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PRESENTATION

Operator

Welcome to Teck's fourth-quarter 2014 conference call. At this time all participants are in listen-only mode. Later we will conduct a question-and-answer session. I would now like to turn the conference over to Greg Waller, Vice President, Investor Relations & Strategic Analysis. Please go ahead.

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

Thanks very much, operator. Good morning, everyone, and thanks for joining us for Teck's fourth-quarter and full-year 2014 results conference call. Before we start, 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 statements. Our presentation is a little bit longer this morning since we are dealing with year-end results as well as guidance for 2015. So bear with us and we will get to your questions. At this point, I'd like to turn the call over to Don Lindsay, our President and CEO.

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

Thanks very much, Greg. Good morning, everyone. I'll begin with a brief overview of our annual results and then followed by our fourth-quarter results. And then Ron Millos, our CFO, will provide additional color from a financial perspective, and we will conclude with a question-and-answer session, when Ron, myself, and several additional members of our senior management team will be happy to answer your questions.

In these market conditions we have continued to execute well by controlling the controllables. We had excellent performance in 2014 with solid delivery against our guidance. For the full year, we also had record production in steelmaking coal, record throughput at Antamina, and record production at Red Dog.

Our focus on cost reduction continues to deliver results with significant, sustainable operating cost reductions being achieved. In 2014, this contributed to reduced unit costs at 10 of our 13 operations, and all of our operations generated positive cash flows. We also reduced our full-year CapEx compared with our plans at the start of the year.

We maintained a solid financial position with a year-end cash balance of CAD2 billion, also an unused revolving credit facility of $3 billion and no substantial debt due in the next two years.

Looking at the overview of full-year results on slide 4, while demand remains strong, revenue was down 8% to CAD8.6 billion, primarily due to lower prices for steelmaking coal and copper. However, gross profit in our zinc business unit is up 50%, driven by a 13% increase in zinc prices and record production at Red Dog.

Overall, gross profit before depreciation and amortization was CAD2.9 billion. EBITDA was CAD2.3 billion. And bottom-line profit attributable to shareholders was CAD362 million. After removing unusual items, adjusted profit attributable to shareholders was CAD452 million or CAD0.78 per share.

Going forward, our profitability benefits significantly from the stronger US dollar and from lower oil prices. And Ron will provide some detail on that later on.

On slide 5, we reported our achievements against our original 2014 guidance. And you may recall that in Q3 we raised production guidance for all of our business units and reduced our cost guidance for coal and copper. As I mentioned earlier, we had solid delivery against this guidance. We also set a number of significant operating records.

In steelmaking coal, we were in the top half of our production guidance and set a new annual production record at 26.7 million tonnes. At the mine level, new annual production records were set at both Elkview and Greenhills. Our continued focus on cost reduction contributed to us coming in below site cost guidance at CAD54 per tonne including inventory adjustments. We also met the bottom end of the coal transportation cost guidance range at CAD38 per tonne. Overall, including inventory adjustments, combined coal costs were CAD92 per tonne or around $84 per ton.

In copper, we hit the top half of our original production guidance at 333,000 tonnes, and Antamina set a new record for throughput for the full year. We also came in below our cash unit cost guidance range of $1.65 per pound.

In zinc, we significantly exceeded guidance for concentrate production at Red Dog. At Trail we came up a bit short of the bottom end of the guidance range but by only 3,000 tonnes. And this was due to lower production in the first half of the year, prior to the commissioning of the new acid plan, which obviously will make a big difference. And that was shown in the second half, when production was stronger at 143,000 tonnes.

We also significantly reduced our CapEx with actual expenditures around CAD400 million below what we expected to spend at the start of the year.

So overall, we delivered well against the 2014 guidance. And Ron Millos will address our 2015 guidance later in the call.

Now, looking at an overview of Q4 results on slide 6, revenue declined 5% to CAD2.3 billion, primarily due to lower prices for all of our principal products.

Overall, gross profit before depreciation and amortization was CAD757 million, EBITDA was CAD582 million and bottom-line profit attributable to shareholders was CAD129 million. Adjusted profit attributable to shareholders was CAD116 million or CAD0.20 per share.

Turning to slide 7 and operational highlights from the fourth quarter, our operations performed well. We set fourth-quarter production records for coal overall at 6.8 million tonnes as well as at Elkview and Fording River. Zinc production also increased, and we restarted our Pend Oreille mine on time and under budget. We also continue to achieve significant operating cost reductions.

We declared a CAD0.45 dividend in November and paid it in early January.

We also had some key achievements on the sustainability side. We received BC government approval for the Elk Valley Water Quality Plan, which is the culmination of an extensive multi-stakeholder process. The plan establishes short-, medium-, and long-term water quality targets, and it will guide future regulatory decision-making regarding water quality and mining in the Elk Valley.

And then subsequent to quarter end, Teck's continued leadership in sustainability was recognized again in one of the most credible corporate sustainability rankings worldwide. We were named to the Global 100 Most Sustainable Corporations List for the third consecutive year by Corporate Knights, announced that the World Economic Forum in Davos. Companies are evaluated based on a range of sector-specific sustainability metrics such as water, energy, and carbon productivity and, of course, safety performance. This year Teck was the top-ranked mining company worldwide and the second-ranked Canadian company on the Global 100 list.

Slide 8 summarizes the fourth-quarter results in our steelmaking coal business unit. Coal sales were in line with the target we gave last quarter at 6.5 million tonnes and we met the previous record for highest sales in the fourth quarter.

However, oversupplied market conditions continue to impact coal prices. And while the benchmark price for the highest-quality product dropped by only $1 in Q4 relative to Q3, to $119 per tonne, prices are significantly lower than the same period last year. Our average realized price was 17% lower on a Canadian dollar basis at CAD123 per tonne, and overall out revenue declined by 14% to CAD824 million.

As I mentioned earlier, we set a fourth-quarter production record overall but there was potential for higher coal production. We temporarily had to idle some of the mines in December due to high site inventory levels.

