PARTICIPANTS

Corporate Participants

H. Fraser Phillips – Senior Vice President-Investor Relations & Strategic Analysis, Teck Resources Ltd.
Donald R. Lindsay – President, Chief Executive Officer & Director, Teck Resources Ltd.
Jonathan Price – Senior Vice President and Chief Financial Officer, Teck Resources Ltd.
Réal Foley – Senior Vice President-Marketing & Logistics, Teck Resources Ltd.
Harry Milton Conger – Executive Vice President and Chief Operating Officer, Teck Resources Ltd.
Robin B. Sheremeta – Senior Vice President-Coal, Teck Resources Ltd.

Other Participants

Emily Chieng – Analyst, Goldman Sachs
Carlos F. De Alba – Analyst, Morgan Stanley & Co. LLC
Jackie Przybylowski – Analyst, BMO Capital Markets Corp. (Canada)
Timna Beth Tanners – Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Teck's Fourth Quarter 2020 Earnings Release Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. This conference is being recorded on Thursday, February 18, 2021.

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

H. Fraser Phillips, Senior Vice President-Investor Relations & Strategic Analysis, Teck Resources Ltd.

Thanks very much, Eric, and good morning, everyone. Thank you for joining us for Teck's fourth quarter 2020 results conference call.

Before we begin, I would like to draw your attention to the caution regarding forward-looking statements on slide 2. This presentation contains forward-looking statements regarding our business. The slide describes the assumptions underlying those statements. Various risks and uncertainties may cause actual results to vary. Teck does not assume the obligation to update any forward-looking statement.

We'd also like to point out that we use various non-GAAP measures in this presentation. You can find explanations and reconciliations regarding these measures in the appendix.

With that, I will turn the call over to Don Lindsay, our President and CEO.

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

Thank you, Fraser. Good morning, everyone. I will begin on slide 3 with highlights from 2020 and then Jonathan Price, Teck's Senior Vice Presidence and Chief Financial Officer, will join me in presenting our fourth quarter 2020 results. We will conclude with a Q&A session where Jonathan and I and several additional members of our senior management team would be happy to answer any questions.

So, without question, 2020 was one of the most challenging years any of us has experienced as we worked to manage through the global pandemic and its impacts on our people, our communities and the economy. And the Teck team, I believe, rose to meet that challenge, putting in place comprehensive measures to protect health and safety and to ensure we could continue to operate responsibly and progress strategy to grow copper production and optimize productivity and cost structures at our existing operations.

In the fourth quarter, we delivered the strongest quarterly financial results for 2020, while also outperforming the same period last year. As of the end of the year, we achieved our target of 40% overall completion of QB2, which is expected to double our consolidated copper production by 2023. This, in conjunction with our ongoing focus on reducing costs and deploying RACE21™ technology-driven improvements across our operations, will ensure that we are well-positioned as the rollout of vaccines and broad-based economic stimulus drive global economic recovery and associated commodity demand.

Our steelmaking coal adjusted site cash cost of sales decreased to an average CAD 58 per tonne in the fourth quarter. This was ahead of plan and reflects the structural shift to a lower cost base. At the same time, we exceeded our target for our cost reduction program, realizing more than CAD 1 billion in savings as of the end of 2020. We did all of this while recording our safest year on record. So in spite of our good performance in health and safety in 2020, it is with regret that I report that we did have a fatality at our Red Dog operation in January of 2021. A detailed investigation into the incident is underway, and our condolences go out to the family and friends and the entire Red Dog team.

Turning to an overview of our financial results on slide 4. As I said earlier, we delivered the strongest quarterly financial results of 2020 in the fourth quarter. Revenues were CAD 2.6 billion and adjusted EBITDA was CAD 839 million. Bottom line adjusted profit attributable to shareholders was CAD 248 million, which is CAD 0.47 per share or CAD 0.46 per share on a diluted basis. Our fourth quarter profitability improved from a year ago, reflecting significant increases in copper and zinc prices. This was partially offset by a substantial decline in the steelmaking coal price compared with the same period last year. The average of the FOB Australia price assessments declined from approximately $138 per tonne in early October to approximately $103 per tonne by year-end.

For the full year, we generated CAD 8.9 billion in revenue and CAD 2.6 billion in adjusted EBITDA. Bottom line adjusted profit attributable to shareholders, CAD 561 million which was CAD 1.05 per share or CAD 1.04 per share on a diluted basis. Jonathan will review our financial results in a few minutes. And once again, if we could all mute that would be appreciated.

I'll now run through some key updates for the quarter starting with QB2 on slide 5. At QB2, we continued to execute on our copper growth strategy. QB2, as most of you know, is a very long life, low-cost operation with major expansion potential and it is expected to double our consolidated copper production by 2023. Construction is progressing well across all areas of the project and is in line withour re-baselined schedule that we developed last May as a result of COVID-19. Since our suspension early in 2020, we gradually ramped back up over the year and we're now at pre-COVID-19 levels in accordance with the plan.

I'm very happy to say that in spite of the significant COVID-19 challenges, we achieved our targets through the end of 2020 with an overall completion through the year of 40%. The project continues to track to the capital estimate of $5.2 billion before COVID-19 impact. And first production at QB2 is still expected in the second half 2022. The go-forward capital cost from January 2, 2021 is estimated at $3.2 billion, and again that is before the COVID-19 impacts.

We have updated our estimate of COVID-19 impacts which now stands at $450 million to $500 million which represents an increase of around $50 million from a previous guidance range, but in line with expectations. This includes the additional camp space that we have constructed to prevent transmission of COVID-19, and so we now have adequate camp space on site. And approximately $200 million of these costs have been expensed.

