

Event Name: Q2 2009 Teck Resources Limited Earnings Conference Call
Event Date: 2009-07-23

CORPORATE PARTICIPANTS

Greg Waller;Teck Resources Limited;VP, IR & Strategic Analysis
Don Lindsay;Teck Resources Limited;President, CEO
Ron Millos;Teck Resources Limited;SVP Finance, CFO
Len Manuel;Teck Resources Limited;SVP, General Counsel
Bob Bell;Teck Coal Limited;VP & Chief Commercial Officer
John Gingell;Teck Resources Limited;Controller

CONFERENCE CALL PARTICIPANTS

Brett Levy;Jefferies & Company;Analyst
Dave Katz;JP Morgan;Analyst
Justine Fisher;Goldman Sachs;Analyst
Greg Barnes;TD Newcrest;Analyst
Oscar Cabrera;Merrill Lynch;Analyst
Jeff Cramer;UBS Investment Bank;Analyst
Kerry Smith;Haywood Securities;Analyst
Ian Howat;National Bank Financial;Analyst
Ralph Profit;Credit Suisse North America;Analyst

PRESENTATION

Operator: Welcome to the Teck Resources second quarter 2009 earnings conference call. This conference call is being recorded on July 23, 2009. I would now like to turn the meeting over to Mr. Greg Waller, Vice President Investor Relations and Strategic Analysis. Please go ahead.

Greg Waller: Thanks very much, Matt. Good morning, everyone and thank you for joining us this morning. Before we start, I'd like to draw your attention to the forward-looking information slides in our presentation package on pages 2 and 3. This presentation contains forward-looking information regarding our business. Various risks and uncertainties may cause actual results to vary. Teck does not assume the obligation to update any forward looking statements.

At this point, I'd like to turn the call over to Don Lindsay.

Don Lindsay: Thanks very much, Greg, and good morning to all. I'm pleased to report that we have now delivered on most of the steps in the plan that we announced last November. These achievements reflect the efforts of a great team of people here over the last nine months, and I am pleased to be able to discuss our progress with you this morning.

I would like to start with a review of the highlights of the past few months before I review the financial and operating results. I will then turn the presentation over to Ron Millos, our Senior Vice-President, Finance and CFO, to address some more in-depth financial topics. And I should say, a number of other members of the management team are on the call this morning and available to answer your questions.

Turning to slide 5. We completed a number of refinancing steps in the quarter, and one of which we completed just subsequent to the end of the quarter. On the morning of our earnings call last quarter, we were able to announce that we had reached agreement with our lenders to amend the bridge and term loan facilities. The very positive results of these amendments, in addition to all of the other steps we had taken over the past eight months in executing on the plan, put us in position to go to the bond market in early May. And the bond offering was very well received. We raised US\$4.2 billion in a combination of 5, 7 and 10-year notes. This offering was well over-subscribed and provided net proceeds of US\$3.9 billion, which was used to repay a substantial portion of the bridge loan.

In June, we announced a non-binding agreement with BC Hydro to sell a one-third interest in the Waneta Dam for CAD\$825 million. We expect this transaction to close before year-end. And then in early July, we announced a US\$1.5 billion private placement to China Investment Corporation, which is China's sovereign wealth fund manager.

Turning to slide 6. Also in the quarter, we also advanced our non-core asset sale processes with the closing of the Hemlo sale and the announcement of the sale of our interest in the Pogo mine for US\$245 million and it subsequently closed in early July. We had previously also announced the sale of an interest in future gold production from Andacollo, which we expect will close in this quarter. The value shown here is our 90% share, and reflects the current value of Royal Gold shares which make up part of the consideration. The net proceeds of these transactions have or will all be used to repay outstanding debt.

Turning to slide 7. We are also in advanced discussions regarding the sale of our interest in the Morelos gold project in Mexico, and are progressing the sale process of our gold exploration properties in Turkey. Proceeds from the expected sales of these properties will also be applied to the remaining term debt.

On slide 8; I would now like to turn to the highlights of our financial results. We believe we delivered very solid results again in the quarter. Operating profit before depreciation and amortization was \$841 million and Net Earnings were \$570 million. And reflecting the significant re-financing steps we have taken since the end of the quarter, we have recently fully repaid the bridge facility and the term facility has been reduced to US\$2.7 billion. Looking ahead, the closing of the gold asset transactions and the sale of an interest in Waneta, will enable us to continue pre-paying the term debt. Our cash balance at the end of June was \$750 million.

