OVERVIEW:
Co. reported 1Q17 revenue of CAD2.9b and bottom line profit attributable to shareholders of CAD572m.
CORPORATE PARTICIPANTS

Andrew A. Stonkus  
Teck Resources Limited - SVP of Marketing and Sales

Dale E. Andres  
Teck Resources Limited - SVP of Base Metals

Donald R. Lindsay  
Teck Resources Limited - CEO, President and Director

Gregory A. Waller  
Teck Resources Limited - SVP, IR & Strategic Analysis

Réal Foley  
Teck Resources Limited - VP of Coal Marketing

Robin B. Sheremeta  
Teck Resources Limited - SVP of Coal

Ronald A. Millos  
Teck Resources Limited - CFO and SVP of Finance

Timothy C. Watson  
Teck Resources Limited - SVP

CONFERENCE CALL PARTICIPANTS

Christopher Michael Terry  
Deutsche Bank AG, Research Division - Research Analyst

Dalton Baretto  
Canaccord Genuity Limited, Research Division - Analyst

Frank Duplak  
PGIM Fixed Income, Research Division - Head of High Yield Credit Research

Greg Barnes  
TD Securities Equity Research - MD and Head of Mining Research

Karl Blunden  
Goldman Sachs Group Inc., Research Division - Senior Analyst

Lucas Nathaniel Pipes  
FBR Capital Markets & Co., Research Division - Analyst

Matthew Murphy  
Macquarie Research - Analyst

Orest Wowkodaw  
Scotiabank Global Banking and Markets, Research Division - Equity Research Analyst of Senior Base Metals

PRESENTATION

Operator

Welcome to the Teck Resources Q1 2017 Earnings Call. (Operator Instructions)

This conference call is being recorded on Tuesday, April 25, 2017.

I would now like to turn the conference call over to Greg Waller, Senior Vice President, Investor Relations and Strategic Analysis. Please go ahead.

Gregory A. Waller  
Teck Resources Limited - SVP, IR & Strategic Analysis

Thanks very much, operator, and good morning, everyone. Thanks for joining us for Teck's first quarter 2017 results conference call.

Before I begin, I'd like to draw your attention to the forward-looking information on Slide 2. This presentation contains forward-looking statements regarding our business. However, various risks and uncertainties may cause actual results to vary. Teck does not assume the obligation to update any forward-looking statement.

And I just want to note that we will be capping the Q&A at the top of the hour this morning. And with that, I'd like to turn the call over to Don Lindsay, our President and CEO.
Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Thanks, Greg, and good morning, everyone. I'll begin on Slide 3 with some highlights from our first quarter results, and then Ron Millos, our CFO, will provide additional color from a financial perspective. As usual, we will then conclude with a Q&A session, where Ron, myself and additional members of our senior management team would be happy to answer any questions.

So as we had previously flagged, we faced some challenges in the first quarter, particularly low demand for steelmaking coal in January and February. We also had some operational challenges in Coal, mainly due to logistical performance, and in Zinc with metallurgical issues at Red Dog. We view most of the issues as largely behind us now. Steelmaking coal demand picked up dramatically after China's Lunar New Year holiday, with a monthly sales record set in March. We expect stronger operational performance in the second quarter, and we are set up well for the balance of the year.

Importantly, we are generating significant free cash flow at current prices. We recorded Adjusted EBITDA of $1.5 billion in Q1, and gross profit was also up by more than $1 billion. At the same time, we repurchased another USD 1 billion of notes outstanding via a cash tender offer in March, and we are now close to our target of having less than USD 5 billion of debt.

We are also continuing to invest for growth. Construction at Fort Hills is now over 83% complete, and we are now only 8 months away from first oil.

In addition, it is important to note that reported annual zinc concentrate treatment charges represent a significant shift in favor of the miners, reflecting the tightness of the zinc market. And the reported 2017 terms were at the lowest level in history relative to current prices, and there is no price participation.

Looking at the overview of our first quarter financial results on Slide 4. Revenue was up 70% compared to the same quarter last year to $2.9 billion, primarily due to significantly higher steelmaking coal prices and also helped by higher zinc and copper prices. Bottom line profit attributable to shareholders was $572 million. A after removing unusual items, adjusted profit attributable to shareholders was $671 million or $1.16 per share in Q1. And this is a significant increase from only $0.03 per share in Q1 of 2016.

I'll now run through our quarterly results by business unit, starting with steelmaking coal on Slide 5. Revenues grew, as I said, by more than $1 billion in the quarter compared with Q1 2016, principally due to much higher prices. Sales volumes improved in March relative to weak sales in January and February but not sufficiently to result in sales above 6 million tonnes. And as I mentioned earlier, we did set a monthly record in March for the highest level of March sales, and after setting another record in February for, in fact, the lowest level of February sales in our history. That's the kind of quarter it was.

