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Teck Resources Limited (TECK)

Analyst Meeting - Elk Valley Resources

CORPORATE PARTICIPANTS

Helen Kelly

Director-Investor Relations, Teck Resources Limited

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

C. Jeffrey Hanman

Senior VP-Sustainability & External Affairs, Teck Resources Limited

Réal Foley

Senior Vice President-Marketing & Logistics, Teck Resources Limited

Ryan Podrasky

General Manager-Finance & Operating Excellence, Teck Resources Limited

OTHER PARTICIPANTS

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Alex Terentiew

Analyst, Stifel Nicolaus Canada, Inc.

Lawson Winder

Analyst, Merrill Lynch Canada, Inc.

John Charles Tumazos

Analyst, John Tumazos Very Independent Research LLC

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the EVR Investor and Analyst Presentation Webcast and Conference Call hosted by Teck Resources. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] This conference call is being recorded on Thursday, March 30, 2023.

I would now like to turn the conference over to Helen Kelly, Director, Investor Relations. Please go ahead.

Helen Kelly

Director-Investor Relations, Teck Resources Limited

Thank you, Ariel. Good morning, everyone, and thank you for joining our call this morning. Please note that this event is being recorded in an archive of the webcast, which is available on teck.com within the next 24 hours.

Before we begin, I would like to draw your attention to slide 2. This presentation contains forward-looking statements. Various risks and uncertainties may cause actual results to vary. Teck nor EVR assumes the obligation to update any forward-looking statements. Please refer to our presentation and our investor website for the assumptions underlying these forward-looking statements.

Throughout this presentation, we will reference various non-GAAP measures. Explanations and reconciliations regarding these measures can be found in the appendix of the presentation and our most recently filed quarterly press release on the website.

Turning to slide 3. On February 21, 2023, Teck Resources announced a proposed reorganization to separate into Teck Metals and Elk Valley Resources or EVR. Today's presentation will feature the EVR management team and the unique investment proposition of the company. We will begin with an overview of EVR and its assets, discuss its operating strategy, the outlook for steelmaking coal, marketing and logistics, an overview of financial performance and outlook and discuss potential valuation methodologies prior to launching into a brief modelling session.

We will conclude today's call with a Q&A session focused specifically on EVR. I will now pass the call over to Robin Sheremeta, currently the Senior Vice President of Coal at Teck, who will assume the role of President and Chief Executive Officer of EVR.

Robin B. Sheremeta*Senior Vice President-Coal Operations, Teck Resources Limited*

Thank you, Helen. And depending on where you're joining us from, good morning or good afternoon. The planned separation of Teck will create two world-class resource companies. And for today, the team and I will be focusing on the incredible potential of Elk Valley Resources. We'll provide detail on our world-class assets, offering philosophy and our approach to value accretion.

Starting on slide 5, I would like to begin by introducing the planned EVR management team, most of whom you will be hearing from today as well. For those of you I haven't met yet, I've been in mining my entire career and started at the Elk Valley steelmaking coal operations in 1988 at Greenhills as a mining engineer. Over the past 35 years, I've had the privilege of holding a number of different leadership roles within Teck, including General Manager at two of the operations; Vice President, Health and Safety for Teck; VP, Operations back in Coal; and my current role as Senior Vice President of the Coal business unit since 2016.

Jeff Hanman, currently Teck's Senior Vice President, Sustainability and External Affairs will become EVR's Chief Operating Officer. Jeff previously held the position of VP, Sustainable Development, Coal and has worked in operational leadership roles at the Elkview Mine.

Ryan Podrasky, who has led finance for the Coal business for the past five years and is currently General Manager of Finance and Operating Excellence, will become our Chief Financial Officer.

Réal Foley, who you may know well is the Senior Vice President of Marketing and Logistics at Teck and has a deep depth of knowledge of the global steelmaking coal markets, will be EVR's Chief Commercial Officer, including responsibility for investor relations.

And Glen Campbell, currently General Manager, Human Resources for Teck's North American Operations, will be our Chief Human Resources Officer. He brings more than 25 years of experience in HR to that role.

The existing Elk Valley operating team, including the general managers of each mine, will continue to lead EVR to ensure the continuity of operating principles and responsible environmental and social stewardship.

There's one more person I'd like to introduce, and that's Helen Kelly, a familiar face to the investment community, who will be the Vice President of Investor Relations of EVR. This team we pull together has worked together for many, many years, and I'm excited about the future and what we can deliver for our shareholders as a new public entity.

Moving on to slide 6. The launch of EVR as a public entity is the beginning of an exciting new chapter for these world-class assets. EVR will be the world's second largest exporter of seaborne steelmaking coal. Our premium, low carbon intensity product is sought after by the world's largest steelmakers as a critical input and an important component in reducing emissions in the steel making process. We have over 30 years of reserves and resources that will last well into the next century. And our long life, high margin operations have a proven track record of free cash flow generation through various commodity cycles. As EVR, we'll be focused on driving cash returns to shareholders, offering our investors exposure to the underlying steel fundamentals and significant equity value accretion potential as a transition capital structure is paid.

Importantly, we remain committed to strong environmental and social performance. For many of our employees, the value is where they live, work and raise their families, myself included. We have a stable and highly-skilled workforce and strong relationships with our unions and local communities. And in recent discussions with local stakeholders, the feedback has been very supportive for the creation of EVR.

All told, EVR is well positioned as a premium, pure-play, responsible Canadian steelmaking coal producer, focused on long-term cash generation and returns to shareholders. Pending shareholder approval of the transaction, we've applied and expect to commence trading on the TSX and the New York Stock Exchange in early June.

Looking at those world-class assets in more detail on slide 7. As you can see on the map on the right, we have an extensive resource base in southeastern British Columbia. Our 4 producing steelmaking coal operations are located within 60 kilometers of each other. This geographical concentration enables full operational integration to maximize synergies across planning and execution, optimize the supply chain and improve market access in order to provide reliable and high-quality product for our customers.

We have total proven and probable reserves of 860 million tonnes, which can sustain long-term production of 25 million tonnes to 27 million tonnes per year for more than 30 years. And again, we have a resource base that will support mining for many decades beyond that.

Our integrated operations are supported by a dedicated logistics system, including the recently expanded coal handling facilities at Neptune Bulk Terminals located on the north shore of Vancouver.

Slide 8 outlines the industry leading performance of our Elk Valley operations. We have a globally competitive steelmaking coal portfolio that ranks in the top quartile of delivered margins. This is underpinned by our long-term stable strip ratio, best-in-class truck productivity and asset utilization levels, and our integrated operations and logistics network.

As Réal will speak to in a few minutes, the integration of our operations and logistics infrastructure provides numerous value accretive production scenarios to meet the demand of our diversified, long-term customer base.

