certainly some lobbying activities to see what can be done with that. I believe, if I'm not mistaken, we're probably the only province that's applied it to date, so that needs some adjustment. That's added a considerable amount... a number of dollars overall to our bottom line costs.

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MIKE PLASTER: Okay. And just one final thing here, on the CAPEX front, can you give us an idea of what your sustaining capital needs are for the next year at the reduced production rate at the two mines?

JOHN HOGG: Mike, we're probably going to come down to about the \$2 million range, and we're looking at how we can trim that as much as we can. We're in a very fortunate position at Wolverine. We have most of the equipment; in fact, we have all of the equipment that we need to transfer over to self mining, and of course, at Brule we are completely contractor dependant there. And at Willow Creek, we've just shut the operation down, apart from some minor continuing engineering projects that we need to have in our back pocket ready to go when the market changes again. But it's going to be a very small capital year next year.

MIKE PLASTER: So that was 2 million combined, was it?

JOHN HOGG: That's right, yes. In that order, Mike, and we haven't completed it yet but that's my goal is to keep it as tight as possible.

MIKE PLASTER: Great, thanks very much. I'll leave it there.

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

GARY LAMPARD: Yes, good morning. I've got a few questions. The first one, those inquiries for coking coal spot tonnages, which country or countries are they coming from?

JOHN HOGG: I prefer not to say at this stage, if you wouldn't mind.

GARY LAMPARD: Okay. Second question for Jeff. I missed exactly the data out here, but did you say that the 46 million of trade receivables has already been converted to cash?

JEFF REDMOND: That's correct.

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GARY LAMPARD: Okay. Next one on stripping ratio; I gather that it started to come down already so this current quarter should be better than 17 to 1, and then you're expecting a much bigger improvement starting in the April to June quarter, is that the gist of it?

JOHN HOGG: That's correct. We'll see a modest reduction this quarter and then it should start to come down following that, along the... April 1st.

GARY LAMPARD: Okay, perfect. Next one, from December 31st, what is the outstanding volume of coal for which you have signed contracts?

JOHN HOGG: Let me just look in my books. What I can tell you right now is that we have around about 800,000 tonnes that's contracted, Gary, that's not actually got vessels nominated for it. That's as of now, okay?

GARY LAMPARD: Yes. Can you give us a rough split between coking coal and PCI?

JOHN HOGG: It's roughly right now about two thirds coking and a third PCI.

GARY LAMPARD: Okay, great, thanks. And two more questions. Cambrian, do you have an idea of timing when the information circular might be available?

JOHN HOGG: I'll pass that over to Jeff.

JEFF REDMOND: We're sort of working through a lot of the details, and we continue to do so but it would be our expectation to get to a definitive announcement, and we're hopeful by early April with an information circular to follow shortly thereafter.

GARY LAMPARD: Okay, great. And the last question; the \$32 million loan to Cambrian, what's that loan secured against?

JEFF REDMOND: Well, there's a full security package that would include the Western shares, the ventures of Western and the hard assets of Coal International and various other assets that would be in the Cambrian portfolio.

GARY LAMPARD: Okay. So shares and debentures first, presumably, and then the hard assets?

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JEFF REDMOND: Do you have a ranking on that? No, there wouldn't be... Yes, there's (unintelligible) there's not necessarily a ranking on it; it's just a full security package.

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

OPERATOR: Your next question comes from Tim Dudley from Arbuthnot Securities. Please go ahead.

TIM DUDLEY: Hello. My question relates to your costs. I was just trying to work out or understand how much of those costs for this year are roughly fixed and, you know, would likely to be seen into next year, you know, as costs that you can't whittle away?

JEFF REDMOND: Tim, I'm... I can't really answer that at this point in time.

TIM DUDLEY: Yes. So looking back at the year-to-date 2008, you can't give a rough figure of what kind of fixed costs were of the \$130 a tonne cash costs?

JEFF REDMOND: Tim, I'll have to get back to you on this.

TIM DUDLEY: Okay.

JOHN HOGG: Tim, just one comment to that, fixed costs. I understand, completely understand what you mean, but in a mine environment, you also have what I call step costs, where you go to set production levels and costs in a set range don't move a lot, and then you (inaudible) make another step upwards or downwards in your production and your costs will move quite dramatically. So when we're looking forward, depending on what rate we're going to run at next year, that certainly has an impact on what I would call real fixed costs. Because there is some, again, production variation there that will impact on costs over a range so if you're operating at two million and you drop to 1.5, or whatever it is, for example, you may not get some costs out, but if you go to 1.3, you get them out, as simple as that. And that could be things like how you operate your plant, shift cycles, whole bunch of things. How many people you need to do the job; you typically can't have half a person, of course, so again, those sorts of things factor into that.

