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Wolverine
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TSS → Western
Cdn. Coal
(0)

Western Canadian Coal Corp.

(WTN : TSX : C\$3.25 | Issued 84.0 M)

BUY | Target price: C\$4.30

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Company Statistics:

Recommendation:	BUY
12-month target price:	C\$4.30
Price:	C\$3.25
52-week Range:	C\$2.82-6.68
Market Capitalization (M):	C\$272.9

Earnings Summary:

FYE Mar	2004A	2005A	2006E	2007E	2008E
Diluted EPS:	-0.11	-0.22	0.15	0.64	1.03
P/E:	NA	NA	21.6	5.1	3.2
operating CFPS:	NA	-0.32	0.24	0.77	1.18
P/ op. CF:	NA	NA	13.5	4.2	2.8
Free CFPS:	NA	-0.32	0.23	0.73	1.14
P/ free CF:	NA	NA	14.1	4.5	2.9

Share Price Performance:



Company Description:

Western Canadian Coal is a producer of high quality PCI coal and is soon to be a producer of standard hard coking coal in British Columbia, Canada. The company currently has one surface mine in production, another under construction, and several other development properties. Total production should be about 3.4 million tonnes of clean coal by 2008.

All amounts in C\$ unless otherwise noted.

PRODUCTION KICKER IN H2/06

Event: We are initiating coverage on Western Canadian Coal with a BUY recommendation.

Valuation: We are valuing Western Canadian Coal on a combined NPV₁₀ and 4 times CY2007 operating cash flow basis. Our valuation and target price is \$4.30 per share.

Action: We recommend investors start to build positions in anticipation of Wolverine start-up in July 2006.

Western Canadian Coal's share price peaked at \$6.68 in December 2004 and then again at \$5.35 in September 2005, and has since fallen in response to market realization of a weakening coking coal market and the likelihood of lower contract coking coal prices in 2006.

Our forecasts are based on 2006 standard coking coal prices being settled at US\$109 per tonne, down 12.5% from current levels, and PCI prices being settled at US\$80 per tonne, down 22% for Western Canadian. However, we note the apparently hard-line stance being taken by the price-setting coking coal producers at ongoing contract negotiations, and we are beginning to think that these prices may be a worst-case scenario, particularly for coking coal.

We look to the scheduled start-up of commercial production at Wolverine in July 2006 as the catalyst for a higher share price. While a much simpler operation, we note the successful Dillon project as a precedent for successful project delivery and acceptable operating performance. We note too the number of potential future growth opportunities, where economic viability would provide upside to our financial forecasts.

Figure 57: Key financial estimates

Profit & Loss

In CAD millions unless otherwise stated

Year to Dec	2002	2003	2004	2005	2006E	2007E	2008E
Sales Revenue			0	20	89	250	297
Other income			0	1	-1	-2	-2
Gross costs			1	19	58	129	209
EBITDA			-1	0	31	121	88
Deprec'n & Amort'n			0	1	3	9	9
EBIT			-1	1	26	110	77
Net Interest			0	1	2	0	-2
Profit Before Tax			-1	0	24	111	79
Income Tax			0	0	10	33	29
Minorities			0	0	0	0	0
Adjusted net income			-1	-3	14	77	50
Adjusted EPS (C\$)			-0.03	-0.01	0.20	1.02	0.65
Adjusted diluted EPS (C\$)			-0.03	-0.01	0.19	0.98	0.63
Dividend per share(C\$)			0.00	0.00	0.00	0.00	0.00
Exceptional profit after tax			0	3	1	0	0
Reported profit after tax			-1	0	15	77	50

Cash Flow, proforma

In CAD millions unless otherwise stated

Year to Dec	2004	2005	2006E	2007E	2008E
Cash flow from operations	-1	-6	34	121	88
Dividend from JV & Associates	0	0	0	0	0
Exploration expensed	0	0	0	0	0
Maintenance capex	0	0	0	0	-1
Net Interest	0	-1	-2	0	2
Tax paid	0	0	-8	-33	-29
Other operating c-flow	0	3	1	0	0
Operating cash flow	-1	-4	25	88	60
Expansion capex	-2	-23	-13	-25	0
Net acquisitions	0	0	0	0	0
Exploration capitalised	0	0	0	0	0
Other investing cash flow	0	-2	5	0	0
Investment cash flow	-2	-25	-8	-25	0
Net capital raisings	3	15	15	0	0
Net borrowings	0	17	-10	-10	0
Dividends paid	0	0	0	0	0
Other financing cash flow	0	-1	0	0	0
Financing cash flow	3	31	5	-10	0
Net Cash Flow	-1	2	22	52	60

Balance Sheet

In CAD millions unless otherwise stated

As at 31-Dec	2003	2004	2005	2006E	2007E	2008E
Cash & equivalents	0	2	24	76	136	
Other current assets	0	15	17	17	17	
Property, plant & equip.	17	40	50	66	58	
Exploration	0	0	0	0	0	
Other assets	0	3	3	3	3	
Total assets	17	60	94	163	214	
Current creditors	3	27	28	17	17	
Non-current creditors	2	0	0	0	0	
Other liabilities	0	4	6	6	6	
Minorities	0	0	0	0	0	
Net assets	12	28	61	140	191	
Shareholders' equity	12	28	61	140	191	
Gearing (nd/nd+e) %	27%	40%	-26%	-118%	-242%	
Working capital	-3	-13	-10	0	0	
Net debt	5	19	-13	-76	-135	