Production was down 500,000 tonnes as we reached capacity for on-site storage due to inadequate support from logistics providers. Site costs were up, with the lower production accounting for about half of the increase and higher costs, including additional costs that we elected to incur with increased production and flexibility, accounting for the remainder. Transportation costs were also up $2 per tonne.

Overall, gross profit before depreciation and amortization was almost $1 billion higher than the previous year's first quarter. Looking forward, we believe that the operational challenges in coal are largely behind us. Logistics team performance has improved substantially. Production sales volumes are now running at more normal levels. And in Q2, sales are expected to exceed 6.8 million tonnes and site costs are expected to be $47 to $51 per tonne.

Turning to Slide 6. I'd like to touch on recent developments in the steelmaking coal market. After the price spike in Q4 2016 and the decline in the first half of Q1, spot prices appear to be stabilizing in the USD 150 to USD 160 per tonne range, and we were talking about that during our Investor and Analyst Day at the end of March. Production interruptions had diminished at that time, additional supply was coming online, with increases at some existing operation as well as some restarts. China had also relaxed the restrictions on operating days. We were happy with that, as we have the potential to generate significant cash flow at that price range.

Then, Cyclone Debbie hit Australia at the end of March, and it became clear that some rail infrastructure had been damaged. As a result, spot prices for the highest-grade products pushed through USD 300 per tonne for the fourth time since 2008. While prices have started to correct, a long
queue of vessels has formed at the ports in Australia, creating a backlog which will require some time to normalize. While the Q2 benchmark price has not yet been settled, deliveries to customers are continuing under our contracts, and we expect that any adjustment to pricing and payments will be settled within the quarter. It may take more time before the supply situation approaches a more normal state.

Turning to our base metals businesses, starting with copper on Slide 7. Production and sales declined significantly from Q1 last year and from Q4, driven by lower production at Highland Valley as a result of the lower ore grades. We had previously indicated that we expected production at Highland Valley to be lower in the first half of the year, which was incorporated into our annual guidance range.

Cash costs were higher accordingly, driven by lower sales volumes. Fortunately, prices were higher as well, driving higher revenues. Overall, gross profit before depreciation and amortization was up 8% to $195 million. Depreciation and amortization was up $31 million, primarily due to the change to the mine plan at Quebrada Blanca. And looking forward, copper production is expected to gradually improve as the year progresses.

Our zinc business units are summarized on Slide 8, and please note that Antamina’s zinc-related financial results are reported in our copper business unit. Revenues were up 29% to $715 million, with an increase in our prices. At Red Dog, zinc sales were slightly higher than guidance, as smelters drew down consignment inventory due to tightness of the concentrate market. However, production was lower due to poor winter weather and downtime due to electrical equipment failures. And in addition, we had introduced ore from the higher-grade Qanaiyaq pit as a supplemental feed source as planned. However, these ores are metallurgically complex and are currently highly oxidized. As a result, mill performance, particularly recovery, was negatively affected. We have reduced the amount of Qanaiyaq ore being fed to the mill until we get further into the ore body and into ore that will be less oxidized.

At Trail, refined zinc production was comparable to the same quarter last year.

Overall, gross profit before depreciation and amortization was up 64% to $205 million, primarily due to the higher zinc prices.

Now looking forward to Q2, we expect Red Dog sales of contained zinc to be around 80,000 tonnes, reflecting the normal seasonal pattern. For the full year, we now expect zinc and concentrate production, including coproduct zinc production from our copper business unit, to be 590,000 to 615,000 tonnes, given the constraints of the Qanaiyaq ore at Red Dog.

Turning to an update on Fort Hills on Slide 9. Construction has passed 83% completion, and 4 of the 6 major project areas have now been turned over to operation, and that’s mining, ore preparation plant, infrastructure and primary extraction. The focus now is on the completion of the utilities area and secondary extraction. Mobile equipment is being mobilized for operations, and over 60% of operations staff have now been hired. First oil is still expected by the end of 2017.

And with that, I will turn it over to Ron for additional color from a financial perspective.

Ronald A. Millos - Teck Resources Limited - CFO and SVP of Finance

Thanks, Don. Starting with our first quarter pricing adjustments, which are summarized on Slide 10.

Overall, we had $38 million of positive pricing adjustments this quarter compared with $27 million of positive adjustments in Q1 of 2016. And these adjustments are included in our income statement under Other Operating Income and Expense.

