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FINAL TRANSCRIPT

TCK.B.TO - Q2 2016 Teck Resources Ltd Earnings Call

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PRESENTATION

Operator

Welcome to Teck Resources Q2 Earnings Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. This conference call is being recorded on Thursday July 28, 2016.

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

Greg Waller - ***Teck Resources Limited - VP of IR & Strategic Analysis***

Thanks very much, and good morning everyone, and thanks for joining us for our second quarter results conference call. Before we begin, I'd like to draw your attention to the forward-looking information on slide 2. This presentation contains forward-looking statements regarding our business. However, there are various risks and uncertainties which may cause actual results to vary. Teck does not assume the obligation to update any forward-looking statements.

And with that, I would like to turn the call over to Don Lindsay, our President and CEO.

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Don Lindsay *- Teck Resources Limited - President & CEO*

Thanks very much, Greg, and good morning everyone. I will begin with a brief overview of our second quarter results and then Ron Millos, our CFO will provide additional color from financial perspective. We will then conclude with a Q&A session when Ron and myself and additional members of our senior management team would be happy to answer any questions.

So while we have seen positive developments in zinc and steel-making coal, prices overall remain at relatively low levels.

Our focus remains on cost management and operating execution. We have continued to deliver results on these fronts including significant reductions in cash unit costs at our operations. And as a result, we've lowered our coal and copper cost guidance for the full year. We've also increased our production guidance in coal and tightened our guidance for copper and mined zinc production, which represents a slight increase in the midpoint of those guidance ranges.

We also executed a series of transactions in the second quarter to strengthen our financial position, and this has extended our near-term maturities and credit lines, essentially clearing the runway through 2020 well after Fort Hills is expected to be fully operating, and Ron will speak to these transactions in greater detail a little later.

We now expect to exceed our original target for year-end cash balance, ending the year with more than CAD700 million.

And finally, we were honored to be named once again to the best 50 corporate citizens in Canada for the fourth consecutive year by Corporate Knights. And the ranking was based on 12 sustainability measures.

Looking at an overview of our Q2 results on slide 4, compared with the same quarter last year, revenues declined 13% to CAD1.7 billion, primarily due to lower prices for all of our principal products.

Overall gross profit before depreciation and amortization was CAD536 million and bottom line profit attributable to shareholders was CAD15 million. After removing unusual items, adjusted profit attributable to shareholders was CAD3 million or CAD0.01 per share.

Touching on some operational highlights from the second quarter on slide 5. Our operations continue to perform well, particularly on cost reductions.

Unit costs are down in both our coal and copper business units. On a US dollar basis total cash unit costs, including capitalized stripping were US$66 per tonne for coal, down US$15 per tonne from Q2 last year.

Copper cash unit costs, again, including capitalized stripping are currently US$1.48 per pound or US$0.21 per pound lower in the same period.

Turning to slide 6, we have heard that some investors think we have been under stripping in our coal business due to our reduced capitalized stripping costs.

I want to emphasize that this is not the case, as the chart shows, we continue to move waste material in line with our long-term mining plans, and in line with our coal release. Our total material moved has continued to increase, and we now are moving in excess of 70 million bank cubic meters per quarter, as we have grown coal production to 6.5 million tonnes per quarter.

We did have a dip in Q3 last year, as we took three weeks of downtime, each of our mines to manage coal inventories, in what was a very different coal market.

The fact that our capitalized stripping costs are down, is due to our reduced operating costs overall. Capitalized stripping is just a portion of our operating costs that we have to capitalize, and those costs have benefited from the same productivity improvements, the same cost reductions, as the rest of the operation.

You will note that we disclose our strip ratios in our quarterly reports, and these have remained very consistent as demonstrated by this chart.

I trust that this puts that unwarranted concerns to rest.

Turning to some additional highlights by business unit, and starting with steelmaking coal on slide 7.

Coal sales were lower than we originally expected by the equivalent of approximately one capesize vessel. Late vessel arrivals were solid in some shift sales shifting into Q3. Some customers were also bidding at opportunistically low prices, which we did not accept.

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And as we flagged last quarter, our realized price reflected a smaller discount to the quarterly contract price than our usual range, at around 99% due to the high spot prices in the quarter. On a Canadian dollar basis, though, our average realized price was down CAD9 per tonne to CAD107 compared to last year's Q2.

