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TCK.B.TO - Q3 2015 Teck Resources Ltd Earnings Call

EVENT DATE/TIME: OCTOBER 22, 2015 / 03:00PM GMT

OVERVIEW:

Co. reported 3Q15 revenue of CAD2.1b and adjusted profit attributable to shareholders of CAD29m or CAD0.05 per share.

CORPORATE PARTICIPANTS

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Ron Millos *Teck Resources Limited - CFO*

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Karl Blunden *Goldman Sachs - Analyst*

Matt Vittorioso *Barclays Capital - Analyst*

Matt Farwell *Imperial Capital - Analyst*

Alexander Mack *FDA - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Thank you for standing by. Welcome to Teck Resources Q3 earnings call.

(Operator Instructions)

This call is being recorded on Thursday October 22, 2015. I would now like to turn the conference over to Mr. Greg Waller, Vice President Investor Relations and Strategic Analysis. Please go ahead, sir.

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

Thanks, Mark. Good morning, everybody, and thanks for joining us for Teck's third-quarter 2015 earnings results conference call.

Before we begin I'd like to draw your attention to the forward-looking information on slide 2. This presentation does contain forward-looking statements regarding our business; however various risks and uncertainties may cause actual result to vary. Teck does not assume the obligation to update any forward-looking statement.

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

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

Thanks, Greg. Good morning, everyone. I'll begin with a brief overview and then Ron Millos, our CFO, will provide additional color from a financial perspective. We will then close with a Q&A session where Ron and myself and additional members of our senior management team would be happy to answer any questions.

The commodity cycle continues to provide a very challenging environment, but we are responding with lower costs, reduced capital spending, I would say excellent operating execution and further moves to strengthen our balance sheet.

Our ongoing focus on cost continues to achieve cost reductions across all of our business units and, of course, it is helped by lower oil prices. Our revenues are helped by the strong US dollar, as well. Our close attention to cost is reflected in steelmaking coal where we had temporary production curtailments in the quarter, yet our costs were down and gross profit was up 5% versus the equivalent quarter last year.

We also recently completed a silver stream agreement linked to Antamina and a gold stream agreement linked to Andacollo which generated a total of around CAD1 billion in cash. And these deals are good examples of assets on our books with unrecognized value. And we have potential to do more on that front, if need be.

Overall, we are in a strong financial position to weather these market conditions. As of yesterday, our cash balance was approximately CAD1.8 billion including the receipt of the proceeds from the Antamina silver stream after quarter end. It is important to note that we currently have cash in excess of the approximately CAD1.5 billion of CapEx remaining on our share of the Fort Hills project.

Also reflecting changing market expectations for commodity prices, we have taken impairment charges of CAD2.9 billion pretax on various assets in the quarter. Ron will speak to this in greater detail a little later.

And, finally, we were honored to be recognized once again for sustainability. Teck was recently named to the Dow Jones sustainability World Index for the sixth straight year.

Now, looking at an overview of our third-quarter results on slide 4, revenue of CAD2.1 billion was 7% lower than Q3 last year, and gross profit before depreciation was down 11% to CAD670 million.

Overall, profitability was negatively impacted by the asset impairment charges taken in the quarter. After removing unusual items, including the asset impairments, adjusted profit attributable to shareholders was down CAD130 million or CAD0.23 per share from the same period last year to a total of CAD29 million or CAD0.05 per share. And with that number, in fact, we exceeded market expectations for the quarter by a couple cents per share.

On slide 5 and touching on some operational highlights for the third quarter, our operations performed well. Copper production was up by 10,000 tonnes, including record mill production at Antamina. Refined zinc production was also up due to a higher throughput at Trail. And coal production was down, as expected, given the temporary production curtailments.

We also significantly reduced unit costs. On a US dollar basis, coal unit costs are currently $64 per tonne, and that's down $20 per tonne or 24% from Q3 of last year. Copper cash unit costs are currently $1.44 per pound, down $0.20 per pound or 12% in the same period. And this reflects the impact of our cost reduction program, but of course also the weaker Canadian Dollar and lower oil prices.

I will now review our quarterly results by business unit starting with the steelmaking coal business on slide 6. As previously mentioned, we had three week shutdowns during the quarter in response to market conditions. Production was 5.5 million tonnes and sales were 6.2 million tonnes, in line with our guidance for the quarter.

Ongoing oversupplied market conditions and indications of weakening demand in China continued to impact coal prices. On a Canadian Dollar basis our average realized price was down only CAD3 per tonne to CAD116. Revenue was down 10% to CAD719 million.