And the chart on the left represents a simplified relationship between the change in copper and zinc prices and the reported settlement adjustments and continues to provide a good estimate of our pricing adjustments each quarter. The overall settlement adjustment for the first quarter this year was close to the line, as suggested by our model.
And moving to the next slide, I've summarized our changes in cash. And our cash flow from operations was almost $1.3 billion in Q1. Proceeds from sale of investments and other assets totaled $77 million, the majority of which was for the Wintering Hills wind farm sale that we announced last year, but it did close in Q1.

We repaid a total of CAD 1.5 billion in debt in the quarter, which included the USD 1 billion principal amount of our outstanding notes, which we repurchased through the cash tender offer in March. We did record CAD 178 million pretax loss on that transaction. We also repaid USD 34 million of notes that matured in January.

We spent $356 million on capital projects, including Fort Hills. Capitalized stripping costs were $152 million, and we paid interest and finance charges of $176 million. And after these and other minor items, we ended the quarter with cash and short-term investments of about $536 million.

Our liquidity is currently $4.7 billion, and that includes our current cash balance of CAD 625 million and our undrawn USD 3 billion credit facility.

Moving to the next slide. Looking at our debt reduction in greater detail. At the end of 2016, we had reduced our debt by over USD 1.1 billion since September 2015, and as we mentioned earlier, reduced it a further USD 1 billion in March of this year with our tender offer. And that takes our total outstanding notes down to USD 5.1 billion, which, as Don mentioned, is getting close to our goal of being under USD 5 billion.

As a result, our average term to maturity is about a year longer at 15 years. Our interest expense is down about USD 55 million per year, and our debt-to-debt plus equity ratio has dropped to 27%. And we now have only USD 122 million of debt due before 2021. And going forward, we may continue to reduce debt on an opportunistic basis as we take advantage of the cash flows that we are expecting.

With that, I will pass the call back to Don for his closing comments.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Thanks very much, Ron. In summary, on Slide 13, Q1 was the most difficult start to a year probably since 2009, but we believe the issues are now largely behind us.

The outlook for Q2 and beyond is very positive. We are generating strong free cash flow at current prices, and more importantly, consensus estimates are that we will continue to do so even with likely lower coal prices going forward.

Debt reduction has been our key priority, and we have achieved a substantial reduction over the past 18 months. And we are close to our initial target, but we may continue to reduce debt opportunistically.

First oil from Fort Hills is now 8 months away, and construction CapEx will soon be behind us.

And with that, we would be happy to answer your questions. So please note that some of our management team members may be on the line at different locations, so there may be a brief pause after you ask your question. So operator, back to you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question is from Orest Wowkodaw of Scotiabank.
Orest Wowkodaw - Scotiabank Global Banking and Markets, Research Division - Equity Research Analyst of Senior Base Metals

I was surprised by the operating issues this quarter at Red Dog, and you cut your guidance for the year. I’m just curious what kind of impact we can anticipate beyond 2017. I think you had previously given us kind of a 3-year average of 500,000 to 525,000 tonnes of zinc at Red Dog between ’18 and ’20. Is that -- do we need to think about maybe reducing that? Or do you think the low end is still achievable now?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Thanks, Orest. And there was a long gap before any questions were asked, and I was kind of wondering if we were going to get any questions. But you started with a good one, and it’s one that we’ve looked into quite a bit. I’ll turn it over to Dale Andres for the answer.

Dale E. Andres - Teck Resources Limited - SVP of Base Metals

Thanks, Orest. We did update our guidance for the year for 2017. Our original expectation was for a very strong first quarter for the year. So part of -- probably about half of the change in guidance is due to the first quarter performance and the Qanaiyaq metallurgical issues, and the complexity of that new supplemental source being introduced into the plant is really accounting for the rest as we progress through the year. Right now, we’ve cut that back to about 10%. We plan to have about 10% to 15% Qanaiyaq ore for the year. But we do anticipate getting that back up to the 15% to 20% range heading into next year. The ore is better as we go deeper into that pit, and there’s no change to the long-term expected guidance. We do anticipate to be in that 500,000 to 525,000 range over the next 3 years from 2018 out to 2020.

Orest Wowkodaw - Scotiabank Global Banking and Markets, Research Division - Equity Research Analyst of Senior Base Metals

So you still think you can make that next year?

Dale E. Andres - Teck Resources Limited - SVP of Base Metals

Absolutely.

Operator

The following question is from Greg Barnes of TD Securities.

Greg Barnes - TD Securities Equity Research - MD and Head of Mining Research

Yes, Don or whoever else on the coal side, have you seen a pickup in interest from steel mills who are not getting coal from the Australians? And if you have, I was surprised that your coal volumes for Q2 wouldn’t be a bit higher than 6.8 million tonnes.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Another good question. I’ll turn that over to Réal.