Importantly, the steelmaking core business has delivered exceptional results over the past decade, generating an average annual EBITDA of \$2.7 billion after adjusting for impairments and average EBITDA margins of 47%. With record benchmark hard coking coal prices averaging \$366 per tonne in 2022, our business generated nearly \$7 billion of EBITDA and \$5 billion of free cash flow. Looking ahead, we're continuing to integrate technology and innovation to further optimize performance across various aspects of our operations. And Jeff will provide a couple of examples of the benefits that work is delivering a bit later on.

Moving to slide 9, EVR will be well capitalized at launch with \$250 million in cash and no debt on the balance sheet. In consideration for the transfer of the steelmaking coal assets, EVR will issue a royalty and preferred shares, together called the Transition Capital Structure or TCS, in which Teck Metals will maintain an 87.5% interest. To safeguard the resilience of EVR, cash flow from operations will be prioritized for use, including capital investments and fixed annual contributions to the Environmental Stewardship Trust, which takes precedence over preferred equity dividends and TCS payments.

Further, TCS payments are subject to a minimum cash balance, which Ryan will explain in a few minutes. At exception – sorry, at inception, 10% of free cash flow will accrue to EVR shareholders with an annual base dividend of \$0.20 per share and supplemental shareholder returns made up of a minimum of half of the available free cash flow. And in the absence of growth and no debt, the residual cash could be considered for additional returns to shareholders. Once the TCS is terminated, 100% of free cash flow will accrue to the EVR common equity holders.

Turning to slide 10. We've been asked a number of questions related to the duration of the royalty in the press. The royalty is payable until the later of \$7 billion in aggregate payments or December 31, 2028. While the TCS is in place, 90% of EVR's free cash flow will go towards paying the royalty. After the royalty has been paid, 90% of free cash flow will go towards redemption of the \$4.4 billion in preferred equity.

While EVR is limited in our ability to incur debt while the royalty is outstanding, we do have the ability to refinance the prefs once the royalty has been paid. At benchmark hard coking coal prices of approximately \$210 a tonne, the 5.5-year minimum term of the royalty is triggered. This is a very important point and one of my key objectives, being full payment of the royalty by the minimum term. After which, we will seek to refinance the prefs in order to access 100% of the cash flows. We are fully aligned with Teck Metals to ensure the quickest path to full separation, given the significant value accretion potential for EVR shareholders as that TCS is paid.

Moving to slide 11. Concurrent with the separation, we announced agreements with Nippon Steel and POSCO to exchange their minority interest in the Elkview and Greenhills operations for interests in Elk Valley Resources. The cornerstone investments by the world's largest steelmakers and two of EVR's major customers emphasizes the long term and critical importance of high-quality steelmaking coal.

In describing their investment, Nippon Steel highlights the essential role of high-quality hard coking coal and their carbon neutral strategy. The advanced technology steelmakers are pursuing to reduce emissions over the coming decades, whether it be hydrogen injection in the blast furnaces combined with carbon capture and storage or DRI production by hydrogen, will require a greater proportion of high-quality steelmaking coal in those processes.

Notably, Nippon Steel's \$1 billion cash investment to acquire an additional 9% interest in EVR common shares and the TCS implies an \$11.5 billion enterprise value, further validating value proposition of our business.

I'd like to thank our long-term customers, NSC and POSCO, for their continued support. Their participation as shareholders of EVR is a testament to the strong outlook for our business.

I'll now pass the call over to Jeff to discuss our operating strategy.

C. Jeffrey Hanman

Senior VP-Sustainability & External Affairs, Teck Resources Limited

Well, thank you, Robin, and good morning, everyone.

Starting on slide 13 and building on what Robin said earlier, we have a clear operating strategy that is focused around three pillars: maintaining and enhancing our competitive position, maximizing cash flows in any market, and continuing to enhance the sustainability of our operations.

Starting with competitiveness, we are absolutely focused on maintaining safe and productive operations to deliver on our guidance. Last year was our safest year on record, and we firmly believe that safe operations are also productive operations. Our competitiveness is underpinned by our long-term stable strip ratio of 10 to 1. We invest in our five-year [indiscernible] (00:13:35) plans to maximize value over time and throughout the cycle. And across our operations, we work to continually optimize our practices, to maximize cash flows and build on our already top-quartile margins.

Increasingly, that means leveraging technology to drive best-in-class productivity and asset utilization. It also means maintaining an operating philosophy that is flexible, so we can adjust our cost structure to enable us to respond quickly to changes in market conditions, which Ryan will speak to in more detail.

And of course, the third pillar is sustainability performance. We know that meeting our social and environmental commitments is essential to our success. We are focused on continuing to advance toward net zero emissions, achieving our water quality goals and taking the necessary steps to ensure long-term environmental stewardship in the Elk Valley. And we are committed to strong engagement with local indigenous nations and continuing to strengthen this important and long-term relationship.

Turning to slide 14. [indiscernible] (00:14:41) truck productivity is a key driver of our competitiveness. What the table on the left shows is the continual improvement we've been able to achieve to improve the efficiency of our trucking fleet. We've done this by putting in place a series of systems focused on maximizing productivity. This includes technology platforms that provide real-time feedback to operators, sensors that help shovel operators ensure every truck has maximum payload, and utilizing things like data analytics to improve truck availability. As a result of these kind of initiatives, we have increased truck productivity by 20% from 2012 to 2022, delivering an estimated \$150 million in annualized cost savings.

As we look ahead, we believe the next step change will come through our decarbonization strategy, particularly trolley-assist, which has the potential to increase uphill haul speeds. Our focus on truck productivity is core to maintaining our competitive cost structure.

Looking at our processing plants, again, we are increasingly leveraging new technology to improve performance. For example, at our Greenhills operations, we are using advanced analytics to examine huge quantities of data of past op and provide real-time recommendations to optimize performance.

Advanced process control takes this a step further and automates the application of these recommendations. Together, the use of these low capital technologies has helped us debottleneck our dryer at Greenhills, increasing yield by 2% and throughput by 5%, creating significant value. Across our processing plants, we are pursuing multiple opportunities like this to eliminate bottlenecks and improve performance.

Turning to slide 15, and our continued focus on sustainability. EVR will maintain our existing goal of net zero emissions at our operations by 2050, and we're starting from a strong position. The carbon intensity for our steelmaking coal production is already amongst the lowest in the industry. This is due in part to our operations being located in British Columbia, where electricity is provided from renewable hydroelectric power.

Looking at the graphics on the side here. With the projects we have completed in flight or under development, we have a clear roadmap to support our work towards achieving net zero at our operations. Two core activities in the roadmap include the deployment of trolley-assist and mechanical de-watering at our dryers. In both cases, these projects will not only reduce emissions, but have potential to create significant value through faster uphill hauls and increasing yield and throughput in our plants.