Production was up slightly, extending the streak of excellent production results from the mines. Elkview, Greenhills and Line Creek, each set new production records for Q2, and for the first half of the year. We continue to expect production to be weighted more heavily to the second half of the year, with the majority of our annual plant maintenance shutdowns now complete.

Our cost reduction efforts continue to produce significant results in coal, helped by lower diesel prices. In Canadian dollar terms, cost of sales is down CAD6 per tonne compared with Q2, last year.

Now, looking-forward to Q3, we expect our highest sales quarter for the year with at least 6.8 million tonnes in sales. Coal prices have been agreed with the majority of our customers based on US$92.50 per tonne for the highest quality products.

Turning to our base metals business, starting with copper on slide 8.

Sales were lower and the realized price was down by US$0.61.

Production was also down slightly overall, when compared with Q2 last year, but it was higher than last quarter. As anticipated by the mine plan, Antamina had significantly higher production due to higher grade and recovery and a significant increase in copper only ore processed. This was more than offset by lower production at other sites, including Andacollo and Quebrada Blanca. At Highland Valley, production was down slightly as we continue to transition from the Valley pit to the Lornex pit.

Our cost reduction efforts have also produced significant results in copper. On a US dollar basis, C1 unit cost net of by-product credits were down US$0.15 per pound to US$1.34.

Our controllable costs which are total cash costs before by-product margins were down US$0.27 per pound.

Looking-forward, production is still anticipated to decline over the next two quarters as previously announced with the final quarter being the weakest of due to significantly lower grades at Highland Valley. Just part of the mine plan; nothing we can do about it.

Our zinc business unit results are summarized on slide 9. Please note that Zinc related financial results are reported in our Copper business unit as the mine forms part of our Copper business unit. Antamina's zinc production sales are included in production and sales in the Zinc business unit.

Revenues were up in the quarter with higher sales volumes for Red Dog due to timing of shipments.

Our realized price was down by US$0.13 per pound in the quarter. However, the LME cash price broke through US$1 in mid-July.

Zinc in concentrate production at Red Dog was similar to a year ago. At our Trail Operations, refined zinc production was down and refined lead production set a new quarterly record.

Overall, gross profit before depreciation and amortization was down due to the lower average zinc price in the quarter.

Looking forward, Red Dog shipping season has begun with the first vessel sailing on July 6th and we expect sales of 150,000 tonnes of contained zinc in Q3 and 190,000 tonnes in Q4, which reflects the normal seasonal pattern of Red Dog’s sales.

Now an update on Fort Hills, on slide 10. Engineering is essentially complete and construction has now surpassed the 60% mark overall. This photo shows the progress on the ore processing plant as of last week.

Wildfires threating the region in May did not cause any damage to the project or any of its associated regional infrastructure. Construction on site was interrupted for approximately one month. The project is currently back at planned workforce levels. Suncor is currently assessing the impact of the interruption and schedule mitigation options and they expect to provide a project update at the end of the year, including cost and schedule targets.

Despite the interruption, the first oil is still expected near the end of 2017.

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On slide 11, turning to some highlights from our markets, starting with the steelmaking coal business. We are seeing some positive developments in the steelmaking coal market.

In the hard coking coal components to the steelmaking coal market where we primarily supply and compete, we estimate that the market is very close to being balanced. Pricing is starting to reflect that. Coking coal demand from a number of market areas including China appears to be improving.

In China, steel production hit a two-year high in June and we are seeing tightness in the domestic coal market as mines cut their operating days from 330 days per year to 276 days as a part of the government's supply side reform. Coking coal imports between March and June were on an annualized basis at the 60 million tonne level, compared with 38 million tonnes in 2015.

Outside of China, we are continuing to see curtailments. US exports are continuing to decline. There have been some recent production disruptions in Australia due to rain.

And looking forward, the Q3 benchmark price of US$92.50 represents the second consecutive quarterly increase. And most of you will probably know the spot prices currently well above that.

Looking at the zinc market on slide 12, as always the focus is on what's happening in China. And quite apparently the supply of zinc concentrate from both domestic production and imports is declining.

As you can see from the chart in the upper left, total domestic production plus imports has fallen from around 500,000 tonnes per month in 2013 to a run rate of about 435,000 tonnes per month currently. And availability of imported concentrate has declined significantly due to the well-publicized recent mine closures. We see this at the smelters with the working inventories of concentrates declining by half in the past six months.

To maintain the supply of overall zinc units, China has had to turn to metal imports. This shift has started to be reflected in import numbers in the chart on the lower left, which shows that Chinese zinc metal imports are up around 80% from the first half of 2015.