I want to spend a few moments taking you through some of the construction progress at QB2. Slide 6 shows an aerial view of the concentrator's grinding area which remains the critical and the longest scheduled path for the project and I have to say it's going very well. In the photo, you can see where we have significantly advanced the construction with the SAG mill and two ball mills for grinding line 1 already in place. And the concrete for the line 2 SAG mill and ball mills is complete. And we began installation of ball mill number 3 earlier this month. We are well advanced with the steel erects in the area as you can see. And then in the very bottom left, you can just see 3 of the 14 flotation tanks that have been erected with the internal installations already underway.

Slide 7 shows the starter dam area of the tailings management facility. We have completed the construction of the coffer dam, the underflow drains and lining of the upstream face of the starter dam. We're now working on hauling and compacting to fill to complete the starter dam which utilizes some of the current Teck mine fleet and also several of the CAT 794 trucks of the new fleet work that are now being commissioned. In the background, you can see the excavation and the preparation works on the east development, which is nearing completion.

The pipeline right of way and platform development is over 95% complete. And we continue with bending, stringing, welding, lowering, and covering of the MWS pipelinenow and you'll see that slide 8 shows a section of the water pipeline being lowered into place. And this is the pipeline that of course will bring desalinated water from the port up to the site.

On slide 9, you can see a photo from earlier in January during one of our marine work fronts where piling is advancing on the jetty from the shore. We have to be aware that in addition to the works that are shown right here, we are also pile driving offshore from a temporary island, which supports sort of two additional workfronts for the jetty going together.

You will see on slide 10 a key milestone with the completion and opening of our integrated operations center in Santiago where our team is working on operational readiness and training on the simulator. And the team is carefully designed and built facilities, so that the multidisciplinary operations team which comprises integrated planning, value chain optimization, process control, and reliability, they'll all have real-time visibility and tools to manage our QB2 operation. And as you might expect as several jobs, hundreds of jobs that had been high at the mine site of 14,000 feet elevation will now actually be in this area in Santiago.

Turning to slide 11, despite ongoing challenges associated with COVID-19 and thanks to the tireless efforts of our employees and contractors, our operation built resilience and performed in line with the plan in the second half of and without significant impacts carrying over to our 2021 operating plans. We achieved unit level guidance for production, sales, and unit costs for the second half of 2020.

As I've already noted, 2020 was our safest year on record. Our safety performance metrics were at their lowest for the full year with a significant reduction in incident frequency. Health and safety, of course, is a core value for Teck, and stringent COVID-19 prevention protocols remain in place at all sites at all sites.

On slide 12, we continue to focus on increasing margins, not volumes in our steelmaking coal business, to maximize cash flow from operations. We completed construction and pre-commissioning of the Elkview Saturated Rock Fill expansion in the fourth quarter on schedule and below budget, and commissioning is now under way. The Elkview SRF has been achieving near-complete removal of selenium and nitrate from up to 10 million liters of water per day since 2018. It is part of our ongoing work to implement the Elk Valley Water Quality Plan to maintain the health of the watershed around our steelmaking coal operations. The Elkview SRF expansion doubles the water treatment facility to 20 million litres of water per day.

As I mentioned earlier, our adjusted site cash cost of sales decreased to an average of CAD 58 per tonne in the fourth quarter, so below the CAD 60 per tonne target that we had. And that represents a CAD 9 per tonne decline from the third quarter, and that was better than planned. This substantial reduction in our cost of sales reflects a structural shift to a lower cost base, which was driven by five factors.

First, our Elkview plant expansion from 7 million to 9 million tonnes of capacity, so an incremental 2 million tonnes of low-cost, high-quality coal. Then the closure of our higher-cost Cardinal River operations which is now complete. We have declining strip ratios which we've highlighted and is part of the plan. We have the benefits of our cost reduction program and then also RACE21™ initiatives in technology and innovation.

Sales were near the top end of the Q4 2020 guidance range at 6.1 million tonnes with nearly 20% of sales to Chinese customers, which benefited our fourth quarter realized price. We are continuing to prioritize available spot volumes to China, which is expected to benefit our price realizations in Q1 2021.

Importantly, steelmaking coal prices have increased significantly since the start of the year in response to improving demand in markets outside China and the trade flows rebalancing. FOB Australia pricing levels increased significantly over a three-week period and are currently approximately $40 per tonne higher than they were at the start of 2021 and CFR China prices have increased to above $220 per tonne.

Since January 1, 2011, I do want to remind you that the FOB Australia price has averaged around $170 a tonne nominally or $180 per tonne on an inflation adjusted basis. Based on our published sensitivities, a $50 per tonne increase in the FOB Australia's steelmaking coal price would increase our annualized EBITDA by around CAD 1.5 billion. So that $40 increase that we currently have would be an increase in EBITDA of about CAD 1.2 billion versus where it was running at before.

Moving to slide 13, at Neptune, we are nearing completion of the upgrade and expansion to secure the long-term low cost and reliable supply chain for steelmaking coal, which will structurally leave our costs lower for decades to come and will ensure that we can capture high prices when they come. We achieved 90% overall completion at the end of January 2021 and look forward to completing this.

All major equipment has been installed and significant new facilities, including the new overpass, shiploader, stacker reclaimer and single rail car dumper have been placed into operation and are performing to plan. Construction completion of the remaining inbound facilities associated with the new double railcar dumper is expected around the end of first quarter. A significant effort has been put in to maintaining the schedule though, through additional labor and multiple shifts in overtime. And we take that together with an already congested site which has, of course, seen impacts from COVID-19 as well. We have seen very significant impacts on worker productivity, and this has increased costs which are expected to come in approximately 10% above our prior estimate before COVID-19 impacts of about CAD 800 million.