We also have agreements in place with Caterpillar to deploy 30 zero emission trucks by 2030. And as Robin commented on earlier, our product itself is also important to decarbonization. Our high-quality steelmaking coal is sought after by steel producers to reduce emissions in the steelmaking process.

Turning to water quality on slide 16. For those of you who may not be familiar, there have been over 100 years of mining in the Elk Valley. This has created a legacy challenge associated with the large volumes of waste rock that have accumulated over decades. That rock contains naturally occurring substances such as selenium, an element that is essential for human and animal health in small amounts. When water flows through this rock, it carries selenium into the watershed and a precedent high enough concentrations can have adverse effects on the aquatic environment.

In 2014, the Elk Valley Water Quality Plan was developed in cooperation with governments, indigenous peoples and other stakeholders to address this challenge, and it was approved by the BC Ministry of Environment. We've now reached a major milestone in the implementation of that plan, as we have built 77.5 million liters per day of water treatment capacity. With that capacity now in place, we expect to achieve a primary goal of the Elk Valley Water Quality Plan of stabilizing and reducing selenium trend across the watershed.

Going forward, we'll be bringing further treatment online, as showed on the slide here. And with that, we expect to see continued material improvements in water quality throughout the watershed.

Turning to 17, and looking at long-term environmental stewardship. We know that strong environmental performance in our steelmaking coal business is essential to meeting the expectations of regulators and local indigenous peoples, and in turn, to the long-term future of the business. The separation provides an opportunity to create a new kind of vehicle to responsibly manage our long-term environmental obligations and strengthen confidence and trust with those key stakeholders.

The Environmental Stewardship Trust will be established to set aside cash in trust over time to fully fund long-term environmental obligations. The trust will grow over time with annual contributions from EVR starting at \$50 million, in priority to the Transition Capital Structure payments. The Environmental Stewardship Trust is an investment in the future of the business, replacing credit with hard cash, which will strengthen confidence and certainty with regulators, indigenous nations and key local stakeholders.

With that, I'll now pass it over to Réal, who will provide an update on the steelmaking coal market and an overview of the market and logistics for EVR.

Réal Foley

Senior Vice President-Marketing & Logistics, Teck Resources Limited

Thanks, Jeff, and hello, everyone.

Turning to slide 19. Steel is required for infrastructure development and to support electrification and decarbonization, and steel is 100% recyclable. While a portion of steel decarbonization is expected to come from incremental EAF production, there is insufficient scrap to meet projected steel demand. With more than 2 billion

tonnes of installed blast furnace capacity globally, carbon capture, utilization and storage is the only economically viable technology that can be adopted with speed and scale. Material impact of green steel technologies is not expected until well beyond 2050.

Premium hard coking coal, which makes up 75% of EVR's product mix, generates 5% to 30% lower CO₂ emissions in blast furnaces. As such, steelmakers are expected to increase the use of high-quality hard coking coal to meet decarbonization targets.

While most of the growth in steel and steelmaking coal demand is expected to come from India and Southeast Asia, overall supply remains constrained by factors including limited resources on high-quality hard coking coal, lack of investment and permitting challenges. By 2040, a supply gap of around 120 million tonnes of steelmaking coal is expected, highlighting the value of EVR as confirmed by Nippon Steel's investment.

The chart on the left of slide 20 illustrates the supply gap developing from 2025 as a result of existing mine depletion and lack of new projects coming into production. Further, most of the new projects are focused on lower grade coals, given a lack of high-quality hard coking coal resources. As mentioned earlier, most of the demand growth for seaborne hard coking coal is forecast to come from India and Southeast Asia.

India plans to expand steelmaking capacity to 300 million tonnes per annum by 2030, and a number of countries in Southeast Asia are building new blast furnace units. This is expected to more than offset the slight drop in demand from a few of the other countries, as shown on the chart on the right.

Turning to slide 21. With 65% of China's blast furnace capacity located along the coast and to meet its decarbonization targets, seaborne imports of high-quality hard coking coal are expected to remain well above 30 million tonnes per annum. Further, while domestic coking coal makes up 85% to 90% of China's annual requirements, production is restricted by reserves, quality and limited supply.

On the demand side, blast furnace utilization has been increasing steadily post Lunar New Year, reaching 89.3% for the week ending March 24 and averaging 85.6% for 2023 year-to-date versus 84.5% for full-year 2022. Reports indicate that the ban on Australian coal imports has been lifted, but volume has been minimal to-date due to slow customs clearance and a negative price arbitrage. Such lifting is not expected to materially impact seaborne pricing as the overall demand supply remains tight, especially for high-quality hard coking coal.

As shown on slide 22, hard coking coal prices have been resilient, averaging above the \$180 per tonne during the last decade. Strong prices in 2010 to 2012 led to a resumption in production from shuttered coal mines and spurred capacity growth at existing coal mines. This overinvestment led to a sustained period of lower prices in 2013 to 2016. Despite the current high price environment, the market has not seen the same level of investment interest in coal mine development as it has historically.

Looking ahead, projected development capital by the industry is expected to decrease by over 60% compared to the peak of the last cycle according to Wood Mackenzie. This should keep the hard coking coal market well supported from the supply side as demand for high-quality hard coking coal is expected to continue well beyond 2050.

Turning to slide 23, steel mills seeking to increase efficiency and lower carbon emissions will look to increase the mix of high-quality hard coking coal in their blends.

Coals that produce coke with high strength ratios allow for more efficient burn, supporting a reduction in fuel rates, and therefore, emitting less carbon per tonne of steel produced. Many of the new blast furnaces built or being built in India and Southeast Asia seek out coals with high CSR and low reactivity.

75% of EVR's production is comprised of high CSR coal with high coking strength, making it an ideal product that competes well with high-quality steelmaking coals from Australia. Our marketing strategy aims to diversify our sales across multiple geographies and the mix of spot versus contract prices in order to maximize our realizations. Over the last 10 years, EVR averaged a 92% realization against the FOB Australia benchmark. In 2022, our average price realization was 98%.

EVR has a resilient supply chain with outlets at three West Coast ports providing flexibility and optionality, as illustrated on slide 24. EVR has 100% ownership of the recently expanded coal handling facilities at Neptune Terminals. With capacity of more than 18.5 million tonnes per annum, Neptune is EVR's primary terminal and supports lower port costs and increased flexibility of the logistics stream.

Our Westshore contract allows for volume of 5 to 7 million tonnes per annum and extends through the end of 2027. At Prince Rupert, we have a 6 million tonne per annum contract with Trigon that expires at the end of 2027. This terminal provides sprint capacity and allows for volume recovery.