Our cost of production efforts are continuing to produce significant results. We lowered coal site costs by CAD4 per tonne to CAD48 before inventory adjustments, and total unit costs are down by CAD3 per tonne to CAD91.

Gross profit before depreciation and amortization declined by CAD118 million to CAD234 million.

Looking forward, coal prices for the first quarter 2015 have been agreed with the majority of our customers, based on a $117 per tonne for the highest-quality products, and we expect sales at or above 6.5 million tonnes.

Turning to slide 9 and coal markets, oversupply continues to keep prices at an unsustainable level. Approximately 30 million tonnes of cutbacks and closures have been announced since January 2014, but they are slow to be implemented. We estimate that slightly less than half of these cuts had been implemented by year-end. And even when the announced cuts are implemented, this will now be insufficient to bring the market back into balance. With the additional production coming on in Australia and elsewhere, we expect market to remain imbalanced unless further cuts are announced and implemented. Cuts and closures continue to be announced, though. And if they continue at the same rate we've seen in the last few weeks and months, there is potential for the coal market to be back in balance as early as the second half of 2015. But we need those cuts.

One important point is that despite weaker coal prices in US dollar terms, the strengthening of the US dollar has meant that prices have actually increased in Canadian dollar terms. And you see that in the graph on the right. In Canadian dollar terms current prices are more than 10% higher than the lows of last July.

I will now review our base metals businesses starting with copper on slide 10. Sales were down 13,000 tonnes, reflecting lower production. Antamina had record throughput for the full year and Highland Valley ran at a very high throughput rate following the mill optimization project. However, production was lower in the quarter due to lower grades and recoveries. Production was also lower at Andacollo, due to reduced throughput resulting from harder ore conditions and unplanned maintenance downtime.

With the copper price down 9% in US dollar terms, our revenue declined 14% to CAD656 million.

Our cost reduction efforts are producing significant results, but lower grades put upward pressure on unit costs during the quarter. Unit cash costs after byproduct credits were up about 9% but we expect those costs to decline materially this year.

Overall, gross profit before depreciation and amortization declined by CAD110 million to CAD274 million.

Turning to the copper market on slide 11, for a couple years now analysts had been forecasting a surplus in the copper market both in 2014 and 2015. For example, these charts show Wood Mackenzie's forecast of surpluses for 2014 on the left and 2015 on the right, and how they evolved over the last three years. As you can see, the size of the expected surplus has been steadily declining.

We had maintained that Greenfield projects that were due to come on stream in 2014 and 2015 would be slower than anticipated and that current operations would continue to have difficulty meeting projected operating rates and that the combined effect of these two factors would impact on the expected surplus.

For 2015 and 2016 we currently expect a small surplus of approximately 2% of the global market. However, some projects for 2015 are already being pushed out and recent announcements from other producers are pointing to lower production in 2015.

So longer term, we remain optimistic about the outlook for copper. The lack of current investment will leave a gap in the market in future years.

Turning to our zinc business unit on slide 12, I should first note that Antamina and Duck Pond zinc-related results, as usual, are reported in our copper business unit, as zinc is considered to be a byproduct at both of these operations.

So gross profit in zinc before depreciation and amortization increased sharply to CAD248 million, representing an 80% increase and reflecting the improving zinc market fundamentals.

The increased profitability was driven by increased zinc prices, the favorable effect of the stronger US dollar, and a 21% increase in zinc and lead sales volumes at Red Dog.

The production of zinc in concentrate was up by 13,000 tonnes and lead in concentrate production was up by 12,000 tonnes or almost 50%. The higher production at Red Dog was driven by higher mill throughput due to softer ores and improved recoveries.

Refined zinc production was up by 4,000 tonnes due to higher throughput at Trail and resulting from improved operating efficiencies including the benefits of the new acid plant.

As I mentioned, Pend Oreille was restarted on time and under budget. The restart will benefit from market conditions and provide additional benefits to the Company. We expect to reach full production for 44,000 tonnes per year in Q2.

Now looking at the zinc market on slide 13, there has a steady decline in zinc stocks with the market in deficit the past two years. LME stocks have declined by 600,000 tonnes over this time. Now, we do recognize that there are some unreported stocks held around the world as well.

We have seen on numerous occasions over the last two years that LME stocks have increased sharply within a matter of days, and we believe that this is mostly metal from those unreported stocks which has simply contractually moved on to the LME without physically moving between warehouses. But in spite of this inflow, LME stocks have still moved down markedly.

And behind all of this, of course, is the long-expected mine closures which commenced in 2013. A number of others will close this year, and we believe this will push the market further into deficit and accelerate the rate of stock decline. And as these closures materialize and inventories continue to decline, we do expect the zinc market to improve significantly. And I would note this morning that zinc stocks have now dropped on the LME below 600,000 tonnes. So it's starting to look like 2006 all over again.

Turning to slide 14 and an update on Fort Hills, we are now more than a year past sanctioning and well into construction. The project achieved all critical milestones set for 2014 and engineering activities were approximately 65% complete at the end of Q4. Construction is progressing per plan with deliveries of fabricated equipment started, civil works well underway, and some off-site modular and process facility constructions also starting. Current workforce is around 3,000 people and we will continue to ramp up to a peak in 2016. And in addition, the partners have contracted for pipeline capacity for diluent to Fort Hills and for diluted bitumen to Hardisty.

This site is quite big so it's hard to get one picture that gives a good overview of the project's progress. The picture here of the primary extraction component gives some idea of the excellent progress we've made.

Capital costs and schedule outlook have not changed since project sanctioning, and our 2015 share of CapEx is estimated at CAD850 million including our remaining earnings commitment, which we expect will be fulfilled in Q2. The partners are focused on capital discipline, working with our contractors to take advantage of the current economic environment. And first oil is still expected in Q4 2017, which is now less than three years away.

