



## Western Canadian Coal

**Western Canadian Coal Corp.  
Q4-2009 Conference Call  
Friday June 26, 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 fourth quarter 2009 and fiscal 2009 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 difficulty hearing the conference, please press the star key followed by zero for operator assistance at any time.

Before turning the conference over to 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 associated risks. I would like to remind everyone that this conference call is being recorded today, June 26<sup>th</sup> at 10 a.m. eastern time. I would 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 and good morning, ladies and gentlemen, and thank you for joining us today. On the call with me

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is Greg Jones, our Corporate Counsel, and Jeff Redmond, the company's Director of Finance, who will shortly offer some of the financial details of the quarter.

Let me start with some comments on our operations and starting with Wolverine. During the fiscal fourth quarter the mine stripping ratio was approximately 15 to 1 versus 17 to 1 in the third quarter. We exited the fourth quarter trending towards a lower stripping ratio. We are currently at the 13 to 1 strip ratio and well on our way to a fiscal 2010 climb of 12 to 1. Whilst we are only two months into fiscal 2010 we are very encouraged with Wolverine's performance as we are exceeding our expectations on production and cost. In late May the mine transitioned successfully from contractor operations to company operations.

Now turning to our Brule operation. As you may recall earlier in the year we've been reducing production levels at Brule to meet the lower demand for PCI coal. Fourth quarter total materials handled was approximately 50 percent lower than in the third quarter with clean coal production correspondingly lower. Due to rising inventory levels in mid-March, we focused our attention at the mine on stripping weights. This has continued through the Q1 fiscal 2010 and as a result has set the mine up to rapidly start producing coal when the market improves and inventory reduces.

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

**JEFF REDMOND** (Director of Finance, Western Canadian Coal Corp.): Thanks, John. I won't take you through all the details of yesterday's press release but we'll offer these financial highlights for the quarter and fiscal year ended March 31, 2009. I'll also point out that the MD&A and financial statements are posted on the SEDAR and our website.

Sales in the fourth quarter of fiscal 2009 were almost \$112 million or 48 percent higher than in the same quarter in fiscal 2008. The higher sales are primarily a result of higher coal prices, a weaker Canadian dollar in relation to the US dollar, which were offset by lower coal shipments. Coal shipments

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in the fourth quarter of 2009 were 346,000 tonnes which was 60 percent lower than in the same quarter of 2008. The average realized price in Canadian dollars was \$323 per tonne in the current quarter as compared to \$87 per tonne a year ago. The Canadian dollar in the quarter was \$1.26 for every US dollar which was approximately 26 percent higher than the same period a year ago. Sales for the fiscal 2009 were 586 million or 132 percent higher than fiscal 2008. The higher sales is a result of 250 percent year-over-year increase in coal prices and a 10 percent change in the Canadian dollar, which were offset by shipments being 33 percent lower.

Cash cost in the fourth quarter of fiscal 2009 were \$136 per tonne or 7 percent lower than in the third quarter. The current quarter's cash costs consist of mining cost of \$112 per tonne and transportation cost of \$24 per tonne. This compares to the third quarter fiscal 2009 cost at the mines of \$116 per tonne and \$29 per tonne in transportation. The decrease at the mines is primarily a result of lower stripping ratio and some improved machine up time, primarily through improved maintenance practices. The decrease in transportation cost was largely due to lower trucking cost for the rail load out. The shipments were reduced to match falling demand levels. During fiscal 2009 cash costs were \$133 per tonne versus \$86 per tonne in 2008. As previously mentioned, the higher cash cost in 2009 was primarily a result of higher fuel cost, higher stripping ratios, and general cost increases. The higher stripping ratio at Wolverine was a result of catching up to the life of mine plan while the higher ratio at Brule was due to the fault encountered early in the year. Overall Wolverine and Brule respectively handled 24 percent and 30 percent more waste materials in 2009 than in 2008.

Income from operations during the fourth quarter 2009 was \$59 million or 53 percent of sales. Income from operations for the year was \$288 million or 49 percent of sales.

Fiscal 2009 general, administration and selling cost increased to \$27.6 million from \$22.5 million in the previous year. The increase is primarily due to one, to an increase in sales and marketing expenses which are a direct function of coal prices and include the provision for the Wolverine royalty

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sharing agreement, and two, an increase in the company's compensation program, all of which were offset by lower stock based compensation expenses from less stock options granted in 2009 than in 2008.

Fiscal 2009 coal exploration and other maintenance costs increased to \$6.4 million as compared to \$4.8 million in fiscal 2008. The higher costs are a result of demobilization and care and maintenance costs incurred when expanding operations at the Willow Creek mine, which were offset by lower exploration costs at Willow Creek.

Interest cost at \$22.6 million for the year ending March 2009 are \$4.6 million lower than the previous year. The lower interest cost is due to the company's stronger financial position and a conversion of some of the company's convertible debentures.

Other income items of \$19 million in 2009 are a result of \$11 million of foreign exchange gains, \$8 million of royalty liability revaluation gains, \$2.3 million of interest income, \$1.4 million gains of fair value adjustment of the investments, all of which were offset by \$1.5 million of unrealized foreign exchange losses, and \$2.2 million of other expenses.

The company achieved net income of \$47.6 million or \$0.23 per share on both a basic and diluted basis for the fourth quarter of fiscal 2009. For fiscal 2009 net income was \$214 million before earnings per share of \$1.17 and \$1.14 on basic and diluted basis respectively.

