PARTICIPANTS

Corporate Participants

Donald R. Lindsay – President, Chief Executive Officer & Director, Teck Resources Ltd.

Other Participants

Orest Wowkodaw – Analyst, Scotia Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Orest Wowkodaw, Analyst, Scotia Capital, Inc.

Hi. Welcome back. I'm joined next by Mr. Don Lindsay, President and CEO of Teck Resources. Welcome, Don. Thanks very much for joining us.

Donald R. Lindsay, President, Chief Executive Officer & Director, Teck Resources Ltd.

Thanks, Orest. Great to be here.

QUESTION AND ANSWER SECTION

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Thank you. Now, Teck is one of the few miners out there that actually has copper growth on the horizon. So, I thought maybe today in our fireside chat, we could speak to QB2 as a starting point, and I'd like to get an update from you in terms of how development is going?

<A – Don Lindsay – Teck Resources Ltd.>: Sure. Well, QB2 of course is the center of our growth strategy for the next couple of years. It's progressing fairly well across all areas of the project and remains on track to produce first copper in the second half of next year. We did have several challenges from the second wave of COVID in Chile in Q2 and [indiscernible] (00:01:07) into parts of Q3 as well, but we have passed the two-thirds overall completion point and progressed beyond that in fact. We've actually already started pre-commissioning work on several of the systems, including the desalination pre-treatment plant, and we're in the process of commissioning the first electrical substations as well.

With the level of COVID-19 cases in Chile and then coupled with the country's – and the project workforce high rates of vaccination, we're trying to continue to ramp up to get to full production, but that has been a challenge to get the maximum number of workers that we need. Currently, the project workforce is over 90% fully vaccinated, and in fact, 93% have had at least one dose; so that's good. But we're all watching how COVID develops and it has surprises us all over the world at different times; so, we'll have to keep on top of that.

The biggest schedule risk, I guess, would still be related to COVID because it has its impact on total workforce on the site and productivity of that workforce because you never know exactly who's going to be absent and how that will affect each of the individual work crews.

We've seen some capital pressures, as we indicated in our last quarterly release on the $5.26 billion definitive estimate cost. We think that there's as much as 5% additional contingency needed for that. There's no particular structural changes in the project and so that's good. But just getting it all done, the productivity assumptions and so on, is probably the biggest effect there. And then, [ph] Red (00:02:44), of course, went through some of the other challenges that we've had in terms of the piles in the port and that sort of thing. So far, so good, and month by month completion is happening and second half of next year, we should be producing carbon.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Well, certainly that would be a big inflection point for the company when QB2 is over the finish line. You noted that COVID is probably the biggest risk from a productivity perspective, but from a project-specific perspective, were there any area or two that would you consider to be kind of critical path here in terms of things that need to get done in order to meet your H2 2022 schedule?

<A – Don Lindsay – Teck Resources Ltd.>: Well, the critical path is still the concentrator and the grinding lines, and that has been the case from the beginning, but we've had pretty good progress there; and so that's why we've been able to stay on critical path. Others that would have had more of a buffer in the schedule had some challenges like we've had at the port that we had mentioned before. And we had other challenges along the way in terms of the trenching and laying of pipe. That was behind schedule for a while just because the rock was harder. You couldn't use an excavator. You had to put a blast and those kind of challenges. We had challenges at the tailings management facility that are behind us now. So, that would have compressed their schedules, but didn't get all the way to the point where it was actually the critical path to first copper; it means the concentrator there remains on track.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Perfect. And you're one of the few copper miners that actually has a portfolio of potential copper projects. Most of your peers actually are struggling to find future copper growth. Can you maybe give us your view on how you see Teck deploying those assets over time and what potential sequencing could be post QB2?

<A – Don Lindsay – Teck Resources Ltd.>: Sure. We actually have seven copper growth projects. We're very rich in resources and the seven are the five in project satellite that we've talked about for about three years now, and then [indiscernible] (00:04:56) the 50-50 joint venture with Newmont, and of course, QB3. And the sequence is as follows: the two nearest term are Zafranal and San Nicolas, and then followed by Galore Creek and QB3 or what we call medium-term, and then the others are longer dated. In terms of Zafranal, the final feasibility is complete and we're heading into the permitting process, so that's pretty well advanced. The issue is Peru has had some challenges related to the mining industry generally in terms of some uncertainty and some challenges at different sites across the country, not just Teck Antamina had a challenge for a bit. And I think that just needs to settle down in the next few months before we would make a decision on how to progress in terms of taking on partners.