Now, if you go back to the beginning of the pandemic and since the onset of the pandemic, COVID-19 has impacted project costs by an estimated additional CAD 80 million to CAD 100 million. Pandemic has caused delays in some equipment delivery which then has driven a work resequencing and schedule extension of certain systems as well as reduced the productivity of the construction workforce as they managed through the many COVID-19 protocols. However, first coal through the upgraded facility is still expected early in the second quarter.

On slide 14, our strong sustainability performance continues to place Teck at the top of ESG rankings by the major ratings firms. We are the top ranked mining and metals company on both the S&P Dow Jones Sustainability World Index and Sustainalytics. We have an A rating and the top quartile for mining on MSCI. And we were recently named to the Global 100 Most Sustainable Corporations list by Corporate Knights.

And earlier this month, Teck was named for the fourth consecutive year to the Bloomberg Gender-Equality Index. And while these third-party rankings of ESG performance are definitely encouraging, we know that we still need to remain focused on continuing to build on our strong ESG track record to ensure that we meet the expectations of our shareholders, communities and society more broadly.

I'll now run through highlights of our fourth quarter by business unit starting with Copper on slide 15. Our Copper unit had a strong fourth quarter supported by an increase in copper prices. Copper production in the quarter was 78,100 tonnes with a net cash unit cost of $1.27 per pound sold. At Highland Valley, production continued to be impacted by harder-than-expected ores following a change in mine sequencing in 2020 in support of reduced waster movement as well as maintenance challenges. At the same time, production at Antamina was higher than a year ago due to higher mill throughput. Significantly lower net cash unit costs than in the same period last year were driven by higher cash margins for by-products reported by, of course our cost reduction program and RACE21™.

Now looking forward to 2021, we expect higher production at Highland Valley and Antamina to offset declines at Carmen de Andacollo and Quebrada Blanca. Net cash unit costs are expected to be slightly higher than in 2020.

Our Zinc business unit results for the fourth quarter are summarized on slide 16. And as a reminder, Antamina's zinc-related financial results are reported in our Copper business unit. Red Dog sales of zinc and concentrate were 149,000 tonnes which was in line with our guidance range. Red Dog's zinc production was up from Q4 2019 due to higher mill throughput and improved recoveries. At Trail Operations, refined zinc and lead production was higher than the same quarter in 2019, which back then was impacted by an electrical equipment failure in the zinc refinery.

Looking forward to 2021, we expect sales of Red Dog zinc in concentrate to be lower than normal in the first half of the year, particularly in the second quarter and this reflects the lower level of production in 2020 due to water constraints. Net cash unit costs are expected to increase in 2021 due primarily again to lower production volumes in 2020 compared to prior years and net cash unit costs are expected to vary significantly on a quarterly basis throughout the year and that is in line with our normal seasonal sales patterns.

Looking at Steelmaking Coal on slide 17, despite the challenges in 2020, the Steelmaking Coal business unit achieved a substantial ramp up in production and sales in the fourth quarter. As I mentioned earlier, sales were near the top end of our guidance range and our average realized price reflected sales to Chinese customers increasing to nearly 20% of total sales and that's at higher CFR China prices. Our adjusted site cost of sales decreased to an average of $58 per tonne in the fourth quarter, reflecting a structural shift to a lower cost base.

Looking forward, the recent severe winter weather, which you all experienced, has impacted our production and logistics service providers over the past two weeks. And if we include these adverse weather impacts, we expect sales of 5.9 to 6.3 million tonnes in the first quarter of 2021.

We will continue to prioritize available spot sales volumes to China, which is expected to result in favorable [indiscernible] (00:19:42). We expect our realized price in Q1 2021 to be materially higher than the 10-year average of our realized price which is normally around 92% of the benchmark and we expect it to be higher than that in Q1 2021 by a reasonable amount.

For the full year, we are transitioning to full production rates to meet anticipated demand. Our adjusted site cash cost of sales is expected to be between CAD 59 per tonne and CAD 64 per tonne with the first and fourth quarters near the lower end of the guidance range and the second and third quarters near the higher end, as a result of annual maintenance outages. Transportation costs are expected to decrease substantially to CAD 36 to CAD 39 per tonne for the full year with the completion of our Neptune upgrade and enhanced rail network flexibility. Costs are expected to exceed the upper end of the annual range in the first half of the year during the final stages of the Neptune upgrade construction and commissioning. And then they will be at the lower end of the range in the second half, once Neptune is up and running.

Our Energy business unit results for the fourth quarter are summarized on slide 18. Our realized prices and operating results were significantly impacted by a material decline in benchmark oil prices and the decision to reduce production compared with Q4 2019. As previously announced, Fort Hills Partners safely and efficiently restarted the second train facility and ramped up production in the fourth quarter to approximately 120,000 barrels per day. And as I noted earlier, during the fourth quarter we recorded a non-cash pre-tax asset impairment for our interest in Fort Hills of CAD 597 million or CAD 438 million after-tax, in part due to lower market expectations for long-term Western Canada Select heavy oil price.

Looking forward to 2021, we expect our share of Fort Hills' annual production to increase approximately 25% from 2020 levels and our adjusted operating costs to decrease by approximately 20% compared to 2020. We expect production to be lower and costs to be higher in the first half of 2021 and then improve in the second half as production is ramped up. We'll be pushing hard to get Fort Hills back to full production along with our partners as soon as we can.

The Fort Hills Partners continue to also focus on cost discipline and on maintaining the operating and capital cost savings that were achieved in 2020 while assessing plans to further increase production back to nameplate capacity. We are encouraged by the recent significant improvement in benchmark oil prices with West Texas Intermediate over $61 per barrel and spot Western Canada – Canadian Select close to $50 per barrel.

And with that, I will pass it over to Jonathan Price for some comments on our financial results.

