Western Canadian Coal

Western Canadian Coal Corp.
Q3 2008 Conference Call
Friday February 15, 2008 at 8:00am (Vancouver)

OPERATOR: Welcome to Western Canadian Coal Corp.'s conference call to discuss the Q3 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 '*' followed by '0' for operator assistance at any time. Before turning the meeting over to management, please be advised that this conference call will contain forward-looking statements that are 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'd like to remind everyone that this conference call is being recorded on February 15th, 2008, at 8 a.m. Pacific Time. I will now turn the meeting over to Mr. John Hogg, President and CEO of Western Canadian Coal. Please go ahead, Mr. Hogg.

JOHN HOGG (President, CEO, Western Canadian Coal Corp.): Good morning, ladies and gentlemen, and thank you for joining us today. On the call with me today is Jeff Redmond, the company's Director of Finance, who will shortly offer

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some of the financial details of the quarter; Greg Jones, our General Counsel; and David Jan, the company's Manager of Investor Relations.

As I mentioned on the last call, the company's primary focus is to improve operations at the Wolverine mine. With a change in mine leadership made during the third quarter, the arrival of new equipment, the establishment of new maintenance shop, and a comprehensive productivity improvement plan in place, we are starting to see results. Improvements are slow in coming, particularly as winter is upon us. The encouraging signs are that productivity is turning in the right direction. At Wolverine, some examples of the quarter-over-quarter 11-percent production improvements include a 3-percent increase in total materials moved. We consider this as a key metric for us, as it indicates the overall level of efficiency being achieved throughout the production system. We have seen equipment productivity increases on the excavators.

The drilling program is showing over 3-percent productivity improvements and a 2-percent increase in drilling yields, plant production yield increasing almost 20 percent, and clean coal throughput increasing close to 4 percent. While we are happy to see the month-over-month budget to trend, there's still work to be done. For example, truck productivity and availability needs to continue to improve. On the current production path, considering we are now in the heart of winter, are expected to be on targeted production levels by late second quarter of fiscal 2009.

We continue to work with our new workforce in training and creating the

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proper culture. As is the case with many (inaudible) mines, we have many operators new to the industry. While they may have considerable operating experience on a truck, we know it takes at least a year to get the experience level needed to operate in a coal mine environment. As our numbers indicate, we're getting better.

Now turning to our Brule mine, it was a good quarter for the operations. The mine is now operating at an annual run rate of 1.3 million tonnes per year. We expect to be able to maintain our current cost profile at the mine. Please note that an error was made in yesterday's press release, indicating that we would achieve 1.3 million tonnes production in fiscal 2008 at Brule. We actually expect to produce 1.1 million tonnes this fiscal year.

Let me now turn it over to Jeff for the financial details, after which, I'll return with some closing 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, but we'll offer these financial highlights for this quarter ended December 31st, 2007. I'll also point out that the full MD&A and quarter's financials are available on SEDAR and our website.

Sales for the quarter were approximately $55.1 million. The operating loss for the quarter was $7.9 million, so a 41-percent reduction from the loss last quarter. The current quarter's loss is negatively impacted by a $641,000 write-down of inventory. The improvement, quarter over quarter, was due to lower costs and

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improved revenues achieved in the third quarter versus the second quarter.

The net loss for the quarter was $21.3 million, or $0.18 per share. During the quarter, approximately 776,000 tonnes of coal was produced from the company's mines, and 693,000 tonnes of coal were sold for a total revenue of $55.1 million. The average selling price was US$80.82 based on annual coal contracts which started April of 2007. This is approximately 6 percent higher than the average selling price in the second quarter of US$75.57. For the quarter ending December 31st, 2006, the company sold 474,000 tonnes for a total revenue of $48.7 million. The average selling price in the quarter was US$89.80 per tonne. The increase in sales over a comparable quarter in the prior year is due to an increase in sales volume of 219,000 tonnes. Realized revenues per tonne were adversely affected by a stronger Canadian dollar and lower sales prices compared to the quarter ended December 31st, 2006.