We know there is other data circulating that indicates that China's zinc mine production is increasing and we don't think that data is correct. It is estimates only and based on metal production.

In the end, the degree of market tightness for concentrates is evidenced by spot treatment charges falling by around 40% in the past year.

And with that, I will turn it over to Ron Millos for some comments on our financial results.

Ron Millos *- Teck Resources Limited - CFO*

Okay. Thanks, Don. I've summarized our changes in our cash balance for the quarter on slide 13. As you can see, cash flow from operations and working capital was CAD339 million.

The liquidity management transactions that we completed in the quarter are reflected in the cash flow statement this quarter, we received CAD1.6 billion from the two debt issues and which we used to purchase the outstanding notes due in 2017, 2018 and 2019 under our cash tender offer.

In addition, we spent CAD325 million on capital projects including Fort Hills. Our capitalized stripping costs were CAD122 million. We also received CAD89 million proceeds from sale of investments and other assets. We paid CAD74 million in interest and principal on our debt and CAD29 million on dividends.

After these expenditure items, expenditures on financial investments and other assets, the effect of exchange rate changes on our cash and cash equivalents and distributions to non-controlling interests, we ended the quarter with cash and short-term investments of around CAD1.3 billion.

In addition, we've previously talked about our target for the core business of Coal, Copper and Zinc, excluding our investment in Fort Hills, to be cash flow neutral or positive. And in the second quarter, our core business generated CAD130 million in positive free cash flow.

Moving on to the next slide, our second quarter pricing adjustments are summarized. Overall, we had CAD1 million of negative pricing adjustments this quarter compared with CAD32 million of negative adjustments in Q2 of last year. And these adjustments are included in our income statement under other operating income and expense.

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This was an unusual quarter for pricing adjustment due to the silver price increase. Zinc was up US$0.14 per pound from the end of Q1 to the end of Q2. So we had a positive settlement adjustment there. Copper price was unchanged but outstanding volumes change and we get a small positive result as a result. Silver however increased by roughly US$3 per ounce. Just as that would contribute to a positive settlement adjustment on the sale of concentrate, it also contributes to a negative adjustment on the purchase of concentrates at Trail. And since Red Dog’s sales volumes are typically low in Q2, the ongoing purchase of concentrates at Trail had a greater impact this quarter and that resulted in a negative pricing adjustment.

The chart on the left represents a simplified relationship between the change in copper and zinc prices in the reported settlement adjustment, and usually provides a good estimate of our pricing adjustment to each quarter. The overall settlement adjustment this quarter was at the bottom end of the range suggested by our model and that was primarily due to the impact of silver.

And as a reminder, refining and treatment charges, in the Canadian-US dollar exchange rate should be considered in your analysis of the impact on price changes in the adjustment, and you should also consider taxes and royalties when analyzing the impact on our profit.

Turning to our financial position on slide 15, as Don mentioned, we executed a series of transactions in the second quarter to further strengthen our financial position by extending the maturities of our debt. In May, we extended the maturity of US$1 billion of our US$1.2 billion revolving credit facility by two years to June 2019, which required us to provide guarantees on this facility, and our US$3 billion facility from certain of our wholly-owned subsidiaries.

Extending the maturity of the credit facility was key to us issuing US$650 million of five-year, and US$600 million of eight-year senior unsecured notes, which have the same guarantees provided to our revolving facilities. The new notes, which were priced at 8%, and 8.5% respectively have call features in two and three years respectively, which provide us with potential deleveraging opportunities.

The chart on this page shows the changes to our debt maturity profile, with the red circle highlighting the US$1.25 billion of our shortest term notes that were repurchased under the tender offer, and the green bars show the issuance of the new US$650 million and US$600 million, five and eight-year unsecured notes.

So overall, we have significantly reduced the amount of debt and bank credit maturing over the next few years that enhances our near-term liquidity and clears a runway by leaving us with no significant maturities until after the completion and ramp up of the Fort Hills project.

Looking at slide 16. We currently have liquidity of about CAD5.4 billion, and that's made up of our cash balance, plus the Canadian dollar equivalent of our US$3 billion credit facility.

As you're probably well aware, we have two primarily revolving credit facilities. The US$3 billion facility matures in July of 2020, and that remains undrawn at this time. And as previously mentioned, we have the US$1.2 billion facility, which was just amended, as I mentioned, and US$1 billion of that now expires in June 2019. It currently has US$806 million in letters of credit issued against it, and we expect to keep the balance available for letter of credit requirements if necessary.