Jonathan Price, Senior Vice President and Chief Financial Officer, Teck Resources Ltd.

Thanks, Don. And if I could just ask everyone again to mute their mics if they're not already, please. So I'll start by addressing the detail of the quarter's and the year's earnings adjustments on slide 19.

In Q4 2020, we recorded a noncash after-tax impairment of $438 million on our interest in Fort Hills. Environmental costs were $201 million after-tax, primarily relating to a decrease in the rates used to discount our decommissioning and restoration provisions and increased expected remediation costs. After these and other minor adjustments, bottom line adjusted profit attributable to shareholders was $248 million in the quarter, which is $0.47 per share or $0.46 per share on a diluted basis.

The changes in our cash position during the fourth quarter are on slide 20. We generated CAD 594 million in cash flow from operations. We spent CAD 930 million on sustaining and growth capital including CAD 483 million on QB2 and a CAD 150 million on the Neptune facility upgrade.

Stripping activities are a CAD 120 million, which was lower than a year ago primarily due to the decrease in strip ratios at our Steelmaking Coal operations. We paid CAD 55 million on expenditures on investments and other assets. We received net proceeds of CAD 540 million from debt in the quarter, which included a drawdown of CAD 474 million on the QB2 project finance facility. Redemption or repurchase and repayment of debt totaled CAD 30 million.

We drew a net CAD 174 million of our revolving credit facilities. Lease payments totaled CAD 39 million and we paid CAD 64 million in interest and finance charges and CAD 26 million in our regular $0.05 per share quarterly based dividend. After these and other minor items, we ended the quarter with cash and short-term investments of CAD 450 million.

Now turning to our financial position on slide 21. We have a strong financial position with current liquidity of CAD 6.5 billion. This includes our current cash and the amounts available on our $5 billion of committed revolving credit facilities. $3.7 billion is available on our $4 billion facility that matures in Q4 2024, and our $1 billion sidecar that matures in Q2 2022 remains undrawn. Importantly, both facilities do not have any earnings or cash flow-based financial covenants, do not include a credit rating trigger, and do not include a general material adverse effect borrowing condition. The only financial covenant is a net debt-to-capitalization ratio that cannot exceed 60%, and at December 31st, that ratio was 24%. Of our $2.5 billion limited recourse project financing facility for QB2, we have drawn $1.1 billion, of which $368 million was in the fourth quarter.

Going forward, project funding will be from the project financing facility until the project reaches a specific ratio of project financing to total shareholders funding. Teck's next contributions to project capital for QB2 are expected in the first half of this year subject to the impact of COVID-19 on the project schedule and timing of capital spending.

We have no significant note maturities prior to 2030 and investment-grade credit ratings from all four credit rating agencies.

Now, as Don mentioned earlier, we exceeded our target for our cost reduction program, realizing more than CAD 1 billion in savings as of the end of 2020.

During the period from October 1, 2019 through to December 31, 2020, efforts from our cost reduction program reduced our planned spending at the end of June 2019 by CAD 1.065 billion, of which CAD 355 million were operating cost reductions, and CAD 710 million were capital reductions. Of this, CAD 210 million of the total was realized in 2019, and CAD 855 million was realized in 2020.

As noted, our cost reduction program is now complete and reductions are included in our operating plans and guidance going forward.

Finally, as shown on this slide and as Don has mentioned, we have significant leverage to increasing Copper and Steelmaking Coal prices. Overall, we have a strong financial position to allow us to continue to weather the challenges around COVID-19 and to complete the Neptune facility upgrade and the QB2 project.

And with that, I will pass it back to Don for closing comments.

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

Thanks, Jonathan. I wanted to close with taking a quick look at Teck's prudent growth strategy and what many people are calling green metals these days. Teck is one of the best-positioned companies globally to capitalize on the strong demand growth that we see for green metal, particularly copper, which is being driven by the global trend of decarbonization and the associated electrification. We're already a decent-sized copper producer from four existing mines, but more importantly, as shown on slide 22, we have perhaps the best, or one of the very best copper production growth in the industry and in pretty good jurisdictions as well. By 2023, Teck will have doubled their consolidated copper production, as we complete construction of QB2. This compares to average copper production growth of just 21% for our diversified mining peers and only 11% growth for copper companies, and these numbers are according to Wood Mackenzie. So, Teck does provide investors with strong copper growth exposure at a time when copper demand is set to expand significantly.

Moving to slide 23, that accelerated copper growth is the cornerstone of our strategy. By growing our copper production, we will rebalance our portfolio to become a major green metals producer. And at the same time, it makes carbon, including Steelmaking Coal, a much smaller overall proportion of our business. We're also continuing to strengthen our existing high-quality assets through RACE21 innovation program, which is harnessing cutting edge technologies including artificial intelligence and automation to drive step-change improvements in productivity, efficiency, safety, and sustainability. And everything we do is underpinned by a focus on disciplined capital allocation.

We will rigorously assess and balance future opportunities for growth with providing cash returns to shareholder. And of course, we remain committed to strong environmental, social, and governance performance, including setting ambitious targets to reduce our carbon intensity and be carbon-neutral across all our operations by 2050.

Wrapping up on slide 24, this is indeed a very exciting time for our industry and for Teck. There are opportunities ahead as global growth, and the transition to a lower carbon economy drive new green metal demand. We're strengthening how we operate, both through cutting edge innovation and through improved productivity, as well as leading ESG performance. And we have a leadership team with the right mix of skills and experience to deliver on our strategy.

And with, that we'd be happy to answer your questions. And like many of you, most of us on phone lines from home. So please bear with us if there is a delay while we sort out who will answer your questions. So, operator, back to you for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And the first question is from Emily Chieng with Goldman Sachs. Please go ahead. Your line is open.