On slide 9, we show the comparative earnings results for the quarter. Earnings from continuing operations in the quarter were \$521 million, or \$1.07 per share on a fully diluted basis. These results compare to net earnings of \$500 million, or \$1.12 per share in the same quarter last year. But as you will see on the next slide, we did have a large exchange rate impact on our debt in the quarter that significantly influenced the results. And this is shown on slide 10.

The strengthening of the Canadian dollar this quarter caused a re-statement of the value of our debt in Canadian dollar terms and about half of this non-cash translation gain is taken into income and we have removed this from adjusted net earnings. We also recorded gains on asset sales and we incurred a one-time charge in the quarter, as we wrote-off a portion of the bridge and term loan financing costs as a result of the payments we made on those loans. Both of these should be deducted from earnings as non-reoccurring items.

As a result, adjusted net earnings were \$213 million, or \$0.44 per share, which is about 20% better than the consensus estimate. At the comparative net earnings line, we remove the impact of final pricing adjustments in the quarter. The higher copper price in the quarter mainly contributed to a positive pricing adjustment in the quarter.

On slide 11 and turning to a review of prices for the quarter, prices of all our key products were down compared to the same quarter last year. However, we are selling some coal on a carry-over basis at last year's contract prices, which results in a realized price well above the new contract year prices.

The Canadian dollar was weaker this quarter compared to being near parity last year, mitigating somewhat the impact of the lower metal prices. For example, in coal, our most important product currently, the realized price was 20% lower than last year in US dollar terms, but only 8% lower in Canadian dollar terms. The year-over-year change in copper, zinc and lead is more significant, in the 20% to 40% percent range in Canadian dollar terms.

So considering how much weaker prices were generally on a year-over-year basis, I think the quarterly results are quite respectable and reflect the strong suite of assets we have and the positive impact of the cost containment measures we implemented last fall. Base metal prices did strengthen over the quarter, as shown in the next charts, which does provide some encouragement for Q3 and going forward.

So turning to slide 12, as these charts show, the copper price ended the quarter US\$0.52 per pound higher than it was when it started. Zinc and lead were up similar amounts in percentage terms. Average prices were only moderately higher than at the start of the quarter, so settlement adjustments were minimal this quarter, but positive overall. These charts also show the change in LME inventories in the quarter. Curtailment and closures announced in the past months throughout the industry have curtailed supply and restocking activity has supported the demand side.

On slide 13, in our coal business, our share of production and sales is higher on a year-over-year basis, reflecting our acquisition of Fording's interest last year. On a 100% basis, sales were 24% lower compared to the second quarter last year, but 30% higher than the first quarter this year. Unit site costs were higher compared to last year, due to lower production volumes and higher strip ratios. We expect though, that improvements in these factors as the year progresses will result in lower site operating costs.

Unit transportation costs were 15% lower compared to Q2, and primarily due to the impact of lower coal prices pursuant to coal price participation provisions in our port contracts. We have also recently announced a reduction in our rail rates that will contribute to overall lower transportation costs for the year, retroactively, to April the 7th. Our cash operating profit was 60% higher than last year, which is a result of our ownership increasing to 100%.

Turning to slide 14, I would like to take a moment to review the rail rate results we announced recently. The rate levels for the next year were set as a result of a statutory Final Offer Arbitration process. There are three key points that come out of this decision. First is that we will have lower rail rates for the year and we believe these new rates will be influential in rate determination for future years.

Secondly is that there is no coal price linkage in the new rail tariff. We believe that the railway should not be a participant in the resource value and that they are more than adequately compensated

through the rates that are in place without such a link. And third is that we now have some choice in our use of rail carriers from the five mines in the Elk Valley. As shown on the map, for some of the coal that leaves the Elk Valley on the CP system, we will be able to interchange this to the CN system at Kamloops for delivery to Vancouver. CN has direct access to our Neptune coal terminal in North Vancouver and this arrangement facilitates our increasing use of that facility. Our Investor Day event this September will feature a closer look at this part of our business, so I encourage you to attend.

Turning to copper, on slide 15. Overall production was about the same as Q2 last year, but our sales volume was 25% lower, which largely reflects the timing of our Chilean cathode sales. There also were some timing differences in concentrate sales from Antamina and Highland Valley. We expect that sales in Q3 will be restored to more normal levels, roughly equal to production.

The operating profit before depreciation and pricing adjustments is equivalent to a cash margin of US\$1.25 per pound of copper sold. This cash margin changes of course with operating costs, treatment charges and by-product credits, but demonstrates the continued strength of our copper business where weighted average overall cash costs for the quarter were approximately \$0.90 per pound.