Looking at the economics of the Fort Hills project on slide 15, we are well aware that many analysts and investors are questioning the partners' commitment to the project in light of the recent decline in the oil price. I would like to emphatically state that short-term oil price weakness does not affect our decision to proceed with a 50-year project. And Suncor has also reiterated their commitment to the Fort Hills project, Suncor being the operator.

The economics of this project are quite robust. The Fort Hills project is expect to have significant free cash flow yield over a range of oil prices and exchange rates.

The chart on the right shows the yield over the range of WTI prices and Canadian dollar exchange rates. Assuming a WTI price of $90 and a Canadian-to-US dollar exchange rate of $0.90, Fort Hills would have a pretax cash flow yield of around 15% during the capital recovery period. At WTI of $70 and an $0.80 exchange rate, the pretax yield is still expected to be about 12%. And even at the current spot price, Fort Hills would still be cash flow positive.

So despite the recent price drop, the long-term fundamentals of oil remained healthy and demand continues to grow year over year. There is some oversupply but reduced drilling activity is going to impact that pretty quickly. And in addition, decline rates for existing oil production on the order of 8% annually will require significant new oil supply to meet that demand.

In looking at slide 16, I would like to spend a moment on why lower oil prices are unequivocally beneficial for Teck until Fort Hills comes into production in late 2017. We are not selling oil yet, and oil-related costs are a major portion of the operating costs in our zinc, copper, and coal business units. At current oil prices we will save hundreds of millions of dollars annually. Each $1 per barrel reduction in oil price currently reduces our operating cost by about CAD5 million annually. A weak Canadian dollar has also accompanied the drop in oil prices, and every $0.01 in the exchange rate relative to the US dollar currently generates about CAD52 million of additional EBITDA annually.

Lower oil prices have also caused many companies to cut back on capital spending and drilling activity. If the low oil prices continue, it will take pressure off of labor and contractors and pressure off on delivery schedules for major equipment. This will enhance the ability to deliver this project on time and on budget. And importantly, it also reduces competition for pipeline capacity, which will benefit Teck long after the project is built. We are in an excellent position in terms of being able to enter into long-term take-or-pay pipeline agreements because of the long life of the Fort Hills asset.

Oil production and exploration will also start to decline due to reduced drilling activity and the much higher decline rates in shale oil. We believe this will start the inevitable correction back towards higher long-term prices and hopefully just in time for the first production at Fort Hills in late 2017.

Low oil prices will also provide a positive macro-economic stimulus to drive additional metal consumption, which will benefit Teck's base metals businesses.

And with that, I will now turn it over to Ron Millos to provide additional color on the quarter from a financial perspective.

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

Thanks, Don. I've summarized our changes in cash for the quarter on slide 17. Our cash flow from operations was CAD743 million in the fourth quarter, and that included CAD220 million from working capital changes, as normally happens during the fourth quarter due to the sales profile at Red Dog.

We spent CAD420 million on capital projects, of which CAD195 million was on Fort Hills. And that included our remaining earn-in commitments. Capitalized stripping costs were CAD167 million. We paid CAD34 million in interest payments and CAD16 million in principal payments on our debt for a total of CAD50 million.

After these items, distributions to non-controlling interests, and foreign-exchange translation, we ended the year with cash and short-term investments of CAD2 billion. And in addition, our $3 billion line of credit remains undrawn at this time.

And in early January, as Don mentioned earlier, we did pay our semi-annual dividend, which totaled CAD259 million.

Our pricing adjustments for the fourth quarter are summarized on slide 18. The lower prices resulted in CAD70 million of negative pricing adjustments in the fourth quarter compared with positive pricing adjustments of CAD10 million in the same period in 2013. Copper was down $0.18 and zinc was down $0.05 compared with the third quarter of 2014. And these adjustments are included in our income statement under other operating income and expense.

As reminder, refining and treatment charges and the Canadian-US dollar exchange rate should be considered in your analysis of the impact of price changes in the adjustment, and you should also consider taxes and royalties when analyzing the impact on our net earnings.

The chart on the right represents a simplified relationship between the change in copper and zinc prices and the reported settlement adjustments and usually provides a good estimate of our pricing adjustments each quarter. In the fourth quarter that actual settlement adjustment was just on the outside edge of the normal range due to the price decline for our other by-products sold with provisional pricing. And that includes lead, moly, and silver. In most quarters, by-products are not material but in Q4 we saw declines in the prices for all of these products. And of course, the weaker Canadian dollar also resulted in these adjustments translating into a larger dollar amount.

Turning to the balance sheet and liquidity on slide 19, Teck is in solid financial position with CAD2 billion in cash at December 31st or $1.75 billion at the December 31 exchange rate. And of course, we have no substantial debt due in the next two years. We have CAD300 million of notes due in October of this year, nothing in 2016. And further out our average roll-over is approximately $600 million. And as mentioned earlier, we do have the undrawn revolving credit facility of $3 billion, which gives us over CAD5 billion of liquidity.

At current commodity prices and exchange rates and if we meet our guidance for production costs and our capital expenditures we expect to end this year with over CAD1 billion in cash without materially increasing our US dollar debt, and that assumes no unusual transactions or events.

And earlier in January, S&P downgraded our credit rating by one notch to BBB minus and changed the outlook from negative to stable. The other three major rating agencies have a rating of mid-BBB or equivalent with negative outlooks or equivalents. And of course, we are committed to retaining our investment-grade credit rating.

And as reminder, we have just one financial covenant in our debt agreements, which requires us to maintain a debt to debt plus equity ratio that does not exceed 50%, and our ratio as of December 31 was 31%.

Looking at the summary of our 2015 guidance on slide 20, in steelmaking coal our production guidance is 26.5 million tonnes to 27.5 million tonnes, which represents a modest increase from 2014 production of 26.7 million tonnes. Our site cost guidance is between CAD49 and CAD53 per tonne, and transportation cost guidance is between CAD37 and CAD40 per tonne. On a combined basis that's between CAD86 and CAD93 per tonne, which is the equivalent to around $69 to $74 per tonne using the current $0.80 exchange rate and a reduction of 2014 cost of $84 per tonne.