Réal Foley - Teck Resources Limited - VP of Coal Marketing

Thanks, Greg. Yes, we’ve seen increased demand in the market, as shown by the price assessments and the level that they got to. They broke through US$300 for the fourth time since 2008. And a lot of that demand actually has come from, well, the majority of it from steel mills, which
are more reliant on Australian supply, but also other areas in the world. Because it’s impacting the overall market, the overall seaborne market. And as a result of this, we are selling more coal in the market. Now to the second part of your question, the sales guidance at 6.8 million for the quarter, you may recall that we had very strong sales in Q4 at 6.9 million, and our record sales, highest quarterly sales, are 7.5 million tonnes. Now for sales to exceed 7 million tonnes in a quarter, everything has to work perfectly together. The supply chain, the sales, the operations, everything needs to be perfect. So we’re seeing improvement on the demand side and on the sales side as a result of the Cyclone Debbie. We’re also seeing improvement in the logistics chain with stronger lifts, stronger pickup, restoring flexibility back to the mine. So overall, we’re positive on our guidance for Q2, and the 6.8 million at this point is a level that we feel is appropriate.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Réal, just on the demand side, did you want to comment on Chinese imports?

Réal Foley - Teck Resources Limited - VP of Coal Marketing

Yes. So year-to-date, March, China imports are sitting at 17 million tonnes. If we annualize that, it’s back around 70 million tonnes, which is a record import level for China that goes back to 2013. So China right now is running at a very high level. Steel production is up 5% year-over-year at the end of Q1, and at the same time, domestic coal production in China is down 5% year-to-date, February. So China will be looking for more coal from the seaborne market, it appears.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

That Chinese steel production number in March was also a new record.

Greg Barnes - TD Securities Equity Research - MD and Head of Mining Research

Can I follow up with one question? Another subject. On Fort Hills, are you expecting, at some point this year, an update from Suncor on operating parameters for the mine, the operation, once it gets going in terms of cash cost, sustaining cost, things like that?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Actually, I don’t think so. And Tim Watson is here, but I’ve talked to Steve Williams yesterday, in fact, and they’re focused on getting it built within this year and getting it running. And probably, we won’t see guidance on the operating cost, unless Tim has new information, until much later.

Timothy C. Watson - Teck Resources Limited - SVP

Not until much later.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

No, Tim’s agreeing with me, so we’ll just have to wait and keep the focus on getting it built. I think the only thing, to try and be helpful, I think everything that we’ve said to you before, that directionally, if you look at what Suncor has been able to achieve at their base operations, that Fort Hills should be as good or better in their opinion. But they’re not going to put any hard numbers out on that until much later.
Operator

The following question is from Chris Terry of Deutsche Bank.

Christopher Michael Terry - Deutsche Bank AG, Research Division - Research Analyst

Don and team, a question from me just on that coal settlement. I understand that it hasn't come through for Q2. But just in terms of thinking about the price that you're achieving today, I think, previously, you've said, roughly, you sell 60% on spot and around 40% on contract and it's probably a 6-week-or-so shipping schedule. So do we think about the April contract numbers that you are still getting the USD 285 from last quarter, and then you'll do some sort of reconciliation on that, and then spot is just still 60% at a 6-week delay on the spot? Is that roughly the mechanics on it? If you could just step through that, please.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Yes, I'll turn it over to Réal.

Réal Foley - Teck Resources Limited - VP of Coal Marketing

Yes. So that's right, Chris. The quarterly contracts for volumes are moving according to what we have contracted. In terms of price, the way that the quarterly contract worked typically is that it's the last quarter price that we are using as a provisional price. And yes, at this point, we're expecting a settlement within Q2. And at that time, the provisional price, which is currently USD 285, will be adjusted to reflect the new quarterly price for Q2. On the spot sales side, yes, we're still selling around 60% on the spot market, and the mechanics that you understand are typical for Teck.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Réal, it might be useful to just elaborate a little bit on that spot between index and fixed price, what's really happening in a circumstance like this.

Réal Foley - Teck Resources Limited - VP of Coal Marketing

So of course, when the price and the price assessments are moving quickly, buyers are not too keen to settle at the highest possible price that there is in the market. So -- and that's understandable, too. We said the price went through USD 300 for the fourth time since 2008, and 2 of those times are in the last 6 months. So buyers are trying to delay their purchasing decisions as much as they can, but the reality is that the market is very tight right now, especially as a result of Cyclone Debbie.