Turning to slide 16, I would like to give you an update on our project at Andacollo, which is transitioning the mine from cathode to concentrate production. Unfortunately Tim Watson, our SVP Project Development, is not available today to discuss this, so I will just give you a brief update only.

The picture of the mill site highlights some of the major components of the project. Keep in mind that this will be an open-air mill, so there is no need for a building to enclose it in this climate. What you see here is very much what it will look like when it is complete. And you can see pretty well that the full plant from crushing and conveying, through grinding, floatation, filtration and all the ancillaries is pretty much there.

Mechanical equipment installation is virtually complete and the focus for the concentrator is completing piping and electrical installations. Commissioning is still scheduled for the fourth quarter of this year, with full production in the first half of 2010.

Now turning to zinc, on slide 17. Zinc and lead concentrate production levels were only slightly lower than the same quarter last year, which is actually quite good considering that since this time last year we have closed both the Lennard Shelf operation and the Pend Oreille mine.

Zinc in concentrate production includes zinc cons produced at Antamina, which we treat as a copper mine, whereas the financial results are for the zinc division only. Production of refined zinc at Trail was only slightly lower than Q2 2008, even though we continue with the curtailment of metal production that we initiated last November to adjust to customer demand. Last year in Q2, Trail was having some operating issues that were restricting production. Our zinc business continues to be cash positive in the quarter despite reduced sales volumes and significantly lower prices, demonstrating our low cost position in this segment.

I will now turn the call over to Ron Millos to address some financial issues.

Ron Millos: Thanks, Don, and I'm moving on to slide 19. This slide shows our debt position as of July 22nd, reflecting our current equity issue and other payments that we've made on the term debt.

As Don noted earlier, the bridge debt has now been completely repaid and the term debt has been reduced to US\$2.7 billion. We've also staggered the maturity with the bonds that we issued in May, so the maturity profile of our debt has now been significantly stretched out.

Our total debt is now under US\$8.0 billion, or about CAD\$8.9 billion and that leaves us with a net debt to net debt plus equity ratio of about 37%. For reference, this ratio was about 51% at March 31st.

On slide 20, we've summarized our changes in cash for the quarter. Cash flow from operations was \$421 million in the quarter. Our working capital change was slightly negative, as it normally is at this time of year due to the seasonality of our business up at the Red Dog mine. We made net debt repayments of \$1.21 billion in the quarter from our tax refunds and the proceeds of our asset sales.

Capital expenditures were \$148 million in the quarter, and investments were \$72 million, primarily for our share of the funding of the Fort Hills project. The rate of spending overall, but at Fort Hills in particular, has now been significantly reduced. Proceeds from asset sales that closed in the quarter were \$132 million.

After allowing for the effect of the exchange rate changes on cash and the cash flow from discontinued operations, our net change in cash in the quarter was a decrease of \$882 million, to a current balance of \$750 million at the end of June.

In accordance with the terms of the amended term credit facility, any cash - we are subject to a cash sweep on a quarterly basis. For this quarter the calculation does not require a payment.

Slide 21 shows our final pricing revenues for the second quarter. As we highlight each quarter, pricing adjustments on our sales of our various products can have a significant impact on revenues. Outstanding provisionally priced receivables at the end of any quarter are finally priced based on contractual quotational periods for subsequent periods, and that results in positive or negative price adjustments.

Overall for the quarter, pricing adjustments were positive, but relatively minor compared to the volatility we have seen over the past year. The largest change was in copper, where we had 96 million pounds of copper receivables, which were settled in the second quarter at US\$0.28 per pound higher than the price they were provisionally booked at, at the end of the first quarter. In Canadian dollar terms, this increased our revenues in the quarter by about \$28 million. We also incurred a small positive adjustment in zinc, while lead sales were unaffected.

We also record pricing adjustments on sales booked during the quarter as these are marked-to-market at quarter end. With the increase in metal prices at quarter-end, this contributed an additional \$27 million in revenue. I do remind you that when analyzing the impact of price changes on our final pricing revenues, refining and treatment charges and the Canadian/US dollar exchange rate must be included in your calculations. In addition, when trying to analyze the impact on our net earnings, you need to consider taxes and royalties.

Turning to slide 22. As annual met coal prices are established in US dollars, we hedged approximately 80% of our Canadian dollar cost exposure relative to those contract sales in order to protect our operating margins. At the end of June we had about US\$840 million outstanding at an average

exchange rate of CAD\$1.13 per US dollar. These hedge contracts mature in relatively equal increments through April of 2010.