What we've said and we're committed to is that we're essentially interviewing partners. We're not capital challenged in anyways. We just has clear record income last quarter of $1 billion and $2.1 billion EBITDA, and this quarter should be even better than that, notwithstanding some extraordinary challenges with the floods and so on. But really, we want to be able to rely on partners who have excellent expertise in the geopolitical jurisdictions where the projects are.

And so, in San Nicolas' case, we've been having detailed discussions with a number of parties and we're getting closer to making a final choice there. And the key is that the partner would bring both the financing and expertise so the project get built in a relatively near term to add to our growth profile, while we can just focus on QB2 and QB3 and getting that done because that's just a huge, huge resource that a company could just focus on that, nothing else for 10 years, and that would be a very viable growth strategy. So, basically, using other people's skills and talent and money to get it built, while we retain a reasonable share of 50% or better.

So those are progressing. We hope to be able to announce something – we had hoped to be able to do something by the end of this year. I suspect that it'll be into Q1 of next year before we have any announcements. But, yeah, it's looking good. It's looking like it's just going to add to the step sequence of our growth. So, if you start up QB2 next year and hit full production in 2023, we would hope that a couple of years after that, the next one is coming online. And a couple of years after that, QB3 is coming online, so that you can make your projections right through to the end of the decade and see how far our copper growth will grow. And then, it will be financed and that it won't be a call on big capital for Teck. That this will be a capital light growth strategy. So it preserves our ability to return capital to shareholders.

And we're really excited because with the progress that we've made in the commodity prices in the last few months, it's accelerated our ability to return capital to shareholders. So at the February board meeting – you'd probably asked this question later, but in the February board meeting, we will be doing the calculation according to our capital allocation framework that we published for the last couple of years. And there will be a pretty reasonable number, which we apply the minimum 30% payout to, and its board discretion for whether it's higher than that. But it looks like a pretty good number this year. And then, of course, once Q2 is up and running, it looks like a very good number. So, that's the phase the company is moving into at a high distribution to shareholders.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Absolutely. I mean this sort of record high net core price environment I think is probably, call it, sped up this through deleveraging and return to meaningful capital returns. Maybe we could speak to that for a few minutes. In terms of – I still get quite a few inquiries from investors trying to get their head around what's happened in the met coal market. I'd love to hear your thoughts on why we've gone from bust to boom so quickly in met coal. It feels like at the expense of iron ore at the same time, but love to hear your views on the market and how sustainably you think this higher price environment actually is?

<A – Don Lindsay – Teck Resources Ltd.>: Yeah. Well, it's happened before several times. And the core reason is this that when the markets are weak or slightly oversupplied, the customers, the blast furnaces themselves tend to run down their inventories, right, because they think they can buy a cheaper the next time these cargoes gets cheaper. And then, of course, what happens when the market inevitably tips into under-supply because prices have been too low, different operations would shut down. Then all of a sudden, it's really tight and they can't get a hold of the cargoes that they need, but then they're faced with doing whatever they can to keep that blast furnace going, right. Because if you shut down a blast furnace, it doesn't shut down for a week or two. You're down for six months. Thousands of people are out of work. You'd probably lose your job. So, then, they'll pay whatever it takes to get the coal, to keep the blast furnace going, and particularly, for the higher quality coal, which helps reduce emissions and so on.

And so, you go back 10 years to 12 years and look at the differences when supply became tight, whether it was from a typhoon in Australia, and we're into that season now, and all of a sudden there were floods and they couldn't deliver or whatever. I mean, we're dealing with floods ourselves, it's the same situation. And then, when it starts to rise, it rises quite quickly, $10, $12 a day, and each blast furnace compete with the other to get their supply traders in the middle of it. So, it's happened before.

It all starts in China and in China, of course, things have been very tight there, partly exacerbated by the safety inspections because they have had some safety incidences, there's a number of them, and the government is very serious about dealing with that. And so, they've shut down quite a number of operations, more than 40 closed in one day at that stage. And so that meant the domestic price was quite high. And then so they're going to compare that to the seaborne price and that's going to drive the seaborne price up.

And then, of course, we had the situation between China and Australia, where they stopped imports of Australian coal. Recently, they finally allowed the ships that had been moored outside of the port since October 2020. They allowed those. There was about 5.1 million tonnes total, which is less than a week supply with those to unload. But they aren't still letting fresh cargoes in from Australia. So that put the CFR price up and then ultimately the rest of the world sorted itself out. And we're sending more to China, as you know, and that means less is going elsewhere. Australia is sending more to India. And it took six months or so for the world to rejig the global market. But that's down, that's stabilizing and the tightness flowed into the Aussie FOB price.