Ratios

In percentage points unless otherwise stated

Year to Dec	2003	2004	2005	2006E	2007E	2008E
Profitability						
Return on equity	-9.2	-15.1	32.0	77.1	29.9	
Return on assets	-6.6	-7.9	18.5	60.1	26.3	
Return on invested capital	-8.2	-14.9	42.7	146.0	79.6	
Return on capital employed	-8.1	-14.5	31.9	77.0	29.9	
EBITDA margin			1.5	34.7	48.4	29.5
EBIT margin			2.6	29.2	44.0	25.9
Net profit margin			-15.5	16.0	30.9	16.7
Effective tax rate			-29.0	39.4	30.0	37.0
Leverage						
Net Interest Cover (times)	-11.0	0.3	18.9	-323.1	-44.8	
Current Ratio (times)	0.0	0.6	1.5	5.5	9.1	
Other						
Fully diluted in-the-money shares on issue average			61.8	76.4	79.0	79.2
Free Cash flow (\$ / share)			-0.06	0.33	1.11	0.76
Cash flow after capex (\$ / share)			-0.43	0.16	0.80	0.76
Cash flow before capex (\$ / share)			-0.06	0.33	1.12	0.76
Payout ratio			0%	0%	0%	0%

Source: Company data, Canaccord Capital estimates

Figure 58: Key financials

Table 1: Financial summary	13-Dec	Q2/06A	Q3/06E	Q4/06E	Q1/07E	2005A	2006E	2007E	2008E	
Revenue	C\$ million	19.1	19.3	24.1	25.4	11.3	82.1	244.3	367.4	
Cost of goods sold	C\$ million	11.5	12.2	15.5	19.3	10.8	50.8	151.6	238.7	
Operating profit	C\$ million	7.6	7.1	8.6	6.1	0.6	31.3	92.6	128.8	
Other expenses	C\$ million	6.4	5.8	6.3	7.1	11.5	21.9	34.3	34.9	
Income tax	C\$ million	-4.0	0.0	0.0	-0.0	0.0	-3.9	1.2	1.9	
Net income										
Net income	C\$ million	5.2	1.3	2.2	-1.0	-11.0	13.3	57.2	92.0	
EPS basic	C\$ps	0.06	0.02	0.03	-0.01	-0.22	0.16	0.68	1.10	
EPS diluted	C\$ps	0.06	0.01	0.03	-0.01	-0.22	0.15	0.64	1.03	
Dividend	C\$ps	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Cash	C\$ million	93.3	124.0	117.5	27.8	115.2	117.5	61.6	122.9	
Net debt	C\$ million	-92.3	-62.9	3.6	93.2	-111.6	3.6	49.4	-51.9	
Cash flow from operations ⁽¹⁾	C\$ million	2.6	2.4	3.6	0.8	-7.3	15.5	68.5	105.5	
CAPEX	C\$ million	25.8	30.0	70.1	90.5	16.3	132.9	111.3	3.8	
Working capital ⁽²⁾	C\$ million	94.6	125.3	118.8	29.1	119.4	118.8	62.9	124.2	
(1) before changes in working capital, before any CAPEX										
(2) WTN definition, includes cash										
Table 2 : Key input variables										
		Q2/06A	Q3/06E	Q4/06E	Q1/07E	2005A	2006E	2007E	2008E	
Coal production	'000 tonnes	192.6	200.0	220.0	240.0	284.0	813.6	2,360.0	3,360.0	
Coal sales	'000 tonnes	155.9	160.0	200.0	240.0	152.0	683.9	2,060.0	3,360.0	
Averaged realised coal price	C\$/tonne	122.7	120.6	120.6	105.9	74.7	120.0	118.6	109.4	
C\$ / US\$ exchange rate		0.83	0.85	0.85	0.85	0.81	0.83	0.83	0.80	
Average cash cost of production	C\$/tonne	72.1	72.8	73.6	74.3	61.8	69.7	68.6	67.3	
Tax rate	%	-339%	2.0%	2.0%	2%	0.0%	-42.1%	2.0%	2.0%	

Source: Company reports, Canaccord Capital estimates

Executive summary and valuation

We are valuing Western Canadian Coal on an average of its NPV₁₀ of \$3.43 per share and a 4 tonne CY/07 operating cash flow multiple, or 4 times \$1.31 = \$5.24. We believe the catalyst for a higher share price will be start-up of commercial production from the Wolverine mine-site in July 2006. (Including some early production, we are forecasting CY/06 operating cash flow per share of just \$0.36.)

Key assumptions are a long-term price of US\$73 per tonne for Western Canadian Coal's export metallurgical coal, a long-term C\$ exchange rate of \$0.78, and average FY/07 operating costs including transportation of C\$69 per tonne.

However, we want to highlight key risks to our valuation.

Downside risks:

- The Wolverine project is subject to normal construction risk. Although we do not foresee major problems, and we note that Western Canadian Coal successfully commissioned the Dillon mine, equity markets will be looking for confirmation of on-time and on-budget project delivery.
- Western Canadian Coal is currently arranging project debt for Wolverine. We calculate \$120 million of debt financing is required, excluding potential capital leases for equipment, although it is possible that actual debt raised could be higher.
- NPV sensitivities to changes in input assumptions are extremely significant. For example, 10% lower coal prices, 10% higher operating costs or a 10% stronger Canadian dollar would impact our NPV₁₀ by 71%, 29% and 65% respectively, to \$0.97, \$2.42 and \$1.19 per share.

Upside risks:

- We are making no allowance for the development of any of the Brule, Hermann North properties or of the Saxon-Belcourt Joint Venture, believing that the economics of these projects still need to be proven. However, if that happens, additional production would most likely be NPV and eventually cash flow accretive.
- We are assuming an effective combined royalty and income tax rate of 37%, to begin some time in 2008 once tax pools are depleted. However, should Western Canadian Coal proceed with any of the above developments, additional capital pools will significantly defer some tax payments.
- A 1% royalty at the Wolverine property is currently under dispute. If this can be removed, our NPV₁₀ would increase 6% to \$3.65 per share.