As previously reported, we hedged a portion of our copper production into July and the remaining balance of those hedges is shown here. And we have received nearly all of the expected \$1.1 billion tax refund arising from the coal acquisition. We have about \$15 million left to come in; we expect that probably in August or September. And with that, I will turn the call back to Don Lindsay.

Don Lindsay: Thank you, Ron. Turning to slide 24; I just have some summary comments to make. We have come through a very difficult nine-month period, and it is clear that the world economy is not fully back on track yet, but we have seen very encouraging signs in our coal business. What is clear though, is that Teck has come through this period in very good shape. We have a very strong asset base in our coal, copper and zinc businesses and we continue to deliver on the plan we put in place last November. We are re-establishing a strong balance sheet through our non-core asset sales, debt rescheduling and the recent strategic investor issue. We are well positioned to continue to grow shareholder value. We have significant internal growth prospects in our copper and oil sands businesses, and the steps we have been taking should enable us to invest in those assets when the timing is right.

And with that, I'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator: Our first question is from Brett Levy, from Jefferies & Company.

Brett Levy: Hey guys, great job managing through all of these tough financial markets and commodity markets. It was a tough thing to get through; you guys did very well. Let me first ask, are you guys done selling stuff? It seems like you've gotten your balance sheet for the most part fixed. Is there anything else you want to sell and would it be significant or only smaller stuff at this point?

Don Lindsay: At this point I would say nothing significant. We are going to finish the smaller gold assets that we have previously announced, and which I just described. We have earlier been on the public record about looking for a 20% partner in our coal business, but I've also said that we'll be taking our time on that. And it's also quite clear that given the strategic investor that we have now, that it's not something that we need to do from a financial point of view.

We do have the view that if there's a partner out there that would really strengthen the business, then we would look at that quite seriously and we think that that is a possibility, because of discussions that we've had with a number of parties. There are two categories that I've previously referenced; one is a very large customer that would buy 20% of the business and pay a pretty healthy price and at the same time take a 20% share of production. And that of course would tighten up the market for everybody and probably affect pricing, which we think would be good for the business.

The other model is unitizing Australian coal production with Canadian coal production, which I won't go through all the details today, but we think would make a very, very strong competitor on a world market. So we are open to those kinds of discussions. Put it this way, the buyers are more interested in us right now than we are in them, so we're going to wait to watch how the coal market develops over the next year or so and we think it's coming our way; it's looking very positive.

In fact, just as a summary comment, there's no question demand has picked up strongly and the issue actually is being able to fill that demand. We're finding that it's more and more difficult actually to increase production and I think you'll see that throughout the industry. We have not been able to meet the full demand at this stage.

Brett Levy: And that said, obviously watching coal prices slip from up north of US\$300 to kind of where they are now, it seems as if - obviously iron ore is up 40% from its trough in March on the spot market. Can you give a little bit of colour as to what you might be seeing for 2010? Do you think you clear US\$200 a tonne? I know you're talking your position and I know it's a bit early, but I get the sense that even maybe more than iron ore, met coal is really tightening up.

Don Lindsay: We'd hesitate to put a price on the table for next year, but what we can say is that the trend line is definitely positive, the spot price is clearly strongly above where the annual contract price is. There are a lot of ships lined up off of the ports in Queensland (inaudible). We aren't able to meet our customer demand, so the trend line is very good, but I wouldn't want to make a prediction of what the actual price would be next year.

Brett Levy: Where are you selling on spot right now?

Don Lindsay: Well actually our issue is coal availability and I actually just spent the last two days with all of our coal management teams in Elk Valley and visiting the mines down here and in the office in Calgary today, seeing what we can do about increasing production. Because you can't ramp-up production quite as quickly as you'd like to and that's the issue that we're having and I think the industry is having. So for the moment, we're not doing spot sales until we can produce some more coal.

Brett Levy: But where are you seeing the spot prices right now?

Don Lindsay: Well, we wouldn't want to comment specifically, other than to say that they're significantly above the benchmark now. I think there are a number of other sources, Coal newsletter and so on that they're talking about--.

Brett Levy: I got it. I just wanted to get a sense as to what you guys are seeing from your customers.

Operator: Your next question is from Dave Katz from JP Morgan.