In copper, our production guidance is 340,000 tonnes to 360,000 tonnes. This represents a 5% increase from the 333,000 tonnes produced in 2014 with Antamina expected to gradually increase production as grades improve in the second half of the year and higher production at Highland Valley expected after the first quarter due to higher grades. Overall, we expect a weaker first-quarter and strong a fourth quarter for production in 2015. And in 2016 copper production is expected to be closer to 2014 levels with more normal grades at Highland Valley, full closure of our Duck Pond mine and lower production at our Chilean operations. We expect our copper cash unit costs net of byproducts to drop to between $1.45 and $1.55 per pound, reflecting higher production and favorable exchange rates and are continuing cost reduction initiatives.

And in zinc, our production guidance for zinc in concentrate is 635,000 tonnes to 665,000 tonnes, and that includes production from Red Dog, Pend Oreille, and our share of production from Antamina. Our guidance for refined zinc production is 280,000 tonnes and 290,000 tonnes.

Looking at the details of our planned 2015 capital expenditures on slide 21, excluding capitalized stripping, our guidance for capital spending is just under CAD1.6 billion for 2015.

The only major development project being funded this year is Fort Hills, where we expect to spend CAD850 million including our remaining earn-in commitments. We also expect to further decrease our sustaining CapEx to CAD490 million. Major enhancements are expected to be about CAD60 million, which is mainly development of new pits in coal.

Capital for facilities under the Elk Valley Water Quality Plan are included in sustaining capital. In 2015 we expect to spend around CAD36 million on pre-construction activities for the second water treatment plant, which will be at Fording River. We anticipate construction starting in 2016. Following approval of the plan, we have reviewed our capital cost estimates and we continue to expect our capital spending to remain in the range of our original estimate, which is approximately CAD600 million over the five-year period starting from 2013, and that includes the CAD120 million already invested to build the Line Creek facility. Again, this is already included in our sustaining capital.

Capitalized stripping is expected to be CAD775 million in 2015 compared with CAD715 million last year.

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

And I should point out that some of you will note that our capital spending has actually gone up a bit. And the key reasons for that would be the increase in deferred stripping. And the Fort Hills spending is CAD235 million higher than it was last year. Last year the incurred costs were as expected but the timing of the bills coming in gets delayed, and that will catch up probably at the tail end of the project. In addition, there's about a CAD60 million increase in our capital spending because of the effects of the higher exchange rate. But overall, all other capital spending is down about CAD120 million in sustaining capital, and our major enhancement is down about CAD100 million.

On slide 22, I'd like to highlight the sensitivity of our 2015 profit and EBITDA to changes in commodity prices and exchange rates based on the midpoint of our 2015 production guidance and using a Canadian-US dollar exchange rate of $1.20.

In coal, our estimated EBITDA sensitivity for each $1 per tonne exchange rate in the coal price is about CAD32 million. In copper and zinc, our estimated sensitivity for each $0.01 per pound change in the metal price is CAD8 million and CAD12 million, respectively. Our estimated sensitivity to every CAD0.01 in the US-CAD exchange rate is about CAD52 million, which generates significant additional EBITDA if it remains at current exchange rates. And this is lower than the sensitivity recorded last year, and that's due mainly to the lower commodity prices.

In addition, the recent decline in oil prices that Don talked about earlier has a significant effect on our operating costs with each $1 change in the price of a barrel of oil affecting our operating costs by approximately CAD5 million.

With that, I'll turn it back to Don for some closing comments.

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

Okay. Thanks, Ron. In summary, on slide 23, we are controlling what we can control, such as operating costs and CapEx. And we are focused on conserving cash and maintaining a strong financial position.

As we noted in our release, with our current production and capital spending plans and on the basis of current commodity prices and exchange rates, we expect to conclude the year with at least CAD1 billion in cash and no draw on our credit line. This will leave us with a strong balance sheet to enter into the final full year of construction spending on Fort Hills in 2016 and then we will look forward to completing the project the next year.

And with that, we happy to answer any questions. I should say, please note that some of our management team members are on the line in different locations, so there may be a brief pause after you ask your question as we decide who to have answer it.

Okay, over to you, operator.

QUESTION AND ANSWER

Operator

(Operator Instructions) Sal Tharani from Goldman Sachs.

Sal Tharani *- Goldman Sachs - Analyst*

Couple of questions -- the guidance you gave for the cash costs before byproduct of $1.65 -- is that what you are cash costs -- I'm sorry. You have $1.75 to $1.85.

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

That's the before-byproduct amount.

Sal Tharani *- Goldman Sachs - Analyst*

Yes. And I was just wondering, how does this compare to what you thought earlier this year because I think the guidance you gave earlier this year was with the byproduct. And obviously, byproduct changes as the moly and other prices change. I was just wondering what was your thought at that time when you started the year.

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

I'm not sure I understand the question.

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

I think I do, Sal. So what you are really asking is -- we're comparing last year's guidance to this year's guidance. We came in a little bit under our costs in our copper business unit compared to our guidance for 2014. And now we've decreased our guidance again for 2015, reflecting the success of our cost management program. And we've provided the numbers there. So they've come down.

Ian, the main contributors to the lower cost this coming year are?

Ian Kilgour *- Teck Resources Limited - EVP and COO*

Basically, lower costs are coming through increases in production. And that's mainly due to better grades, in particular at Highland Valley and Antamina.

Sal Tharani *- Goldman Sachs - Analyst*

Is there any change or cost reduction because of the currency or diesel in there also, fuel prices?

Ian Kilgour *- Teck Resources Limited - EVP and COO*

Yes, the reduction in diesel is helpful right across our operations, predominantly in coal but also in copper.

Sal Tharani *- Goldman Sachs - Analyst*

Okay, great. And just one more question -- water management costs. This year you brought it down to CAD4 per tonne. Is it like half on capital and half on operating cost? Is the way we should assume?