Commercial agreements with CP and CN Rail are in place to support the movement of trains to the ports. Our current agreement with CP expires near the end of April, and negotiations for the new agreement are nearing completion. The agreement with CN expires in Q4 2026.

The port and rail optionality in our logistics network ensures resilience in our supply chain and provides numerous value accretive opportunities to meet the demand of our diversified long-term customer base.

I'll now pass it over to Ryan who will provide a financial overview of EVR.

Ryan Podrasky

General Manager-Finance & Operating Excellence, Teck Resources Limited

Thank you, Réal, and good morning, everyone.

Starting on slide 26, as Robin noted earlier, our steelmaking coal business has a proven track record of profitability. We have an incredible business that has been resilient throughout various price cycles. Over the last five years, we generated an average annual EBITDA of \$3.6 billion after adjusting for impairments and an average EBITDA margins of 52%. Like others in the industry, we faced major workforce challenges in 2020 when the global pandemic hit. Nevertheless, we were able to maintain our unit costs despite lower production compared to the prior year.

The increase in our capitalized stripping in 2022 was driven by inflationary pressures and the permitting delay for the Fording River Extension, which impacted mine sequencing at the north end of the valley. Despite this increase, our total capital spend in 2022 decreased compared to the previous two years. And despite the volatile external factors which are out of our control, the agility and resilience that we have built into this business has allowed us to control costs and maintain our position in the top quartile of the margin curve for the industry.

Turning to slide 27, I'll provide an update on EVR guidance. Earlier in January, we announced our 2023 guidance. Our annual guidance contemplates production of 24 million tonnes to 26 million tonnes and the unit costs to

remain at levels similar to 2022, largely a result of inflationary pressures. At \$1.5 billion, 2023 is a high watermark for capital expenditures, driven by a peak period of stripping and sustaining capital, which I will detail in a minute.

Looking ahead, including the impact of the consolidation of partnership and minority interest in Greenhills and Elkview, we expect annual production to increase to 25 million tonnes to 27 million tonnes over the next three years. Further, we anticipate unit costs to stabilize by 2025 as we come out of a high inflationary period and as global supply chains normalize.

From a capital investment perspective, we expect sustaining capital to remain elevated until 2026, and this is driven by continued investment in water treatment and to sustain future production. We are investing in pit development activities, specifically a three-year project to relocate the administrative maintenance complex at our Elkview operations. And this is in order to access high-quality steelmaking coal resources which lie underneath this complex. Overall, we expect capital spend to normalize beyond 2026 to approximately \$1 billion per year.

All industries, including the mining industry, continue to feel the impact of the inflation and the supply chain constraints. As you can see on the left-hand chart of slide 28, there has been a significant upward shift in the industry cost curve over the last two years. Inflation has increased the cost of energy, operating supplies, transportation and overall labor. Additionally, higher absenteeism and labor shortages following the global pandemic continue to have an impact on productivity and production rates, contributing to the higher unit costs.

Notably, hard coking coal producers at the 50th percentile of the cost curve have seen a 74% increase in unit costs over the past two years, according to Wood Mackenzie. This compares to the 30% increase we managed with our Coal business over that same period.

On the right-hand chart, you can see the strong correlation between the FOB Australian benchmark price and the 90th percentile cost for hard coking coal. Echoing Réal's earlier comments, we expect rising industry cost to provide continued support for a robust pricing outlook.

Turning to slide 29, the flexible operating strategy of this business drives optionality and resilience. Our objective is to maximize cash flow, protect our margins and our mining business for the long term. When the price of coal is high, we aim to maximize and bring on additional production to drive EBITDA and cash flow generation. While costs remain a key focus in a high price environment, we may choose to strategically invest to generate additional production in order to meet market demand.

For example, we will use higher cost equipment where necessary. We will utilize contractor labor to ensure we made high availabilities in the plants and increase availabilities on our mobile equipment. We'll look at strategies like intersite processing between all of our operations to generate additional production where we have that plant capacity. We invest in risk mitigation, both in capital and operating costs to mitigate potential issues, in order to protect production and create that optionality and flexibility in our mines.

On the contrary, in a low coal price environment, our focus shifts to cost reduction and deferrals to protect those margins and deliver maximum cash flow. We demonstrated our ability to do this effectively in the downturn of 2013 to 2016. And through this period, we implemented a hiring freeze, reduced contractors and idled high cost equipment.

As you can see on slide 29, we were able to deliver strong cash flows despite this very challenging environment. And most importantly, we were well set up to capture full value when the market turned around in late 2016 and 2017.

Turning to slide 30, the separation transaction was structured in a manner which safeguards EVR's resilience. TCS payments are calculated based on free cash flow to provide the flexibility and ensure EVR remains financially resilient through the cycles.

Take 2022, for example. We generate \$ 6.6 billion of cash flow from operations. Assuming the TCS was in place, after deducting capital, Environmental Stewardship Trust investment and preferred dividends, EVR would have generated \$5.2 billion of free cash flow. And in this example, EVR common equity holders would be entitled to 10% of free cash flow or \$520 million.

According to the waterfall, shareholders would receive a minimum of \$265 million of cash returns between the base dividend and supplemental returns, with \$255 million of cash remaining on the balance sheet. As Robin noted, in the absence of growth and no debt, this residual amount could be considered for additional returns for up to \$520 million in total cash returns to shareholders.

At the same time, EVR would have paid out \$4.7 billion in royalty payments, 87.5% or \$4.1 billion of which would have accrued to Teck Metals. The \$4.7 billion in total royalty payment would have the effect of reducing the royalty liability and increase in the value of the EVR common equity.

On the other hand, under a scenario where we see extremely low coal prices and our cash balance falls below the \$250 million in any given quarter, it's important to note that EVR is not obligated to make TCS payments. The minimum cash balance ensures EVR's resiliency during periods of low steelmaking coal prices.

Turning to slide 31, let me shift gears for a moment to address some of the accounting questions on the transaction.

The Transitional Capital Structure is made up of two key components: the royalty and preferred equity. The royalty will be recorded on the EVR balance sheet as a financial liability and marked-to-market on a quarterly basis as royalty payments reduce the balance. Royalty payments will not be recorded on the income statement, but accounted for in our adjusted EBITDA and adjusted earnings.

Similarly, the preferred equity will be recorded as a financial liability on a balance sheet at \$4.4 billion book value. However, the pref dividends will be expensed on the income statement. After the royalty has been terminated, 90% of our free cash flow will go towards redemption of the prefs. The redemptions will not be recorded on the income statement, but accounted for in our adjusted EBITDA and adjusted earnings.