Dave Katz: I was hoping that you could talk a little more specifically about the growth of the coal assets. You're saying right now that you're tight and that one can't ramp-up as quickly as one would like. I know in the past you said that you could grow to 30 million with relatively little CapEx. Do you think the tightness supports that or is that something that you would wait and see if it's a temporary phenomenon or not?

Don Lindsay: We don't think it's a temporary phenomenon and I have asked our coal management team to get those plans out again and refreshed. We have done a lot of detailed work between mid-2007 and mid-2008 on that plan to get to 30 million tonnes. Actually it was specifically designed to get to 28 million tonnes by 2012 and then 30 by 2014. We don't know if that's still possible on that schedule, but it's certainly still possible to get to those production levels. The capital was, in the grand scheme of things, moderate, meaning in the \$400 or \$500 million range overall, over a number of years. But we're going to redo all that now just to refresh it, because we do believe that the demand will be there.

There's no doubt that the plans for building very large steel plants on the coast of China are continuing and that will have a significant effect on long-term demand for seaborne met coal.

Dave Katz: Okay. And then with the oil sands CapEx in 2010, given the increase we've seen in oil prices, is there any plan on the deference that you guys had talked about earlier?

Don Lindsay: Nothing's been changed. There's not going to be very much spent in 2010, either on Fort Hills as Suncor reviews the project or on our projects which are still at a quite early stage, so that's not a significant factor in the company for a while yet.

Dave Katz: Okay. And then finally, you mentioned in the slides that obtaining investment grade rating is a key goal at this point. What are the steps that you foresee taking that would help put you there, other than the steps that you've already taken?

Don Lindsay: It certainly remains a very key goal and we have made a lot of progress towards getting to our target ratios. Our net debt to debt plus equity is now down to 37% and we have a target of 25% to 30%. We think as we close the Waneta transaction and the other gold assets, that will reduce the term loan by more than another \$1 billion. And then cash flow from the end of June to the end of the year at current prices should certainly reduce the term loan to below \$1 billion and thereafter we pay it off by just cash flow. So it won't be that long before we'll be in the target ratios, but whether you then get the upgrade to investment grade would depend upon the rating agencies themselves and their outlook for the industry and I think if you go back and look at the releases that they've published on their view for the world, that that hasn't changed yet and it may be some time and that's something that's sort of out of our hands. But certainly the actions we're taking will get us back into the ratios required, reasonably soon.

Operator: Your next question is from Justine Fisher from Goldman Sachs.

Justine Fisher: Can you talk about the permitting situation at Red Dog and how that's progressing? I think you guys did mention that you wanted to see some traction by I think it was the third quarter of 2009, as far as accessing the new ore body there.

Don Lindsay: I'm going to turn that one back to Vancouver.

Len Manuel: It's Len Manuel, General Counsel. The permitting is on schedule and the supplemental environmental impact statement will likely go public the first week of August. The earliest the permits could go final is the first week of September, but realistically we expect some slippage in the final stages and expect the final permits to be issued around the first week of October.

Justine Fisher: And so if they're issued, then the development of the new ore body should go as planned, right?

Len Manuel: As long as there's not an appeal at that point.

Justine Fisher: Okay. And if there is an appeal, what are the consequences for Red Dog, would it shut down entirely? How do you guys deal with that if there are any other slip-ups beyond the normal permitting process?

Len Manuel: Well, it depends on the nature of the appeal and what specific components of the permits are appealed and of course we'll review that at the time. It is possible that if the appeal does go to the heart of the permitting process that that could delay our access to the ore body, but we really have to see. And the site is working very hard with NGOs and other interested parties who've commented on the process, to satisfy their concerns and mitigate to the extent possible, the likelihood of an appeal, but that of course isn't in our hands.

Justine Fisher: Okay. And then one last question on copper production, Don. Can you just go over again, so the sales in the quarter were 58,000 tonnes but production was 78,000 and I know that you guys have reduced your full year guidance but are we going to see such a disconnect between sales and production for the last couple of quarters of the year as well?

Don Lindsay: It's unlikely. The reason for the difference in Q2 was primarily one shipment that ended up in Q1 and we think in Q3 that sales and production will generally be matched. But this does happen from quarter to quarter. You go back over the last five years and we've probably had three different quarters where a shipment either ended up in the earlier or later quarters than we thought, so it's not really a major factor. Overall for the year, things should be relatively equal.

Operator: Your next question is from Greg Barnes from TD Newcrest.

Greg Barnes: Don, just a question for you. In the conference call or in the press release you mention that Q3 sales may be constrained by your ability to produce clean coal. Are you implying you might not be able to meet that 6 million tonne guidance because you cannot produce that much?

