Letter from the Chairman

Dr. Norman B. Keevil
Chairman of the Board

To the Shareholders

This past year, 2015, was when the chickens came home to roost, after the most volatile pricing cycle for mined commodities in living memory. Hopefully, they have almost finished roosting.

The ups and downs of the last 10 years definitely were part of a "super-cycle", enjoyable for metal and oil producers while on the rise. It was too easy for many, in the business and outside it, to attribute the first, upwards leg, to a new paradigm based on ever-increasing consumption in China, to be followed by India, and so on, and to forget the second half of the phrase. Cycles have downward legs as well.

George Soros has described the nadir of this particular one as "more like a wrecking ball than a pendulum". However severe, it should surprise nobody that the laws of supply and demand have not been repealed. This is not a novel revelation. As far back as 2009 we cautioned in this space: "It is still a cycle. The industry will respond. As Lu Feng, a well-known Chinese professor, said recently, 'in a competitive environment, overcapacity is inevitable'. Eventually, entrepreneurs will always find a way to fill a vacuum, and the cycle will reverse". Eventually too, it will turn back up.

There was the usual supply response by the industry, but for the most part not nearly to the extent that the dramatic fall in commodity prices would suggest. Copper production, for example, increased by almost 20% between 2010 and 2015, but demand continued to grow as well. The surplus of supply over demand amounted to less than 1% in each of the last three years, yet this small surplus, combined with general market sentiment, has resulted in a 50% drop in the price of copper since 2011.

In oil, supply has exceeded demand for the last two years, attributable largely to new shale oil production in the United States. As with copper, the world surplus has actually been a fairly small percentage of total demand, but it seems likely to persist for a while, unless there is a renewal of historic discipline on the production side.

The market price for our premium metallurgical coal and for iron ore declined by 65% from their averages in 2011. However, while both are key components of steel, and prices are impacted by the rise or fall of steel production in China and elsewhere, the supply circumstances are different. With iron ore, two of the major producers in the world are seemingly intent on ramping up production to force prices down and drive smaller, higher-cost miners out of business. Unlike iron, there has been no such intentional overproduction dynamic with coal producers, although a series of announced cutbacks and closures has been slow to materialize. There are barriers to exit in mining, as well as to entry.

These difficulties will get sorted out, as they always do, and companies that are able to position themselves to grow shareholder value through the next several cycles will also do well, as they always do.

This is a business where we have to think long term at the same time as we deal with the short-term issues. Cost control at times like this is Job One, as it should be at most times, but it is encouraging that more and more influential people are speaking out in support of longer term strategies as well. This includes Larry Fink of BlackRock Inc., Mark Wiseman of the Canada Pension Plan Investment Board, and Dominic Barton of McKinsey. Mr. Fink said in his recent annual letter that investors know companies face "a challenging mix of external dynamics", and that with a better understanding of long-term strategy, shareholders "can put annual financial results in the proper context". And, "without clearly-articulated plans, companies risk losing the faith of long-term investors".

We have noted often in this space that our underlying objective is to grow shareholder value as consistently as possible over the cycles and in spite of them, and to do so professionally and responsibly. It is not to get bigger for its own sake. As we say: "Size can be the result of success, but it is seldom the reason for it".

Teck was for many years the fastest-growing, established mining company in Canada in terms of shareholder value, and one of the best in the world, simply as a result of building a continuing sequence of successful new mines. Over a 20-year period we built nine new mines and added three others through business transactions. While some were obviously more important to us than others, the process naturally tends to create new wealth. It is also, of course, necessary in order for any company to replace existing reserves as they are mined. A mining company without ore reserves is an oxymoron.

We have to keep that established, successful game plan in mind, and in fact we have three candidates in the portfolio right now. The Fort Hills oil sands project is half-way through construction and should be a core asset for a generation. Our two copper development projects in Chile have similar potential to become important new mines. The hypogene copper deposit beneath the original Quebrada Blanca mine is presently at the permitting stage, and the recent rationalization of our Relincho deposit with Goldcorp's El Morro, now together known as Project Corridor, is a few years behind.

When we were building a new mine every couple of years, we always tried to have the next few on the drawing boards. With the requirements to get environmental and social permits taking much more time these days, it is more important than ever that we begin now to obtain and start the necessary work on prospects that will make up the next series of new mine development projects, following or along with those three.

If it takes some 10 years to get a new mine engineered, approved and built these days, and that is likely optimistic, the best mining company will have a pipeline of projects, sequenced to accommodate this, in addition to its well-run, established mines. One new mine will be about to start up, another permitted and ready for a construction decision, another a bit further out, and then two or three others beginning that long process. And it will maintain the financial wherewithal to implement this.

My upcoming book is entitled *Never Rest on your Ores*, and that says it all.

In closing, in the normal process of Board renewal there were four new directors elected in the last two years, Tracey McVicar, Laura Dottori-Attanasio, Tim Snider and Ken Pickering, and all are making strong contributions to your company. This year Takashi Kuriyama and Felix Chee will not be standing for re-election for personal reasons, and your Nominating Committee has proposed Eiichi Fukuda and Quan Chong be elected to replace them. On behalf of all of the Board, I would like to express our appreciation for the sound advice and international experience Takashi and Felix have contributed during their tenure, and to wish them well.

On behalf of the Board of Directors,

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Chairman
Vancouver, B.C., Canada
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