Ian Kilgour *- Teck Resources Limited - EVP and COO*

We basically have the capital program over the next five years. We have completed the Line Creek plant. We will be planning this year for the Fording River plant, and then a couple of years after that for the Elkview plant. So the capital of around CAD600 million over that five years, and then our operating costs will be moving up to the CAD4 a tonne level as each of those plants gradually comes online.

Sal Tharani *- Goldman Sachs - Analyst*

Great, thank you very much.

Operator

Harry Mateer from Barclays.

Gregg Price *- Barclays Capital - Analyst*

This is Gregg Price sitting in for Harry. A quick question with respect to the cash balances and maturity this year -- so you know that there won't be any draw under the revolver. I was wondering if the CAD1 billion guidance includes any pay down in cash or if you look to refinance that maturity.

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

We intend to refinance the maturity, likely out of the revolver, given the small size. It's CAD300 million.

Gregg Price *- Barclays Capital - Analyst*

Okay, got it. Appreciate that. Thank you.

Operator

Sasha Bukacheva from BMO Capital Markets.

Sasha Bukacheva *- BMO Capital Markets - Analyst*

A question on the investment ratings. So we've seen one downgrade in January, so there seems to be a bit of a disconnect where you are in full compliance with your covenants with respect to debt-to-equity ratios. What else can you do to make sure there are no further downgrades or what else can you do to maintain the credit rating?

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

Yes. We are in discussions and get reviews on a regular basis with all the rating agencies. S&P just recently downgraded us. You are starting to see downgrades from other agencies as well. So we won't be shocked if there's a move there. But we think that we have plenty of room to continue to maintain our investment grade rating. So not concerned at this stage.

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Sasha Bukacheva *- BMO Capital Markets - Analyst*

Right. But are there any particular ratios or metrics they used to evaluate your performance? And is there anything you can do to improve on those metrics?

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

No, they look at the debt/equity ratio, the interest coverage, the leverage ratios. They look at our capital spending plans. We give them our forecast out a number of years. And they take their own views on commodity prices; and, based on their views of where commodity prices might go and opportunities that we have, they would look at that. But we certainly have a very good sense of what the metrics are that drive their rating. And we are looking at all the capital spending plans. We are looking at conserving cash. Those are the types of things that we would do to maintain those ratings. We have assets on the books that are in development stage that are small. We potentially could sell some of those to generate small amounts of cash. So there's things that we can do to protect that rating.

Sasha Bukacheva *- BMO Capital Markets - Analyst*

Perfect. So my follow-up question is, then, where does the dividend payment fit into that plan? Is that something you might be willing to reduce to release your cash balances? Or how much of maintaining dividend is a priority with respect to your credit rating and general state of the balance sheet?

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

I'll take that one. So first I want to add a bit more color on your initial question because I know you haven't been following the Company for that long. The ratings at each of Moody's, S&P, and DBRS were BBB-mid with either negative outlook or negative trend for quite a while, probably six months or longer. And so this rating that we got from S&P was exactly as expected for some time, so it really wasn't anything that was a surprise to us. The most important aspect was that it was a stable rating, meaning that for the foreseeable future they don't anticipate another significant review. And it did include us paying the dividend.

With respect to the dividend question specifically, that is, as we've described before, a Board decision. The next dividend isn't payable until early July, so the decision will be made sometime between the April board meeting and the June board meeting. At that stage we will look at the business conditions in all of our commodities, but in particular we will be watching the cutbacks in the coal business to see whether they have actually been implemented and whether, if they've been implemented, they have actually taken the market back into balance or closer to it such that it affects price. We would note that even a $10 move in the coal price ads CAD320 million of EBITDA per year, and it's not hard to see a price move greater than that because generally, if you went back over the last 10 years, price moves were much more than CAD10 on a great many occasions. So those are the kind of things that the Board will look at, at that time. And depending on what the results of that review is, there may be a cut in the dividend or there may not. If the coal price moves at all significantly, it doesn't look like there would be a need to. If it doesn't move, then we may decide to be a bit more conservative and retain the cash that otherwise would have been used for dividend. In the end, it's a capital allocation decision. We might find that there's other opportunities as well that we'd rather devote that cash to. So we'll just have to see when it comes to that April or June period.

Sasha Bukacheva *- BMO Capital Markets - Analyst*

Perfect. Thank you very much for the color.

Operator

Jeremy Sussman from Clarkson Capital.

Jeremy Sussman *- Clarkson Capital Markets - Analyst*

One potentially favorable development is on the oil service side. Obviously, service costs have come down significantly. Any chance that we could maybe see CapEx move a bit lower on Fort Hills going forward? How should we think about that?

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

Well, first we should say that Suncor is the spokesperson for the project, as the operator. So we don't want to presume much or get in too much detail. What we have said is that it's definitely a favorable environment to be building a large project. And certainly Steve Williams and his team have conveyed to us that they are seeing lots of opportunity to be more efficient, higher-quality work, better access to labor in particularly the key skills. The top skills being at your project is a real advantage for productivity. But we haven't disclosed anything in terms of quantifying what those benefits would be. And I think you have to let us run its course for a while before you really see that. But given a choice, we'd much rather be doing a large construction project in this environment than the environment from two or three years ago.

Jeremy Sussman *- Clarkson Capital Markets - Analyst*

Sure, that's helpful. And my follow-up is on the copper side. In looking at -- obviously, solid production in terms of up year over year in 2015. And driving down costs as well. Can we just get a sense -- obviously, most of the production increase is coming from Highland Valley. But on the cost side, how much is increased production versus exchange rates, et cetera?

Ian Kilgour *- Teck Resources Limited - EVP and COO*

The predominant factor is the increased production, which results from the increasing grade. There's a little bit of addition there from the byproducts from Antamina as well. But we are really going to be focusing this year on maximizing the utilization of our assets, our projects, to maximize throughput, really looking to get the very best we can out of our assets and continuing to focus on cost reduction as well, a particular focus on usage of contractors in South America. So we will be continuing to improve those unit costs.