Don Lindsay: Well, we haven't changed the guidance because that's still our target and there's certainly production capability, but it is tight and we're going to have to be really focused and some things will have to go our way. If it didn't hit by Q3, it would end up in Q4, so overall for the half I think it's fine then for the year; what we said I think is fine. But I go back to the comments I made earlier. You just can't ramp-up quite as quickly as you'd like and so we're all focused on that. I've been working with the management the last couple of days, literally looking at each mine and what it can do. Over the longer-term, they can ramp-up quite substantially. But when you have a turnaround in demand that's happened so quickly, you can't just turn on the tap and get the production that quickly. We'll work through it. It's going to be close.

Greg Barnes: Okay. So coal price is sitting around; I'm sure you want to capture that, but it looks like you might be capped out at 24 million tonnes this year and maybe next, so do you think you can push it higher than that even next year?

Don Lindsay: Just to be clear, on 2009, the guidance that we had of 18 to 20 and we said we'd be at the upper range and that's still the case.

Greg Barnes: I understand that. Just production capacity though. If you're doing 6 million tonnes in Q3, that would imply 24 million tonnes annualized.

Don Lindsay: And so then your question is, can we do that?

Greg Barnes: Yes.

Don Lindsay: Yes, we can.

Greg Barnes: Can you push 24 or 25 million tonnes in 2010?

Don Lindsay: I don't want to say anything definitive, but certainly the installed capacity is in that range. We've done as high as, I think, 25.6 not that long ago and we'll have more capital availability to act on a strategic capital point of view, which we'll devote to making sure that happens. But there's no guarantee, but certainly the installed capacity is there; the plant capacity is certainly there.

Greg Barnes: Okay. And I was curious about your comments about the trend towards more spot sales and matching your sales more closely with customer requirements. What are you leading us towards there?

Don Lindsay: I think you're seeing that in different markets. There's been a lot of talk about iron ores, as you know, moving from annual to perhaps quarterly and a lot of spot business being done and of course the additional business that we've done this year and our competitors have done this year, has essentially been spot, mostly to China and the increase in the imports in China has happened so rapidly, from an annual rate last year of 3.2 million tonnes to over 20 this year and that's customer by customer and shipment by shipment and we're just trying to keep up with it. It hasn't yet evolved into a long-term contract with those major plants and I don't know if it's going to. It'll be interesting to see how that evolves.

Greg Barnes: The conventional system is cracking then?

Don Lindsay: I wouldn't want to make too strong a statement on it, but it'll probably remain quite firm with the long-term customers that we've had in Japan and Korea and so on. I think it's worked quite well and those have been great customers. But with other parts of the market, it may stay spot. And we're just making observations here; we don't know yet.

Operator: Your next question is from Oscar Cabrera from Merrill Lynch.

Oscar Cabrera: Well done in the quarter. Continuing with the coal theme, can you please remind us, in terms of capacity utilization or capacity at the mine and in the rail, what is a bottleneck there?

Don Lindsay: It's a range of things and it's not rail at the moment, it's people, shovels and trucks, stripping that frees up coal, mine by mine and literally bench by bench, it's different constraints. You know, when you've wound down so significantly because the steel industry dropped by 40% last fall, getting back up just takes some time. So there's no one big constraint.

Oscar Cabrera: Okay. Because my understanding was that the rail has the capacity of 27 million tonnes. You just mentioned that you can do close to 26 million tonnes, so is the rail capacity 27 million tonnes?

Don Lindsay: Actually, I've got Bob Bell here with me, who could make a comment on that.

Bob Bell: Oscar, you're probably referring to the capacity that CP has to carry coal. Of course we're shipping on both CP and CN and we don't ship all of our coal Westbound; a certain portion of our coal also goes Eastbound. I wouldn't see CP as having a constraint right now to carry the products we have, but they have to speak to their capacity because the capacity for coal is heavily impacted by what other

commodities they're using and also the length of train sets we have and a number of other factors. But rail is not a constraint at the moment.

Oscar Cabrera: Okay. And so sort of like a follow-up to that would be how long do you think it will take you guys to ramp-up production to the levels that we've seen before, like around 25 million tonnes?