Christopher Michael Terry - Deutsche Bank AG, Research Division - Research Analyst

Okay. And then just maybe a follow-up, just on the zinc market. Given the tightness there with the TCs reflecting that and the overall market and where the spot zinc price has gone to, what are you seeing in terms of supply responses and also just demand? Is there any substitution at today's levels? Or haven't we seen that yet?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

We're seeing a great buying opportunity, but I'll turn it over to Andrew Stonkus.
Andrew A. Stonkus - Teck Resources Limited - SVP of Marketing and Sales

Yes, thanks, Chris. In terms of substitution, no, there’s no evidence of substitution at these price levels. The market is still in a deficit situation, both for concentrates and metal, and that’s being reflected in the treatment charges for concentrates still at historical low levels. And metal premiums are also starting to move. There’s been some production cuts announced by both smelters in the Western world and inside of China as well. So we estimate about 400,000 tonnes of zinc metal has been curtailed due to tightness of concentrates and the economic cost of purchasing concentrates today. So the effects of that tightness on concentrates is working its way through the metal side of the equation.

Operator

The following question is from Matt Murphy of Macquarie.

Matthew Murphy - Macquarie Research - Analyst

I wanted to ask a follow-up on Red Dog. The ore -- or the recovery issues you’ve had this quarter, what was the surprising aspect of it? Was it the metallurgy or the mill response to the metallurgy? And related to that, what is the strategy to get deeper in the pit? Is it just feed at a slower rate to reduce the recovery impact? Or is there a stockpile strategy there, too?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Dale Andres?

Dale E. Andres - Teck Resources Limited - SVP of Base Metals

Yes, so we do stockpile and blend, and that’s part of our normal operating practice. In the short term, we’ve cut back that blended stockpile that we do feed to the mill to about 10% of that Qanaiyaq feed. It does get better over time. It’s oxidized, it’s near-surface material, and -- but it is more complex mineralogy, and it is a bit finer grain and harder to process. So the ability to put that in, we can’t go to 30%, 40%, 50%. But it really is, in the short term, it’s the oxidation level that’s holding us back from adding more in, and that’s just going to take a little bit of time to work through over the coming 2 or 3 quarters. We do anticipate to start ramping up that Qanaiyaq percentage of feed as the year progresses and expect to be at normal planned rates starting in the first quarter next year.

Matthew Murphy - Macquarie Research - Analyst

So was it a surprise relative to guidance, the degree of oxidation?

Dale E. Andres - Teck Resources Limited - SVP of Base Metals

Yes. So that would -- yes, it’s the degree of oxidation and the metallurgical response through the process. So this is a learning period. It’s a new feed source, and the plant team needs to get used to doing that. And as I said in the earlier question, a lot of the guidance reduction is from the first quarter production shortfall, which is both due to the Qanaiyaq ore but also due to weather and some mechanical, electrical issues that we had early in January, and we’re just not able to make that up. We can’t -- we don’t have any high-grade sources to run to. It really is Qanaiyaq that’s quite a bit higher grade than the Aqqaluk pit, which has been the main source of feed. And that’s just going to take some time to be able to ramp up that higher-grade feed material.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Yes, I think that’s an important point that people shouldn’t be double-counting the loss, since part of it was due to the electrical issue.
Operator

The following question is from Lucas Pipes of FBR Income.

Lucas Nathaniel Pipes - FBR Capital Markets & Co., Research Division - Analyst

Yes, I wanted to ask a question about QB2. You’ve talked about potentially bringing in partners, and I wondered if there’s been any progress on that front. And then related to that, I wanted to ask if there’s kind of a sweet spot in terms of your ownership of QB2.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Fairly short answer to that, there’s nothing to report. We’re still thinking about it moving ahead with the permitting process and putting everything in place to be able to make a project sanction decision early next year. Between now and then, I guess the situation will evolve, but really, nothing to report at this stage. We debate hearing as to whether we should have larger or smaller or exactly what we have now but no conclusion at this point.

Lucas Nathaniel Pipes - FBR Capital Markets & Co., Research Division - Analyst

Okay. And on the coal side, it looked like, just prior to Debbie, as if the market was settling in between about USD 150 and USD 160 per metric ton. And I wondered if you have any updated thoughts as to where the prices are likely going to settle in, call it, later this year and into next year longer term. What’s your view? What’s the right coal price to use?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

I guess we’ve all got an answer to that one. I will start with Réal, and then I might add some color of my own. But go ahead, Réal.