Jeremy Sussman *- Clarkson Capital Markets - Analyst*

Great, thanks very much.

Operator

Mitesh Thakkar from FBR Capital Markets.

Mitesh Thakkar *- FBR & Co. - Analyst*

Congratulations on a solid operational quarter. So my first question is just you mentioned that on the coal side you are feeling some upward pressure due to increased strip ratios. Is that increase outside of the normal increases which you see or is it just in line? And how should we think about annual creep in strip ratios going forward?

Ian Kilgour *- Teck Resources Limited - EVP and COO*

The outlook for 2015 is fairly similar to 2014, actually. If we look at overall strip ratios, haul distances, the key fundamentals continued to be at similar levels to 2014. Going forward, we are always looking to optimize our mine plans and look for ways of improving those fundamentals. And that will be a continuing activity for us.

Mitesh Thakkar *- FBR & Co. - Analyst*

Okay. But you don't see any abnormal increases or decreases in the near future as far as this annual creep is concerned?

Ian Kilgour - ***Teck Resources Limited - EVP and COO***

No. No, we don't.

Mitesh Thakkar - ***FBR & Co. - Analyst***

Okay. And just on the Highland Valley side, you mentioned that the production is going to come down in 2016 by almost 20,000 tonnes. Directionally, how should we anticipate it goes from there? Should we assume it just stabilizes at that kind of level, or that would be a meaningful upward or downward movement?

Ian Kilgour - ***Teck Resources Limited - EVP and COO***

Basically it's looking to stabilize at that level. This year we are going through a particularly higher-grade section of the Valley pit for about nine months, and then we return to that normal-grade profile.

Mitesh Thakkar - ***FBR & Co. - Analyst***

Okay. And on the copper CapEx side, CAD105 million in new mine development. Assuming about CAD15 million of that is towards other copper projects, is the remaining CAD90 million all towards QB2? Or is there anything else there which I missing?

Ian Kilgour - ***Teck Resources Limited - EVP and COO***

It's basically towards QB2. We are moving as efficiently as possible to achieve the permitting for our QB2 project. And that involves quite a lot of things like drilling to verify the water balance and a number of other activities, engineering activities to define the project sufficiently to produce a high-quality permit application. And essentially that's what that money is focused on.

Mitesh Thakkar - ***FBR & Co. - Analyst***

Okay, perfect. Thanks very much, guys, and good luck.

Operator

Jorge Beristain from Deutsche Bank.

Jorge Beristain - ***Deutsche Bank - Analyst***

I just wanted to follow up as well on QB2 a little bit. And how should we think about the CapEx on that project if you were permitted effective tomorrow? How should we think about the balance sheet to accommodate that level of CapEx? And should we think about maybe the actual hard dollars on QB being pushed until you are done with Fort Hills?

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

I may start with that and then turn it over to Tim or Ian. But we don't need to think about the latter part of the question. There is no chance that a project would be permitted today. We don't see a need to even review how we're going to fund it for at least about 21 months, a year and three quarters. So a lot can happen in the meantime. So that kind of scenario is just not something that we need to stress test our balance sheet for. We probably will be on a schedule where Fort Hills will be just about finished before any major CapEx needs to be devoted to QB2.

Now, in terms of the rest of the rest of the question, Tim, do you want to take that?

Tim Watson ***Teck Resources Limited - SVP, Project Development***

Sure. In terms of when the decision is actually made to begin to move forward with the execution phase of the project, we would actually see the ramp up in capital spending probably over about an 18-month period. So we would probably see, in that first year, a doubling or tripling of the capital expenditure levels of what we are seeing today as we begin to ramp back up on the engineering front and the procurement of the long-lead equipment. And following that, we would go back to the capital expenditure profiles that we had previously identified for the project over the remaining 48 months of the project.

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

I might just clarify just to -- you heard the words doubling and tripling, but that's from today's amount of about CAD90 million. So if you got to 2017, which is the last half a year of construction of Fort Hills, which is about CAD400 million, you might start QB2 at that stage with CAD200 million or CAD300 million and then in 2018 you would start getting into a larger amounts. So it looks like a pretty good sequence at the moment.

Jorge Beristain ***- Deutsche Bank - Analyst***

And if I could just follow up, by drilling this down, what I'm asking concretely is, is there a risk that QB1 effectively runs out of production before you can fully ramp QB2 and have a seamless handoff? Or is there the risk that maybe in 2019 you are without copper production if you have to defer the CapEx on QB2 because of Fort Hills and/or permitting issues?

Ian Kilgour ***- Teck Resources Limited - EVP and COO***

We have looked at the mine plan for QB1 and identified several mechanisms to lengthen the life span of the supergene project, including maximizing material to the heap leach and looking at retreating other materials available on site. So at this stage we think we would be able to achieve continuity to QB2.

Jorge Beristain ***- Deutsche Bank - Analyst***

Thank you.

Operator

Orest Wowkodaw from Scotiabank.

Orest Wowkodaw ***- Scotiabank - Analyst***

In terms of your guidance on the cost side for 2015, what oil or diesel price have you actually baked into that guidance? And we appreciate you giving us the sensitivity.

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

We've used CAD65 a barrel.

Orest Wowkodaw ***- Scotiabank - Analyst***

CAD55 a barrel? Okay, thank you.

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

That's CAD65.

Orest Wowkodaw - ***Scotiabank - Analyst***

Okay CAD65 a barrel. Thank you. In terms of that cash target of CAD1 billion by the end of 2015, is there any working capital changes either positive or negative built into that?

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

It would be the normal changes in working capital it would have, nothing substantive.

Orest Wowkodaw - ***Scotiabank - Analyst***

Nothing material?

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

No.

Orest Wowkodaw - ***Scotiabank - Analyst***

Okay. And then just finally, on QB1, at what point in the future do you anticipate that we would see production start to materially roll off? Would it occur as early as 2016? Or do you see sort of this slow grinding decline?