At a high level, there are no changes to the federal income tax of 27% nor the 13% BC mineral tax that we incur today. What's different as a result of the transaction is that EVR can deduct royalty payments for federal income tax purposes. We'll continue to pay BC mineral taxes at the statutory rate.

Now, before I hand the call over to Helen to walk through the modeling of EVR, I'd like to address the question of why an investor would choose to own EVR today.

Turning to slide 32. In addition to what could be very attractive dividend yields in the short term, investors have exposure to significant equity accretion potential. After the termination of the TCS, the cash flow attributed to EVR's shareholders increases 10 times from 10% of free cash flow to 100%. Every dollar of TCS payments reduces the liability and increases the value of EVR common equity.

As Robin noted earlier, we are fully aligned with Teck Metals to ensure the quickest path to full separation. At benchmark hard coking coal prices of approximately \$210 per tonne, we would expect the royalty to be terminated in 5.5 years at the end of 2028. At that time, we'll have the ability to refinance the preferred shares to accelerate the separation and regain access to 100% of our free cash flow. This is expected to drive significant value accretion potential for our shareholders.

With that, I'll turn the call over to Helen.

Helen Kelly

Director-Investor Relations, Teck Resources Limited

Thank you, Ryan, and thank you to everyone who took time to join us this morning.

During the last month, we've been asked a number of times about how investors should value EVR. We thought it might be helpful to start with what we believe is an appropriate set of costs.

Turning to slide 34, we benchmarked EVR's 2022 performance against a set of select group of pure-play [ph] nickel (00:39:27) producers, including Warrior, Alpha and Arch in the US and Coronado in Australia. Against this peer group, the sheer scale of our operations is evident.

On a 100% attributable basis, EVR's production is 40% higher than our closest peer. Further, as a result of our high-quality product mix and our market diversification strategy, our average price realization is notably higher than the group at 98% of the FOB Australia benchmark in 2022. This, in combination with our first quartile performance on the margin curve, grew significant EBITDA and free cash flow outperformance versus the peer set.

Our peers have traded in the range of 2.5 times to 4.5 times EBITDA, with implied free cash flow yields of 4% to 20%. Even on a 10% attributable basis at inception, we believe that EVR is well positioned as a premium pure-play steelmaking coal producer.

Slide 35 provides a few illustrations of how to model EVR's equity. The first method starts with \$11.5 billion dollars enterprise value, which was validated by the NSC transaction and the average sell-side NPV estimate for Teck's Coal business unit.

To arrive at the implied EVR equity value, we need to subtract the net present value of the royalty, the book value of the preferred, and add back cash and subtract leases. In the table on the top left, we show the sensitivity of implied equity value at various discount rate assumptions under this valuation method.

EVR is expected to report the fair market value of the royalty discounted at 5% on our balance sheet. However, analysts typically apply an 8% to 10% discount rate to mining cash flow. Applying the various discount rate assumptions, this method results in an illustrative range of \$1.5 billion to \$2.3 billion value for the EVR equity.

The second method is to apply a multiple against EVR's attributable EBITDA as shown on the chart in the bottom left. In surveying the detailed assumptions of our sell-side analysts, we make our 2024 consensus EBITDA for Teck's Coal business to be approximately \$3.9 billion. This is based on an average benchmark price of \$237 per tonne. Taking 10% of EBITDA as a proxy for free cash flow, we arrive at roughly \$400 million for EVR 2024 EBITDA.

Based on the results from our peer comparison on the previous slide, we then applied a range of multiples. Assuming multiples in a range of 2.5 to 3.5 times, we arrive at an implied equity value between \$1.1 billion to \$1.5 billion.

Finally, as many of you have done, you can build a discounted cash flow model. The DCF should take into the account the annual royalty and preferred equity payments in determining cash flows attributable to EVR common equity, to which you would apply your own assumptions on the appropriate discount rate and duration of these cash flows, the latter, which is typically tied to the length of our reserves. Unsurprisingly, the DCF method would likely return the highest equity value for EVR based on your assumptions. While we do not have time to walk through the full DCF on the call today, my team and I would be happy to work with you on your models separately. As typical, we would expect analysts to use a blended approach based on a number of these methods in arriving at a target price.

Before I move into the detailed modelling session, I want to highlight a few housekeeping items related to the planned trading of EVR on slide 36. As Robin noted at the outset, pending shareholder approval of the transaction on the 26th of April and the close of the transaction at the end of May, EVR has applied to and expects to commence trading on the TSX and NYSE, subject to approval by each of these exchanges. Our expected ticker symbol on both exchanges will be ELK.

Right out of the gate, EVR is expected to inherit Teck's TSX Composite membership as a spin-off of an incumbent. It's customary this would be subject to quarterly rebalancing on a go-forward basis. Our current estimate for official trading is 8th of June.

I will now shift gears to walk through more detailed modelling of EVR cash flows, including the mechanics of their TSC payment and the impact of tax.

Starting with revenue on slide 38. As a pure-play company, EVR's revenue model is fairly straightforward. Beginning with sales, sales is generally expected to mirror production in the long term. The numbers shown here are historical from 2020 to 2022 and exclude the impact of consolidated minority interest. We will refer you to our production guidance on the right of the slide as a starting point. From here, you need to make assumptions for realized price.

At a high level, our realized prices have averaged 92% of the FOB Australia benchmark over the last 10 years. At any given quarter, however, you can arrive at a more detailed estimate by applying roughly 40% of sales against the FOB Australia Index price like by month and 30% of sales against the FOB Australia Spot. The remaining 30% of sales are currently sold to customers in China, which realizes the CFR China benchmark like ocean freight. Freight has averaged between \$20 to \$30 in the past year. By multiplying sales volume and the realized price, we've arrived at revenue.

Next, we calculate the cost of sales. Teck and EVR in the future provide annual guidance on adjusted site cash cost of sales and transportation costs. The guidance for 2023 is shown on the right-hand side of slide 39. Multiplying per unit costs as sales volume gets up to site operating costs and transportation costs. To this, you add depreciation and amortization. The sum of which is the cost of sales.

From here, we move to slide 40. After calculating revenue and cost of sales, we now need to model other operating expenses, which include G&A and R&D. We suggest using Note 3 of Teck's 2022 Q4 financial statements as a starting point. More information will be provided in a circular, which will be available next week. In

the meantime, we suggest modelling EVR G&A at a run rate of approximately 40% to 50% of Teck's G&A, which totaled \$236 million in 2022.

For research and innovation expenses, you can initially apply a similar range of 40% to 50% on Teck's 2022 actual, which was \$67 million. We expect research-related expenditures to decline over time as we complete our water investments. Other operating expenses are primarily driven by pricing settlement adjustments. These adjustments fluctuate from quarter to quarter. Finally, subtracting cost of sales and other operating expenses from revenue will arrive at EBITDA.