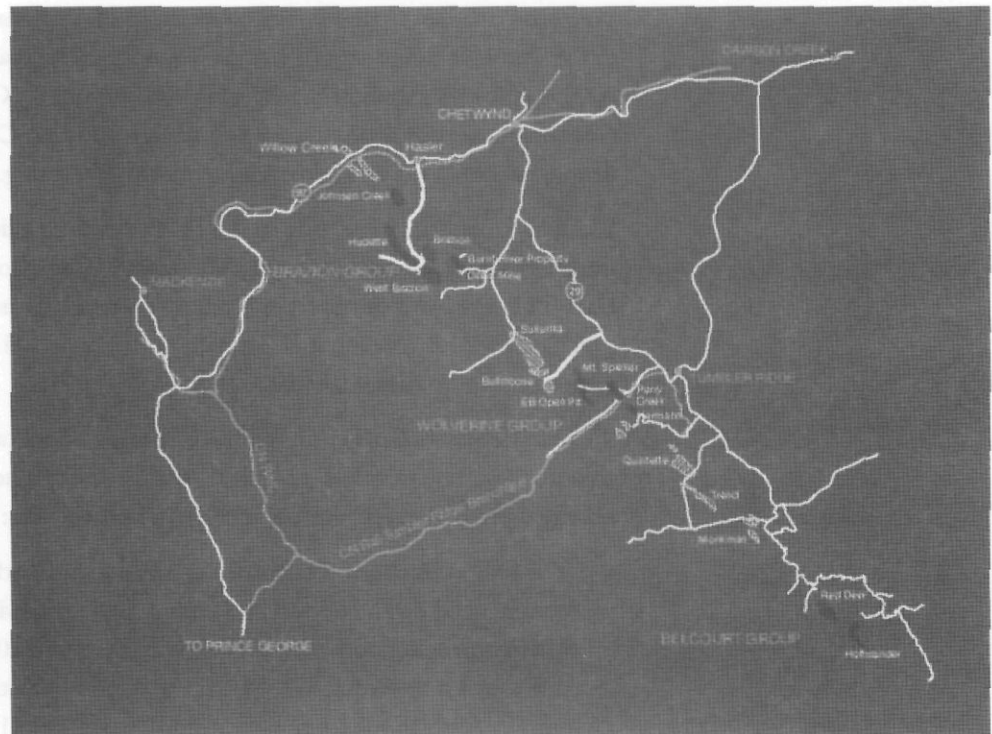
The company

Western Canadian Coal was incorporated in 1997 to reactivate metallurgical coal mining in the Tumbler Ridge area of British Columbia. The major capital raising of February 2005 was for 18.9 million shares (plus half-warrant) at C\$6.10 per share. Along with the other emerging western Canadian coal companies, Western Canadian Coal has an overseas listing, on London's AIM, in addition to its TSX listing.

Western Canadian gained title to the Burnt River coal licences in January 1999 and to the Perry Creek licences in August 2000, when Teck Cominco allowed them to lapse. East Bullmoose/Mount Spieker licences are contiguous to Perry Creek and were previously held by Nichimen Company and Ranger Oil Limited. Western Canadian gained control in December 2000.

Western Canadian Coal currently has one mine in operation, another under construction, one potential project with a feasibility study complete, one other major potential project, and a number of exploration licences:

- The Dillon Mine (of the Burnt River licence), a surface mine currently in operation, commenced production in November 2004, and will be depleted by mid-2006. Current production rate is between 65,000 and 80,000 tonnes per month of unwashed but saleable ULV PCI coal. Upon depletion, total mine output will have amounted to about 1.4 million tonnes, for about \$12 million CAPEX, and at a life-of-mine stripping ratio of about 2.5 (BCM / tonnes ROM or saleable). To end-September 2005, Dillon had produced 678,000 tonnes of ULV PCI coal.
- The Brule Deposit (also of the Burnt River licence) is adjacent to the Dillon Mine. The company has completed a feasibility study for a 2 mtpa surface coal mine to produce over 20 million tonnes of saleable LV PCI coal over a thirteen year period, at a life-of-mine stripping ratio of 7.5:1, (BCM / tonnes ROM).
- The Wolverine/Perry Creek surface mine is currently under construction. First production is expected in July 2006, with a planned scale-up to 3.0 mtpa of saleable low ash medium volatile coking coal by about 2009. Total CAPEX is \$242 million, including about \$150 million for the 3 mtpa preparation plant. Total Perry Creek and EB reserve is 27.7 million tonnes of clean coal, at a life-of-mine stripping ratio of 5.5:1, (BCM/tonnes ROM, or 8.6:1 BCM/clean coal). An additional 43 mt resources exists at the Hermann North deposit.
- The Belcourt-Saxon 50/50 Joint Venture with NEMI, Northern Energy and Mining Incorporated. \$20 million is slated to update feasibility reports over the next few years, with a pre-feasibility study expected in mid-2006 and possibly a feasibility study by end-2006. The companies have a view to developing a 6 to 10 million tonne pa operation for a minimum of 20 years, with a strip ratio of around 6:1. Measured and indicated resources are 98.1 million tonnes in-place, although they were estimated prior to the implementation of NI 43-101.

Figure 59: Western Canadian Coal location map

Source: Company report

The reserve base

Technical reports have been prepared for the Dillon Mine by Weir International Mining Consultants in September 2004, for Wolverine by JHP Coal-Ex Consulting and Cochrane Engineering in October 2003 and again by Marston (due to be published December 2005, highlights released November 2005), and for the Brule Project by Marston in October 2005. These reports were all prepared in accordance with the requirements of NI 43-101.

Current reserves (September 2005 plus updated Wolverine reserves) are summarized in Figure 3. Early Wolverine drilling activity consisted of 22 drill holes totalling 3,917 meters at Perry Creek and 45 drill holes totalling 8,389 meters at East Bullmoose. From 2000 to 2002, Western Canadian added a further 37 drill holes totalling 3,796 meters at Perry Creek and a further 21 drill holes totalling 2,244 meters at East Bullmoose.