The company's cost of goods sold include the cost of production and mining costs, transportation costs, and non-cash charges, such as the completion, amortization, and accretion, or costs of product, for the quarter are $38.8 million, or $55.93 per tonne. Transportation and related costs are $17.2 million for the quarter, or $24.81 per tonne. Cash costs for the quarter were therefore $80.74 per tonne, or 5 percent lower than the previous quarter. Total cost of goods sold for the third quarter, including non-cash charges, totalling $63.1 million, or $96 per tonne. This compares to $46.8 million, or $98.72 per tonne, in the same quarter in prior fiscal

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year.

Other expenses for the quarter ending December 31st, 2007 amounted to $13.3 million, compared to $12 million during the third quarter of 2006. Other expenses include the usual G&A and coal exploration expenses, interest accretion, and financing fees on long-term debt that's offset by interest income on our investments and foreign exchange gains and/or losses. G&A costs for the quarter were comparable to the same quarter a year ago at $3.8 million versus $3.7 million. In the third quarter, we recorded $1.8 million in exploration expenses compared to a year ago when we recorded $2.3 million. Last year, considerably more work was being done on the Belcourt-Saxon properties, whereas this year, those expenditures are winding down as the joint venture is concluding its feasibility studies. Of the $1.8 million incurred for the quarter, $191,000 represents our proportionate share of the Belcourt-Saxon Joint Venture expenditures.

During the quarter, we recorded $5.5 million in interest and financing costs, compared to $5.2 million in the previous year's quarter. Other expenses during the quarter amounted to $2.2 million, which consisted of $2.7 million realized forward exchange losses offset by interest in other miscellaneous income. Other income earned during the third quarter, 2006, amounted to $765,000 and was primarily investment income offset by foreign exchange losses.

The combination of all the above factors described was that the company had an overall loss of $21.3 million for the quarter. During the quarter ended December

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31st, 2006, the company recorded a net loss of $7.2 million after a future income tax recovery of $2.9 million.

The company's aggregate operating, investing, and financing activities during the quarter resulted in a net decrease in cash of $1 million from the previous quarter. This includes the company raising $40 million from a private placement of convertible debentures, paying down the Wolverine project facility at $7.5 million to a total value outstanding of $28 million, acquiring $15.1 million of equipment.

As at quarter end and the company was in compliance with all debt covenants.. Our forecast indicates that cash will be tight; but we will have enough to get us through until the new coal prices are realized. As previously discussed, the company is in negotiations to replay its current debt facility, and obtaining a new facility that is more compatible for a growing coal company. We hope to be in a position to close the new debt before fiscal year end.

Back to you, John.

JOHN HOGG: Thank you, Jeff.

A quick update on the Falls Mountain acquisition. As announced last December, the company has reached an agreement in principle to buy the Falls Mountain Coal from our largest shareholder. We will be seeking shareholder approval for the transaction at the end of March, with the expectation the transaction closes in early fiscal quarter 1 in 2009. As I've stated before, the synergies are tremendous, with record coal prices expected next year. We are working towards

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getting the mine up and running as soon as we can. This means we continue the drilling program on making the applications for the permits to get the mine restarted and have been formulating start-up plans. We believe we can start producing PCI coal as soon as September, 2008, at a rate of 60,000 tonnes per month. We recognize this will require approximately $20 million of capital and is being considered the start of the refinancing plans Jeff previously mentioned.

As many of you know, we have a 50-percent joint venture interest in the Belcourt-Saxon properties. Along with our JV partner, we have just completed a feasibility study. We will continue our drilling program while working our way to a 43-101 report by the second quarter of fiscal 2009.

As also previously announced in December, the company has embarked on a review of its strategic alternatives. This may include, yet not limit it to, a potential sale of some or all of the equity or assets of the company. We have just appointed a financial advisor and will make an announcement on this early next week.