Ian Kilgour - ***Teck Resources Limited - EVP and COO***

Basically, at this stage it's declining year on year. But as I said, we are looking at quite a number of opportunities to limit that decline. And so, we are optimistic that several of those opportunities will actually materialize.

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

And just as evidence of what Ian is talking about, when we initially looked at the budget for QB for 2015, that kind of decline he was mentioning was what was contemplated. And yet I'm when we finished all the work, we are actually hoping for it to be up a couple thousand tonnes versus way 2014's result. So that's at least next year's example of what he has talked about.

And then, back to the oil price -- we budgeted at CAD65. And then, as you pointed out, for every dollar a barrel it's below that, which is -- it's about CAD15 a barrel or more below that right now, if that lower price flows through, we would save about CAD5 million in operating costs for each dollar.

Orest Wowkodaw - ***Scotiabank - Analyst***

Okay. On that point, what kind of delay typically do you get in terms of lag on the falling oil price before you actually realize the lower price?

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

Apparently, it's not that much. I was asking that a couple times. But does anyone have the specific answer? Because I know it started to come down very fast.

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

We've looked at that recently, Don, and there is a bit of a lag. And of course, what's happening right now in western North America as well, the refinery strikes are resulting in the refining margins being a little higher than normal. So we have not seen quite as much of a gap between the WTI and diesel prices. But overall, it does -- we are pretty much in synchronous change in oil price. The one big change for us or one big difference, of course, is Red Dog, where we buy the oil or the diesel there for the year in the spring. So we incur that cost, whatever the cost is in the spring. And then we run that through the operations. That takes a little longer to work through our costs. But that's only, say, probably 15% of our overall diesel costs.

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

We are hoping oil be about $35 by then.

Orest Wowkodaw ***- Scotiabank - Analyst***

(laughter) Thank you very much, guys.

Operator

Lucas Pipes from Brean Capital.

Lucas Pipes ***- Brean Capital - Analyst***

Maybe just a quick question on the coal markets. Réal, we are seeing spot rises continue to languish in the Pacific basin. And I was curious to hear your update on maybe how you look at the Q2 benchmark at this point. We continue to see further -- there seems to be further risk of softening there. And then just in general, how would you say the sentiment is in that market at this time?

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

Thank you, because Réal was getting really worried he wasn't going to be asked a question.

Réal Foley ***- Teck Resources Limited - VP, Coal Marketing***

It would have been a first, Lucas. So I had problems hearing the first part of your question. But I think what I understood is you are looking to get a bit of insight as to what we are seeing in the market now and with respect to the Q2 benchmark. Is that correct?

Lucas Pipes ***- Brean Capital - Analyst***

You got it.

Réal Foley ***- Teck Resources Limited - VP, Coal Marketing***

Okay, so I guess going back and looking at 2014 and what happened over the year, Lucas, prices trended down generally but got pretty stable in a range somewhere around $110, plus or minus. Since the beginning of the year we've seen spot prices, spot prices estimates, trend down a little bit more from there. It's a bit early to talk about the quarterly benchmark for Q2, but what we are seeing is a number of things in the market either benefiting or impacting demand. I guess on the positive side we are seeing good demand in Asia outside of China. We are seeing good demand in the Atlantic basin. A lot of that is related to lower production or strikes, disruptions in Eastern European production. That is a benefit in that Atlantic basin. In the Pacific, we are seeing slower imports into China since the beginning of this year as a result of the new quality testing standards. So I guess overall there has been a little bit of a trend down on the spot price assessment. We are seeing good demand in markets outside of China and currently we are able to place our tonnes. And if you look at our guidance for the quarter, we're still expecting to sell similar tonnage as what we did in Q4. So, yes, that's a brief outlook on the market, Lucas.

Lucas Pipes ***- Brean Capital - Analyst***

That's helpful, thank you. I appreciate that. And then maybe a quick question on Trail. When we look at that asset 2015 versus 2014, should we model in major change to margins there with changes in FX and so from a US dollar basis?

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

Yes, there is certainly some impact there, Lucas. Maybe one of the best things I can point to is we do that modeling workshop every few years, and there's a good overview there in how to capture the economics at Trail. There certainly is some leverage to Canadian dollar impact there. Of course, the startup of Pend Oreille is a benefit to the Company as well. You will see part of that, of course, flow through Trail.

Ian Kilgour ***- Teck Resources Limited - EVP and COO***

And I guess operationally the expectations are for a very good year for Trail. When we started the year last year we were completing the acid plant project. And now that that's completed and operating well, that provides a very solid basis for operations of our roasters. And then later in the year we had a very successful KIVSET shut down so that are lead production levels are trending -- or our ability for KIVSET throughput has increased. So the year started well at Trail, and operationally we are set for a slight uptick in zinc, although we have guided towards lower lead production.

Lucas Pipes ***- Brean Capital - Analyst***

Got it, that's helpful. Thank you.

Operator

Kerry Smith from Haywood Securities.

Kerry Smith ***- Haywood Securities Inc. - Analyst***

Don, or maybe somebody can just comment -- with the proposed strike by CP Rail. I can't remember exactly what percent of your volume gets shipped out on CP. But just wonder whether you got which inventory stockpiled at the port and how long a strike could potentially have to last before it would really impact your sales.

Ian Kilgour ***- Teck Resources Limited - EVP and COO***

Yes, well, I guess there is a possibility of a strike. I guess discussions are still ongoing with the unions concerned. We are in touch closely with CP on this. I guess that the history is that the government has intervened fairly quickly when strikes do occur. CP also has the capacity to man a significant proportion of its trains using staff, and we've got a couple of weeks of inventory at the ports. So we don't expect any strike action to affect our sales.

Kerry Smith ***- Haywood Securities Inc. - Analyst***

Okay, as long as the strike didn't last for, say, more than a couple of weeks in rail or --?

Ian Kilgour ***- Teck Resources Limited - EVP and COO***

Yes, in general.

