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TECK.B.TO – Q4 2016 Teck Resources Ltd Earnings Call

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OVERVIEW:
Co. reported 4Q16 revenue of CAD3.6b and bottom line attributable to shareholders of CAD697m.

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PRESENTATION

Operator

Ladies and gentlemen, we thank you for standing by. Welcome to Teck Resources Q4 2016 earnings call. (Operator Instructions) This conference call is being recorded on Wednesday, February 15, 2017. I would now like to turn the conference call over to Greg Waller, Senior Vice President Investor Relations and Strategic Analysis. Please go ahead.

Greg Waller - ***Teck Resources Limited - SVP IR & Strategic Analysis***

Thanks very much, operator, and good morning, everyone. Thanks for joining us this morning for our fourth quarter and full year 2016 results conference call. Before we begin, I would like to draw your attention to the forward-looking information on slide 2. This presentation contains forward-looking statements regarding our business. However, various risks and uncertainties may cause actual results to vary. Teck does not assume the obligation to update any forward-looking statement. And with that, I would like to turn the call over to Don Lindsay, our President and CEO.

Don Lindsay - ***Teck Resources Limited - President, CEO***

Thanks very much, Greg, and good morning, everyone. I will begin on slide 3 with an overview, followed by a brief summary of our annual and our fourth-quarter results. Ron Millos, our CFO, will then provide additional color from a financial perspective, and we will conclude with a Q&A session where Ron, myself and several additional members of our Senior Management Team would be happy to answer any questions.

So this time last year, we were in the midst of one of the longest and deepest downturns in our industry's history. And we were talking about our plan to navigate an extended low commodity price environment. Well, what a difference a year can make. I don't think we've ever seen a calendar year with such extremes.

And through it, we stuck to our five-point plan throughout all of 2016, and as the cycle turned we believe we emerged even stronger. Unlike many of our competitors, we have not issued equity, we have not sold core assets and we have not stopped investing in production growth. And at the same time, we are maintaining strong liquidity and we are reducing debt. We are well positioned to capitalize on the turn in the cycle, and to deliver superior returns with higher production per share. And we were the best performing stock on the TSX Composite Index in 2016.

We achieved record quarterly results, to finish a very strong year operationally. We met or we beat our 2016 guidance for full-year production, for costs and for capital expenditures. We've achieved significant operating cost reductions through the down cycle, which attractively positions our businesses for the future. And Ron will speak to our guidance for 2017 a little later. We are now generating significant free cash flow at current prices, including in steelmaking coal. And although steelmaking coal prices have come off the peak of over US$300 per tonne in November, they remain very good compared to what we have seen in the past couple of years. And we are using some of that cash flow to invest for growth, and we are now less than a year away from first oil at Fort Hills. We are also continuing to strengthen our financial position. We have reduced our debt by over CAD1 billion in the past 18 months, and further debt reduction is a priority, in fact it is the priority. Our year-end cash balance was CAD1.4 billion, which is well in excess of our original target of CAD500 million. And that is after having retired CAD1 billion in debt which was not contemplated when we set that original target, so we beat target by about CAD1.9 billion. And this demonstrates the powerful cash-generating capability of our business.

Now looking at the overview of our full-year and the fourth-quarter results on slide 4. In Q4, revenue was up 67% to CAD3.6 billion, primarily due to the sharp rise in steelmaking coal prices and also helped by higher zinc prices. Gross profit before depreciation and amortization was also up around CAD1.3 billion to CAD2 billion, a new record. Bottom line attributable to shareholders was CAD697 million in Q4 and CAD1 billion for the full year. Again, these were record quarterly gross profit, adjusted profit and cash flow numbers from operations.

After removing unusual items, adjusted profit attributable to shareholders was CAD930 million or CAD1.61 per share in Q4, and CAD1.1 billion or CAD1.91 per share for the full year. And this is a significant increase for the full year versus last year. So overall I would say that we had the strong Q4 and strong 2016.

Turning to slide 5. We've reported our achievements against our original 2016 guidance. We did update some of this guidance as the year progressed, and as I mentioned earlier, we met or we beat our 2016 guidance for full-year production, for costs and for capital expenditures. We also set a number of significant operating records within businesses and at certain sites.

In steelmaking coal, we responded to the opportunity of higher prices in the last half of the year. And we exceeded our production guidance, while setting a new record at 27.6 million tonnes including record annual production at each of Elkview, Greenhills and Line Creek. Our continued focus on cost reduction contributed to us coming in below site cost guidance at CAD43 per tonne. Transportation costs also came in below our guidance at CAD34 per tonne, benefiting from lower diesel costs. Overall, including capitalized stripping, total cash unit costs were CAD89 per tonne or US$67 per tonne.

In copper, we exceeded production guidance at 324,000 tonnes, mainly due to stronger production than expected at Antamina. All other operations came in near the top end of their guidance ranges, and we also came below our unit cost guidance at US$1.35 per pound.

In zinc, we achieved our guidance for concentrate production at the top end of the range at 662,000 tonnes, and we also exceeded our guidance and set a new record for refined production at Trail at 312,000 tonnes.

We also reduced our capital expenditures relative to guidance. So overall, solid operational execution.

Using our 2017 guidance for production and costs, we've updated the chart showing the range of annual EBITDA and cash flow that we can generate from our Coal business on slide 6. We've assumed our typical price realization relative to the benchmark.

This shows that the potential for EBITDA and for cash flow remain significant, even at lower steelmaking coal prices than current spot levels. The steelmaking coal market is looking for balance, and whatever price supports that we stand to do very well in our coal business given the cost reductions we have achieved. For example, at US$150 per tonne, we would expect to be generating between CAD2.5 billion and CAD3 billion in annual EBITDA from that one business, just the Coal business alone. You would need to also include the contributions from zinc which is showing every indication that the market is getting to a critical level, as well as copper to capture our full annual earnings potential. I have said it before and I will say it again, do the math; do the arithmetic. The earnings potential remains very significant.

I'll now run through our quarterly results by business unit, starting with steelmaking coal on slide 7. We had the third highest quarterly sales in our history, and the best ever fourth quarter at 6.9 million tonnes, resulting in a new annual sales record as well. In line with our revised guidance our average realized price exceeded the Q4 benchmark of US$200 coming in at US$207 or CAD277. As a result of these factors, revenues grew by more than CAD1.2 billion in the quarter.

We set a second consecutive production record at 7.3 million tonnes. And on the cost side, excluding the one-time collective agreement charges, the unit costs of sales were the same as last year, despite the increased production. Site costs did increase CAD3 per tonne. We had previously indicated that we were shifting our focus to maximizing profitability, given the strong market conditions and the margins available, and choosing to do some things that are more costly but they do maximize production and overall margin. Overall, gross profit before depreciation and amortization grew by CAD1.1 billion to CAD1.3 billion in the quarter.

We also settled five-year collective agreements at our two largest coal mines, Fording River and Elkview, in Q4.

Looking forward to Q1, we expect sales of approximately 6 million tonnes. The first quarter tends to be our weakest quarter for sales, due to the number of operating days and due to winter conditions of course. Apparently, some customers bought coal in Q4 in anticipation of supply constraint issues that they thought might happen either in Australia or elsewhere, but those constrained issues did not materialize and so they are now well supplied in the short term. Coal prices have been agreed with the majority of our customers based on a US$285 per tonne benchmark for the highest quality products. Now given the decline in spot prices and the weak sales in the first half of the quarter, we expect our average realized price will be between 70% and 75% of the quarterly benchmark.