<Q – Emily Chieng – Goldman Sachs>: Good morning, everyone, and thanks for taking the time today. Maybe coming back to your last point there on the strategy and positioning the company for green metals. As you look beyond the startup of QB2 and square what appears to be a very attractive supply-demand outlook for copper and a currently, a very supportive commodity price environment, can you perhaps discuss what the pecking order for developing some of your longer term growth projects, including Zafranal and QB3 and some of the other satellite projects there, and maybe a potential timeline before we could see capital being directed towards these?

<A – Don Lindsay – Teck Resources Ltd.>: Yeah. No, excellent question, because as you know, we are rich in copper resources. We have about seven projects, but not all of them will necessarily be built by Teck. So, there's a few obvious ones that we're looking at very closely. Everyone knows about QB3. The fact is that QB as a resource has grown enormously, and we're crossing the 8 billion tonne threshold and headed to 10 billion tonnes and beyond.

So, at some point in time, QB3 will just be a natural deployment of capital but whether that is sort of a 50% expansion, a doubling of capacity or something larger like what our Chief Operating Officer, Red Conger, directed when he was at Freeport's Cerro Verde in Peru, is yet to be determined, and won't be determined for some time. We're still at the – we completed the scoping study, headed to prefeasibility.

So in terms of the question on timeline, that one wouldn't be ready for sanction probably till early 2025. I should note that Teck itself wouldn't necessarily be putting up the initial equity capital because of our deal with Sumitomo and then project finance. So, capital from Teck wouldn't come up for quite some time, maybe as long as 2027. So that leaves us open to do other things if we chose.

The Zafranal project, of course, has already completed its feasibility study and the initial stages of environmental permitting. We had started a sales process on that before COVID and finished the first round – very happy with first round bids and had selected the second round participants, but then COVID hit and nobody was able to visit the site, and so we put the process on the shelf. We won't be restarting that again until midyear at the earliest. We want to get through the elections in Peru and then take a look at what the world looks then. But the one thing we know for sure is it's worth more today than it was pre-COVID, and we have a good indication of that from the different inbound calls we get.

And the reason for that – and so with San Nicolás or any of our other projects; not only is the spot copper price that much higher, but the perception of copper demand growth because of the electrification that's going on in the world, COVID has actually accelerated decarbonization around the world. So, people have shifted more positively their view on copper outlook. And then the copper companies, including the midcaps, they have real access to capital now and they look around for opportunities, and they're very scarce, and Teck has a lot of them. So, they've approached us. And we'll take our time, but there's clearly things we could do there.

The really exciting one is San Nicolás. We'll be publishing the results of the prefeasibility fairly soon. But suffice it to say that it is a very high IRR, reasonably short construction schedule, lower capital cost anywhere around the $800 million range, so very manageable. We own 100% of it. We've had inbound calls from several about this and actual offers from people that haven't even done any site due diligence or that sort of thing. So, we know it's hot commodity, so to speak, but we won't be deciding again until after midyear sometime what direction we go on that, whether we partner with someone else or keep it ourselves or something else. So, that would give a feel for it, but we do have a rich array of options to work through.

<Q – Emily Chieng – Goldman Sachs>: Great. That's really helpful color. And one more, if I may, just around the latest on Teck's views on the met coal outlook there. I know you guys typically provide some really great color, but what are you seeing as associated with the Australian import ban to China essentially and what maybe are your views of the latest on the global supply/demand for seaborne met coal and how does sort of Teck fit into all of that?

<A – Don Lindsay – Teck Resources Ltd.>: Okay. That's a key question I'm sure everybody wants to hear the answer, and I'm going to turn it over to Réal Foley in a minute. But I just want to finish a thought from your previous question that people may not have gleaned from my answer but we should note that in terms of returning capital to the shareholders, I mean QB2 finishes second half of 2022 – which is just next year – and we get a complete reversal in our free cash flow position.

Right now, we're putting out a couple of billion dollars a year to build it. But once it's built, the whole thing reverses, instead of putting out money, CAD 1 billion something, starts coming back in. So it's a more than CAD 3 billion reversal in a good way, and there won't be a project ready to build for a couple years in between.

So we see a lot of free cash flow for a couple years at least a couple years in the 2023 and 2024, 2025 kind of range before any other project could be built. We want to make sure people understood that. And we have our capital allocation framework in the IR presentation. You can see how the board has approved capital to flow. And at the end of that calculation, a minimum of 30% is returned to shareholders through dividends or buybacks, but it could be 100% of the surplus, if that's what the board decided to do.

And with that, Réal, over to you on the key coal question.

<A – Réal Foley – Teck Resources Ltd.>: All right. Thanks, Don. Thanks, Emily, for the question. There is quite a bit in your question. So I'll start and talk about the China ban on Australian coals, and I'll talk about what we're seeing in demand and end up with a bit of a summary on the supply side.

So, as far as the ban is concerned, from what we're seeing and hearing in the market from our customers and also our two offices in China, there is no set date or clarity as to when the ban might end. So, in the meantime, what we are seeing and taking advantage of is the price premium for sales into China. If you look at pricing today, the FOB Australia price is around $140 currently and the CFR China price is at $220. So, once you deduct ocean freight, which for us is somewhere around $15, $16 currently, that still leaves a premium above $60 per tonne. Hence, our focus on trying to maximize sales into China to capture that benefit.

Now, if we look on the demand side, in China, as a result of the ban, we've seen a large increase in seaborne coking coal imports in 2020 to the second-highest level on record at 49 million tonnes. That compares to 60 million tonnes in 2013, which was the highest level and that was an increase of 8 million tonnes year-over-year. Inventories at China ports are currently very low; they're sitting at somewhere around 2.4 million tonnes. The record low was around 1.2 million tonnes; the record high was 13.8 million tonnes. So, when you look at this, with port inventory so low right now and around half these tonnes being Australian coal that have not cleared customs due to the ban, the – port stocks are indeed very low and the China CFR price is continuing to be high.