Don Lindsay: The short answer is, we don't know. And I did hear you say 26 and I should point out we haven't done that before. I think we did 25.6 at the maximum. It may take a couple of years to ramp-up to a new record level. It takes a bit of capital; not a huge amount and it takes some time and there's lead time for orders for equipment and things like that. There's no question that eventually you get there, but we just don't know what the timetable is going to be. I mean, the bottom line is coal is going to remain quite tight because of these issues throughout the industry, which will likely have an effect on price and where we end up exactly, I know everyone will be trying to put some numbers in their models and we can't be too quick to put a face on these numbers at the moment.

Operator: Your next question is from Jeff Cramer from UBS.

Jeff Cramer: I wanted to kind of follow-up a little bit more on the rate of change in demand and shipments into China. Do you see that continuing to increase in July on the met coal side?

Don Lindsay: We don't have that clear visibility on July at this stage. A lot of it depends on the mines in Shanxi Province that are closed and whether they would reopen or not and we'll have to watch that day by day. We have people in China that play close attention to this. But at the moment, the forecasts are that on an annualized basis that they're going to input something more than 20 million tons.

Jeff Cramer: Okay. And I guess as far as other parts of Asia that you export into, what are you seeing as far as changes in demand there?

Don Lindsay: Some of our core customers there have accelerated shipments, partly due to their worry that China is going to capture more than they had anticipated, so that's been quite encouraging and quite positive for us. But for the overall tonnage for the year, I'm not sure that there's significant change versus the contract that we already settled, but the timing has clearly been a bit faster, so whether that has an effect at the end of the year, it's too early to say.

I should comment, I know the nature of your questions. I understand why you ask them, but trying to do it on a month to month basis is just a little difficult. I think you have to look out over a longer period of time.

Jeff Cramer: Sure. I appreciate that. Shipments are guided to 6 million tonnes for the third quarter. Is some of that pulling tonnage from the fourth quarter? I know fourth quarter may be a little bit slower traditionally on a seasonal basis, but is that the reason for the potential gap between the two?

Don Lindsay: No, it would be the exact opposite, I should be clear on that. We are remaining with the 6 million tonne guidance for the third quarter. Our issue will be making the production, not the sales. The sales are definitely there and in excess of that. And so we believe the fourth quarter will be higher than the third quarter and that we'll be able to get the production by then. It's not an issue of sales. We backed off on getting more sales, because we can't meet the sales now.

Jeff Cramer: Okay. And just finally, on the two labour negotiations that are going on right now, is there any reason to think those wouldn't end (inaudible)?

Don Lindsay: The discussions are going just fine.

Operator: Your next question is from Kerry Smith from Haywood Securities.

Kerry Smith: Don, have you seen any rebound at all in coal sales into Europe and North America?

Don Lindsay: Moderate, but there's no doubt that Asia is the strength in the market. There are some interesting signs. Like we've made shipments to a customer who we hadn't for a long time and that sort of thing, but there's not enough to say that there's been a significant uplift.

Kerry Smith: Okay. And will there be any - maybe Ron can answer this. Would there be any carryover tonnage in Q3 from the 2008 contract?

Ron Millos: Yes.

Kerry Smith: And can you give me any indication as to how many tonnes that might be?

Don Lindsay: I think the way I'd like to leave it - and I'm looking at Bob here in the Calgary office, but we've announced the total carryover tonnage. We do have the schedule quarter by quarter and with our customers on how that goes, but again, because of the variability of ships arriving and that sort of stuff, if we gave you one number, Murphy's Law that it would end up being wrong. So I think it's best to stay with the total over the longer period of time that we've disclosed, because we have a much higher level of confidence in that.

And I should point out, obviously that carryover tonnage number has increased again from the last number we had disclosed and that's another indication of how strong the market is.

Kerry Smith: What was the last carryover you gave, just remind me?

Don Lindsay: It started at 1.5 million tonnes, then 2.3 million tonnes, now 3 million tonnes. And the margin on that is quite significant, so we're pleased.

Kerry Smith: Right. And just finally, is there any - as the term facility gets retired or paid down, is there a point at which it's paid down to that you would no longer have any restrictions on your M&A capability and the cash sweep, or are those restrictions in place until it's completely retired?

Don Lindsay: Well the term loan has the restrictions that it has and they would remain in place as long as it's outstanding. We intend to pay it off as soon as we can. We don't have any M&A plans in any event, because we've got tremendous internal growth. As it is, we're sort of past the phase of adding resources to the company. If you go back over three or four years, we were resource challenged in 2005 and particularly on the copper side, but we have tripled the resources in copper and now moved into a phase where it's converting those resources to production and cash flow and Andacollo is a good example of that. We had only 35% of the Elk Valley coal four years ago; now we've got 100% and we're focusing more on increasing production and capturing the additional sales. So we don't really see any need for M&A for the foreseeable future for quite some time.