Now, turning to the markets: through current negotiations with some of our customers with long-term sales contracts, we have been able to secure a supply-volume contracts for terms of three to five years with 500,000 tonnes of hard coking coal and 700,000 tonnes per year of PCI coal. We also have several memorandum of understandings finalized and are looking to transition these into contracts. We believe this indicates that we are an accepted supplier of high-quality metallurgical coal into the global marketplace.

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As for the spot market, there are reports of a recent spot sale of hard coking coal over US$300 per tonne, which is more than $200 over current-year contract prices. We also understand the spot deal was made recently for PCI coal at US$160 per tonne, or $90 over current contract prices.

Infrastructure constraints in Australia continue, which have been recently compounded by the recent flooding there, along with the Chinese no longer exporting into seaborne markets, and logistical issues in South Africa have made the supply of coal very tight. This, combined with continuing strong demand for metallurgical coal from global steel makers, means coal prices will be at record levels next year: I believe as much as 100 percent higher than current coal prices. The outlook for prices over the next few years should also remain high.

I'd also like to remind you that we are still one of the locations in the world with substantial unused rail and port capacity. This has proven to be a strong selling point for our customers, as we ensure that they receive their coal in a timely manner.

We currently are forecasting to meet all of our 2007 coal-year supply obligations, thereby able to enjoy the higher prices in the first quarter of fiscal 2009, which starts on April 1st.

Lastly, we believe long-term pricing for hard coking coal and PCI will continue to be influenced by the balanced supply and demand as the need for an adequate return on capital required by new coal supply sources and the higher cost structures

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of new mines come to meet the demand. Therefore, the company believes long-term prices for metallurgical coal will be higher, on average, than historical prices, and as such, we will be reviewing the resource reserve estimates at our mines. With that, Operator, we're 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 touch-tone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys. Your first question comes from Mike Plaster from Salman Partners. Please go ahead.

MIKE PLASTER (Salman Partners): Thanks very much. Good morning, everyone. Just a clarification, actually: I think you mentioned in your earlier comments, John, that you were going to be on-target for production in Q2 2009. I assume that's referring to getting the Wolverine plant up to the 200,000-tonne-a-month run rate?

JOHN HOGG: Yes. More to the point, then, in the productivity is the equipment productivity up to the pace so that we can see improvements in cost.

MIKE PLASTER: Okay. Where are you at with that 200,000-tonne-a-month production target?

JOHN HOGG: We're operating in the order of about 160,000 right now—150,000, 160,000—so we are making gains.

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MIKE PLASTER: Okay. Just on the sales volume for Q3 there for Brule, Perry Creek: both a little bit lighter than what we were expecting for the quarter. Is that just a timing issue?

JOHN HOGG: It's just a timing issue, yes.

MIKE PLASTER: Okay, so you'll make that back up in the current quarter, most likely?

JOHN HOGG: For example, this month alone, we've got over 370,000 tonnes destined to go out on vessels currently loading, right now: over 165,000 on one vessel.

JEFF REDMOND: Mike, it's Jeff here. We had—at the end of the quarter, we had approximately 350,000 tonnes, all of which were sold in January, so it was a timing issue. We had more inventory on December 31st.

MIKE PLASTER: Okay, great. On the Willow Creek, perhaps you can give us an update on the status of the mining permit application for the restart there? I think you said March was your expectation to receive that.

JOHN HOGG: We're working towards—there is an environmental certificate in place for that operation. We're looking at the modified mining permit—the current one, from the previous owners, was for 900,000 tonnes a year—making some modifications to that. Our intent, then, is to follow up on that with a permit for, probably, 2 million tonnes per year. The permitting process has been rather slow in B.C., but we are keeping an eye on that in terms of the regulators and obviously,

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using it through the system. We don't anticipate that there will be any difficulties getting it; we do expect that it's going to require a lot of easing through the system.

MIKE PLASTER: Okay. The capital improvements to the plants that you are planning to allow you to process hard coking coal. What's your expectations for timing on that?