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TIM DUDLEY: Thanks. And I was wondering, you mentioned that you wouldn't run the operation at a loss. Do you have a view as to what level of margin you would want to have in there as a factor of safety?

JOHN HOGG: Yes, but I'm not going to answer that right now, to be honest with you.

TIM DUDLEY: Okay.

JOHN HOGG: It's one that I think we have to be careful with.

TIM DUDLEY: And the final question just relates to that transport cost; is there any... You mentioned lobbying the government to remove some of the carbon payments that you have to make there, but is there any other ways to negotiate the cost of that down, particularly with the operator?

JOHN HOGG: Well, again, we'll have to determine that when we see what the price of coal's going to be next year.

TIM DUDLEY: Okay.

JOHN HOGG: And, again, I put it that everything's on the table and we certainly are interested in looking at all our vendors and everyone but the first thing we must know is what the price is going to be.

TIM DUDLEY: Okay, thank you.

OPERATOR: Ladies and gentlemen, if there are any additional questions at this time, please press star, followed by the one. As a reminder, if you're using a speaker phone, please lift the headset before pressing any of the keys. Your next question comes from Simon Gardner-Bond of Ocean Equities. Please go ahead.

SIMON GARDNER-BOND: Hi, I just had a couple of questions. This is following on from the last chap's question, maybe re-worded a little bit. With Wolverine, obviously, you're expecting the strip ratios to come down next year. Do you have an idea of guidance of, at price you will have to curtail production completely from Wolverine in April, May?

JOHN HOGG: Coal price?

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SIMON GARDNER-BOND: Yes.

JOHN HOGG: No, I really can't... I really can't give you that right now but, certainly, I can say this: if coal prices come to double digits below 100, that would be disastrous in terms of whether we could continue or not. I can tell you that at this stage of the game. That's on the coking coal side and let's be quite clear about that; it's on the coking coal side. But I'm not really expecting that to happen. But it's tough for me to say more than that at this stage.

SIMON GARDNER-BOND: Okay. Also you indicated your move away from the contractor at Wolverine. Am I right in understanding that the contractor does all mining at Wolverine at the moment?

JOHN HOGG: Correct, he does all mining and we operate the plant. We have our own workforce in the plant.

SIMON GARDNER-BOND: And so would there not be quite a large capital cost to move away from the contractor because you just mentioned that you had a sustaining capital for \$2 million?

JOHN HOGG: That's correct. No, there isn't because a part of the contract that we placed early on was for the contractor to bring in equipment, new equipment, and we have to take title to that equipment over a period of time. And as we grew and developed and required more equipment, then we provided the equipment for the contractor to operate and maintain. The reason we had a contractor in the first place was, being a new player, we did not have any people of our own and, at the time, it was extremely difficult because of other economic activities in the oil sands and elsewhere to acquire people. So we brought the contractor in and set up a contract and he provided the people, the initial equipment with the intention of us taking over the equipment and he working with his people and hiring people that wanted to stay in the mine and not stay with the contractor. So essentially all the equipment is either owned or on lease and is on title to us.

SIMON GARDNER-BOND: Okay. And my last question was about Belcourt-Saxon. You mentioned that there was going to be significant capital costs to build that or to put that into production. Now I

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imagine the largest part of that will be infrastructure or transport. Do you have any idea – you can give a large range if you wish to – of the cost that that may take to put that into production and what the large chunks of that would be?

JOHN HOGG: Yes, I think, by the way, rather than me get into it now, I think it's all on SEDAR.

JEFF REDMOND: It would be on SEDAR.

JOHN HOGG: It's in the order of \$800 to \$900 million total, and I think there's a breakdown in there.

SIMON GARDNER-BOND: That's what's here already?

JOHN HOGG: I believe it is. So, yes, certainly and, you know, if you go through that and you've got other questions, certainly give us a call. But I think there's a fair bit of detail on there that should be very helpful to you.

SIMON GARDNER-BOND: Okay, thanks.

OPERATOR: There are no further questions at this time. Please continue.

JOHN HOGG: Thank you, Operator. In summary, our short-term focus is to position the Company through this economic uncertainty by reducing costs and improving productivity, preserving cash on all fronts, remain committed to meeting our customer needs and remain flexible to react quickly when the markets improve. We will also work diligently to close the Cambrian transaction to capture all the merger benefits as soon as we can. We believe once the economic stimulus packages announced around the world start to work their way into the system, the demand for steel and coal will increase again and, when it does, given the difficult decisions we are now making, and our high quality coal and relay our ability to supply to our customers, we'll be a better company when that time arrives. Ladies and gentlemen, once again, thank you for your interest in the Company. Please call should you have further questions.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today.

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