Turning to slide 41. As Ryan noted earlier, there are no changes to the rates of federal income tax nor the BC mineral tax that the Coal business unit incurs today. However, as a result of the separation, there are two material tax items for your consideration. The first is EVR's ability to deduct royalty payments for income tax purposes. And the second, a \$1.65 billion underappreciated capital cost pool at inception, which is deductible at 25% per year on a declining basis and increases over time by the amount of future sustaining capital additions.

To calculate BCMT, we start with EBITDA. Deduct capitalized stripping and sustaining CapEx and multiply by 13%. For income taxes, you start with EBITDA, deduct capitalized stripping, CCA deductions, royalty payments and the BCMT payments to arrive at the tax base, to which we apply a 27% income tax rate. Together, income tax and BCMT gets us to current taxes payable.

The next step is to build up to free cash flow. While the circular will provide a more detailed definition, we have provided a simplified illustration here on slide 42. Starting again from EBITDA, we deduct current taxes and working capital to arrive at cash flow from operations. You then subtract CapEx, EST contributions and preferred dividends to arrive at free cash flow. The right-hand side of slide 42 details the guidance to each of these specific items, to which Ryan and Jeff spoke to earlier.

As a number of analysts have noted, you will run into circular references when modelling the free cash flow. Royalty payments based on a percentage of free cash flow are deductible for income tax purposes, and you will need to calculate tax in order to arrive at cash flow from operations, which is an input to free cash. You will need to model these pieces separately before bringing them together.

Now that the free cash flow is determined, we can move on to the TCS components on slide 43. First, the royalty is paid. The royalty has an opening amount of \$7 billion and will be paid from 90% of EVR's free cash flow. You will need to model the [ph] later (00:49:18) of \$7 billion in total payments against the minimum term of the royalty, which is year-end 2028. After the royalty is terminated, 90% of EVR's free cash flow shifts to redeeming the preferred equity, which has a book value of \$4.4 billion. Together, the royalty and the preferred equity redemptions total our TCS payments, 87.5% of which is payable to Teck Metals and the remainder to Nippon Steel and POSCO. After the preferred equity has been redeemed, 100% of our free cash flow will remain at EVR.

Turning to slide 44. The remaining 10% of free cash flow is then attributable to EVR common equity. At inception, EVR will pay \$0.20 per share dividends, which at approximately 59 million shares will equate to roughly \$12 million per year. A minimum of the 50% of the remaining cash flow available after paying the base dividend will be distributed to shareholders as supplemental returns. Finally, the residual cash could be considered as additional returns for shareholders in the absence of growth or remain on the balance sheet.

To close, we come back full circle to the illustrative cash flow diagram on slide 45. Assuming the \$5.2 billion free cash flow generated by the Coal business in 2022, EVR's shareholders would be entitled to \$520 million of free

cash, from which a minimum of \$265 million to a maximum of \$520 million of cash returns could be distributed to shareholders.

Referring to the range of illustrative valuations on slide 35, EVR has the potential to deliver competitive and very compelling shareholder returns to our peers right out of the gate.

With that, I'll pass the call back to Robin for a brief closing remarks.

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

Thank you, Helen, and thanks again to everyone for joining our presentation and modelling workshop this morning.

To wrap-up, we could not be more excited about this new chapter for EVR. EVR is well positioned as a pure-play, high margin steelmaking coal producer, offering investors exposure to robust steel fundamentals, strong potential cash returns, and significant equity value accretion potential. Increased strategic and financial attention as an independent company will allow EVR to focus on margin optimizing strategies to maximize cash returns for our shareholders. Further, the value of our company and the critical role of high-quality steelmaking coal is validated by the cornerstone investments by Nippon Steel and POSCO in support of their carbon neutral strategies.

As we move forward, EVR will continue to focus on delivering the social and environmental commitments which are essential to our success. This includes advancing towards net zero emissions, achieving our water quality goals, and taking the necessary steps to ensure long-term environmental stewardship for the Elk Valley.

Before we turn it to Q&A, I'd just like to ask that you keep your questions generally to a strategic level and for sure focused on EVR. Helen and her team would be happy to follow-up after this call to answer your more detailed modelling questions.

And with that, operator, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Now, our first question comes from Orest Wowkodaw of Scotiabank. Please go ahead. Orest, your line is live.

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

Oh, my apologies for that. There was a comment earlier about the ability to increase coal production in a high price environment subject to the wash plant capacity of the facilities. Can you remind us what that is?

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

A

Yeah. You would be – I mean, all we think about is the incremental production capacity we may have across those four operations. So, the total capacity of a plant is somewhere – after the separation will be somewhere between \$26 million – sorry, \$27 million to \$28 million. So, consider that the capacity of the operating plants. And so, within that capacity, we would try to maximize the reliability or the availability of those plants. We would try to address anything like raw coal, feed or different things that would incrementally affect the production. So, we're not talking significant changes in production, but we'd be pushing towards the highest possible capacity from those four operations.

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

And given we're still in a very elevated coal price environment, is that something that we should anticipate near term, that you could crank up production higher than, call it, the current three-year guidance for the Coal business and volume?

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

A

The way I'd illustrate that is, this past three years, we've had significant challenges both externally and we had some challenges last year with the Elkview plant when we had the issue with the conveyor. And we're still in a period where we're struggling somewhat with getting our labor forces up to speed, as the rest of the world is. So, the only reason I want to give you those considerations is our intention is to push as much coal through those plants as we possibly can. And the guidance that we've provided is our best sense of balancing those external factors and the internal factors to give you an idea of that range. But I can assure you at these kind of pricing levels, we are trying to push as much coal through the plants as we possibly can.

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

Thank you.

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

A

And I mentioned as well – sorry. I'd just mentioned one thing. We've – coming out of last year, obviously, the Elkview plant was a concern for us. That plant is running exceptionally well right now, so we're back to a strong operating performance at the plant level. It's just a matter of pulling it altogether now.

Orest Wowkodaw*Analyst, Scotia Capital, Inc.*

Longer term, will you consider expanding capacity?

Robin B. Sheremeta*Senior Vice President-Coal Operations, Teck Resources Limited*

No. Longer term, those four operations, our focus – I'll frame it for you this way, and I'll probably say this several times to this call. We're laser focused on paying this royalty off with the existing assets and production capacity we have. So, that production capacity, without taking any risk or extending ourselves anywhere, is going to give us the best opportunity to pay the royalty off within that 5.5-year term. So, apart from that incremental drive, like we'll continue to drive as much coal to the plant because obviously that contributes to that strategy, but we have no intention of expanding beyond that.

Orest Wowkodaw*Analyst, Scotia Capital, Inc.*

Thank you.