We also continue to maintain our CAD1.65 billion in uncommitted bilateral credit facilities for the issuance of letters of credit, primarily for future reclamation obligations, and of that CAD150 million is still available.

There are no financial covenants in our public debt indenture and just one financial covenant in our bank credit agreement, which requires us to maintain a debt-to-debt plus equity ratio below 50%. And as of June 30, we were at 35% and our net debt to net debt plus equity ratio was 32%.

Going forward, we intend to maintain a strong financial position. As Don mentioned earlier, we now expect to exceed our original target for the year-end cash balance and the end the year with at least CAD700 million. This of course assumes that current commodity prices and exchange rates, and that we meet our revised 2016 guidance for production cost and capital spending. And it also assumes that we maintain our existing US dollar debt levels and have no unusual transactions.

Moving on to the next slide, we have revised some of our previous guidance for 2016.

In steelmaking coal, we increased our production guidance by 1 million tonnes to 26 to 27 million tonnes and we have also lowered our site cost guidance range to CAD42 to CAD46 per tonne, and our transportation cost range to CAD33 to CAD35 per tonne.

In copper, we've tightened our production guidance range to 310,000 to 320,000 tonnes and we've lowered our C1 unit cost net of byproducts range by US$0.10 per pound to between US$1.40 and US$1.50 per pound. In zinc, we've tightened our production guidance range for mined zinc to 645,000 to 665,000 tonnes and that includes production from Red Dog, Pend Oreille and our share of production from Antamina.

And with that I will turn the call back to Don.

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Don Lindsay - ***Teck Resources Limited - President & CEO***

So, in summary on slide 18, looking across the mining industry from our vantage point, we think we're pretty well positioned relative to others as we come out of the cycle. Unlike many of our peers, we are not in a position where we need to issue equity or to sell off our core producing assets.

What differentiates us is that we are going through this down-cycle doing things to give us the best upside when the up-cycle returns. We will have production growth from Fort Hills while most others are not building. No operating assets will have been sold while many others are selling mines. And there'll be no equity dilution while many have issued more shares.

Therefore, we will have more production per share coming out of this down-cycle, while others will have less production per share.

At the same time, we are maintaining strong liquidity, looking for opportunities to manage our debt maturity profile and to reduce debt.

We've always believed that if we can successfully achieve these things, our shares will be better positioned coming out of this cycle than our competitors.

And with that we will be happy to answer your questions and please note that some of our management team members are on the line in different locations. So there may be a brief pause after you ask your question, while we figure out who would allocate it to. So operator, back to you.

QUESTION AND ANSWER

Operator

Thank you, Mr. Lindsay. (Operator Instructions) Evan Kurtz, Morgan Stanley.

Evan Kurtz - ***Morgan Stanley - Analyst***

So, my question is on asset sales. I know earlier in the year when the commodity environment was a little more bleak, you talked about perhaps monetizing some of the port assets. Wondering, if the thought there has changed with the rally in met coal and zinc.

Don Lindsay - ***Teck Resources Limited - President & CEO***

I don't think it's really changed, I would say that there is no feeling of urgency at all. But these are things that actually take quite a long time, when we talk about infrastructure, we're talking about the Waneta power dam, the Neptune port, Wintering Hills wind farm and so on. We are still looking at them carefully. We recognize that infrastructure asset, such as these tend to trade it much higher multiples of EBITDA than a diversified mining and metal company will ever trade at, so there is a logic to it. But you do want to get it right, and that's something that's certainly takes time, which is what we found when we sold the two thirds interest in Waneta dam in 2009. So, we're working through it, and see if it can come to pass, and make sense, but we aren't feeling any pressure to do it.

Evan Kurtz - ***Morgan Stanley - Analyst***

And my follow-up is to maybe dig a little deeper into that supply side on met coal, we've seen the supply reforms impacting coal far more than steel, so far this year in China, and there's been a little bit of flooding. So, feels like the met coal prices on better footing, right now. How do you think that's going to impact, I guess, industry supply response? Do you see potential for mine restarts out of Australia, or maybe a decline in the rate of curtailments in the US? And specifically for Teck, I mean, how are you thinking about that? Do you still think that 2017 production will be relatively in line with 2016? Any updated thoughts Quintette?