The Gething formation contains the coal seams of economic interest at the Dillon and Brule deposits. Dillon is due for depletion in mid-2006, but we include 3 million tonnes of Brule reserves in Figure 3. This is essentially the same low ash, LV PCI coal, and this much of the Brule resource can be mined without additional CAPEX. The Brule deposit is classified as “moderate” geology type.

Wolverine reserves were increased on 28 November 2005 to 27.7 million tonnes of clean coal or 43.2 million tonnes ROM, at a stripping ratio of 5.5 (BCM / t ROM, or

8.6 BCM per tonne clean coal). The Gates formation contains the coal seams of economic interest at the Wolverine deposits. Perry Creek reserves are proven. East Bullmoose (also known as Mount Spieker) reserves are probable. The clean coal product will be <8% ash, high quality hard coking coal. At the time of writing of this report, the full NI 43-101 Marston Technical Report was not yet available. However, based upon the original JHP Coal-Ex Consulting Technical Report, we expect the coal will be medium volatiles. This early technical report notes the geology type as “moderate” at Perry Creek but “complex” at East Bullmoose. We have not included potential underground resource at Perry Creek in our reserves and resources tabulation. The Belcourt – Saxon 50/50 Joint Venture accounts for an additional measured and indicated resource of 98.1 million tonnes in-place.

Figure 60: Western Canadian coal reserves & resources, million tonnes

Mine	Coal Type	Formation	Reserves (Sep-05)			Additional Resources (M&I)
			In-Place	Recoverable	Saleable	In-Place
Dillon	PCI	Gething	0.6	0.6	0.6	0.0
Brule	PCI	Gething	2.8	3.0	3.0	33.4
Wolverine						
- Perry Creek pit	coking	Gates	NA	35.8	22.8	NA
- East Bullmoose pit	coking	Gates	NA	7.4	4.9	NA
- Hermann North	coking	Gates	NA	0.0	0.0	43.2
Total						
- PCI		Gething	3.5	3.6	3.6	33.4
- coking		Gates	NA	43.2	27.7	43.2

Source: Company reports

Type and quality of coal

Dillon and Brule product specifications are for a similar low ash ULV PCI coal. The Dillon reserve has proven clean enough to sell without washing, and Western Canadian Coal believes about 3 million tonnes of the Brule deposit is also saleable without washing. Target specifications are presented as Figure 61. Product specification is for 7.5% ash, although Dillon product coal has been as low as 6% ash.

We believe Wolverine processed coking coal would be classified as medium-volatile standard hard coking coal with pricing at standard Fording Coal levels. The product specifications of Figure 62 are from the October 2003 JHP Coal-Ex Consulting Technical Report, and Western Canadian Coal expects that the CSR (coke strength after reduction) is in the 60s. The updated November 2005 Marston Technical Report was not available at the time of writing of this report. Some relatively narrow seams and the presence of significant interburden accounts for a relatively low average plant yield of 64% of ROM coal.

Figure 61: Burnt River property coal quality estimates, in seams of economic interest, shallowest seam first

Mine Area	Seam	Thickness, (meters)	Ash (%)	Clean Coal Quality			
				Volatile Matter (%)	FSI	Sulphur (%)	CV (kcal/kg)
Brule - Gething	60	2.7-8.4, ave. 4.6	12.0	NA.	NA.	NA.	NA.
	Upper	3.0, plus 1 m interburden	7.1	NA.	NA.	NA.	NA.
	Lower	4.6, plus 1.4 m interburden	6.9	NA.	NA.	NA.	NA.
	Indicative product specification, dry basis			7.5	13.0	0.5-1.0	0.5
Dillon - typical clean coal, adb coal quality							
- Gething	Upper	0.9-3.0, ave. 2.2	12.3	NA.	NA.	NA.	NA.
	Lower	4.9-7.1, ave. 6.1	7.9	NA.	NA.	NA.	NA.
Indicative product specification, dry basis			7.5	13.6	0.0	0.5	8138

Source: Company reports

Description of mines

Dillon is contract mined by Pelly Construction Limited. The coal is crushed but not washed prior to transportation in 34-tonne haul trucks 94 kilometres to the old Bullmoose load-out facility, which Western Canadian Coal has leased with a three-year option from Teck Cominco for loading non-coking coals only. The road haulage contract is currently held by various contractors.

The Perry Creek and East Bullmoose mines will employ conventional truck and shovel methods, with overburden and coal drilling and blasting. Contract mining is planned for the initial three to five years of operation, with Pelly Construction and Leadcore the JV mining contractors, to be based on unit rates contracts currently being negotiated. Clean coal plant yield is estimated as 64%.

The coal processing and wash plant is located adjacent to the Perry Creek pit, and the coal load-out facility currently under construction is located adjacent to the coal preparation plant. The Sedgman group of companies has been contracted to deliver a turnkey coal preparation plant by July 2006, with the dryer a separate contract. Plant capacity will be 3 million tpa of saleable coal, but initial production is expected to be 2.4 million tpa.

Figure 62: Wolverine property coal quality estimates, in seams of economic interest, shallowest seam first

Mine Area	Seam / Ply	Thickness, (meters)	Clean Coal Quality				
			Ash (%)	Volatile Matter (%)	FSI	Sulphur (%)	CV (kcal/kg)
Wolverine - Gates							
- Perry Creek							
	E	6.0-7.0, incl. about 3 m I/B					
	- E2	0.2-1.8	10.5	23.4	5.5	0.4	7648
	- E3	0.4-1.9	9.6	23.7	7.0	0.6	7736
		0.8-2.3, incl. about 0.2 m					
	F	I/B	9.1	26.5	6.5	0.7	7799
	G	0.4-1.1	8.4	23.4	7.5	1.1	NA.
	J1	0.7-2.1	8.6	22.5	7.5	0.4	7857
	J2	1.9-4.0	6.0	25.0	8.0	0.3	8220
	J3	1.7-2.8	6.7	23.1	7.0	0.3	8056
	Total	average 12.5					
- EB (East Bullmoose)							
	D	2.9-4.1	8.7	25.9	8.5	0.5	7838
	C	3.1-5.3	8.9	24.1	7.5	0.6	7793
	B	3.2-5.6	8.6	22.9	6.5	0.4	7822
	Total	average 12.5					

Source: Company reports

Rail and port contracts

Western Canadian Coal's PCI coal is currently transported via CN Railway Company a total distance of about 900 kilometres for loading at Ridley Terminals near Prince Rupert. Rail freight rates are currently the subject of a dispute between Western Canadian Coal and CN railway, in which CN Railway has challenged the September 2005 Canada Transportation Act final offer arbitration ruling in favour of Western Canadian. There is a risk that should CN Railway's application be successful, overall transportation costs could increase by an addition 6%, or about \$1.50 per tonne.