On slide 8, turning to our base metals businesses and starting with copper. As we have previously flagged, we have transitioned the majority of our feed to the lower grade Lornex Pit at Highland Valley Copper. As a result, copper production and sales have declined significantly from the third quarter and from Q4 last year as expected. Revenue also declined, despite a US$0.19 higher realized price.

Our cost reduction efforts significantly reduced the impact of lower production on our cash costs, which only increased by US$0.08 a pound. Our cash margin for byproducts increased to US0.27 per pound from US0.09 per pound in Q4, due to both higher volumes and higher prices.

So overall, gross profit before depreciation and amortization was up 11% to CAD226 million.

Our QB Phase II project, QB 2, continues to move forward, and this quarter we have delivered the updated feasibility study as promised. Slide 9 summarizes the key attributes that we think make this a great project. If it were in production today, it would be within the top 15 copper producers globally and we believe over time it would rise up that list.

On 100% basis, capital costs for development are estimated to be US$4.7 billion, which represents a capital intensity of under US$16,000 per tonne of copper equivalent production over the first five years. The capital cost reduction was driven by project optimization, and in particular a change in scope, including a revised tailings facility that is closer to the mine. This gives an initial mine life of 25 years, and it's important to note that uses only about 25% of the known reserves and resources. So in reality, this means we have great potential for a much longer mine life or the optionality for future expansion.

We really like the project, and it is our highest priority project after Fort Hills. It has the potential to be a crown jewel asset in our portfolio. It is in a mining friendly area that we know very, very well. It has a large resource, and it is expected to have 300,000 tonnes of annual copper equivalent production in the first five years.

It is effectively pre-stripped from the current operation, and it is expected to have all-in cash costs well into the lower half of the cost curve, which will enable it to operate solidly throughout the cycle.

The project is currently in the permitting stage, with approval expected in early 2018. If all goes according to plan, we could be in a position to make a sanctioning decision in mid-2018. And ultimately, we do control the timing of development.

Turning to slide 10 on our zinc business unit. And please note that Antamina zinc related financial results are reported in our copper business unit as usual.

So mined zinc sales were substantially higher than our guidance for the quarter at 223,000 tonnes. This reflects strong market demand from the smelters for concentrates, reflecting the very, very tight concentrate supply market. Our realized price was US$.38 per pound higher, and revenues were up 33% to CAD1.1 billion.

Mined zinc production was good, but year-end inventory adjustments reduced the reported production. Refined zinc production at Trail was strong, primarily due to higher plant availability. So overall, gross profit before depreciation and amortization was up significantly, growing 85% to CAD394 million.

And looking forward to Q1, we currently expect Red Dog sales of contained zinc think to be around 100,000 tonnes, reflecting the normal seasonal pattern. There is potential upside to this, if the smelters accelerate purchases to build inventory given the very tight concentrate supply market. All lead inventories though were sold as of the end of 2016.

Turning to an update on Fort Hills on slide 11. Suncor, as project operator, has completed an extension review of the project, including the impact of the Fort McMurray wildfires last summer. And this very thorough review, conducted when the project is as advanced as it is, provides us with a high degree of confidence on the remaining project costs and schedule.

The majority of the project scope areas are progressing according to plan, and we are approaching the final stretch. Two of the six major project areas have already been turned over to operations, and equipment is being mobilized. All major plant equipment and materials are already on site. All key vessels and process modules have been installed. As of year end, construction was more than 76% complete and 58% of operations staffs have already been hired. First oil is still expected by the end of 2017.

However, costs have been impacted by a number of factors since the project was sanctioned in October 2013, including the Fort McMurray wildfires last spring and productivity challenges this winter. The Canadian dollar has also weakened significantly. Putting it all together Teck's share of the remaining product capital costs to completion is now expected to be CAD805 million, with CAD640 million to be spent this year.

Suncor has also completed a review of the expected plant throughput, and there is an 8% increase in the project's nameplate capacity. We anticipate an average production rate, which is different than nameplate capacity, we anticipate an average production rate of 186,000 barrels per day over the life project. Suncor now expects to achieve 90% of the steady-state production rate by the end of 2018, and they are exploring opportunities to reduce that ramp-up period.

We expect to provide an update on our marketing plans for Teck's share production later this year, and I'm confident that we will have sufficient capacity to achieve our marketing objectives. And with that, I will turn it over to Ron Millos for additional color on our financial perspective. Over to you, Ron.

Ron Millos *- Teck Resources Limited - SVP, Finance and CFO*

Great, thanks, Don. Starting with our fourth-quarter pricing adjustments which are summarized on slide 12. Overall, we had CAD90 million of positive pricing adjustments this quarter, and these adjustments are included in our income statement under Other Operating Income and Expense.

The chart on the left represents the simplified relationship between the change in copper and zinc prices and the reported settlement adjustment, and continues to provide a good estimate of our pricing adjustments each quarter. The overall settlement adjustment this quarter was within the range suggested by our model. And as a reminder, refining and treatment changes in the Canadian US Dollar exchange rate should be considered in your analysis of the impact of price changes and the adjustment, and you should also consider taxes and royalties when analyzing the impact on our profit.

I've summarized the changes in cash and our cash balance on slide 13, and we set a new record for cash flow from operations which was CAD1.5 billion for the fourth quarter. We repaid CAD536 million in debt in the quarter, You'll recall that we had repurchased outstanding notes in the market, in market transactions in September and October. The portion that settled in October is reflected in our Q4 cash flow statement.

We also spent CAD417 million on capital projects in the quarter, which includes Fort Hills. We also paid interest and finance charges of CAD113 million, capitalized stripping costs were CAD108 million and we paid CAD29 million on the dividends in December.

After these items, proceeds from the sale of investments and other assets, expenditures on financial investments and other assets, the effect of exchange rate changes on our cash and cash equivalents distributions to the non-controlling interests, we ended the quarter with cash and short-term investments of around CAD1.4 billion.

We significantly exceeded our original year-end cash balance guidance of at least CAD500 million, as Don noted, and after having used a total of CAD1 billion for debt repurchases which were not contemplated in the original budget. We also kept our $3 billion credit facility undrawn. So with our current cash balance of Canadian CAD1.6 billion, we have about CAD5.5 billion of liquidity right now.

Now we've updated our key sensitivities on slide 14 based on the midpoints for 2017 production guidance ranges. Every US$1 change in the benchmark premium steelmaking coal price is expected to generate an additional CAD32 million in EBITDA, and each US$0.01 change in the copper price generates an additional CAD7 million and the same change in the zinc price generates an additional CAD14 million.

We've also updated our estimates of leverage to the Canadian dollar, and for each CAD0.01 change in the Canadian dollar relative to the US dollar is now expected to impact EBITDA by CAD68 million. And you'll note that this is a bit higher than what we used last year, as the increase really is driven by the higher commodity prices that we are seeing this year compared to when sensitivities were developed last year.