On February 7, just ahead of the Lunar New Year holiday, it was sitting at somewhere around $230 per tonne on a CFR China equivalent basis. And China domestic production in 2020 only went up somewhere around 4 million tonnes, or less than 1% at 485 million tonnes. So there is ongoing challenges to increase that production in relation to continuing safety and environmental inspections at the mines.

The other source of the coal for China is Mongolia. Those exports were down 10 million tonnes to 24 million tonnes in 2020. And when we look at the beginning of the 2021, to-date, the number of truck movements through the border with China is still somewhere around 50% of where it was at the same time in 2020. And as a result of this, the Mongolian prices have also increased, and again, same date around February 7 prior to the start of the Lunar New Year, they were sitting at CAD 218 CFR China equivalent.

And then when we look at demand in other market areas, we're seeing demand improve. We've seen that improvement start from around April last year, that is, ex-China market. And in December, the hot metal production increased for an eighth consecutive month with the primary increases actually coming from the Japan, Korea, Taiwan markets, a nearly 10% increase, and India was up close to 2%.

That is in response to around 80% of the blast furnaces that were closed at the start of the pandemic. 80% of those have already been announced to restart, or restarted. That includes somewhere around 75 million tonnes of capacity that has been restarted out of around a 100 million tonnes that was shut down at the start of the pandemic.

And then lastly, on the supply side, so for seaborne supply, we're seeing that 2020 supply was reduced somewhere around 27 million tonnes. That includes Australia that was down around 50 million tonnes; US supply, somewhere around 6 million to 8 million tonnes; Canada and Mozambique, down each 3 million tonnes to 4 million tonnes.

And when we're looking at the mines – the existing mines, the reality is that Wood Mac is estimating the breakeven prices around $125 per tonne. For a large portion of 2020, the FOB Australia price was below that. So that put a lot of pressure on mines. We've seen a number of mines shut down, both in relation to economics but also COVID impact.

The combined export capacity that was shut down was 45 million tonnes on an annualized basis, and there – we're estimating that there's currently still around 15 million tonnes or so that is shut down currently. And as we're looking into 2021 – it is early days yet, but it – like I said at the start, with the ongoing ban on Australian coal in China, it seems that there will be a continuing impact to Australian production. So I'll leave it at that answer...

<Q – Emily Chieng – Goldman Sachs>: Fantastic. That's super helpful.

Operator: Thank you. The next question is from Carlos De Alba with Morgan Stanley. Please go ahead. Your line is open.

<Q – Carlos De Alba – Morgan Stanley & Co. LLC>: Yeah. Thank you very much, everyone. Just on QB2, if I may ask, are you guys planning on another update on CapEx, considering the Chilean peso where it is today, a little bit stronger than what you have baked into your estimates? And you know – I know you have provided a guidance on the impact on the move on the currency, but just wondering if you are planning on announcing any – an update.

Also, when you consider the new impact from COVID-related expenses that went up CAD 50 million, what are the assumptions around that? When do you expect the spate of cases will – or the pandemic will be coming under control in Chile, or what can you tell us around your assumptions behind that number, so we can feel more comfortable that the upper end of that range is probably not going to increase too much? And then finally, just very quickly, also on QB2, is it fair to assume that the contribution this year to QB2 CapEx from Teck will be around CAD 630 million and CAD 650 million in the year? Thank you very much.

<A – Don Lindsay – Teck Resources Ltd.>: Okay. I think there's three questions within there. I'm going to take the first one about when we go updating the investment. Then I'll turn over to Red Conger on the second one on the COVID expenses components and going forward, and then either Red or Alex on the third one.

So, when we did the definitive estimate that we announced on April 1, 2020, that was very detailed, from the ground up, every single contract reviewed by Bechtel to build up the total costs looking at all the contingencies and the rest of it. So that was a very, very detailed exercise; takes a lot of time and resources. We don't intend to do another version of that as such. But in terms of updating the numbers that we're managing to, that $5.26 billion, we would likely give you a more detailed update in Q2. Actually, we've got a few more months running at – building to a higher peak of workforce that is in the plan as we go towards the middle of the year.

So, the update we've given you today is it remains on track with what we had published on the 1st of April the definitive estimate excluding the COVID cost and then we've given you the COVID cost estimate there.

Red, over to you on QB2, COVID – how it's doing with COVID and costs.

<A – Red Conger – Teck Resources Ltd.>: Thanks, Carlos. We are assuming that we continue to manage the workforce with all of the protocols in place that we're practicing and executing very well. Right now we've been very pleased with essentially no workplace passing of the virus so far. We are testing people before they come up, keeping them from coming on to the property if people test positive with PCR testing. So we've been very pleased with all of that. And our workforce is doing a great job self-reporting and just staying off work, if they're even suspicious that they might be ill.

So the assumptions that we have going forward, as you may recall, we expanded the housing accommodations that we have up at the site, the man camp was expanded so that we could maintain social distancing. But that all is working well, and all of the assumptions now are based on current experience that we are going to continue to ramp up our head count. We have space to do that as work fronts develop. And as the construction plans get executed, there will be more employees on site and the assumption still put us in the second half of next year for completion.

<A – Don Lindsay – Teck Resources Ltd.>: And, Jonathan, I see you put your hand up to take the third question on capital.

<A – Jonathan Price – Teck Resources Ltd.>: Sure. Look, just to say briefly, I think the assumption around CAD 600 million or so Teck share to QB2 this year is about right, if you look at what we've said with respect to the project finance facility and obviously the share between ourselves and the Sumitomo Group. Then, yes, about CAD 600 million is about the right number.