While actual freight rates are still in dispute, a rail transportation tariff rate is in place with CN Railway Company until June 2006. Western Canadian has negotiated a port services agreement for the use of port facilities at Ridley Terminals, although the agreement remains unsigned pending resolution to the federal government's sale of the coal terminal.

Construction performance

Western Canadian Coal is scheduled to move from the construction phase to the operating phase at Wolverine in July 2006. Total CAPEX estimate of July 2005 of \$242 million includes:

- 3 mtpa coal processing plant and coal handling facilities at \$152 million.
- Pre-production stripping of \$55 million.
- A \$30 million contingency.

Mining equipment is not included in this CAPEX estimate. The company has recently advised that project costs and CAPEX are within management's expectations and budgeting. CAPEX still to be incurred after September 2005 amounted to about \$200 million. Most of the CAPEX requirements have been spent by July 2006. Westmar Consultants are the construction managers.

Production Profile

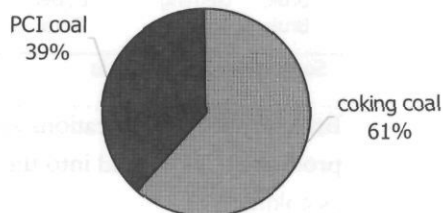
We are assuming the production profile as per Figure 63. This assumes mining Dillon to depletion and extracting the 3 million tonnes of Brule reserves that can be sold without washing. We are assuming that Wolverine ramps up to initial 2.4 million tpa production by end-Sept 2006, and then eventually to utilise the full 3 million tpa capacity of the processing plant currently under construction.

The current Perry Creek and East Bullmoose mine permit of April 2005 allows for the production of 1.6 million tpa. However, Western Canadian has applied for an increase in allowable production to 2.4 million tpa, and we expect this and an eventual increase to 3 mtpa will be approved. A permit to increase Dillon production to 80,000 tonnes per month was issued in July 2005.

Figure 63: Assumed WTN production profile, million tonnes

	FY/05	FY/06	FY/07	FY/08	FY/09	FY/10	FY/11	FY/12
Wolverine coking coal	0.0	0.0	1.4	2.4	2.9	3.0	3.0	3.0
Dillon / Brule PCI coal	0.3	0.8	1.0	1.0	1.0	0.2	0.0	0.0

Source: Company data, Canaccord Capital estimates

Figure 64: WTM FY/07 revenue split by product

Source: Canaccord Capital estimates.

Expansion projects

Western Canadian Coal has a number of potential growth options:

- Brule (and Blind) Mine developments,
- Expansion at its Wolverine Group of properties,
- The Belcourt – Saxon Joint Venture with NEMI.

i) Brule (and Blind) Mine development

In October 2005, Western Canadian published a feasibility study for the Brule Mine.

The Brule and Blind deposits are located adjacent to the operating Dillon Mine, and are parts of the Burnt River mining leases. The Brule deposit is classified as moderate geology type and the Blind deposit as complex geology type. Coal seams of economic interest are contained within the 450 meter thick Gething formation. There are three seams of economic interest: Seam 60 is an average of 60 meters vertically above the Upper Seam, which is a further 15-20 meters on average above the Lower Seam. The Upper and Lower Seams are also of interest in the Blind deposit, and are currently being mined at Dillon. (Dillon Upper Seam thickness ranges 0.9-3.0 meters with average 2.2 meters, and the Lower Seam ranges 4.9-7.1 meters with average 6.1 meters.) Drilling to date has totalled 208 holes for 13,664 meters at Brule and 23 holes for 1,707 meters at Blind. About 35% of total meters were drilled from 2001-2005.

Resource estimates of Figure 65 are based on a cut-off stripping ratio of 20:1 (BCM / tonnes ROM). There are no reserves or measured and indicated resources for the Blind deposit. However, Marston has estimated inferred in-place resources totaling 2.4 million tonnes.

Figure 65: Brule Mine reserves and resources

Mine	Formation	Seam	Initial Reserves (million tonnes)			Additional Resources (M&I)
			In-Place	Recoverable	Saleable	In-Place
Brule	Gething	60	3.8	4.0	3.8	5.0
Brule	Gething	Upper	6.7	7.1	6.7	2.9
Brule	Gething	Lower	10.8	11.4	10.7	7.0
Brule		Total	21.2	22.5	21.1	15.0

Source: Company reports

Brule product specifications are presented as Figure 66. The 7.5% ash, 13% volatiles product could be sold into the ULV PCI coal market. FSI values are far too low for use as coking coal.