Réal Foley - Teck Resources Limited - VP of Coal Marketing

So thanks, Lucas. That’s a very tough question right now. I mean, you’re right. It was our expectation that it looked like the market was settling at the USD 150, USD 160 range. I think we had talked about that when we had the Investors Day at the end of March. At this time, however, it’s tough to say. The market is still trying to understand what is the impact of Cyclone Debbie and how long it’s going to take for operations to get back to normal. There is a long queue of vessels in Australia that are waiting to load. Aurizon are restarting operations. They’ve restarted 3 of the 4 lines. The fourth line, the Goonyella line, is restarting later this week. They’ve indicated losses of 19 million to 21 million tonnes. But at this point, no one knows how long it will take to get back to normal and how long it will take or how much of the tonnage could be made up before the end of the year. So it’s pretty tough to answer what the price might get to. We’ve seen price assessments come down in the last week or so. They came down over USD 50. So there is a correction happening in the market, but what is unclear is how long it will take to get through that backlog of vessels and, again, for the railways to get back to normal operations as well.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Maybe just some additional color. I think, once we get past the Cyclone Debbie period, then we look to some of the key fundamentals that drive supply and demand. And of course, when you get to that, it all starts with China and ends with China. I was fortunate to attend a very useful gathering called the China Development Forum last month. It was hosted by the Premier and 5 of his cabinet ministers and included 75 international CEOs and 20 leading economists. And they lay out a lot of their policy thinking and certainly reinforce the capacity reductions in both steel and coal. And one of the things that I look at is how they’re managing those capacity reductions. And in particular, in thermal coal, they have published a range that they’re going to manage. And thermal coal, of course, being a key input, electricity into the economy. And you can extrapolate from
their band that they’re going to be managing thermal coal as to what that would mean for met coal prices, and it translates into the USD 150 to USD 170 per tonne range. And as I’ve said before, if we get into that range, it’s a bit of a sweet spot because it doesn’t lure that much more production into the market, and yet, it’s a number at which, for Teck, we make really solid free cash flow. Because that, of course, is -- in Canadian dollars, is significantly over $200 a tonne. And then when you look at our cost base, we’d be clearing $100 or more per tonne of coal production, and we’re aiming for that 27 million tonne number. So I don’t know when we’ll get to that kind of more normalized or stabilized level in the post-Cyclone Debbie environment, but that’s what was shaping up before the cyclone hit. And so, at least at this point, unless there’s any other unusual circumstances, that’s what we’d be looking for.

Operator

The following question is from Karl Blunden of Goldman Sachs.

Karl Blunden - Goldman Sachs Group Inc., Research Division - Senior Analyst

Just one here on your coal sales during the quarter. I may have missed it if you gave granular detail during the first part of the call. Were you able to ramp that up just during the first month so far and take advantage of higher prices? Or are your operations not flexible enough to allow that?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Réal?

Réal Foley - Teck Resources Limited - VP of Coal Marketing

Yes. So we -- thanks, Karl. We were able to capture some additional sales as a result of the Cyclone Debbie, no doubt. The steel mills that rely -- where Australia has the largest market share, is where most of the demand came from. Some of that demand was filled by us. It was also filled by other typical seaborne suppliers. But also, out of China, there were some originally destined -- China destined seaborne cargoes that were resold in the market, some domestic Chinese coal that was also sold in the market and Chinese coal as well. So combination of all this, there has been more coal moving into the seaborne market to backfill the shortage left by Debbie, and we had a share of that as well.

Karl Blunden - Goldman Sachs Group Inc., Research Division - Senior Analyst

That’s very helpful context. And just turning to capital allocation. The dividend discussion comes up from time to time. I think, last quarter, you had mentioned that it’s a discussion for the April or June board meetings. Any changes there? Has Cyclone Debbie maybe changed the timing, that it would now be a June decision? And then, as we think about the potential level, obviously, it’s a board decision, but historically, what level have you sought from a dividend yield perspective?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Okay. I just -- before answering this question, I just wanted to add, because you might not have been on the call that time, that March was a record month in the coal business, which really made up a lot for what happened in January and February. So in terms of capital allocation and right through to dividend decision, I don’t think anything has really changed just because of Cyclone Debbie. That -- these things are longer-term decisions by their very nature. And as I said before, that the board will consider the dividend, and our priority had been to get the debt levels down to our target or close to it. We’re -- at least, we’re close to USD 5 billion now. So the board will look at dividend policy, both at these meetings in April and, depending on how the discussions go, possibly again in June. In terms of other aspects of capital allocation, we’re obviously finishing Fort Hills, and that’s 83% complete. So that’s going to run its course by the end of the year. Looking forward to that. And then we are
doing a lot of engineering at QB2 and getting ourselves prepared to be able to make a sanction decision there. Other capital allocation within the company is more normal course in terms of sustaining capital and smaller projects, just around the operations. So not much has changed.

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**Karl Blunden** - Goldman Sachs Group Inc., Research Division - Senior Analyst

Okay, got you. Thanks, and I appreciate the color on the run rate going into the end of the quarter there on the coal side as well.

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**Donald R. Lindsay** - Teck Resources Limited - CEO, President and Director

Yes, it really sets us up for a solid Q2, and we're in good position for the balance of the year with logistics working much better and basically all systems go.

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**Operator**

The following question is from Frank Duplak of Prudential.