Turning to a summary of our 2017 guidance on slide 15. In steelmaking coal, production is expected to be between 27 million and 28 million tonnes. And as in prior years, this will be adjusted if necessary to reflect market demand. We received permits in the latter half of 2016 to commence mining in new areas at the Fording River, Elkview and Greenhill mines. And this will extend the lives of these mines, and allow us to increase production to compensate for the closure of Coal Mountain which is expected to occur at the end of 2017. With this additional mining activity, we expect our site costs to increase from 2016 to CAD46 to CAD50 per tonne and we also anticipate increased costs for inputs including diesel. In addition, as we did in the fourth quarter of 2016, we plan to spend funds as required to maximize production and sales in the current market environment in order to capture the margin, while continuing to maintain an appropriate focus on cost discipline. Transportation costs are expected to be approximately CAD35 to CAD37 per tonne, with the accelerated mining activity we expect a higher proportion of mining costs related to capitalized stripping as we enter into these new mining areas. As a result, we expect an increase in capitalized stripping to about CAD430 million or around CAD16 per tonne. On a combined basis, including capitalized stripping, total cash costs are expected to be CAD97 to CAD103 per tonne which is equivalent US$74 to US$79 per tonne using an exchange rate of 1.3.

In copper, production will be lower this year before improving in 2018 and 2019. Our guidance for 2017 is for 275,000 to 290,000 tonnes, and that's primarily due to lower grades at Highland Valley which will also impact unit costs. Also, our share of copper production from Antamina is expected to decline by around 7,000 tonnes, as the mine shifts to a higher proportion of copper-zinc ore which will obviously benefit the zinc production. In addition, at Quebrada Blanca, heap leach production has been discontinued. We will move to dump leach production which will ultimately extend our plant operations by 1 to 2 years into 2019 although it reduced production rates. We also expect our copper unit costs after byproducts to be US$1.40 to US$0.50 per pound.

In zinc, our production guidance for zinc in concentrate is 660,000 to 680,000 tonnes, and that includes production from Red Dog, Pend Oreille, and our share of zinc production from Antamina, which is expected to increase by about 30,000 tonnes due to the higher proportion of copper-zinc core. Our guidance for refined zinc production at Trail is 300,000 to 305,000 tonnes, and please note that we've updated our commentary on mine level production for the next three years in our news release.

Moving to the next slide, looking at details of our 2017 planned capital expenditures. Excluding capitalized stripping, our guidance for CapEx is now around CAD1.6 billion. We expect sustaining capital of CAD530 million, sustaining capital has been at lower than average rate in recent years, so we're moving towards a more sustainable run rate. Major enhancement capital is expected to increase to CAD155 million as we invest in some short-term high-return projects with low capital spending. New mine development is expected to total CAD895 million, including CAD200 million for QB and CAD640 million for Fort Hills and about CAD26 million for permitting of our Frontier project.

In addition, capitalized stripping are expected to increase, mainly in Coal. As mentioned earlier, we are increasing stripping activity due to new mining areas which will extend mine lives by decades. Including capitalized stripping, capital spending is expected to be around CAD2.2 billion, and we plan to fund this from cash on hand and cash flow from operations.

As always, the amount and timing of actual capital expenditures is dependent on numerous factors, including our ability to secure permits, equipment, labor and supplies, and to do so at the cost level expected. And we may change our capital spending plans depending on commodity markets, result of feasibilities or various other factors.

Turning to the balance sheet on slide 17. Debt reduction remains a priority, given high levels of commodity price volatility which we expect to continue. As at December 31, we've reduced our debt by over US$1 billion since October of 2015, it's now down to US$6.1 billion, and our net debt is just over 2 times our EBITDA.

We also repaid the US$34 million of notes that matured in January of 2017.

And with that, I'll turn the call back to Don for some closing comments before we move on to the Q&A session.

Don Lindsay *- Teck Resources Limited - President, CEO*

Thanks, Ron. In a summary on slide 18, the outlook for 2017 and beyond is quite positive.

As you can see in our results today, we are generating strong free cash flow of current prices.

We are investing in growth. We are approaching first oil from Fort Hills, and the transition from the construction CapEx phase of money going out the door, to the free cash flow phase with money coming in the door will be a significant swing in our cash flows. We are also investing in some small high-value capital projects that had been on hold for the last couple of years.

Debt reduction is the key priority. If our key markets develop as we expect, we may do so sooner rather than later.

And with that, we will be happy to answer any of your questions. Please note that some of our Management Teams are on the line in other locations, so there may be a brief pause after your question as we sort out who's going to answer it from where. Back to you, operator.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Andrew Quail, Goldman Sachs.

Andrew Quail *- Goldman Sachs - Analyst*

Morning, Don and Ron, thanks very much for the update. My question is about the capital stripping. Obviously we see a bit of a jump year on year from 2016 through 2017, especially in steelmaking coal. Can you guys just give us some maybe some color on where you see that for maybe 2018 onwards? And put it in context of is 2017 a more normalized year, or is 2016 a more normalized year?

Don Lindsay *- Teck Resources Limited - President, CEO*

It's a good question. We have several experts around the table on that, but I'm going to turn it over to Robin Sheremeta, and maybe the last part of the question versus the context of why in 2017 and how it looks into 2018?

Robin Sheremeta *- Teck Resources Limited – SVP Coal*

You bet. So 2017 pretty much marks a transition for us. Coal Mountain will go into closure of the end of this year, and the other four operations in the Valley will then pick up that tonnage. So what's happening with the strip ratio is we have to increase the amount of stripping in those operations to make up for the production that Coal Mountain represented. So what you're seeing in 2017 is likely indicative or is indicative of what the average strip ratio is going forward, that's roughly the rate we will mining at from now on. Coal Mountain is a low ratio mine, and sells into a lower quality market. But the other operations are in around that range, so you're going to see that effect come into the strip ratio overall.

Andrew Quail *- Goldman Sachs - Analyst*

Got it. Looking forward to 2017 is more normalized. And just a quick one, just on zinc treatment charges. Can you guys give some color on how much you guys do with contract versus spot?

Don Lindsay - ***Teck Resources Limited - President, CEO***

Andrew Stonkus.

Andrew Stonkus *Teck Resources Limited - SVP Marketing & Sales*

Thanks, Andrew. Regarding the zinc TCs, yes they're extremely low levels now. The spot market is under US$40 per tonne on a TC spot basis. In terms of our sales from Red Dog specifically, the majority of our sales are done under long-term agreements with customers. And we participate very little on the spot market for Red Dog. On the Antamina side, it is more of the spot market. So Red Dog is a longer-term treatment charge, and Antamina is more in the spot market.

Andrew Quail - ***Goldman Sachs - Analyst***

Exactly, okay. And when do those contracts roll over for Red Dog? Because that's a nice little tailwind if you can get it.

Andrew Stonkus *Teck Resources Limited - SVP Marketing & Sales*

The Red Dog contracts are long-term agreements, so they're negotiated on an annual basis. So these contracts have been in place since the Red Dog has been operating, since 1989. So those contracts are on an Evergreen basis and negotiated annually. We are in negotiations as we speak, so the annual terms are yet to be decided for this year.

Andrew Quail - ***Goldman Sachs - Analyst***

But obviously it's going to be positive if spot prices are at US$40 a tonne?

Andrew Stonkus *Teck Resources Limited - SVP Marketing & Sales*

The spot market is below US$40 a tonne, and the long-term negotiations are ongoing. But it is safe to say they will be a significant reduction versus last year's turns.\

Andrew Quail - ***Goldman Sachs - Analyst***

Got it. Thanks very much, guys.

Operator

(Operator Instructions)

Timna Tanners, Bank of America Merrill Lynch.

Timna Tanners *Bank of America Merrill Lynch - Analyst*

Good morning, everyone.

Don Lindsay - ***Teck Resources Limited - President, CEO***

Morning.