Figure 66: Brule product coal quality

Mine Area	Seam	Thickness, (meters)	Ash (%)	Coal Quality			Sulphur (%)	CV (kcal/kg)
				Volatile Matter (%)	FSI			
Brule								
- Gething	60	2.7-8.4, ave. 4.6	12.0	NA	NA	NA	NA	NA
	Upper	3.0, plus 1 m interburden	7.1	NA	NA	NA	NA	NA
	Lower	4.6, plus 1.4 m interburden	6.9	NA	NA	NA	NA	NA
Indicative product specification, dry basis			7.5	14.0	0.5-1.0	0.5%	7800	

Source: Company reports

The mine plan is based on a life-of-mine stripping ratio of 7:1 (BCM/tonne product, which equates to about 7.5:1 BCM/ tonnes ROM), and includes a coal washplant to clean the >3mm material which would then be blended with the unwashed smaller fraction at an estimated overall yield of 92%. New mine includes a new 35 kilometre Falling Creek haul road, to access a new load-out about 10 kilometres down the railway line from Pine Valley's existing load-out facility.

The Marston Technical Report of November 2005 does not estimate NPV, but has estimated cash flows based on:

- Average clean coal production over 13 years of 1.8 mtpa, until reserve (but not resources) depletion.
- Initial CAPEX of \$189 million plus 13% contingency and bonding, including \$60m for mining equipment.
- Average mine-site operating costs of \$33.74 per tonne and rail, port and sales costs of \$23.50 per tonne. (The operating cost estimate seems low to us, given that current Dillon operating costs are \$37 per tonne with a lower stripping ratio and no washplant, and not including the cost of road haulage.)
- Life-of-mine stripping ratio of 7.5 (BCM/t ROM)
- C\$/US\$ exchange rate of 0.80.
- LV PCI coal export price falling to US\$60/t in year 3 and beyond, (which is the same as our long-term price assumption).

- Total royalties and taxes averaging 37% of pre-tax and royalty income once capital pools are exhausted.

Even using Western Canadian Coal's cost assumptions, we calculate project NPV₁₀ as essentially zero, and therefore assign no value to the Brule project. We also believe that Western Canadian quite possibly shares a similar view. Quoting from a 28 November 2005 press release, "the company confirms that full scale development of the Brule Mine project will proceed only when the company is satisfied that prices for PCI coal and transportation costs will fully support the project." We don't expect a decision until late-2006, and only if the PCI coal market looks robust enough to deliver early payback after a 12 month construction period.

However, we do include some of the Brule reserve in our base case valuation, as about 3 million tonnes of the deposit is clean enough to be sold without washing, (although not the shallowest Seam 60), at an estimated stripping ratio of about 4:1. Thus we are assuming Brule will produce 1 mtpa for three years once Dillion is depleted in mid-2006, using existing Dillon infrastructure and contract arrangements.

ii) Resource addition at Wolverine

Further exploration potential exists within the Wolverine group of properties. We would expect more details will be released in the imminent Marston Technical Report. A feasibility study for the Hermann North deposit is likely some time in 2006. The company anticipates making an Environmental Assessment application for Hermann North in the spring of 2006.

iii) The Belcourt-Saxon Joint Venture

In March 2005, Western Canadian Coal and NEMI formed a 50/50 joint venture for the exploration and development of NEMI's Saxon and Omega properties and Western Canadian's Belcourt properties. The companies have a view to developing a 6 to 10 million tonne pa operation for a minimum of 20 years, with a relatively low strip ratio of around 6:1 (BCM waste: tonne ROM coal, from Belcourt 2000 study.) \$20 million is slated to update feasibility reports. A pre-feasibility study is expected in mid-2006 and possibly a full feasibility study by end-2006. Royalties are payable to Western and NEMI on product revenue from each partner's contributed properties, and the Joint Venture is obligated to pay private royalties of 0.75% on the Belcourt properties and 1% on the Saxon and Omega properties.

The Belcourt and Saxon properties are located some 85 kilometres southeast of Tumbler Ridge. The region is not currently connected by railroad, and about 90-100 kilometres of track, including civil works, would be required to connect with the CN Tumbler Ridge Branch Line for transport to Ridley Terminals.

Measured and indicated resources are 98.1 million tonnes, in-place (see Figure 67). (The Saxon resource was estimated prior to implementation of NI 43-101. However, the February 2004 JHP Coal-Ex Consulting Technical Report noted that they represent an acceptable methodology for resource quantification. The Belcourt resource is from a

May 2000 Preliminary Feasibility Study from Norwest Mines Ltd, and are not NI 43-101 compliant.)

Figure 67: Saxon / Belcourt JV resources, 100% basis

	Measured	Indicated	Inferred	Total	Speculative
Saxon Group					
Saxon East	-	53.1	55.0	108.1	110.0
Saxon South	-	-	67.5	67.5	58.0
Omega	-	-	44.8	44.8	107.0
Total		53.1	167.3	220.4	275.0
Belcourt Group					
Red Deer	7.0	6.5	16.0	29.5	54.0
Holtlander	19.5	12.0	7.7	39.2	18.3
Total	26.5	18.5	23.7	68.7	72.3
Total JV	26.5	71.6	191.0	289.1	347.3

Source: Company data

The Saxon properties were previously held by Denison Mines Ltd. and their various joint venture partners, and were explored between 1970 and 1979. 16,354 meters of drilling, 13 adits and 159 trenches were completed on the Saxon property. Some bulk sampling, coal quality analysis and coke testing was conducted at the time. 2,516 meters of drilling, 1 adit and about 40 hand trenches were completed on the Omega property.

Prior work recognizes Saxon coals as very good to premium hard coking coals. Coal seams of economic interest are in the Gates Formation, and are ranked as medium to low volatility bituminous coals, which could mean that some of the coking coal resource could sell at a premium to the more usual medium volatile coking coals of elsewhere in British Columbia, although Omega coals have lower coking quality. Quoting from the February 2004 Technical Report: "Based upon the results of traditional coke tests, Saxon East and Saxon South coals have been recognized as very good to premium hard coking coals, exhibiting favourable coking indices. Limited data on ash analyses suggests that these coals may also have high estimated CSR (coke strength after reaction). Tests performed on Omega coals have indicated that these coals can be used as a direct replacement for premium low volatile blending coals with equal or higher strength values than the reference blend." Cumulative coal seam thickness at Saxon South is 22 meters.