<Q – Carlos De Alba – Morgan Stanley & Co. LLC>: All right. Excellent. Thank you very much and good luck.

<A – Don Lindsay – Teck Resources Ltd.>: Thank you.

Operator: Thank you. The next question is from Jackie Przybylowski with BMO Capital Markets. Please go ahead.

<Q – Jackie Przybylowski – BMO Capital Markets Corp. (Canada)>: Thanks very much. I guess, I'll just start by asking just a clarification following on Carlos' question. You said in the release that your COVID-related costs for QB2 are $50 million higher than they used to be, so $450 million to $500 million. You've previously given another number on top of that. I think it was $45 million for camp expenses. So, is it still another $45 million in addition to that $450 million to $500 million range? Or are you just sort of adding the two numbers together?

<A – Don Lindsay – Teck Resources Ltd.>: As we noted in the disclosure, we've added it together. So it's just the one number.

<Q – Jackie Przybylowski – BMO Capital Markets Corp. (Canada)>: Got it.

<A – Don Lindsay – Teck Resources Ltd.>: And this $50 million is sort of what was expected by adding another quarter worth of operating with COVID. There was a bit of a second or a third wave that you might call it that occurred during the period.

<Q – Jackie Przybylowski – BMO Capital Markets Corp. (Canada)>: Thanks. Yeah. That's helpful. I just wanted to clarify on that. And then the other similar question, I guess, on Neptune, just for clarification because there's a few different numbers I think on the CapEx there as well. So, am I thinking about this right that you had CAD 800 million roughly was your budget? You're saying now it's 10% higher. So, say, CAD 880 million and then another CAD 80 million to CAD 100 million on top of that? So you're kind of in the CAD 960 million to CAD 980 million? Am I adding that up correctly? Is that all additive?

<A – Don Lindsay – Teck Resources Ltd.>: Yes. That's correct. What we're doing with all the projects and it would be whether it's QB or water treatment plants or Neptune making sure that people can identify what the actual cost of COVID was that's not going to be around hopefully one day with vaccines and the rest of it, and then what costs measured against the actual direct project costs that would be – that's why it's broken out that way. And that's how Pricewaterhouse, our auditors, would want to report.

<Q – Jackie Przybylowski – BMO Capital Markets Corp. (Canada)>: Okay. No, that's great. I just wanted to make sure that I'm not double counting anything. And then maybe just finally one other question on Highland Valley, it looks like your guidance has come down for 2021 and then maybe a little bit in the future as well, okay. Can you maybe give us some sense, and so is it still the ore hardness that's causing you problems there? And do you see maybe an opportunity to kind of go back to your previous guidance range, if you are able to get more manpower inside or work through those hardness issues?

<A – Don Lindsay – Teck Resources Ltd.>: Red, I'll turn it over to you or Shehad if you like.

<A – Red Conger – Teck Resources Ltd.>: Yeah. Thanks, Don. Yeah, Jackie, we've identified a rock type that's in this particular push-back that hasn't been encountered for a long time. It was not included in our mineral model. We've now done that work. We've mapped it. We've done some drilling. And we now have it identified in our mineral model. And it's going to be with us for another year or so as we work through that. So, now well-known accurately modeled and, of course, the team is working every day to optimize the performance, given the work types that we have, blending schemes that we can do. They're being very creative with sending certain types to different primary crushers which provide opportunities for us to optimize given that we now know the ore types that we're presented with. So we'll keep you updated on that progress, but for now, it's known in maps and modeled and that's the difference.

<Q – Jackie Przybylowski – BMO Capital Markets Corp. (Canada)>: All right. Thanks very much, Red. And I realize I've asked a number of questions or even if I could just ask one more, going back to the coal division, the transportation costs guidance that you've given is obviously down a little bit and that reflects the expansion at Neptune. But we're recognizing that the Neptune Terminal isn't going to be running at full strength for the entire year. Can you maybe give us an idea of when you expect to get this full run rate and then by extension serve at that full run rate, what we might expect that transportation costs might come down to going forward like 2022?

<A – Don Lindsay – Teck Resources Ltd.>: Okay. I'll turn that to either Réal or Ian Anderson.

<A – Réal Foley – Teck Resources Ltd.>: Yeah. I can take that. I can take that, Don. So, Jackie, yeah, you're right. We've indicated lower transportation costs for 2021. And we've also said that we're expecting the first half to exceed the higher end of guidance, as we're finalizing the last stages of the Neptune upgrade, and then the lower end of the range in the second half. So that reduction, a lot of it is associated actually to increasing the Neptune usage.

We said also that first coal is expected to go through the new dumper early in Q2, and then we will be ramping up with wet commissioning beyond that. With Neptune expected to reach capacity – the nameplate capacity is 18.5 million tonnes, but we're expecting Neptune to be able to increase beyond that and we're expecting to exceed that 18.5 million tonnes somewhere around the end of the third quarter or into the fourth quarter this year. And then for 2021, of course, we'll be running Neptune to maximize utilization and reduce our logistics cost.

<Q – Jackie Przybylowski – BMO Capital Markets Corp. (Canada)>: So if we're modeling transportation costs in 2022, it should be like around CAD 35, CAD 36 a tonne? Would that be reasonable?

<A – Don Lindsay – Teck Resources Ltd.>: Jackie, a little bit hard to say because there's more than just the port cost. There's the rail cost as well. We're on negotiations on that one. So we can't give you a really accurate guidance. Probably in the third quarter when we see what the ultimate capacity will be because we are optimistic it'll be a reasonable amount above the 18.5 million tonnes, plus the rail costs. So there's two factors that we don't know yet and when we do we will let you know.