Timna Tanners *Bank of America Merrill Lynch – Analyst*

I wanted to probe the net coal numbers a little bit more in terms of the production comments. The 6 million tonnes in the first quarter obviously reflects some seasonality, as you mentioned. But you said that you expected it to be more back-half weighted in the quarter. Can you give us any more color on what you're seeing among customers right now and their order habits? And do you have any commentary about what the Chinese policy might look like in terms of the March reinstatement of reduced production days?

Don Lindsay *- Teck Resources Limited - President, CEO*

Okay, so I'm just looking at Real Foley as to who wants to take which part of that question. So, Real, if you could answer the first part, and maybe I'll just say on the second question. I think on Chinese policy, we could go around the table and everyone would have a different opinion on that one. It's very hard to tell, and we're just going to have to wait till we see what the policy shakes out. We heard some indications in the last 24 hours or more that they will be going back to the 276 days, but it's unclear whether that is for everybody or certain mines with safety ratings, and so on. I think we're just going to have to wait to see exactly what happens. But directionally, we do know that on a big-picture basis, closing down capacity is a high priority. There have been some very, very strong comments made at the highest leadership levels China about that as part of their five-year plan, so we think directionally it's going to keep going that way. With that, over to Real on the customers.

Real Foley *Teck Resources Limited - VP Marketing*

Okay, thanks, Don. So on the sales, yes our guidance is 6 million tonnes for the quarter. Sales actually in the first half of the quarter were a little bit weaker than we would expect, and that is really a reflection of customers we believe having purchased additional tonnes in Q4 in anticipation of supply disruptions in Q1. Those supply disruptions actually did not happen. So whether the supply disruptions were expected to be in Australia or in some other places around the world, actually we've seen slight increases in supply in exports coming from Australia and also from the states in the quarter. So we're expecting our sales to be weighted towards the second half of the quarter. And with China customers having just fully returned from the two-week Chinese Lunar New Year holiday on Monday, so three days ago, we're starting to see more inquiries coming from the China market as well.

Timna Tanners *Bank of America Merrill Lynch - Analyst*

Okay, that's helpful, thanks. My other question is about Fort Hills. You'd informed us about the changes in terms of the production volume and the upfront costs. But I have been expecting from some of your comments in the past to hear some unit costs guidance. Is that something that might be forthcoming? And do you have any updates there?

Don Lindsay *- Teck Resources Limited - President, CEO*

Turning to Tim or Ray, Tim Watson.

Tim Watson *- Teck Resources Limited - SVP*

From a unit cost perspective, we don't anticipate to update the unit operating costs until we actually begin preparing the budget for the operating year 2018. So we would expect to see that likely associated with the fourth-quarter results next year.

Timna Tanners *Bank of America Merrill Lynch - Analyst*

Great, thank you.

Operator

Ralph Profiti, Credit Suisse.

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Ralph Profiti, *Credit Suisse - Analyst*

Thanks, Don. You mentioned the coal markets are still looking for balance. Just wondering if I can get your perspective on how much coal supply have you seen come back say year to date, and how much do you see coming back in 2017?

Don Lindsay *- Teck Resources Limited - President, CEO*

We do a lot of work on that question, Real you want to start?

Real Foley *Teck Resources Limited - VP Marketing*

Thanks, Ralph. So the last restarts that were announced actually were in October. The announced restarts capacity adds up to less than 15 million tonnes, with less than a third of that in hard coking coal. And if you dig a little bit further into where the restarts are coming from, it's mainly junior Australian mines, new owners in the US and Canada and also Mozambique. So that makes up the majority of those announcements. And it's a little bit difficult to estimate exactly how much the ramp up will be in 2017. I guess price will have an impact, but also we are seeing some ramp-up challenges being reported, such as financing challenges and access to labor. If you just go back to the last two years, we are just coming out of the longest and deepest cycle in the coal market. So that left those mines that were shut down in absolutely dire condition, and it takes a long time to restart those mines. At the same time, existing producers are also trying to increase production, and we've seen slight increases in production while even our own production has increased. We've seen increases in Australia as well, and a little bit in the states in December more specifically.

Ralph Profiti, *Credit Suisse - Analyst*

Maybe just a quick follow up, when was the last actual announcement of a restart?

Real Foley *Teck Resources Limited - VP Marketing*

In October.

Don Lindsay *- Teck Resources Limited - President, CEO*

So this price decline has really ended that phase?

Real Foley *Teck Resources Limited - VP Marketing*

Yes.

Ralph Profiti, *Credit Suisse - Analyst*

Okay. If I can ask a follow-up question, Don, you're about to add this fourth leg of commodities exposure. Would be fair to say that zinc is the metal that you are most positive on, on a 1 to 2 year view? And more specifically, if I can get your perspective on non-integrated zinc producers being able to gain higher payability factors, which seems to be a very contentious issue in the TC negotiations?

Don Lindsay *- Teck Resources Limited - President, CEO*

Very good. The answer to the first question is yes, it would be safe to say that we remain most constructive on zinc in terms of the next year or two. As you were asking that question, Andrew Stonkus broke into a big smile here. Because he is the guy who's deeply into the negotiations on the second part of your question on structural change in the contract in terms of reducing or reformatting or even eliminating price participation in treatment charges for concentrate. So you can track in the trade journals where spot prices for treatment charges are. They are at extreme lows. That is an indication of just how tight the market is. And we're seeing in different circumstances smelter either reducing production or actually shutting down, sometimes calling it shut downs for maintenance or winter or whatever. But eventually, that flows through into less metal available. And we would think the outlook for demand still remains fairly solid. So ultimately deficits will continue and soak up whatever remains of the so-called hidden inventory, and then you hit the pitch point and you get very extremely tight market. So yes, all those factors combined make us very constructive on the zinc market.

Ralph Profiti*, Credit Suisse - Analyst*

Thanks, Don.

Operator

Matt Murphy, Macquarie.

Matt Murphy *Macquarie Research Equities - Analyst*

Morning. Capital allocation question on QB 2. I just wonder how you think about the opportunities out there in the copper market and some of the IRR numbers? Is that something that you focus on, or are you focused on operating cash flow or something like that? And I'm just wondering as a second question, if we should look at the CAD200 million spend in 2017 as a defacto go ahead for the project, and does that come out of the US$4.7 billion? Thanks.