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Don Lindsay - ***Teck Resources Limited - President & CEO***

Yes, I'll answer the last question, then turn it over to Real Foley for the first part. We are not making any plans to increase production further from where we're at now. We have earlier announced that Coal Mountain will be closing down in 2017 and that we will consolidate our production around the four key mines in the Elk Valley. There are no plans to restart any activity at Quintette. So with that, over to Real.

Real Foley *Teck Resources Limited - VP Marketing*

Alright, thanks Don. So, typically for capacity to return to the market, mining companies want to see prices improve not only over a short period of time, but forecasted to last in order to step forward and make the decision to inject significant capital to restart operations, rehire employees and bring back equipment. So at the current quarterly benchmark price of US$92.50, Wood McKenzie is still estimating that about 25% of the seaborne hard coking coal is operating at negative margin and around 75% of the US hard coking coal exports are cash negative. So, with respect to where the restarts could come from, we need to go back and look at the time when those production cuts were made, what pricing levels were and what are the remaining coal reserves for that site. At the time the production curtailments were done, pricing was below breakeven most likely for those operations. So that supports the fact that pricing would need to improve further for some of those idle operation to restart. And just to add on your question with respect to Teck, our increase of 1 million tonnes in 2016 production guidance reflects our view that this is supported by demand, and the fact that we've also achieved strong cost and production performance at our operations.

Operator

Chris Terry, Deutsche Bank.

Chris Terry - ***Deutsche Bank - Analyst***

Hi guys, thanks for taking my question. Also related to the coal division, just wanted to explore a little bit further. Put in other way, so in 2016 if the met coal price haven't rebounded, would you still have been producing what you are today. How responsive can you be to price increases over time?

Don Lindsay - ***Teck Resources Limited - President & CEO***

Interesting question. I'll just make an overview comment and then turn it over to Robin Sheremeta. So, there is no exact answer to your question. Part of the increase in production is related to productivity improvements. I just had a recent swing through four of our sites and I can tell you that everybody is really actively engaged and finding whatever way possible to be more efficient and a result of that is increased production and reduced costs. It is just sort of a natural consequence of people improving truck productivities and so on. If the increase in demand had not occurred, then we would be looking very closely at sales, customer demand, managing inventories as we did last summer when the market was in a very weak stage and we chose to have rotating shutdowns for 3 weeks at each of the mine sites to manage inventory and not dump incremental tonne of coal on the spot market. So if it was sort of back to last year's situation, that's probably what we would have done or you could see a scenario like that. But I guess what we're saying is, it's nowhere closer to last year's situation, so we're not. Robin, would you like to add any comments on our productivity activities?

Robin Sheremeta *Teck Resources Limited - SVP, Coal*

Yes, maybe I just add that the productivity gains that we've seen are quite sustainable and we've had extremely good engagement with the operations so, our costs are in an area that makes us very competitive, and there is no reason to believe that won't continue. So we've got very good response at the operating level to sustain this kind of performance, so it gives us quite a bit of flexibility in terms of response to our market change.

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Chris Terry - ***Deutsche Bank - Analyst***

Okay, thanks for the color and taking into account Coal Mountain coming to an end in a couple of years, can you remind us what the latent capacity still in the system might be? So if we did get a big pick up in process and you did want to look at additional volumes, what might be possible?

Robin Sheremeta *Teck Resources Limited - SVP, Coal*

At this stage, we will be able to absorb the production loss at Coal Mountain at the other 4 operations. So the current plan is to maintain that production level. We haven't built into any plan an increase in production beyond what we currently have available at the sites.

Don Lindsay - ***Teck Resources Limited - President & CEO***

And I would just add to that, it depends on how significant that price move is and I guess consistent with what Real Foley told you, typically mines want to see a sustained increase in price, before they consider restarting a closed operation. Quintette actually one of the easier ones to get back on, it would be about a year of construction activity and capital. And we clearly are not looking at bring it back at these price levels. So, while we do have an additional 4 million tonnes of capacity that we could bring on if we thought things were going to be sustainable at much higher levels, and we aren't even looking at it at this point.

Operator

Orest Wowkodaw, Scotiabank.

Orest Wowkodaw - ***Scotiabank - Analyst***

Couple of questions from me, also about the coal division. Firstly, in terms of your cost reductions, the reduction in transport cost, does that reflect efficiencies or are you actually getting some kind of pricing or cost discounts from the rails and the ports here?