Operator: Our next question comes from Alex Terentiew of Stifel GMP. Please go ahead.

Alex Terentiew*Analyst, Stifel Nicolaus Canada, Inc.*

Hi, everyone. Thanks for putting this presentation deck together. Very helpful. First question here. On your guidance here at \$210 per tonne coal, that minimal 5.5-year term of the royalty is triggered. I know you've given guidance for 2023, but can you just give me a little bit more color on the underlying assumptions for that? In particular, I guess, operating costs, I know they're a little bit elevated at the moment using \$200 per tonne coal. I would assume there would be some cost de-escalation, especially as it relates to employee bonuses and things like that. But just any other color there would be helpful.

Robin B. Sheremeta*Senior Vice President-Coal Operations, Teck Resources Limited*

Sure, you bet. Thanks, Alex. I would frame 2023, we've pretty much seen the bulk of inflationary costs now built into our cost structure so – or into our current costs. So, if we saw any kind of reduction in diesel pricing or different commodity things that would affect our business, I would expect our cost to come down. Our structural costs are primarily linked to production and our strip ratio. And our strip ratio stays consistent across these next five years, and obviously, we're shooting for 25 million to 27 million tonnes of coal production annually.

So, generally, the structural piece of cost is quite consistent and quite constructive. It's really a factor of whether or not inflation continues to increase or starts to go down. I mean, we anticipate that it'll start to moderate here over the next few years, but that's probably what I can tell you about costs.

Alex Terentiew*Analyst, Stifel Nicolaus Canada, Inc.*

Okay. And I don't remember which slide it was [indiscernible] (00:58:33) that you presented on, but you talked about capital costs for the next several years. When you talked about that number, were you referring to – or were you including deferred stripping in that?

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

Yes, yes.

Alex Terentiew

Analyst, Stifel Nicolaus Canada, Inc.

Yeah. Okay, okay. And just one follow-up question, if I may. The sale of Quintette to Conuma that was announced in December, that had some stage payments and royalty should the project ever go into production. Is that staying with Teck Metals or is that going with EVR?

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

No. It stays with Teck Metals.

Alex Terentiew

Analyst, Stifel Nicolaus Canada, Inc.

Okay. All right. Thank you.

Operator: [Operator Instructions] Our next question comes from Lawson Winder of Bank of America Securities. Please go ahead.

Lawson Winder

Analyst, Merrill Lynch Canada, Inc.

Hi, Robin and team. Thank you so much for doing this call. This is fantastic. A year ago or so, you guys were highlighting a fleet electrification program at the Elk Valley starting in 2027. My question would be, is that still happening? And is that – is the cost of that factored into the \$1 billion per year CapEx guidance? Thank you.

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

The answer is that it is still happening, and it's part of that agreement we have with Caterpillar to develop the next electrified fleet. That process has a number of stages to it, so they have to be able to demonstrate the actual equipment in an operating sense. And so, as you get through those different stage gates, that process advances along. So, I would say, generally, that's all built into the capital plan because it is staged out and it's really not going to take like a significant effect until probably five years out.

Probably, the more – the strategy that will likely come try to pull in a little bit earlier as a pilot is trolley-assist because we think that's going to be complementary, obviously, to battery technology. So, those two strategies are the two that we're pursuing from the de-carbonization bill. But definitely, that pilot is still progressing with Caterpillar.

Lawson Winder

Analyst, Merrill Lynch Canada, Inc.

And that all fits into the \$1 billion or is that incremental to the \$1 billion?

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

That's all part of the \$1 billion.

Lawson Winder

Analyst, Merrill Lynch Canada, Inc.

Got it.

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

And the \$1 billion. I mean, I just want to mention. That's the target. That's the objective. We know we're in a high capital period over the next three years, essentially. But the plan is to bring that down and manage the business with \$1 billion cap across all the different aspects we would anticipate around capital. So, that would be included in that consideration.

Lawson Winder

Analyst, Merrill Lynch Canada, Inc.

Got it. Understood. Thank you very much. I wanted to ask about the conveyor belt issue – or, I mean, the whole issue around the conveyor. I mean, to me, it seemed like that might have happened because the asset was being run really hard and maybe too hard. And so, my question would be, I mean, do you have any pushback on that statement? Like, is that a fair or unfair characterization? And to what extent might – there could be other sort of similar unforeseen things as a result of the extent to which the asset is being pushed?

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

Yeah. Fair question, Lawson. Like, I would say, first of all, that event occurred because of a number of different factors, not the least of which is that infrastructure was built in the 1970s and the engineering, I guess, design at that time isn't what it is today. And so, after that event, obviously, we went back – we've gone back and evaluated all of the infrastructure that's related to the conveyors, certainly, [indiscernible] (01:02:22) across all the other sites. And steps have been taken, so the design risk around that system has been taken out.

That system is capable of delivering the raw coal that we were feeding at the time. So, as far as running it too hard, that wasn't a consideration. The plant is running – or the conveyor is running within design. I think it's more just a matter of taking all of the different things that were established as potential contributors to that and eliminating those as possible contributors to anything in the future. So, I'm confident that the whole conveyor system at Elkview is now running fine and it's all solid for.

Lawson Winder

Analyst, Merrill Lynch Canada, Inc.

Okay. Fantastic. Another question then, maybe it's kind of a bit specific on cost, but to try and like gauge where you guys might be on a long-term operating cost basis, maybe comparing 2023 guidance versus 2019. So, in 2019, you guys did an adjusted cash cost of about \$64, \$65. Today, you're guiding to \$88 to \$96. So, let's just call it \$90 for round numbers. So, I mean, that's a CAD 15 per tonne increase, roughly.

Is that – can you help us just understand what proportion of that is things that can – that get given back if the diesel price goes down or given back if other input costs go down? And what proportion of that is maybe permanent?

Robin B. Sheremeta*Senior Vice President-Coal Operations, Teck Resources Limited*

A

Yeah, you bet. I'm going to pass that to Ryan because he will be able to speak to this in more detail. And I'll just give you – I'll go back to what I said earlier around the structural costs and what's happened to the industry, and Ryan will fill in some of the numbers on that.

But really, the structural costs of our business haven't changed from 2019 through now in terms of strip ratio and production capacity. And those are the two absolute key drivers to our operating costs. So, you do have inflationary effects that are structural, like wage increases for employees, things like that. But generally, the structure of that business, the cost structure is consistent forward as it's been for the last few years. So, it really is an inflation effect.

And, Ryan, can you just maybe give a bit more color on that?

Ryan Podrasky*General Manager-Finance & Operating Excellence, Teck Resources Limited*

A

Yeah. Thanks, Robin, and thanks for the question. And just building up what Robin has articulated, 2023 has elevated costs, which is impacted by inflationary pressures. And like Robin mentioned, strip ratio is the most sensitive and that's stable over the next 10 years, which will allow us to control our cost.