Don Lindsay *- Teck Resources Limited - President, CEO*

There is a lot in that question, we could talk for quite a bit. So maybe just working backwards. On the CAD200 million, a large part of that is going towards engineering in that we want to be ready by next year to make a construction decision. And in order to do that, we would like to have as much engineering done as possible. So that why we're budgeting that way, and yes that would come out of the US$4.7 billion. In terms of capital allocation and how we look at it, well IRR is important and we start there but we do look at everything, as you would expect us to. I've often said that you can do all the hard work on your model and calculate the IRR and the NPV using certain assumptions, and the only thing you know for sure when you're finished is that it is wrong because the assumptions won't turn out to be exactly what happens in the marketplace. We look at a range of commodity price assumptions. Some of the key things that are important to us are just the sheer doability of the project. We've seen so many projects that have had trouble. So this one, while it is technically a greenfield project in terms of building a new concentrator and desalination plant and infrastructure associated with that, the fact is there has been a mine operating there for more than 20 years. The current mining operation has pre-stripped the ore body, so that there is a dome of mineralization for their first five years that has almost no strip ratio and a copper grade that is about 50%, well actually more than double what we are mining at Highland Valley today, but 50% more than the normal. Early payback is quite possible. If you think about it, this current feasibility is using only a quarter of the resource. So in the long term, this operation is quite likely to be expanded. So if it starts in the top 15 of copper mines in the world, then over time as it gets expanded and other more mature operations have declining grades, it's likely to move up those lead tables. And from a cost point of view, while people focus on the C1 costs, they should also look at the sustaining capital. And it is going to be quite low in this particular first 25-year mine plan, so that the combined all-in sustaining cost number is going to be really, really very competitive in the long term. We think Chile is a great country, a great mining country, and we're very, very happy to be there. We've got the shovels and the trucks and the people and the access already in place, so a lot of the risks are reduced. So as I've said before, if my Chairman, Dr. Keevil, and I could just snap our fingers and have this mine built and be in the portfolio for the next 50 to 70 years, we would do that. Now we have to get from here to there, that means we have to finish the permitting process. But since we filed QB 2, it has gone quite well. We're quite pleased with the progress so far, we've had very positive indications from the regulators and the government. So we hope that will continue but it is not done till it is done, so we will work through the year. And hopefully around this call next year, or perhaps the one after, somewhere in there, will be able to make a sanction decision and get this built. Because it's something that will be a very valuable long-term asset. If you look at the numbers, pick your copper price, but this could generate US$1 billion EBITDA annually in the first five years, and that's pretty material for our Company. So that is how we think about it.

Matt Murphy *Macquarie Research Equities - Analyst*

Thanks a lot.

Operator

Orest Wowkodaw, Scotiabank.

Orest Wowkodaw *Scotiabank - Analyst*

Hello, good morning. Just wanted to dig a little bit deeper on the Q1 coal volumes and realization. Have you had customers cancel contracts, or is it just an issue of spot sales didn't materialize as expected in terms of driving down pushing up the spot sales into the second half of the first quarter?

Don Lindsay *- Teck Resources Limited - President, CEO*

Okay, there's a clear answer on that. Go ahead, Real.

Real Foley *Teck Resources Limited - VP Marketing*

Well, China customers are back now fully from the two-week holiday, we're seeing more inquiries in the market from China. We're also seeing more inquiries from other markets around the world. There is no doubt that there is an overhang. There is some supply I guess that or some demand that was brought forward from Q1 into Q4, and that inventory built up, if you want, it just needs to work its way through the system. But in 2017, World Steel Association is forecasting increased steel production, so we are seeing that continuing, we're seeing the market continuing to improve. So demand needs to come back for coal; customers will need coal to produce steel.

Orest Wowkodaw *Scotiabank - Analyst*

Okay, thank you. Then as a follow up just in terms of QB 2, the US$4.7 billion capital number. What's the starting point for that? It sounds like you earlier said that would include the CAD200 million this year. Does that include anything that's been sunk prior to 2017?

Don Lindsay *- Teck Resources Limited - President, CEO*

No. Anybody want to elaborate? From here on, from January 1.

Orest Wowkodaw *Scotiabank - Analyst*

Okay. And your comment about the sustaining capital, your disclosure talks about US$0.04 a pound of copper. That's only equaling about US$20 million a year of sustaining based on copper production of 500 million pounds a year. That seems extremely low for an operation of this size, am I missing something in that?

Don Lindsay *- Teck Resources Limited - President, CEO*

No, we asked the same question, but go ahead, Dale.

Dale Andres *Teck Resources Limited - SVP, Base Metals*

So as part of the C1 cash costs, because of the tailing dam construction methodology, all tailings dam construction is part of the C1 cost. And back to Don's earlier point that he made, the open pit for the QB 2 operation is effectively stripped. It doesn't need a big mining fleet. We plan to use the existing mining fleet until it is no longer useful. But when we do by new equipment, it's going to last the full 25 years. So yes, it is going to be very low sustaining capital, and all stripping costs are again part of the C1 costs because there's very little. We may change that capitalization down the road, but that would come out of C1, so it's not going to affect the overall all-in cost. In the first 5 to 10 years, being in that US$1.35 a pound range all in and less than US$1.50 life of mine.

Orest Wowkodaw *Scotiabank - Analyst*

So there's no other major capital investment beyond the sustaining at US$20 million a year once this is in production for the first 25 years. Is that what I'm hearing?

Dale Andres *Teck Resources Limited - SVP, Base Metals*

The plant and associated infrastructure, the pipeline, desalination plant, all of that is designed for the 25 year life.

Orest Wowkodaw *Scotiabank - Analyst*

Okay, thank you very much.

Operator

Greg Barnes, TD Securities. These go ahead.

Greg Barnes *TD Securities - Analyst*

Thank you. I just want to return to the stripping. Going forward is CAD16 a tonne of clean coal, the number we should use of stripping amount annually? Or roughly CAD400 million a year?

Don Lindsay - ***Teck Resources Limited - President, CEO***

Back to Robin.

Robin Sheremeta - ***Teck Resources Limited – SVP Coal***

Yes. The capitalized stripping component will vary from year to year depending on how the pits are mined in that sequence, so I expect the strip ratio itself will stay roughly the same for quite some time. So it's likely to be in that range.

Greg Barnes *TD Securities - Analyst*

Okay. And 11 to 1 was the strip ratio, what is it now?

Robin Sheremeta - ***Teck Resources Limited – SVP Coal***

It will be around 10 to 1. The strip ratio right now is 10 to 1.

Greg Barnes *TD Securities - Analyst*

Don, I just wanted to talk about debt reduction remains a priority. Do you have specific targets in mind? And I know you have some debt callable in 2018, but is there anything you can do in 2017 in terms of actually reducing debt?

Don Lindsay - ***Teck Resources Limited - President, CEO***

The answer to that question when I have been asked before has been we were at US$7.2 billion of bonds outstanding and we'd like to get down to US$5 billion or little bit below. On a net basis, if you look at our cash balance and project what would be at the end of Q1, we would be below that on a net-debt basis, but the bonds are still outstanding. So at some stage, we want to take out some of that. The rating agencies don't seem to give much weighting to net debt, and that is understandable. So when we do that or how we do that is something we look at from time to time, and different banks give us proposals and at some stage we will do something. The cash balance is building up right now and will continue to do so, but in the end we would like to get the absolute dollar level of bonds outstanding down to below US$5 billion.

Greg Barnes *TD Securities - Analyst*

Okay. But nothing you can do on that this year specifically do you think?

Don Lindsay - ***Teck Resources Limited - President, CEO***

We could do something this year. We're up to CAD1.6 billion in cash now, we don't need to operate with CAD1.6 billion in cash. So we could do something any time, I'm not sure -- we haven't decided yet, but we will do it we think before the end of the year, yes. And the other thing is once we get to that level, we will look around and see what the world looks like. But maybe we will go lower. I don't know, it depends on what else is out there.

Greg Barnes *TD Securities - Analyst*

Okay, good. Thank you.

Operator

Thank you Lucas Pipes, FBR.

Lucas Pipes *FBR Capital Markets - Analyst*

Good morning, everybody. My first question is following up on the CapEx side. And I was wondering if you could frame up 2018 CapEx in case that QB 2 gets sanctioned? So obviously, Fort Hill's spending drops off, but then how quickly would QB 2 spending ramp up and would you have to repeat the major enhancements of CAD120 million in the coal side? Thank you.