<Q – Jackie Przybylowski – BMO Capital Markets Corp. (Canada)>: Okay. Appreciate that. That's it for me. Thanks very much, everybody.

Operator: Thank you. The next question is from Timna Tanners with Bank of America. Please go ahead.

<Q – Timna Tanners – BofA Securities, Inc.>: Yeah. Hey. Good morning. Just want a couple of things I wanted to follow up on. On the – not the transportation, but on the coal cost side, the range is between CAD 59 and CAD 64, and I just wanted to understand a little bit more what could drive the high end of the range and the low end just to get a little more color around that.

<A – Don Lindsay – Teck Resources Ltd.>: Robin, over to you.

<A – Robin Sheremeta – Teck Resources Ltd.>: Yeah, you bet. I'll try and give you a fair bit of context just so you can tell why they changed. But probably the most important thing is that our costs are typically higher; they'd be toward the higher end of the range through Q2 and Q3. And that's really because we do our annual maintenance outages through that period of time. And so you will see those costs be closer to the top.

And Q1, Q4, typically, they'd be closer to the bottom end because we'd be running pretty much flat out. We have made our structural changes. So the operating costs that we saw through the second half of 2020 are roughly what's giving us a sense of range about CAD 59 to CAD 64. There are three things I do want to point out that are cost pressures that we do have to recognize this year. So one of them is the onetime cost, which is we've got our mining – we are mining through some old legacy waste type material in one of the operations in it. We have to bring a contractor in to handle the material. It's fine. It's difficult to handle. So that's a onetime cost that's putting a bit of pressure on overall costs.

The other one is we enjoyed some pretty low oil pricing through 2020. We expect, as you see lately, that that cost is likely going to be a little bit higher. And then just ongoing water management, we're going to bring on two of our water treatment facilities this year. So we've got the Elkview Saturated Rock Fill, which actually just started pumping water here three days ago, so pretty excited about that. But that will cost us some operating and then the Fording River South Active Water Treatment Facility comes on midyear. So that will also start to produce and generate some operating cost. So when you put those three factors together, they collectively represent about CAD 2 to CAD 3 a tonne over what we would have seen, say, in 2020.

I guess, on the flip side, I think there's some really positive work obviously being done on RACE21™. So, we saw tremendous productivity improvements through last year. We're continuing to advance that strategy, and we do see significant value being generated. That value comes online in time, so it's difficult to kind of pin down when it happens. So some of that will offset some of the cost pressures, but that hopefully gives you an idea of why we range somewhere between that CAD 59 million and CAD 64 million through the year.

<Q – Timna Tanners – BofA Securities, Inc.>: Okay. That's helpful. Thanks. And then my only other question on – I wanted to highlight was just on the coal side. I think you've also given guidance that about two-thirds, if I recall, of your coal sales had been kind of locked into contracts that are tied to the Aussie price and then about one-third would be available for the Chinese benchmark, if you will. Is that the right numbers? Are there more complications around that thinking that I'm missing or is that roughly the way to think about the opportunity with the divergence of pricing this year?

<A – Don Lindsay – Teck Resources Ltd.>: A little less than one-third, but Réal, over to you.

<A – Réal Foley – Teck Resources Ltd.>: Yeah. Thanks, Don. Thanks, Timna. What we said is our target is to sell 7.5 million tonnes into China this year. But of course, that depends how long the ban will last and if there is import restrictions or other policy decisions. So with our guidance between 25.5 million and 26.5 million tonnes, it's somewhere north of the 25% of our sales, if we achieve that 7.5 million tonne target. Now, when we're looking at Q1 for instance, we're actually − keep in mind that with Lunar New Year, this is − there's usually a bit of seasonality in Q1, but we're moving sales into China kind of reflecting our target to maximize sales over there to capture those significant premium. And we've said that we're expecting to realize materially higher prices than our 10-year average realized price versus the average in the 3Q has been lagged by one month.

<Q – Timna Tanners – BofA Securities, Inc.>: Okay. So the 7.5 million, though, that's a pretty finite amount. There's not much flexibility there, right? I mean, you have fixed contracts and the ability to move things around is limited other than that amount.

<A – Réal Foley – Teck Resources Ltd.>: Yeah, that's correct. We have long-term contracts with long-term, highly stable, reliable customers that we are delivering into and not knowing how long the China ban would last and the efforts that it took to develop those very long-term relationships there, we are a long-term supplier. We have reserves and resources for decades to come. So we agreed to balance our sales book to take full advantage, but not only on a pinpoint, I mean, this is also looking at multi year.

<Q – Timna Tanners – BofA Securities, Inc.>: Got it. Okay. Thank you.

<A – Fraser Phillips – Teck Resources Ltd.>: Well, operator, Eric, I think we've got over time. I think we should hand it back to Don for closing remarks. Thanks.

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

Okay. Thanks, Fraser.

I just want to say that the team at Teck, we're all feeling pretty good about how the company looks right now. QB2 is on track. Chile is doing a great job on vaccines by the way, and while we're testing everybody, we will actually be vaccinating on site within a week. So that's another positive for maintaining control over COVID and getting good productivity. Neptune will be finished real soon, and so that structure lowers our costs for decades to come and give us the ability to capture high prices when they're there. The costs at the mine site in our coal business have come down significantly and the costs and logistics would be coming down throughout the year towards the second half of this year. Well, that's good. RACE21™ is certainly having its impact. We're all excited about that. And the market looks pretty strong. Our transition to more green metals as they're called, more copper, reweighting the portfolio is well underway and QB2 will be starting up next year. So coming soon.

Thanks, all, for being here today and we look forward to next quarterly call in July. Bye now.

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