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**Frank Duplak** - PGIM Fixed Income, Research Division - Head of High Yield Credit Research

Wonder if you wanted to maybe venture a guess as to when the second quarter met coal benchmark price might be set. Could it be something in the next week or two? Or do you think it would be more towards kind of the middle of the quarter? Any thoughts there'd be helpful.

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**Donald R. Lindsay** - Teck Resources Limited - CEO, President and Director

Well, that's a question I've asked myself. I want to see what Réal says this time.

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

Thanks, Frank. So of course, well, negotiations were ongoing before Cyclone Debbie hit, and as soon as it did, the discussions actually broke off. If we look at Q2, I mean, our -- we're expecting a settlement to be within the quarter. The exact timing in reality, we're coming up to the Golden Week holiday in Japan. I think that starts on May 1. So it'll probably be at least mid-May, I would venture to guess, before there is a settlement, but it could also be later. And again, our expectations are that it will settle within the quarter.

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**Donald R. Lindsay** - Teck Resources Limited - CEO, President and Director

Soon we'll be talking about Q3.

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

Yes.

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**Donald R. Lindsay** - Teck Resources Limited - CEO, President and Director

That's true too.
Réal Foley - Teck Resources Limited - VP of Coal Marketing
Yes.

Operator
(Operator Instructions)

The following question is from Chris Terry of Deutsche Bank.

Christopher Michael Terry - Deutsche Bank AG, Research Division - Research Analyst
Yes, just a follow-up. Obviously, given the movements in the TC market overall, and knowing you have the Trail smelter, can you just remind us on the intersegment sales and just the mechanics around the smelter, just to refresh on that, given some of the market moves?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director
Okay. Andrew or Ron. What...

Andrew A. Stonkus - Teck Resources Limited - SVP of Marketing and Sales
Yes, I guess, the question is, how does the TC changes impact us, as a company, for the smelter versus the mines. Is that the question?

Christopher Michael Terry - Deutsche Bank AG, Research Division - Research Analyst
Yes, essentially. Essentially, just what you feed yourself or what the intersegment sales are and, therefore, the net effect. Just wanted to check it against our model.

Dale E. Andres - Teck Resources Limited - SVP of Base Metals
It's Dale. I can respond to that. It's about -- from Red Dog sales, about 30% to 35% of Red Dog material goes to Trail as an intersegment sale.

Christopher Michael Terry - Deutsche Bank AG, Research Division - Research Analyst
Okay, okay. And that's it from the total business? I thought Pend Oreille also goes there. Is that not right?

Dale E. Andres - Teck Resources Limited - SVP of Base Metals
Yes, Pend Oreille does as well, and that's a fully captive feed to Trail. So 100% of Pend Oreille's material. That's about in the range of 75,000 tonnes of concentrate as well goes there. So that would be about 1/4 as much as from Red Dog. So yes, about 50% of Trail's feed comes from internal sources, 50% to 55%.

Gregory A. Waller - Teck Resources Limited - SVP, IR & Strategic Analysis
Chris, just to add some color to that. It's Greg. So the Trail sales are fairly even flow over the year, whereas the real seasonality we see at Red Dog, of course, is because into the sale, some of the Asian market, there isn't a lot of storage there. So it tends to be more on a consumed-as-delivered
basis. And then, in the European market, a little lumpiness there again in Q3, Q4. Some sales in Q1, Q2, but the -- that ongoing part, the base load that goes to Trail is fairly even flow. And that, with the Pend Oreille, is what amounts to the intersegment sales line.

Christopher Michael Terry - Deutsche Bank AG, Research Division - Research Analyst

Okay, okay. I appreciate the color. One more question, if I may. Don, you already talked, I know, about the balance sheet and the USD 5 billion debt target. But -- and I guess, it probably depends a bit on the QB2 ownership you also gave the answer on, but how do you think about maybe holding off dividends, as a company, a little bit as you sort of build up a bit of a bank for QB2 and that potential decision? Or is QB2 going to be financed separately, and therefore, the decision on dividends is more linked to today and reaching that USD 5 billion debt target?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

I think the preamble in your question was right on in that there’s still a number of moving parts, so we couldn’t give a definitive answer. At current prices, we will clearly build cash throughout the year, and so having that cash balance at year-end as we go into the sanction decision will be quite helpful and will help determine what other financing might fall into place. So we’ve had discussions on project financing, as we’ve mentioned in other quarterly calls. And so -- and then in terms of the dividend, that’s clearly a board decision. I wouldn’t want to prejudge anything that they may decide to do. But I have said that we believe that a flexible dividend policy, as you’re seeing a number of other companies announce, makes sense in a commodity company, and particularly given the volatility that we’ve seen, and not just in the last 6 or 8 months but over the last 5 to 10 years. So that’s all under consideration. I think it’ll be a lot more clear by the time we get to the Q2 quarterly call, and I don’t expect there’ll be any big surprises.