The higher coal prices received in 2009 transformed our balance sheet into a position of strength. When comparing the March 2009 to the March 2008 balance sheet our working capital has improved by \$218 million to a net working capital position of approximately \$146 million. This includes almost \$35 million of trade receivables which have all been subsequently collected at \$53 million of coal inventory.

Back to you, John.

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**JOHN HOGG:** Thank, Jeff. A few more comments before we take questions. First to the markets. As many of you know all steel makers around the world started this year having announced production curtailments, some by as much as 50 percent. Coal producers have responded to the lower demand with production curtailments as well. Perhaps it's still early days that we may have seen the bottom of the market as we've seen a recent increase in demand in Asia and specifically China. Given China's head start in economic stimulus spending and their need to feed their new steel mills with high quality coal, we've seen imports of met coal into China of over 6 million tonnes so far this calendar year, which is what they imported all of last year. China is definitely a factor in the marketplace.

Other Asian steel mills appear to be restocking their low inventory levels in possible anticipation of higher steel demand and tight coal supply conditions. With limited supply of hard coking coals and PCI available market conditions are currently tight. Again, it may be early days, but the met coal markets appear to be improving.

As such this year we are now forecasting to sell 1.3 million tonnes of hard coking coal and 900,000 tonnes of low-vol PCI. These are higher than previous guidance provided. Correspondingly, we expect to produce hard coking coal and low-vol PCI coal of approximately 1.2 million and 600,000 tonnes respectively. We still expect the average price to be approximately \$120 to \$125 US per tonne. With our ability to adjust production to meet demand we would be able to participate in this spot market should spot market prices warrant. We continue to be mindful of cash and as such still expect to spend \$3 to 4 million in capital in 2010.

I'll also remind everyone that we have hedged approximately 75 percent of our expected 2010 revenues with foreign exchange contracts averaging Canadian \$1.187 per US dollar. With the lower stripping ratios being achieved and expected we are forecasting cash cost to be approximately C\$110 to \$115 per tonne this year.

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Looking back on fiscal 2009 undoubtedly the markets were kind to us. Strong demand for met coal from steelmakers combined with a shortage of coal produced record coal prices. This allowed us to go from facing the going concern issue in November 2007 to a current financial position of having cash in the bank, having lower overall debt levels, being competitive in today's difficult markets, and providing us the opportunity to grow the company by acquiring Cambrian Mining.

We are very pleased to announce that on June 23<sup>rd</sup> and June 24<sup>th</sup> Cambrian and Western shareholders approved the acquisition transaction. Regulatory approval for the transaction and closing is expected to be on or about July the 13<sup>th</sup>. This will mean our first combined set of results will be fiscal quarter 2, which will be released sometime in November. In the meantime our focus now is to deliver on our 90 day plan to capture the synergies previously identified in the areas of administration, marketing, and operations.

As many of you heard me speak over the past few weeks whilst marketing the transaction, we're excited with the opportunities this brings the new company. We will be creating a larger, stronger and more diversified, pure play, mid tier coal company with the ability to continue to grow with the increasing demand for our products.

In closing I would like to thank our staff and contractors for working safely and for a productive year. While coal production was lower than expected we made the investment in 2009 to do the hard work needed to remove the waste rock to allow us to get back towards our life of mine plan. As a result today we are competitive and cash flow positive. We are a stronger company and one well positioned in the markets when they return to normal. And for that on behalf of the board of directors we thank you for hard work and dedication.

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

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**OPERATOR:** Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. [Operator instructions]. Your first question comes from Mike Plaster with Salmon Partners. Please go ahead, sir.

**MIKE PLASTER:** Thanks very much. Good morning, everyone. Just if we could start with the costs. Can you give us an idea of where the processing yield on the plant is running right now?

**JOHN HOGG:** In the 60s, Mike, the mid 60s.

**MIKE PLASTER:** Okay so that's a bit of an improvement over what we saw last year.

**JOHN HOGG:** Yes.

**MIKE PLASTER:** Okay. And in your cash cost guidance, the \$110 to \$115, is it fair to assume that transport costs would hold steady at about that \$24 a tonne level that we saw last quarter?

**JOHN HOGG:** No, Mike. They're likely to go up a little. As Jeff commented, this past quarter we're reporting on the Brule mine transportation system was closed down. We're currently reopening that so we'd expect them to be more normal.

**MIKE PLASTER:** Normal relative to perhaps a couple quarters?

**JOHN HOGG:** That's right, yes.

**MIKE PLASTER:** Okay. And on your remaining carry-over tonnage from last year, what's the timeline for delivery on that? Is that going to be mostly over the next few months or is that spread more evening over the year?

**JOHN HOGG:** The majority of it we should see the end of it by the end of the second quarter. There are a couple of them that go out a little longer.

**MIKE PLASTER:** Okay, great. And just in terms of the PCI market in general and the demand improvement that you're seeing, is that still mostly coming from China or have you seen some of your other customers starting to look for more PCI?

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**JOHN HOGG:** What we've actually seen on the PCI, Mike, is it's our—it's the customers that we're contracted with outside of China elsewhere in Asia that are looking for PCI coal. And the reason that appears to be happening is the Chinese have locked a lot of the PCI coal up earlier in the year out of Australia.

**MIKE PLASTER:** Okay, great. Well, that's it for me for now. Thanks, guys.

**OPERATOR:** [Operator Instructions]. Mr. Hogg, we have no further questions at this time. Please continue.

**JOHN HOGG:** Thank you, operator. Ladies and gentlemen, once again, thank you for your interest in the company. Please call should you have any further questions.

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

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