Don Lindsay - ***Teck Resources Limited - President & CEO***

Okay, just checking to see, if Andrew Stonkus is on the line here.

Andrew Stonkus - ***Teck Resources Limited - SVP Marketing & Sales***

Yes, Don, I'm on the line.

Don Lindsay - ***Teck Resources Limited - President & CEO***

Go ahead, over to you.

Andrew Stonkus - ***Teck Resources Limited - SVP Marketing & Sales***

Yes, thanks, Don. Yes, Orest, the cost reduction in the transportation side is a reflection of the diesel fuel prices that we're seeing, so that's had some an impact on the cost structure for the transportation. And also just the ongoing efficiencies, along with the operations side, the transportation side is also working with the terminals in terms of maximizing efficiency of the supply chain movement to the customer. So, combination of fuel costs and streamline and work on the efficiencies on the port facilities, and performance of the rail service providers.

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Orest Wowkodaw - ***Scotiabank - Analyst***

Okay. So, you haven't received any discounts from the rail or the port?

Andrew Stonkus - ***Teck Resources Limited - SVP Marketing***

No, we are under contract. We have contracts in place from our service providers, and they are being maintained.

Orest Wowkodaw - ***Scotiabank - Analyst***

Okay. And then just in terms of coal volume, again, coming back to your capacity, I believe Coal Mountain supposed to close at the end of 2017. There was some talk at the time that you'll be able to make up the 2.25 million tonnes of production from the other mines. Could we assume that you could maintain something in the 26 million to 27 million tonne range, excluding Quintette, when Coal Mountain closes?

Don Lindsay - ***Teck Resources Limited - President & CEO***

Back to you, Robin.

Robin Sheremeta *Teck Resources Limited - SVP, Coal*

Yes. We've got solid plans in place to be able to sustain that production with minimal impacts at the other operations. There is enough capacity to absorb Coal Mountain's production.

Orest Wowkodaw - ***Scotiabank - Analyst***

Okay. So, 26 million to 27 million is a realistic number?

Robin Sheremeta *Teck Resources Limited - SVP, Coal*

Yes, it is.

Operator

Greg Barnes, TD Securities.

Greg Barnes - ***TD Securities - Analyst***

Thank you. Don, or whoever else can answer this question. What can you do to increase your zinc mine production in light of what's going on the zinc market?

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Don Lindsay - ***Teck Resources Limited - President & CEO***

I'll make an overview comment and then turn it to Dale. The short-term answer is not much. Long term there are a number of different options but they would take significant capital and time to be able to do so. We're working on a number of projects at Red Dog and Antamina's grade varies and you get some good years as well, and some of that it's coming, but Dale, over to you.

Dale Andres - ***Teck Resources Limited - SVP, Base Metals***

Thanks, Don. Greg, just to add a bit of color. Red Dog is performing very well, we are looking at further production optimization projects over the next couple of years, but that really will help to offset any grade fluctuations and future grade declines with the current mine plan. So I think the ability of Red Dog to ramp up production in any significant way is limited. I think really in the short term looking forward over the next couple of years, the opportunity is really at Antamina, and again that's associated with the mine plan. At the end of last year, we did provide guidance looking forward for the 2017 to 2019 timeframe and we've put our guidance of an increase at Antamina to the approximately 80,000 tonne contained metal range for our share. That compares to our recent update on guidance for this year of 40,000 to 45,000 tonnes. So really I think that's the majority of the near-term potential.

Greg Barnes - ***TD Securities - Analyst***

Okay, that's great. So what do you think the industry supply response can be and what price is needed to have zinc mine supply higher from here?

Andrew Stonkus - ***Teck Resources Limited - SVP Marketing***

Thanks, Greg. I think what we're seeing today is, at these current prices, the project pipeline is still very thin, and we're not seeing any significant supply response. I think the question always is what will China do. And if you look at the Chinese mine production, the stats there are always a little bit suspect. I think the production forecasts out of China have tended to be overstated. One thing about China is we have to remember that the ore grades they're working with are quite low in the range of 4% to 5% combined zinc and lead. So the cost structure for the Chinese mine production is challenged, and that's why we're not seeing the supply response as people expect out of China and also the environmental issues surrounding some of the domestic mine production in China. So, we're not seeing supply a response that at current prices, so -- the trend is not significant in terms of new mine production coming on our current prices. So, we need something higher. It's a matter of what the trigger price will be but it's higher than the current price level for sure.