Don Lindsay *- Teck Resources Limited - President, CEO*

Okay, so let's do the coal part of the question first on major enhancement of coal in 2018.

Robin Sheremeta *Teck Resources Limited - SVP*

We will see costs associated with water treatment come back in 2018, so that was deferred through 2017 to some extent. So that will start to build some capital in that period. Not sure of the amount yet.

Don Lindsay *- Teck Resources Limited - President, CEO*

So what we're talking about there is building other water treatment plant like the West Line Creek one we built year before last. There will be another one of those in 2018.

Robin Sheremeta *- Teck Resources Limited – SVP Coal*

That's right.

Don Lindsay *- Teck Resources Limited - President, CEO*

So that would be CAD100 million or something that year. The total cost would be a little bit more than that but it would be spread over two years. Back to CapEx for QB 2 in 2018, it takes a while to ramp up. But, Dale, or Tim or Alex, any comment on that?

Tim Watson *- Teck Resources Limited - SVP*

I can comment on that. Even for 2017 CapEx on QB 2, will be a gradual ramp up throughout this year. That would then carry through to 2018 as engineering activities would ramp up. As Don pointed out, if a sanction decision is made in the first half of 2018, actual construction on the project wouldn't start till the second half of 2018. There are some permits before we can actually put shovels in the ground. But assuming a mid-2018 start, we would estimate capital in the range of around CAD500 million if that sanctioning decision was made and construction started mid-2018.

Lucas Pipes *FBR Capital Markets - Analyst*

Perfect. That's very helpful. And just a quick follow-up question on the coal side, and specifically in regards to the Q1 coking coal price realization guidance. The way I think about it, you could explain the 70% to 75% realization either one of two ways. One, it's you sold more volume at lower prices, so essentially it's more of a volume-weighted average than a simple time-weighted average. And that pulls down the ratio. Or second, you have to offer maybe higher discounts in a more competitive market. So the index that we are looking at, be it Platt's or publications like it, we have to assume a higher discount versus that index. Which one of the two is it in your opinion? Is it really more a question of when you sell the volumes and we should assume you saw a little more volumes at lower prices, or should we assume a higher discount as prices are declining? Thank you.

Don Lindsay *- Teck Resources Limited - President, CEO*

It is very much the former and not the latter, but Real will give you more detail to you.

Real Foley *Teck Resources Limited - VP Marketing*

Just to be clear, Lucas, we don't discount coal. So when we are selling on the spot market we follow the price assessments. The price assessments are gaining a little bit in acceptance. They are not perfect by any stretch. There is still human intervention in the majority of those assessments, the way that they are determined. But our pricing actually reflects price assessments. So just to be clear, we do not discount coal.

Lucas Pipes *FBR Capital Markets - Analyst*

That's crystal clear. That's the answer I was hoping for. And, Don, do you have any updated views on the long-term met coal price?

Don Lindsay *- Teck Resources Limited - President, CEO*

On the long-term met coal price? I don't think I've changed my views on that. The factors that go into coming to a view on that are, there's a whole wide range of them, but in the end incentive pricing for new production or where the cost curve really is which is driven so much by exchange rates. Who can make a call on the Canadian dollar or Australian dollar. It's hard to know. Those are all tough things. But by and large, we've seen the coal price be over US$ three times in the last eight years, so it doesn't have to stay there very long to drag up your average long-term price to US$150 or better. So you can have periods of time at US$130, but you have these bonanza quarters that mean your overall weighted average is going to be US$150 or better and I think that still holds.

I have to say I'm feeling a lot better these last few days about the coal market than I would have felt 2 to 4 weeks ago, when the customers were holding back on purchases, Chinese Lunar New Year ahead of us and not really knowing how it was going to shake out. Now that we see a lot more increase coming from China and the tonnage that was moved from Q1 into Q4 is ultimately going to get consumed, and it goes back to more a normalized market. So I actually feel much better today than I did three weeks ago. So that's a comment for what it is worth.

Lucas Pipes *FBR Capital Markets - Analyst*

That's great to hear. Thank you very much.

Operator

Alex Terentiew, BMO Capital Markets

Alex Terentiew, *BMO Capital Markets - Analyst*

Good morning, guys. Just a couple questions here. First on coal, I appreciate that your coal costs are guided to be higher in 2017 as you work to get production from your other operations up to offset Coal Mountain's closure at the end of year. But in 2016, your cost numbers came in below guidance. I'm just wondering, are there opportunities to get costs back down in 2018 or 2019, or should we expect the current cost guidance to continue? And as a second question is more of a corporate allocation or capital allocation on the corporate level relating really to dividends. I know a dividend decision is a Board-level decision, but given Teck's balance sheet strength is much stronger now and your dividend payout is at historically low levels, any indications you can give us as to what options Teck is considering at the moment?

Don Lindsay *- Teck Resources Limited - President, CEO*

First part of the question to Robin.

Robin Sheremeta *- Teck Resources Limited – SVP Coal*

On the cost side, I think we can expect or I know we can expect to remain within that range. That's really going to be dominated by maintaining that strip ratio. So we are committed to the long-term reserve and being able to produce at the rate roughly on pace with what we do now. So in order to that long term, we've got to move this material. So that will stay in play, and that is an additional cost over what you would've seen in 2013. A lot of that transition occurred when we got our permits for those areas and it allowed us to then bring equipment to bear into those areas. Some of that equipment hadn't been run through 2016 because we didn't have mining areas to place it in. So that's all in front of us now, and that's adding some costs. The other thing maybe to note is we are taking advantage of the market in a number of different ways. One good example is our Greenhills operation is actually quite close to Fording River. They have available raw coal, Fording River has available plant time. So in a market like this, we can move coal from Greenhills over to Fording River for processing, that costs a bit more but it is more than worth it on the margins. That kind of activity is going to raise our costs slightly, but return pretty good value on the revenue side. So those are the two key areas that are going to keep the costs roughly where they are right now.

Alex Terentiew, *BMO Capital Markets - Analyst*

Okay. So there's the two parts there. The one is the capitalized stripping costs, which the questions were asked about earlier and those costs have gone up. And so then there's the site and transportation costs, which I'm getting from you there, some of those are new here to stay, but as you mentioned, things like Greenhills, Fording River, transfer, those market dependent and could come down a little bit. There's also transportation costs, which are guided to be up a little bit. Is that just a reflection of additional tonnage in the market? You've talked about other Canadian mines restarting, so CP has a little bit more competition and can charge higher rates or is it just variation in your contract pricing?

Greg Waller *- **Teck Resources Limited** - SVP IR & Strategic Analysis*

Mainly the difference there is higher diesel costs. The contract has a fuel rider in it, of course we benefited from that in 2016 which took our rail costs down. And I don't know if you've filled up your car recently, but I know it get it with the higher fuel prices that I'd seen over the last six months and that's flowing through to our rail costs as well.

Alex Terentiew, *BMO Capital Markets - Analyst*

Okay.

Don Lindsay ***- Teck Resources Limited - President, CEO***

And then just before we get back to the dividend question, I will say related to guidance that I've got Robin on one side and Dale on the other. And both of these guys are going to feel pressure from me all year long on making sure we beat that guidance. So just want to make sure everyone is clear on that. On the dividend, I would point out that throughout a fairly deep and dark down cycle, we did maintain a dividend, albeit a small one, and at least five of our major competitors went to zero. We are watching closely as they come back and start developing new dividend policies that are reflective of the extreme volatility in the commodity markets. We will next look at it as a Board at either the April Board meeting or perhaps the June Board meeting, and we've put papers together for the Board's benefit looking at all the different ranges of dividend policies that are out there. I would say though that my strong bias is debt reduction, and making sure that we've accomplish that goal and are very comfortable with the levels that we get to. And so that just as one member of the Board, that is where I would be coming from. But in the end, we kept a dividend throughout because dividends are important so we will look at it closely at those Board meetings.