So, we got as high as about $612 on the CFR price, $415 or so on the FOB price. It has corrected. When it corrects, it can't correct quite quickly because buyers will just stall or stop. There aren't that many buyers, right. There's only about 35 major buyers in the global market. They all stop at once it can drop $25 a day for a while. But I note that in the last week, in total, FOB has only dropped about $5 and CFR, a little bit more than that. So, it looks like it's stabilizing here. We don't know how long, and we don't tend to represent that. But boy, if it stabilizes at these prices significantly over $300 a tonne, that's going to be a lot of fun.

In fact, today is the last day, Orest. The rolling three-month calculation of the index prices that are published by the trade journals and the average looks like it's going to come in at $370; so, well over that Canadian dollars. So, it should be a good quarter. Our dilemma, of course, is the floods here in BC and there are a lot of people; it's just tragic. They're saying it's the worst natural disaster in Canadian history. I don't know if it is or not, because certainly the hailstorms in Quebec a few years ago were pretty tough. But this is pretty serious stuff. The railways have had a tough, tough time. I've been impressed with what they've been able to do, but it's tough. And actually, here, it is Tuesday, and we're expecting another atmospheric river today. And while we prepare as best we can, but for those who are in the eye of the storm, so to speak, it's pretty tough going.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: And you've gone from – I mean, you said it's gone from wildfires to now flooding. In the current environment, I think you're able to maintain production at the mines, and I assume you'll be able to redirect a good amount of volume up north to Prince Rupert. Are you able to ship at all right now to either through West Shore or to Neptune, or is that completely blocked off?

<A – Don Lindsay – Teck Resources Ltd.>: We did load a small amount at West Shore and Neptune, but you're right, mostly we were diverting to Ridley, and the railways had both started up and I haven't got this morning's update, but I believe CN has shut down temporarily again in the last 24 hours. So, the logistics chain is not running at capacity or anywhere near that, and we don't know when it will. It was encouraging that they were able to get going last Wednesday. But then, we've had more weather here.

And you're also correct that the mines have continued to run. We did fortunately start in good position because logistics chain have been working so well. Neptune was performing so well. West Shore are doing a good job as well that we had very low inventories at the mine when this thing started and we were able to keep the mines running. Eventually, that that comes to an end, right.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Right.

<A – Don Lindsay – Teck Resources Ltd.>: And so, the two largest mines, Fording River and Elkview, can go for quite some time, yet, I think another 10 days or 2 weeks, so I don't expect that they'll be affected. Greenhills, pretty good. Line Creek would be the one that's most under pressure, but we've got a few days yet, so we will see how that goes. And so what you do, of course, is you divert the first trains to Line Creek [indiscernible] (00:16:00).

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: It's got to be a very tough [indiscernible] (00:16:03)

<A – Don Lindsay – Teck Resources Ltd.>: Yeah. What we will do is, in a few more days when we have a better handle on it, we'll issue some new guide as to here's what the effect has been in both volumes and we'll have to estimate costs as well because it will affect that [indiscernible] (00:16:23).

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Yeah. No. Fair enough. I think that'd be a welcome update from the market. Now...

<A – Don Lindsay – Teck Resources Ltd.>: It will be a record quarter.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Yeah. I was going to say, fortunately, met coal pricing is so high that there's still it seems like to me net upside to current market expectations for the quarter even with lower volumes.

<A – Don Lindsay – Teck Resources Ltd.>: Right.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Now, speaking to just what are the broader themes that we're hearing in the mining industry right now is general inflation both on costs and capital. Can you maybe speak to how your operations are being impacted by inflation right now and what that could mean going forward?

<A – Don Lindsay – Teck Resources Ltd.>: Well, we are seeing higher costs across a range of key consumables and supplies, the energy complex, crude, natural gas, of course, steel. Well, it's good for us on the coal business. It is more expensive for what we [indiscernible] (00:17:13). The indices, for example, for crude oil until Friday were up 64%, natural gas up 39%, steel up 55%. That's from 2020 to 2021. So, diesel, explosives, [indiscernible] (00:17:31) media, mobile equipment parts, tires, chemicals, transportation, amongst others, all of them, there's been pressure.