Chris Terry - ***Deutsche Bank - Analyst***

Just quickly, does your forecast the Glencore the production back on next year?

Andrew Stonkus - ***Teck Resources Limited - SVP Marketing***

I don't want to -- wouldn't want to speculate on what looked like or what their price point would be for restart. They were very clear in last October that they want to keep that resource in the ground at these prices, and that was done at a price of US$1800 so we're slightly above that, but they haven't made the decision to restart as far as I'm aware.

Don Lindsay - ***Teck Resources Limited - President & CEO***

I might add -- that one thing is clear is that Glencore believes that you make more money on price and volume and they believe in balance markets and not bringing on additional tonnes, which maybe lower cost, but puts the market into surplus. We believe in that, too. We already have a fairly large zinc business. As you may know, for a long time, like over the last 10-year period, I had a policy of "read my lips, no new zinc" because the market was in serious over supply and we really kind of believe in that. So I think the key comes down to what Andrew's just talking about in China, and this grade issue is a big one. They have one mine that's 11% zinc and then all the rest start with a 4% and that's versus current average rate of 6% to 7%. So that any new mines bring on are going to be that much more capital per tonne of capacity and that much higher operating costs just because of lower grade. So, it's actually a bigger step down percentage wise in what we're seeing worldwide in copper. So, we'll see. For our purposes, we know you make more money on price than volume. We waited a long time for these conditions in zinc to occur so we'd like to enjoy it.

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Operator

Karl Blunden, Goldman Sachs.

Karl Blunden *- Goldman Sachs - Analyst*

Hi, good morning. Just had one on the balance sheet and then one on the operating side. When you put together the bond deal back a couple months ago you mentioned that on the uncommitted credit facilities, you're looking at reducing some of the bank exposure through some surety bonds. Can you comment on how that's progressing or just generally, how we should think about the risk is those facilities right now?

Don Lindsay *- Teck Resources Limited - President & CEO*

Over to Scott Wilson, please.

Scott Wilson *- Teck Resources Limited - VP & Treasurer*

Thank you, Karl. Yes, we are continuing to work with the couple of insurers on bringing on some surety bond capacity, and expect to have something in the range of CAD150 million to CAD200 million in that regard completed in Q3.

Karl Blunden *- Goldman Sachs - Analyst*

And then just on Fort Hills, it's been some time since you've provided an update there in terms of what the operating costs might be. Is there any way for us to think about it? First of all, we've seen quite significant cost come out of the oil production at Suncor's existing operations. Is there any way we can frame the opportunity in terms of how much cost have come down since, I think, your last update was couple quarters ago now.

Don Lindsay *- Teck Resources Limited - President & CEO*

I'll make a couple of comments, then turn it over to Tim Watson. We've been looking at this issue quite closely, and note that industry-wide since fuel prices took a steep downturn, industry-wide cost seem to have gone down, on average 24%. And then we also look closely at Suncor's base operations, and see where they're producing -- these are public numbers. And our belief, and I think Suncor's belief as well is that Fort Hills will be lower cost than their current operations. So, with that as context over to Tim.

Tim Watson *Teck Resources Limited - SVP, Project Development*

Thanks, Don. With respect to an update on the operating cost estimate, as Suncor is moving through the second half of the year, they are doing a total project forecast update, as well as the schedule update for the remaining portion of the project, and included in that work is an update to the operating cost estimate. So, we expect to see that at the tail end of the fourth quarter of this year.

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Karl Blunden *- Goldman Sachs - Analyst*

And just one more quick one, you just said here on met coal, you did mention here, and then I think the point is well taken that your stripping levels have remained consistent relative to the coal being mined. Is there a flexibility, and if you do think about a downside case, is there a significant flexibility to reduce stripping costs temporarily to boost cash or is that not really a choice that you have?

Don Lindsay *- Teck Resources Limited - President & CEO*

A brief comment, then over to Robin. I think we've been through, perhaps the most severe time period in met coal pricing relative to industry costs that we've seen in our lifetimes, and we didn't do that. So that's just what the history shows. In terms of what options we have, over to you, Robin.

Robin Sheremeta *Teck Resources Limited - SVP, Coal*

Yes, it's an operating philosophy to maintain a long-term view of coal and we resist obviously very strongly any moves that would jeopardize that. And to take advantage of a short period of time, I think would be shortsighted. And so we've been able to keep that focus in coal and will be able to come out of this downturn stronger now than we were going into the downturn. For us it's a philosophical choice more than anything.