Operator

Dalton Baretto, Canaccord Genuity.

Dalton Baretto – ***Canaccord Genuity. - Analyst***

Good morning, guys. I just wanted to probe a little bit on these weather-related logistics issues that you saw on the coal business in Q4. And I notice you've got a qualifier on there, on your annual guidance as far as adequate rail and port capacity. So I'm just wondering what the situation is right now, and are you seeing normal logistics and when you can expect the mine inventories to come back in line? Thank you.

Andrew Stonkus *Teck Resources Limited - SVP Marketing & Sales*

It's Andrew Stonkus here, thanks, Dalton, for the question. Yes, there is a number of factors that impacted movement of a product from the mines to the ports, weather but it's also equipment related and performance related issues from our service providers. So we are working with them to try to eliminate those, any bottlenecks they may have. But the inventory is still at the mines where it's still at very high levels. We have to draw those down, but it is posing a challenge from the logistic suppliers to move that material still to the ports. Port inventories have increased, so we are making some progress but more work needs to be done.

Dalton Baretto – ***Canaccord Genuity. - Analyst***

Okay, thank you. Are you able to quantify what that inventories are at and how long it's going to take you to get back down to normal levels? And does any of that factor into your Q1 sales guidance?

Andrew Stonkus *Teck Resources Limited - SVP Marketing & Sales*

The mines are basically at full levels right now. So any time we get any kind of disruption on the logistics chain, we have unscheduled downtime on the mines. So that is issue we are facing today. On the terms of portside inventories, they are coming back to the normal levels. But we still have -- they're about half full, we're trying to move more and more material from the mines to the ports. We are not at full levels at the port sights, we're still trying to rebuild those port levels.

Dalton Baretto – *Canaccord Genuity. - Analyst*

Okay, great. Thank you.

Operator

Chris Terry, Deutsche Bank.

Chris Terry *Deutsche Bank - Analyst*

Hello, guys. Two questions for me just to round out the discussion on QB 2 and the overall business. Strategically, how important is the investment in that project purely from a copper sense? And adding to that, what mix -- do you have a target mix of commodities long term that you want to have, or is it purely a decision that's based on the economics of the project align regardless of the commodity?

Don Lindsay - *Teck Resources Limited - President, CEO*

Second question first. We have a policy or a strategy if you like of being diversified, and the thinking behind that is not so much for portfolio risk diversification, although we are happy to have that, but more to give us flexibility and capital allocation to be able to allocate capital to the best risk reward ratio. And that means that it could be any commodity copper, zinc, nickel, oil, iron ore, coal, uranium, diamonds, whatever, if we think the risk reward ratio is good. We look at a key ratio as mine life to pay back. We're very conscious, as I said before, that you can do all your models on IRR and the rest of it, but the only thing you know for sure is that it's wrong. But you do know that every commodity is going to be cyclical, and you're going to get two or three good years when you get all your capital back. You just don't know when those two or three good years are going to be. But if you have a strong mine life to pay back ratio, meaning like a long mine life, you're likely to get those two or three good years several times. And then when you get your capital back several times, when you back calculate your IRR at the end of mine life, you will find that you did very well. So that's what we're looking for. In QB 2's case, we have a mine life to pay back that's probably 15 and normally we'd like to see at least 3 or 4. So we know that once it's built that we are going to have two or three good years many times, so that's why we just want to get it built. The other thing I'd say is that we do have a constructive view on copper, in particular in the medium term. Not so much in the next year, year and a half, although these recent production interruptions are helpful, we are conscious that you could get a settlement in Escondida in the not too distant future and it's back on, and so on. But eventually, you get into 2019. And we think that a structural shortage in copper will develop, and I think you probably heard that from others as well. And so the sooner we can get QB 2 built, the better that it can start up in that kind of a market, I think that would be terrific. So there's two different angles you could look at QB 2 from, but under both of them it makes sense for us to build it we think.

Chris Terry *Deutsche Bank - Analyst*

Thanks, Don. Just the last one, in terms of the tax shield in Canada now, where's that at? You talked about the CAD6 billion last year, is about CAD4.8 billion?

Don Lindsay - *Teck Resources Limited - President, CEO*

No, it is still at similar level.

Chris Terry *Deutsche Bank - Analyst*

Okay. Thanks, guys.

Operator

Karl Blunden, Goldman Sachs

Karl Blunden, *Goldman Sachs - Analyst*

Good afternoon, thanks for taking the questions. A few of mine have been asked and answered, but just wanted to dig into the ratings and then also QB 2. On QB 2, you have a 76.5% interest. Have you disclosed or what can you disclose about the ownership state that you want to take into the mine as you develop it?

Don Lindsay *- Teck Resources Limited - President, CEO*

There's not much we can say on that. There's three owners, and ENAMI has a 10% carried interest, IMSA has a 13.5% interest and we have 76.5%. There may well be some transition ownership between now and when the project is built, but at the moment it is what it is and I think we'll just take it as it goes.

Karl Blunden, *Goldman Sachs - Analyst*

Okay, got it. Understood. And then just on slide 17, you discussed the cost of having a non-investment grade rating related to letters of credit also related to a recent issuance. Is there any potential issuances you might do while being a high-yield company? In that calculation when you say CAD30 million and US$37.5 million, does that strike you as a high cost of non-investment grade? I didn't catch the message around that. And how motivated would you be to keep moving the ratings up into that IG category?

Don Lindsay *- Teck Resources Limited - President, CEO*

So assuming there will be no issuance, because were going the opposite direction, but, Scott, do you want to answer about the cost?

Scott Wilson *- Teck Resources Limited – VP & Treasurer*

Karl, I think maybe you are referring to the letter of credit fees that we pay when we are non-investment grade, and those are certainly very high. They are going to come down a little bit here in the next quarter as our leverage ratio kicks down the cost on the bank facilities, but it's a strong motivator to get back to investment grade at some point. These are high costs that we are incurring.

Karl Blunden, *Goldman Sachs - Analyst*

That's helpful. And certainly it's not our expectation you'd be issuing debt, so it was more in terms of longer term if you were to roll debt into high yield, you'd have longer-term costs. Just related to that question, as you go into QB, let's say you do sanction the project and start building. What is your outlook on the notional size of letters of credit that you would have? I know some are coming down as you ramp Fort Hills, but was there more benefit to being investment grade essentially a year and a half, two years from now than there is today?

Scott Wilson *- Teck Resources Limited – VP & Treasurer*

I think that's a good point, Carl. If we are into a capital, a significant capital project, that requires financing, it would be a strong benefit to have a solid investment-grade credit rating.

Karl Blunden, *Goldman Sachs - Analyst*

Fantastic. Thanks, guys.

Don Lindsay *- Teck Resources Limited - President, CEO*

It's one of those things it all depends what the world looks like at that time. If commodity prices are where they are today, we'll be generating so much cash it will just be funded. But we don't know.

Karl Blunden, *Goldman Sachs - Analyst*

Thanks for the time. Appreciate it.

Operator

David Wang, Morningstar.