Operator: Your next question is from Ian Howat from National Bank Financial.

Ian Howat: Just a couple of follow-ups. Did I correctly hear you say that the carryover is now going to be 3 million tonnes, because I didn't see it in the release?

Don Lindsay: That's correct.

Ian Howat: Okay. Then again, going forward, you don't foresee reaching the 30 million or it's not in the plan currently to reach the 30 million tonne level for some significant period of time?

Don Lindsay: That would take a while.

Ian Howat: Four or five years.

Don Lindsay: Four or five years; that's right.

Ian Howat: Okay. And last thing, at Waneta Dam is there any potential for actually increasing the electricity capacity to add to your benefit?

Don Lindsay: I'll turn that one back to Vancouver, but not much.

Greg Waller: Ian, it's Greg. We did those upgrades of the four runners, turbine units over the last six or seven years, I guess, so we have increased the capacity there already. So at this point there's not much more we could do at Waneta to increase power production.

Ian Howat: And there's no more water available that you could access, like downstream or anything else?

Greg Waller: No. In fact, you may recall we sold a number of years ago the expansion rights on the small amount of water that is available, to Columbia Power Corporation and Columbia Basin Trust in British Columbia and if they proceed with that, and I think it's likely they will probably in the middle part of this decade, that will reduce power available from the dam.

Don Lindsay: And Ian, just to follow-up, the 3 million carryover tonnes, that's in the coal year, I should point out and goes right out to April 1st.

Operator: Your next question is from Greg Barnes from TD Newcrest.

Greg Barnes: Don, you're making some encouraging noises about zinc, too, in the press release. How is zinc demand shaping up for you?

Don Lindsay: Well, better than expected, though obviously we haven't seen a major recovery in the US yet, but we can give some positive indications. Demand has exceeded supply for three straight months now. We've still got the curtailment underway. At some point we'll take a look at that closely. We wouldn't want to go too quickly, but at the same time, our inventories have run down to quite low levels and our customers obviously have quite low inventories and are asking for kind of one-day delivery. So it's tightened up quite a bit, but we're going to watch it quite carefully.

Greg Barnes: And on your coal inventories, you drew them down I think by about 700,000 tonnes in Q2. Are you below comfortable levels now and what tonnage do you have in inventory at the mine and at the ports?

Bob Bell: It's Bob Bell here. We're actually at levels that we're fairly comfortable with. We're a little less than 1 million tonnes out of the Coast, but that's a level we're fairly comfortable with. At the mine site they're not bad levels either.

Greg Barnes: Okay. And just finally for Ron, on your US dollar hedging, you said you've hedged about US\$800 million to reflect your costs.

Ron Millos: That's what is outstanding at the end of June, Greg.

Greg Barnes: Okay. I think Fording used to hedge basically all of their US dollar revenue exposure from coal. Are you planning to do the same or what are you looking at?

Ron Millos: We've basically done the same thing there, but we're hedging the exposure versus the 100%, so we factored US dollar operating costs, these types of things out of there and have hedged about 80% of that exposure over the coal year.

Greg Barnes: Okay. Are you planning to do more or not?

Ron Millos: We'll look at it down the road.

Operator: Your next question is from Ralph Profiti from Credit Suisse.

Ralph Profiti: Hi guys, thanks for taking my question. Ron, can you help us out on the tax rate guidance? It's not clear that 24% effective tax rate end of quarter, how much of that was the forwarding tax pools and how much of that was the FX gains being taxed at a lower rate. Can you help us with a number going forward?

John Gingell: It's John Gingell, the Controller here in Vancouver. The tax pools don't really affect the overall tax rate; they affect the cash portion of it. The FX gain was about 12% of that number, so it would have been about 36% otherwise.

Ralph Profiti: And so 36% you'd reckon is a good rate going forward?

John Gingell: It really depends on where our income is derived from, but that's traditionally been around that level.

Greg Waller: John, maybe just to elaborate on how that FX gain is taken out effectively so that it reduces the tax rate.

John Gingell: The FX gain is a capital item, so it's taxed at one-half the rate that it otherwise might and so that's at 15% Canada.

Ralph Profiti: Okay, got it. Thank you.

Operator: There are no further questions registered. I'd like to turn the meeting back to Mr. Lindsay.

Don Lindsay: Thank you all very much for attending and we look forward to the next quarterly conference call in October. Thanks very much.