A summary of key clean coal quality characteristics is presented in Figure 68.

Figure 68: Belcourt / Saxon coal quality

	Ash %	Volatile Matter %	FSI (range, seam-by-seam)
Saxon East	6.6 - 7.2	20.0 - 21.8	3.5 - 9, ave 7.1
Saxon South	5.6 - 8.4	23.0 - 27.1	4 - 8.5, ave 7.3
Omega	5.5 - 9.8	17.1 - 21.2	1.5 - 9, ave 4.7

Source: Company data, (originally from Denison Mines Ltd. for Saxon and Omega)

There are no CAPEX estimates available, but given the lack of infrastructure, we would expect of the order of \$500 million or more, including up to \$200 million for up to 100 kilometres of new railroad, or a capital cost in the order of C\$50-75 per tonne.

Assuming operating costs of about C\$35 per tonne, (Fording Coal's Q3/05 unit cost was C\$36.50 per tonne) transport and port costs of about C\$25 per tonne (comparable to current costs to export via Ridley Terminals) and a required return of 15%, a break-even coal price could be as high as about C\$70-75 per tonne or about US\$62 per tonne at today's exchange rate.

At this stage, and given the history of coal mining infrastructure development in western Canada, the back-of-the-envelope project economics may not justify the investment in additional port capacity at Ridley Terminals beyond current 16 mtpa. However, the project is still a long way from feasibility study completion, and while we are assigning no specific value to the Saxon/Belcourt Joint Venture, we recognize the potential should coking coal prices stay around current levels for much longer than most observers currently believe.

Sales contracts

Western Canadian Coal has a sales contract with Posco of Korea for the delivery of 2.8 million tonnes of Burnt River PCI coal over a six-year period, and a 0.2 million tonne agreement also with Posco for delivery of Wolverine coal subject to trial shipments.

The company has contracted 700,000 tonnes of PCI coal sales for the coal year ending March 2006 at a price of just over US\$100 per tonne fob port. Recent customer deferrals mean that about 100,000 tonnes of this contracted coal will carry-over into the next financial year.

(However, given that at least for now the PCI market appears to be weakening, we expect this carry-over pricing will be part of upcoming contract price negotiations, and we would not rule out the price for these carry-over tonnages being negotiated back to next year's contract price. As a guide to the earnings sensitivity of this issue, if the full 100,000 tonnes were to be re-priced at our FY/07 forecast of US\$80 per tonne, FY/07 revenue, EBITDA and net earnings would each be impacted by about C\$2.6 million or about 1%, 3% and 4%, respectively).

Taxation

British Columbian coal royalties are a minimum 2% of net current proceeds, credited against a 13% net revenue tax which begins once certain capital and pre-production costs have been recovered. BC provincial corporate taxes are 12%. We note that the Brule feasibility study assumes total royalties and taxes averaging 37% of pre-tax and royalty income once capital pools are exhausted. We estimate current tax pools will not be exhausted until 2008, beyond which we assume total income tax including royalties would be payable at about 37%. However, actual taxes payable would be substantially lower if Western Canadian Coal continues to develop additional coal properties.

There is a 1% private royalty on Wolverine group properties, which is currently being disputed by the company, and the royalties as discussed on the Belcourt / Saxon Joint Venture. There are no other private royalties on Western Canadian Coal's properties.

Ownership and capital structure

Deepgreen Minera, a wholly owned subsidiary of Cambrian Mining plc, is the major shareholder in Western Canadian Coal, controlling 21.0% of shares outstanding. Cambrian Mining plc controls a further 20.0% of shares outstanding in its own name, (and we note here that a related company Coal International plc is the major shareholder in NEMI, controlling 19.6% of the total shares outstanding, including some shares owned by Cambrian Mining). The next eight largest shareholders account for 18.9% of shares outstanding, meaning that Western Canadian Coal's ownership is the most consolidated of the BC/Alberta coking coal companies, with the Top 10 accounting for 60%.

Shares and options and warrants on issue are presented in Figure 69. We note that the 9.4 million \$7.00 warrants expire in February 2006, and given the strike price and the current share price they are in our view unlikely to be exercised.

Figure 69: Share capital, millions

Common shares on issue	84.0
Options in-the-money (at \$3.23), ave exercise price of \$1.28	1.6
Options out-of-the-money (at \$3.23), ave exercise price of \$5.45	1.7
Warrants at \$1.50, expiring 16/6/06	3.5
Warrants at \$7.00, expiring 9/2/06	9.4
Fully diluted shares (excluding \$7.00 warrants)	90.8

Source: Q2/05 company financial report

Need for additional financing

Western Canadian Coal has \$242 million of CAPEX commitments at Wolverine over the next twelve months, of which only \$34 million was already spent by September 2005. The company does not anticipate that further equity financings will be necessary to fund these costs, and we agree that balance sheet cash of \$93 million and CY06 Dillon / Brule cashflow of \$25-30 million should allow for suitable debt financing. The company expects financing to be completed in FQ1/06. We estimate \$120 million of debt financing will be needed to maintain a positive cash balance through Wolverine ramp-up.

The initial three to five years of mining operations at Wolverine will be contracted, and Western Canadian Coal expects to lease and ultimately own the approximately \$60 million worth of mining equipment required. At this stage, we see no impediments to the company's ability to fund equipment purchases from capital leases.

Sensitivities

Key sensitivities are presented in Figure 70. Earnings, cash flow and NPV are all highly sensitive to metallurgical coal prices, operating costs and the value of the Canadian dollar. Given the currently elevated prices of coking coal compared with historical averages and current coking coal market weakness, the operating costs risk inherent in a start-up operation, and the potential for another trend period of US dollar depreciation, financial forecasts are relatively high risk.

We note in particular that any one of a 10% negative change to our assumed metallurgical coal price, operating costs or Canadian dollar exchange rate would reduce our NPV₁₀ to well below the current share price.