And it's important to note, when you look at the hard coking coal producers at that 50th percentile, as I mentioned earlier, on the cost curve, they're seeing a 74% increase over the last two years compared to our 30%. So, you can assume our cost would come down as the macro environment changes.

Lawson Winder*Analyst, Merrill Lynch Canada, Inc.*

Q

Yeah. Sorry, I did my math wrong there. \$25 is the difference between \$90 and \$65. Sorry about that.

Thank you for your comment. And then finally, I just wanted to ask on the calculation of the value of the royalty. From whose perspective is that being done? Like, when you guys get to the CAD 5.4 billion valuation at an 8% discount rate, is that on an after tax basis? So, are you accounting for the fact that Teck Metals will be paying the tax on that, or is that deducting a tax payment?

Robin B. Sheremeta*Senior Vice President-Coal Operations, Teck Resources Limited*

A

Ryan, why don't you carry on with that one?

Ryan Podrasky*General Manager-Finance & Operating Excellence, Teck Resources Limited*

A

Yeah. Thanks, Robin. I got Edward here. He's going to provide some color to that.

Edward C. Dowling*Corporate Director, Teck Resources Limited*

Yeah. So, that is from the EVR perspective, that valuation.

A

Lawson Winder*Analyst, Merrill Lynch Canada, Inc.*

Got it. So, that would basically just be your free cash flow number multiplied by 90% discounted at 8%?

Q

Edward C. Dowling*Corporate Director, Teck Resources Limited*

Correct.

A

Lawson Winder*Analyst, Merrill Lynch Canada, Inc.*

Okay. Great. Thanks so much.

Q

Helen Kelly*Director-Investor Relations, Teck Resources Limited*

And, Lawson, just to build on that just slightly here. The discount rate of 5% is based on a market assessment of what a similar financial instrument would have yielded in the current market at the time of the transaction. So, that was one of the rationale for that.

A

Lawson Winder*Analyst, Merrill Lynch Canada, Inc.*

Okay. That makes sense.

Q

Edward C. Dowling*Corporate Director, Teck Resources Limited*

Yes. But certainly, I imagine the discount rate could be even lower [ph] held (01:06:47) in a vehicle like a Franco-Nevada or something like that. So...

A

Lawson Winder*Analyst, Merrill Lynch Canada, Inc.*

Fair point. Thanks. Thanks a lot for that, Helen.

Q

Operator: Our next question comes from John Tumazos of John Tumazos Very Independent Research. Please go ahead.

John Charles Tumazos*Analyst, John Tumazos Very Independent Research LLC*

Thank you very much for this presentation. It's really great.

Q

In your market outlook to 2040 with 120 million tonne supply gap, about half of it appears to be more blast furnaces and about half of it appears to be declining, depleting, not replaced in the coal output. In the 60 million tonnes of more blast furnaces, how much is the gross amount of more blast furnaces? And how much is it

reduced by companies switching to electric furnace or shutting their blast furnaces? In the US and Canada, three of the five companies with blast furnaces are replacing them.

Robin B. Sheremeta*Senior Vice President-Coal Operations, Teck Resources Limited*

A

I'm going to give that to Réal, who will be able to give you everything you need to know about that question.

Réal Foley*Senior Vice President-Marketing & Logistics, Teck Resources Limited*

A

Yeah. Thanks for the question, John. I guess, the way we're looking at demand supply, first of all, on the supply side, you're right. There is a large depletion in existing mines and very few projects are actually being built to replace that capacity, especially for higher-grade hard coking coal.

Now, on the blast furnace side, like I said in the presentation, we're not seeing a huge impact from green steelmaking technologies until well after 2050. Now, there will be – there are steel mills shutting down. Blast furnaces, it's actually a small number compared to the new blast furnaces that are being built in Southeast Asia and India. There is some replacement happening with electric arc furnace technology, which exists as well. But what you need to keep in mind when you're looking at EAF is scrap supply is actually limited. So, yes, there is some replacement happening, but it is limited by scrap supply.

John Charles Tumazos*Analyst, John Tumazos Very Independent Research LLC*

Q

So, Réal, is it fair to say that you didn't consider growth in direct reduced iron or a greater proliferation of 50% government funding, such as the two conversions in Ontario?

Réal Foley*Senior Vice President-Marketing & Logistics, Teck Resources Limited*

A

Yeah. I think this is all factored into this this WoodMac model. I mean, this is their figures. We agree roughly with them. But of course, there is some DRI coming on as well. But again, DRI is limited by a high-grade iron ore. That's what is required to efficiently produce DRI product.

John Charles Tumazos*Analyst, John Tumazos Very Independent Research LLC*

Q

Thank you.

Operator: Our next question comes from Orest Wowkodaw of Scotiabank. Please go ahead.

Orest Wowkodaw*Analyst, Scotia Capital, Inc.*

Q

Oh, hi. Thanks for taking the follow-up. Robin, I'm curious, in the event that coal pricing stays elevated for the next couple years and the \$7 billion – you effectively reached that \$7 billion payback on the royalty ahead of the end of 2028 expiry. Do you have the full ability to effectively crank up CapEx spend in terms of building the business to reduce what's left of the royalty? Are there any constraints on you with respect to how you're managing CapEx spending?

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

A

There's no constraints other than the fact we can't invest outside of the Elk Valley or different industries, things like that, as part of the covenant. So, in that sense, there's no constraints. But I can tell you how I'm thinking about it, and that's – those would be extraordinary times, obviously. They'd be great times for Teck shareholders because they'd be enjoying a strong royalty continuation payback, and they'd be great times for Elk Valley Resources shareholders because that 10% cash flow would still be generating significant dividend return or whatever form that goes back to shareholders. So, I'd first say that.

And then I'd say that any capital that we ever consider in this business would follow the same principles. It has to have strong return. It has to be approved through the board of directors. We would never invest capital in any way that wouldn't deliver...

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

Do you still hear me?

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

A

Yes, go ahead.

Oh, sorry. We just had an interruption here for a second. So, nothing we would do would be different in terms of how we would approach our capital strategies. And that's probably the best way to frame it.

Orest Wowkodaw

Analyst, Scotia Capital, Inc.

Q

Thank you very much.

Operator: I will now hand the call back over to Ms. Kelly for closing remarks.

Helen Kelly

Director-Investor Relations, Teck Resources Limited

Thank you, Ariel, and thank you once again for everyone who joined us today. As a reminder, the team and I are available for follow-up if you have any remaining questions.

Robin B. Sheremeta

Senior Vice President-Coal Operations, Teck Resources Limited

Thank you.

Operator: This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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