JOHN HOGG: They probably wont occur until the early part of 2009. The project, as it stands, our intent is to operate on PCI coal only; that is the 60,000 tonnes a month. The $20 million that I talked about for that is some additional, some compliance issues around the plant that we knew about when we purchased the plant, doing some work on the raw coal end of the plant, and also some work on the water management structures and the road coming from the line to the plant. That then allows us to restart at 60,000 tonnes a month level for PCI. Following that there will be a third the capital requirements for putting the plant into a situation that it can handle the metallurgical. The most recent drilling is indicating that it is about a 60/40 split: 60 percent PCI and 40 percent metallurgical.

MIKE PLASTER: All right, and then just on your coal exploration spending, I don't know if you can give us any indications of what you are expecting on that on a quarterly basis going forward?

JOHN HOGG: Well we've just formulated a budget for the 2009 fiscal year, so we'll probably give you that later on. We have fairly healthy exploration budget that we are looking at in all of operations to extend our reserve base.

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MIKE PLASTER: I think you mentioned in your earlier comments, Jeff, about the portion of those expenses that are attributable to Peace River Coal. I think you said that you are expecting that to be winding down looking ahead?

JEFF REDMOND: The Belcourt-Saxon Joint Venture, yes. That is correct.

JOHN HOGG: It is winding—the current (inaudible) is winding down. There will be some additional costs going forward. As I've mentioned, we've just completed the feasibility study; we're reviewing that. We are getting towards putting the 43-101 together. There will likely be some additional drilling required over the next year. That will be decisions made with our partner.

MIKE PLASTER: Great. That's all I have. Thanks very much.

OPERATOR: Ladies and gentlemen if there are any additional questions at this time, please press the '*' followed by the '1'. As a reminder, if you are using a speakerphone, please lift the handset before pressing any keys. Your next question comes from Tim Dudley from Arbuthnot. Please go ahead.

TIM DUDLEY (Arbuthnot Securities): Hello, it's Tim here. I just have a question about the yield improvement. I see that in Q3, you're receiving from the output of Q2. Is that due to bringing in better quality coal or are you expecting that to continue?

JOHN HOGG: We're working very hard towards better cleaning and reducing losses in the pit. Also, some of it is a result of the distribution of the various seams. Some of our seams are dead and others are yielding less coal. The main thrust of

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the mine over the last few months continues to be that; it's to improve overall productivity from the equipment, improve our cleaning techniques on the coal so that we maximize recovery and minimize dilution from the mine.

TIM DUDLEY: Okay. Will you be targeting that kind of level of recovery provided that work keeps continuing?

JOHN HOGG: I don't think we'll get much higher than what we are looking at right now. We've got quite a number of programs in place looking at improvements in recovery in the plant wherever we can, and a continuation in the mine, but they are not going to be such large steps.

TIM DUDLEY: Another one was about the long-term supply of (inaudible) PCI coal. Can you comment on the process or the benchmark process that is associated with that?

JOHN HOGG: We don't have prices set as of yet. As I mentioned, they are volume contracts. They are spread over a number of years. We are currently waiting to start our negotiation process for the year, for the 2008 coal year. We expect to be doing that in the next short while. That is typical in the coal industry on volume contracts. You don't settle prices for the length of the contract. You get the volume and then go in on an annual basis and settle the price for that particular period of time.

TIM DUDLEY: Okay, so those should be in line the current or market conditions at the time?

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JOHN HOGG: Oh yes, for sure. There is no—we, last year, or this year, sorry. This coal year, we had to discount our coal: primarily as a new player to get into the market place. As I mentioned there's been a great acceptance of our coal. We don't expect to be doing any discounting this coming year. Customers, I can tell you that most of our coal for next year on a volume base is taken care of.

TIM DUDLEY: That is all my questions. Thanks.

OPERATIONS: Mr. Hogg, there are no further questions at this time. Please continue.

JOHN HOGG: Thank you, operator. In summary, while there is a lot going on in the company, I can reassure you that everyone is strongly committed to driving the productivity improvement plan. Our goal is to be in a position to maximize earnings through improved production and lower cost when the record coal prices are established, starting in April 2008. Thank you for listening to us today.

Please call should you have any further questions.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thanks for participating. Please disconnect your line.

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