Figure 70: WTN financial sensitivities

	FY/07 EPS	FY/07 CFPS	NPV ₁₀
Base case	0.64	0.77	3.43
Met. coal price, US\$/t			
Base case - US\$109/t for coking coal and US\$82.5/t for PCI in FY/07, US\$73/t coking coal long-term			
+10% to US\$120/t coking and US\$91/t PCI, US\$80/t LT	0.91	1.04	5.89
-10% to US\$98/t coking and US\$74/t PCI, US\$66/t LT	0.38	0.50	0.97
Operating costs			
Base case - C\$69/t in FY/07			
-10% to C\$63/t	0.77	0.90	4.44
+10% to C\$74/t	0.52	0.64	2.42
C\$/US\$			
Base case - 0.83 in FY/07, 0.78 long-term			
-10% to 75, 70 LT	0.94	1.07	6.16
+10% to 0.91, 0.86 LT	0.40	0.53	1.19

Source: Canaccord Capital estimates

Reclamation deposits

Western Canadian Coal has posted a reclamation bond of \$365,000 for Dillon. An initial reclamation deposit of \$3.7 million has been posted for Wolverine, and a further \$3 million is required over the next two years.

Investment risks

There are risks associated with the share price achieving our target price and our financial forecasts. Commodity prices may not match our forecasts, and exchange rate fluctuations may impact company earnings. Further, there are operating risks involved in all mining operations. Technical, environmental, regulatory and political risks can all impact financial estimates and valuation.

An analyst has visited the issuer's operations British Columbia. Partial payment or reimbursement was received from the issuer for the related travel costs.

Figure 71: Key financial estimates FYE March 31

Profit & Loss

In CAD millions unless otherwise stated

Year to Dec	2003	2004	2005	2006E	2007E	2008E
Sales Revenue	0	11	82	244	367	
Other income	0	-2	-3	-1	-1	
Gross costs	2	19	68	168	256	
EBITDA	-2	-8	14	76	111	
Deprec'n & Amort'n	0	1	3	10	12	
EBIT	-3	-11	7	65	98	
Net Interest	0	-1	-2	6	4	
Profit Before Tax	-3	-11	9	58	94	
Income Tax	0	0	-4	1	2	
Minorities	0	0	0	0	0	
Adjusted net income	-3	-10	13	57	92	
Adjusted EPS (C\$)	-0.11	-0.22	0.16	0.68	1.10	
Adjusted diluted EPS (C\$)	-0.11	-0.22	0.15	0.64	1.03	
Dividend per share(C\$)	0.00	0.00	0.00	0.00	0.00	
Exceptional profit after tax	0	0	0	0	0	
Reported profit after tax	-3	-11	13	57	92	

Cash Flow, proforma

In CAD millions unless otherwise stated

Year to Dec	2004	2005	2006E	2007E	2008E
Cashflow from operations	-1	-9	32	89	124
Dividend from JV & Associates	0	0	0	0	0
Exploration expensed	-1	-5	-10	-11	-11
Maintenance capex	0	0	0	-3	-4
Net Interest	0	1	2	-6	-4
Tax paid	0	0	0	0	0
Other operating c-flow	0	-2	-3	-2	-3
Operating cashflow	-2	-16	20	65	102
Expansion capex	-2	-16	-133	-108	0
Net acquisitions	0	-1	-3	0	0
Exploration capitalised	0	0	0	0	0
Other investing cash flow	0	0	0	0	0
Investment cash flow	-2	-17	-136	-108	0
Net capital raisings	3	146	2	0	0
Net borrowings	0	3	117	-10	-40
Dividends paid	0	0	0	0	0
Other financing cash flow	0	0	0	0	0
Financing cash flow	3	149	120	-10	-40
Net Cash Flow	0	115	4	-53	62

Balance Sheet

In CAD millions unless otherwise stated

As at 31-March	2003	2004	2005	2006E	2007E	2008E
Cash & equivalents	0	115	117	62	123	
Other current assets	0	16	17	17	17	
Property, plant & equip.	0	2	95	194	188	
Exploration	0	0	0	0	0	
Other assets	3	16	65	70	67	
Total assets	4	150	295	343	396	
Current creditors	2	12	16	16	16	
Non-current creditors	0	1	121	111	71	
Other liabilities	0	0	2	2	2	
Minorities	0	0	0	0	0	
Net assets	2	137	156	215	308	
Shareholders' equity	0	137	156	215	308	
Gearing (nd/nd+e) %	-206%	-438%	2%	19%	-20%	
Working capital	-1	7	2	2	2	
Net debt	0	-112	4	49	-52	

Ratios

In percentage points unless otherwise stated

Year to Dec	2003	2004	2005	2006E	2007E	2008E
Profitability						
Return on equity	-1822.9	-15.3	9.1	30.8	35.3	
Return on assets	-72.3	-13.7	6.0	17.9	24.9	
Return on invested capital	187.8	-256.1	25.0	39.0	47.6	
Return on capital employed	-1822.9	-15.2	6.4	19.0	26.2	
EBITDA margin		-71.1	16.7	31.1	30.3	
EBIT margin		-100.2	8.8	26.5	26.6	
Net profit margin		-92.3	16.2	23.4	25.0	
Effective tax rate		0.0	-42.1	2.0	2.0	
Leverage						
Net Interest Cover (times)	224.1	12.4	-6.3	11.8	28.9	
Current Ratio (times)	0.2	11.2	8.4	4.9	8.8	
Other						
Fully diluted in-the-money shares on issue average		49.6	87.4	89.2	89.2	
Free Cash flow (\$ / share)		-0.32	0.23	0.73	1.14	
Cash flow after capex (\$ / share)		-0.65	-1.28	-0.48	1.14	
Cash flow before capex (\$ / share)		-0.32	0.24	0.77	1.18	
Payout ratio		0%	0%	0%	0%	

Source: Company data, Canaccord Capital estimates