David Wang, *Morningstar - Analyst*

Hello, good morning, everybody. I just wanted to ask a follow up on the average realized price assumption. Does that assume spot prices are where they currently are holding today, and doesn't assume any changes to that?

Real Foley *Teck Resources Limited - VP Marketing*

Yes, that's the case. The way we look at spot sales, we only know what we know today. So it's based on pricing up to now.

David Wang, *Morningstar - Analyst*

All right, thank you. And maybe just following up on a question asked earlier about coal restarts. I know you guys mentioned about 15 million tonnes of announcements and the decline in prices has somewhat dampened the enthusiasm to restart other mines. What have you guys seen on actual realized production since those announcements have been put out on the market? Are you seeing actual production going up in the market?

Don Lindsay *- Teck Resources Limited - President, CEO*

It's measured in single digits not double digits.

Real Foley *Teck Resources Limited - VP Marketing*

That's right. We've seen some increases in December production. It's a little bit tough to split it between restarts and existing producers. You can imagine that at the level prices were in Q4 when prices peaked over US$300, pretty much every supplier was trying to produce more. So we saw increased production actually from Australia in December, a bit over 2 million tonnes, and then USA was around 0.5 million tonne increase month over month.

David Wang, *Morningstar - Analyst*

All right. Thank you.

Operator

Mark Wade, Rogge Global Partners.

Mark Wade, *Rogge Global Partners - Analyst*

Good afternoon. I just want to pick up on this balance sheet question again. You briefly covered the topic or the benefits of being investment grade, you also mentioned how slow the rating agencies are to recognize your turnaround. Do you have an understanding what it takes to be investment grade? Secondly, where is this US$5 billion debt figure coming from? In the past, you've been very focused on debt to cap, which didn't really help you in the past. Should we be looking at a net debt to EBITDA? I still don't really understand what you view as your optimal capital structure. There are a lot of vagaries, but I'm still not really getting a sense as to how you're thinking about your balance sheet longer term?

THOMSON REUTERS

Don Lindsay - ***Teck Resources Limited - President, CEO***

Okay. I think Scott and I will answer that. We can't predict what the rating agencies are going to do or when they're going to do it. We can only control what we call the controllable, and that is basically to just reduce debt. And then they will have their template and assess it, and make their decisions when they do. So we're not going to forecast when or what ratio, we are just going to keep reducing debt and keep focused on that. In terms of quantums and targets, you’ve got a set a target of some sort. So we started talking from US$7.2 billion to US$5 billion as an initial target. That is significant. When we get to that level, we may decide to go lower. The thinking behind that is that what's become very clear is that the world today versus say 10 years ago is just far more volatile, and the cycles are more extreme in terms of the highs are higher, the lows are lower and the period from beginning to end is it's tighter. So in that kind of environment, I think a more conservative balance sheet seems to make more sense and a better competitive position. So if historically we had a debt to debt plus equity target of 30%, probably it should be lower. We haven't got a formal Board approved new target of 25% or 22% or 20%, and I don't anticipate that we'll come out with something like that for a while yet. We're just going to be intensely focused on reducing debt, and that's how we're thinking about it. The scope of our debt relative to the scope of our assets and then the maturity ladder like when debt comes due, is the things we have to be the most comfortable with. I'd point out the liability management transaction we did last spring was designed to make sure we have very little debt coming due in the next five years in or four and a half years now, and that would be during a time that we would be building QB 2 we hope. So that's how we've been approaching it. I will turn it over to Scott now to talk about his latest dialogue with rating agencies or what you think they might be looking for, and what our ratios are today. On a net basis, they're starting to look pretty good.

Scott Wilson - ***Teck Resources Limited – VP & Treasurer***

Thanks, Don. If you look at what the rating agencies have said recently, they're both in the same ballpark, that being they'd like to see additional debt reduction. They'd like to see our leverage ratio, and whether that is debt to EBITDA or net debt to EBITDA, they look at it a little differently. But they would like to see that in the rearview mirror for a period of time being in and around 2 times. And as Ron noted earlier, our net debt to EBITDA for the year ended 2016 is exactly in that range now. And the third thing that they would like to have more visibility on is the condition of the Fort Hills project. And I think we've talked about that coming into view clearly later this year. So we think that they've also said they'll be slower on the way up than they were on the way down, and that we shouldn't hold our breath on this. So we anticipate that as we deliver a stronger financial performance and complete further deleveraging, as Don talked about, that these will be positive factors in their rating reviews as the year goes on. And in terms of targets, the 2.5 times Debt to EBITDA target that we've set out before is not far off, a 2 times net debt to EBITDA target. As Don said, I think we're going to emphasize the lower end of that range, given the volatility that we see in commodity markets going forward.

Mark Wade, *Rogge Global Partners - Analyst*

Thank you very much.

Operator

Frank Duplak, Prudential.

Frank Duplak, *Prudential Securities - Analyst*

Good afternoon, guys. Thanks for taking the questions. It seems like there's been two questions on QB 2 spending, which sounds like about US$700 million were to get spent through the end of 2018 if there was a go-ahead decision in the middle of 2018. So as you think about US$4 billion beyond that, should we think roughly equally split across 2019 and 2020, or what would be the tenor of that last US$4 billion spending?

Ron Millos - ***Teck Resources Limited - SVP, Finance and CFO***

The spending would extend into 2021. We'd anticipate first production in the second half of 2021, and there might even be a small, small tail that would finish out in early 2022. It would be a consistent build. It would build up more in 2019, peak in 2020 and then start to tail off again.

Frank Duplak, *Prudential Securities - Analyst*

Okay, great. And then can you just confirm that the pension was overfunded at year-end 2016?

Ron Millos - ***Teck Resources Limited - SVP, Finance and CFO***

Yes. It was for the accounting purposes, it was overfunded. On a solvency basis, we are about 95% funded on average.

Frank Duplak, *Prudential Securities - Analyst*

Okay. And my last is just there's been a growth pretty consistently in other liabilities on the long-term side over the past year, so it looks like you're up about CAD1 billion. What's going on there?

Ron Millos - ***Teck Resources Limited - SVP, Finance and CFO***

The big item in the other liabilities is the decommissioning and reclamation provision. The real drive there is due to the improvement in our credit spreads, so that's based the discount rate on what we've done there. If you go back to 2014, you can see that liability was high. Because of the financial crisis, our credit spreads widened. The liability came down using a higher discount rate, now it has reversed this year. So it's all mark-to-market type adjustment.

Frank Duplak, *Prudential Securities - Analyst*

Thanks for your help, guys.

Don Lindsay - ***Teck Resources Limited - President, CEO***

Okay. I think we are going to call it there. This is the longest quarterly call we've had in several years. So we appreciate all of your questions. I'm just going to turn it back to Greg to highlight something of interest.

Greg Waller - ***Teck Resources Limited – SVP, IR & Strategic Analysis***

Yes, I just want to point out that we've sent out invitations for our Investor Day at the end of March, March 30 in Toronto. You should have received that, if you haven't and if you'd like one please contact Ellen to get an invite for that Investor Day event.

Don Lindsay - ***Teck Resources Limited - President, CEO***

Okay, then. And we hope to see you there. And as a closing comment just to remind you record operating profit, record cash flows, record net earnings, billion-dollar debt reduction, more to come, and feeling pretty good about those Chinese customers coming back. So thank you all for your interest today. We'll look forward to the next quarterly call.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you your participation.

[End of transcript.]