Don Lindsay *- Teck Resources Limited - President & CEO*

We always pay an extraordinary price later and it's just not worth that.

Operator

(Operator Instructions) Lucas Pipes, FBR & Co.

Lucas Pipes *- FBR & Co. - Analyst*

Hey, good morning everybody and congrats on another very good quarter. I wanted to ask a little bit more about your strategy given the improvement in the commodity markets. You've done the refinancing earlier this year. I'm kind of just big picture, how are you thinking about growth? There were a couple of questions this morning about organic growth opportunities. How would you rank the opportunities in today's marketplace? Thank you.

Don Lindsay *- Teck Resources Limited - President & CEO*

So the next year or so, we are focused on Fort Hills and seeing that finished and brought on stream either at the very end of 2017, early 2018. And that'll add the fourth leg fourth to the business, in a long life operation, in a good geopolitical jurisdiction, and add some good balance to the portfolio. So we're looking forward to that. We have all the cash on the balance sheet now that we need to complete that. And we haven't touched our US$3 billion credit facility that we have and we don't intend to touch it this year. And I think we have a reasonable shot at finishing the project without touching it. So that does give us some capacity to look at other opportunities. It's our job to look at other opportunities anyway. So everything that you see are rumored to be on the block or whatever, we do review, sometimes we go and visit them occasionally put in a bid. But in terms of acquisitions, we've seen at least in copper, which we have a long-term interest in that assets have traded at prices that discount a reasonable copper price, usually over US$3/lb. So it's not as if there any fire sales going on from what we see. We do have our own key projects in Quebrada Blanca 2 (QB2) and NuevaUnion both of which we think the world is going to need and both of which are solid projects. The QB2 timeline looks like the earliest that we could sanction that project would be first quarter of 2018 and that's if everything went perfectly on the permitting time line. And as you are probably well aware that usually there have been delays and sometimes long delays. So we'll see, but that is our highest priority after finishing Fort Hills and we've been doing a lot of work on reducing the capital cost and we'll announce the results of that towards the end of the year. So that's something that we'd really like to get on with. We compare anything else out

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there against QB2 in that because we control QB2. We could always defer that if there was something that's better that came along. But so far we haven't seen that. QB2 is again a good geopolitical jurisdiction. It's an area where we already have a mine operating shovels and trucks there, the people are there, the access is there. So there's a lot of advantages. And it's a tremendous reserves that run for 50 years probably and be expanded. It's one of those core assets that we'd really like to have as part of the portfolio. I think when it starts, it would be the 12th largest copper mine in the world but likely move up the league tables as others decline in production with declining head grade and as QB2 ultimately gets expanded. But that's kind of key to our growth strategy, but it does take a while before we get going with it. Meanwhile, we'll be watching others. NuevaUnion is progressing well, we are having really good working relationship with Goldcorp and that one is probably a couple of years behind the QB2 timeline.

Operator

David Wang, Morningstar.

David Wang *- Morningstar - Analyst*

Good morning. Thank you for taking my question. On coal, the cash costs that you guys have achieved has been pretty great, and the reduction in guidance seems to indicate that you've been cutting even more. Is there further potential for cost cutting as you look out in the next year or so or even beyond that? And do you think that your cutting costs in line with other competitors in the market or how do you see your cost-cutting versus the other industry players?

Robin Sheremeta *Teck Resources Limited - SVP, Coal*

Yes, I guess, if you think about the cost cutting, it sort of happens in three stages. So, the first stage is really around increasing equipment productivity and we think we're in the top quartile in terms of that metric. The next area of focus for us has been maintenance and procurement and we're working through that this year and we continue to see good progress on that. So, through the rest of this year, we anticipate our ability to certainly hit the cost guidance. As time goes, where Coal is probably 3 to 4 years into a cost-cutting optimization kind of stage. And so we're seeing certainly the increase is now becoming more difficult to find big numbers, but we're still making good progress. And the cost cutting that you have achieved is all sustainable, will carry that forward. So, we're pretty confident that at the level we're at very competitive.

Operator

There are no further questions. Over to Don Lindsay for final comments.

Don Lindsay *- Teck Resources Limited - President & CEO*

We thank you all for attending today. We are pleased with the quarter, but I have to say we're looking forward to Q3 as coal production, coal sales ramp up and the market that appears to have a decent tailwind in both steelmaking coal and in zinc. So, we look forward to speaking to you in October. Thank you.

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