Kerry Smith ***- Haywood Securities Inc. - Analyst***

I got you. Okay. And Don or maybe somebody else can comment -- your cost reduction target, you've already blown through the number and you've reached the CAD640 million. Do you have a new cost reduction target? It would be incremental from here, but I'm just wondering if you maybe changed your target, as it were.

Ian Kilgour ***- Teck Resources Limited - EVP and COO***

Well, I guess we have focused very much on ensuring that the cost reductions that we've achieved over the last couple of years are sustainable so that the cost reduction we achieved in 2013 was repeated in 2014, and then the new initiatives that came in, in 2014, will be repeated in 2015. And we are looking for at least CAD100 million on top of that as well, so that our focus on cost reduction will absolutely continue this year.

Kerry Smith ***- Haywood Securities Inc. - Analyst***

Okay. Okay, that's good. Thanks, Ian.

Operator

Oscar Cabrera from Bank of America Merrill Lynch.

Oscar Cabrera ***- BofA Merrill Lynch - Analyst***

If I may just round up the question on the target for cash balance of CAD1 billion, you state that you are assuming current commodity prices. What hard coking coal price are you using? The settlement for the first quarter at $117 a tonne, or are we using spot prices of $106?

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

Yes, Oscar, we are using what our current realized is in this quarter and reflecting current prices would be our current realized.

Oscar Cabrera ***- BofA Merrill Lynch - Analyst***

Okay, thanks. And then the second question -- just that I have this clear in my mind in terms of your capital structure and capital allocation, would it be fair to say that the debt rating sits higher in your priority list than the dividend? And then Don also mentioned that there would be other opportunities. Can you just clarify that as well? Thanks.

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

Yes, that will always be a Board decision. And we can't predict, say, in June when we are looking at -- which way will go. It will depend on conditions at that time and what other potential uses of the capital might be. But I've made some pretty strong statements before about wanting to stay investment-grade, and nothing has changed on that side of it from my point of view. Again, it is a Board decision.

Oscar Cabrera ***- BofA Merrill Lynch - Analyst***

Great. It is well understood, but I think investors would perhaps -- somebody brought this up to my attention the other day. Perhaps the question should be phrased as, what is management proposing to the Board? But understood. Thanks very much.

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

To try and be helpful, we too will wait until that time period to see what the world looks like. I think it's just too early to tell.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

Thanks very much.

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

We've seen shutdowns every week of some sort. They've been pretty small so far. But if it continues we could be in a very different world in June.

I'll just -- I was going to save this for the end, but I'll do it right now. If you look at the latest Wood Mackenzie report on cost curves and the like and how much of the coking coal, hard coking coal industry is underwater, in Australia it looks like at a price $106 that about 16.5 million tonnes is losing cash. And in the US, which doesn't get the benefit of the currency depreciating, it looks like 30 million tonnes to 35 million tonnes are losing cash. We think that we need roughly 12 million tonnes on top of the 30 million tonnes we talked about before to shut down. So there's quite a bit of tonnage that's certainly a candidate to get shut down between now and June. And if it does, then your question will be somewhat academic because the coal price will have started to move. If it doesn't, then it becomes a very valid question. And we don't know the answers. So we can't be more helpful than that.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

Okay. No, no. I appreciate that. Thanks.

Operator

Alex Terentiew from Raymond James.

Alex Terentiew *- Raymond James & Associates, Inc. - Analyst*

Just a sort of a follow-up, I guess, from the last question on the coal prices -- you note that the current coal prices are unsustainably low. And I concur that most forecasts out there are for met coal prices to rise longer term to even in the $140 to $150 range. With the decline in the Canadian and Australian dollars and lower oil and fuel costs combining to lower the cost curve, can you give me a little bit of color on what your recent analysis or what you think about the market today on what the met coal price should rise to or maybe, to put it another way, what a sustainable met coal price is in today's market?

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

So I think you've raised a really good point. And for us to give you an answer to that we'd almost want to ask you what exchange rates would you like us to use. What would you forecast the Canadian dollar and Australian dollar to be at? Because that's one of the key things that affects the cost curves, and the cost curve will affect the answer to your question. But normally what I'd say is that we think the price could move to $150 benchmark, $140 spot without much production coming back that's been shut down, certainly around here in Canada. So a normalization of $30 or more could happen fairly easily, once the market gets to balance. Just looking back at history, when the coal price was $300, the deficit was only 10 million tonnes. And so now we think we need another 12 million tonnes of cuts to get to balance. So these aren't huge, huge moves in terms of tonnage that has to come off the market before you see things change quite a bit. So is there a possibility to go $140, $150? Absolutely. And what that does for Teck, at CAD32 million of EBITDA for every dollar, that would add CAD1 billion or more to our EBITDA and be a whole new ballgame.

Alex Terentiew *- Raymond James & Associates, Inc. - Analyst*

Okay, that's great. Thank you.

Operator

Thank you.

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

Operator, we have gone through our hour. If anybody is left on the line with questions, we are certainly happy to take up questions with Ron Millos and myself afterwards. But other than that I think will call the Q&A period at this point.

Operator

Thank you. Please go ahead.

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

Do you have any other closing comments, Don? You really got your closing comment in there.

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

Just to summarize, solid operating results. The Company continues to execute well on its plans. You will have noted most of the analysts, I think, have said that our guidance for 2015 is a little bit better, certainly in copper, than people expected, and in costs on coal. So it's now our challenge to deliver against that. The coal market remains weak. We are waiting for the shutdowns to occur. We are seeing a bit of progress each week on that, but we will wait until later in the year before we see whether that has any effect on capital allocation in terms of dividends or other things we might do.

In the long term, the business is well positioned on the cost curve and we are looking forward to seeing Fort Hills get built and become a fourth leg of the business. And the time is coming along. That will happen before we know it. Meantime, oil prices are very good for Teck.

With that, thanks very much, all. We'll talk to you next quarter.

Operator

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