Operator

The following question is from Dalton Baretto of Canaccord.

Dalton Baretto - Canaccord Genuity Limited, Research Division - Analyst

I’d like to ask a question on the met coal supply chain. I understand that the logistics issues are largely behind you, but can you tell us whether the rail capacity is actually at full capacity or still ramping up? And secondly, are the inventories at the mines and at the port where you’d like them to be? Or are you still working towards getting them to optimal levels?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Start with Andrew?

Andrew A. Stonkus - Teck Resources Limited - SVP of Marketing and Sales

Yes. Dalton, with regard to the logistics chain, the -- there’s been additional capacity added to the rail system, so we’re moving at historical rates now. We’re back up to where we need to be for movement of our train sets to the port sites and dumping of the railcars at the port site is back to historical levels, and loading of the vessels are back to historical levels. So the whole logistical chain is back to where we need it to be. And in terms of the inventory management and where the inventory is, we have sufficient inventory at the port sites now to meet our sales obligations, and there’s no constraint on the inventory at the port sites. And on the mine sites, Robin, if you want to make a comment on that.
Robin B. Sheremeta - Teck Resources Limited - SVP of Coal

Yes, the mine site inventories are still high. They’re down a bit from where they were at their peak. But we are moving a lot -- we are planning to move that inventory to port as opportunity presents, and that’s usually around maintenance shutdowns, which we’ll see start to happen now through the rest of this quarter into next quarter.

Andrew A. Stonkus - Teck Resources Limited - SVP of Marketing and Sales

And we haven’t had any unscheduled plant interruptions.

Robin B. Sheremeta - Teck Resources Limited - SVP of Coal

No, we’ve been solid on the production side. Rail supported our regular production. It just takes time to move the inventory now. So production may...

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

With the maintenance shutdowns, that will...

Robin B. Sheremeta - Teck Resources Limited - SVP of Coal

That’s the opportunity, yes. We’ll take periods of maintenance shutdowns, split between the mines and it’s during those periods that we’re able to pick the coal up and move it to port.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Dalton, just a perspective on rail capacity as well. It’s a bit of a flexible target. We run about 20-ish train sets.

Unidentified Company Representative

21.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

21 trains and if we need more capacity, you activate another set of cars. They generally run 150-car trains. So there are additional train sets, sets of cars sitting around. You just activate. So that -- when I say it’s -- capacity is flexible, it’s hard to put a pin in on any real limit.

Dalton Baretto - Canaccord Genuity Limited, Research Division - Analyst

Okay. I guess, my question was just a follow-up on Réal’s comment earlier that, in order to hit 7 million tonnes of sales, everything has to be working at peak capacity and perfectly. And so I was just sort of trying to get out what the upside is there.

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Yes. Well, the upside, I guess, is our record quarter was 7.5 million. So...
The following question is from Greg Barnes of TD Securities.

I just want to return to this Red Dog issue again quickly. What were the recoveries like when you were trying to put as much of the new ore in as you wanted? And have they recovered to acceptable levels? I guess they have, since you've lowered that portion of the ore going in. So what was it at the bad time and what is it now -- the recoveries?

Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Jeez, Greg. I thought you were going to sound us out on the 6.8 million again, but -- okay, Dale?

Yes. No, thanks. Historical, so if we compare to the comparable quarter last year, and historical recoveries sit in around the 83% range. For the first quarter, we did average 80%, so we dropped about 3 percentage points. We did start to back off on Qanaiyaq feed in March, and that has continued in April at around that 10% rate, as I mentioned. We're back up to our historical recovery rates at 10%. It's a bit of a blend between -- it's getting that process right. So it's a blend between managing recovery and concentrate grades. So that's something the metallurgical and processing teams are getting a better handle on now. But as it stands now, with 10% feedthrough, we're back to historical performance.

Okay, great. And Don, I'm not happy with the 6.8 million tonnes. You need to do better.

Okay, point taken. We'll do what we can. Robin?

Just working on it.

No pressure.

There are no further questions registered at this time. I'd like to turn the meeting back over to Mr. Lindsay.
Donald R. Lindsay - Teck Resources Limited - CEO, President and Director

Okay. Well, thanks very much, and we appreciate the questions today. A lot of them were right on the key issues. As you can probably tell, I'm feeling pretty good about Q2. The system is working. Demand is strong. We've seen very good economic performance in China. A year ago, we were talking about, was it going to be a hard landing or a soft landing. It's pretty clear there's no landing at all. And in fact [lots] have increased and imports are very, very strong. And so we think the outlook for Q2 is very solid, and looking forward to talking to all of you at the Q2 quarterly call in July. So thanks very much, all.

Operator

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