But balancing that, for example, in the coal business, as you remember that we're now benefiting from the investments, the structural investments that we made in terms of switching out of Cardinal River into the expansion at Elkview, getting the Neptune port finished and so on, so that does balance most of it. So, in the end, on the coal side of the business, we do see cost coming up above the guidance that we had at $61 and $64, but we're talking a couple of dollars, not the 20% that our major competitor has guided to way down south, so [ph] yes (00:18:16) pressures.

And then, of course, on copper and zinc, some pressures as well, minus impacts on cash unit costs. So, out in that, in those cases, probably the top end of the cash unit guidance range for copper. And we'll still be within the guidance range for zinc I think so. But that's not to say that we're not feeling the pressures, but we're doing things about it. RACE21 has been a good balancing factor and the increased productivity helps keep those costs down despite the increase in the inputs themselves.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Thank you. And maybe just on – finally, on the asset level, love to hear your current thoughts on Fort Hills and whether that asset still sits within your strategic plans?

<A – Don Lindsay – Teck Resources Ltd.>: Well, Mark Little, the CEO of Suncor and I just made a joint business visit there with our teams a week ago Friday. I have to say it was an excellent business visit. Suncor did a great job taking us through all the details of the challenges that they faced over the last year. And they did have a test run at the plant with two trains at full production. It was very successful and certainly hit nameplate capacity and ran above that, which it did do, remember back at the last month that it ran a full production in December 2018 and it averaged 201,000 barrels a day at a cash cost of CAD 23 where it tells you just how well it can do.

So it's not plant limited. We're very, very encouraged by the plant. Challenges are in the mine. They're fixable. They've made a number of changes there. So, the plan is to start tomorrow. Actually, the plan is to start ramping up to full production to hit January 1, running at full production, steady state for the next 12 months and the target is to average 175,000 barrels a day, which is about 90% of nameplate. I suspect they can do quite a bit better than that, but that's what the guidance is and we're looking forward to that. And that, of course, would bring the cost down quite a bit. And then, Fort Hills will be a strong cash generating asset portfolio.

What we've said to the market for a while, because we've been waiting to get the full production, is that once it is in full production, if we don't see the value Teck Resources' share price then the board would consider a transaction where it would be held differently, meaning either an outright sale to some logical choice that the operator or rolling it into a mid-cap and taking back shares, distributing those to our own shareholders as part of a consolidation play or a direct spin out as [ph] yield co (00:20:57). All of those options remain open. We've been deluged with bank proposals on what to do with [indiscernible] (00:21:07), so they obviously think it's quite doable. So, now as we get into the next quarter, we can finally execute on that. If you like to see a couple of months of results first, so you can point to just how much it could generate. But the key was getting the second train running, and that's starting right now.

<Q – Orest Wowkodaw – Scotia Capital, Inc.>: Perfect. And then just finally, you alluded to this earlier that the company is on this transition inflection point here with QB2 almost completed that you'll be in a position to generate significant free cash flow as QB2 reaches the finish line. Any early preference in terms of how the board may be thinking preference buybacks, increased dividends, like how should we think about the capital return philosophy?

<A – Don Lindsay – Teck Resources Ltd.>: It really is a board decision at that time. And so, the first decision point will be at the February board meeting and when we announce our results. As I said, our capital allocation model right now and forecasting is not that far away. It shows a pretty healthy number. And I can't really presume what the board is going to do in terms of whether it's buybacks or dividends or both. It could well be a combination. We do have a base dividend now at $0.20 a share [indiscernible] (00:22:22) be finished, I strongly suspect that base dividend itself is going to be increased and probably telegraphing where it can get to once 2023 comes in terms of full production. Because think about the change of what's happening, this year 2021, we're putting out $2.5 billion, in 2023 at full production like, [indiscernible] (00:22:45) coming in. That's a swing of $4.5 billion, so there's going to be a lot of room for capital returns.

Last time, we did survey to shareholders and 91% wanted buyback. The Americans, in particular, as more tax effective for them and so on. And so, we bought back $1.2 billion and we got 9.2% or 9.4% of the company. That's one of the best investments we've ever made, because that's 9.2% of every core asset of Red Dog, which you see behind me, of Highland Valley, of Antamina, of QB, of Fording River, Elkview. we've got 9.2% of all them, right. And so, that was a pretty good deal. But we'll see in February just what makes sense at that time.

Orest Wowkodaw, Analyst, Scotia Capital, Inc.

Okay. Thank you so much for joining us today, Don. Very much appreciate it.

Donald R. Lindsay, President, Chief Executive Officer & Director, Teck Resources Ltd.

Thanks, Orest. Delighted to be here.

Orest Wowkodaw, Analyst, Scotia Capital, Inc.

Thank you.