We have significantly reduced unit costs, as I mentioned. On a Canadian Dollar basis, site costs were down by CAD5 per tonne and transportation costs were down CAD2 per tonne.

Gross profit before depreciation and amortization was up 5% to CAD199 million despite lower production and prices.

I just want to point out again, our gross profit before depreciation and amortization was actually up 5% to CAD199 million despite lower production and lower prices.

Going forward, we will be producing at close to budget levels in Q4 to align our production to sales volume. Our operating plan for Q3 was successful in reducing the inventories throughout the supply chain, and we expect to earn positive cash margins at current prices and costs. I would also note that we lowered our full-year guidance range for the combined coal costs to CAD83 to CAD86 per tonne.

On slide 7, turning to our base metals businesses and starting with copper, production was up this quarter due to improvements at each of Highland Valley, Antamina and Carmen de Andacollo. Production at QB was reduced due to the temporary shutdown related to ground movement near the SX-EW plant. We restarted operations in August using only the south side of the plant while we continue to assess the full impact of the ground movement and implement remediation plans. We now expect full-year production of 38,000 tonnes of copper cathode at QB, which is a reduction of 10,000 tonnes from our original plan.

And as I highlighted earlier, cash unit costs were down by $0.20 per pound on a US dollar basis, which is consistent with our guidance for a significant reduction this year. And gross profit before depreciation and amortization was down 31% to CAD201 million.

We expect full-year copper production for the copper division of 345,000 to 350,000 tonnes.

During the quarter we announced an agreement with Goldcorp to combine the Relincho and El Morro projects into Project Corridor. This is a common sense approach that allows us to consolidate infrastructure and to reduce CapEx and costs, and to shrink the environmental footprint and to generate greater returns.

In addition, we've successfully negotiated several labor agreements during the quarter. All three agreements at QB were successfully completed for two-year terms and both agreements at Andacollo were successfully completed for four-year terms.

Turning to slide 8 and looking at our zinc business unit, and please note that Antamina zinc-related results are reported in copper business unit as zinc is considered to be a by-product. Zinc concentrate sales were up this quarter primarily due to the addition of Pend Oreille sales with its restart earlier this year. Refined zinc sales were also higher, reflecting the good operating performance at Trail.

Looking forward, we continue to expect Red Dog sales of contained zinc metal to be 200,000 tonnes in Q4. Zinc, lead and silver prices all declined in the quarter resulting in lower revenues.

Overall, the gross profit before depreciation and amortization was flat at CAD270 million.

Turning to an update on Fort Hills on slide 9, we are well into construction and all critical milestones continue to be met. Engineering activities are approximately 94% complete and construction is around 43% complete. Fabrication is now well under way with equipment arriving at site. And there are now roughly 4,800 construction workers on site and the workforce will continue to ramp up to a peak in 2016.

At year end, we will be only 18 months away from commissioning. And as of today our share of the remaining CapEx is around CAD1.5 billion.

Many of you had the opportunity to visit Suncor's base operations with us last month, you could see for yourselves why we're so excited about the Fort Hills project. We look forward to the completion of the project and the additional earnings and cash flow that we expect it to generate for a long time to come.

And with that, I will turn it over to Ron for the financial highlights from the quarter.

Ron Millos - ***Teck Resources Limited - CFO***

Thanks, Don. I've summarized our changes in cash for the quarter on slide 10. Our cash flow from operations and working capital was CAD560 million. We spent CAD349 million on capital projects including CAD218 million on Fort Hills. And capitalized stripping costs were CAD146 million in the quarter. We received proceeds of CAD327 million from sale of investments and other assets, including proceeds from the Andacollo gold stream that Don talked about earlier. The Antamina transaction closed in October. We also paid CAD201 million in interest and principal on our debt. And in addition, we paid CAD86 million in dividends.

After these items, distributions to non-controlling interests, foreign exchange translation expenditures on financial investments and other assets, we ended the quarter with cash and short-term investments of approximately CAD1.5 billion.

Subsequent to the end of the quarter we received CAD790 million in proceeds from the Antamina silver stream. And we also paid the $300 million note due on October 1 out of cash, which is equivalent to about CAD400 million at current exchange rates. Including these items our current cash balance is approximately CAD1.8 billion as of yesterday. And as Don mentioned, we currently have more cash than the capital spending remaining for our share of the Fort Hills project.

Based on current commodity prices and exchange rates we now expect our year-end cash balance to be about CAD1.8 billion. And this, of course, assumes current commodity prices and Canadian/US dollar exchange rate, we meet our 2015 guidance for production costs and capital spending, and also assumes that we maintain our existing US debt levels and have no unusual transactions or events for the remainder of the year.

Moving on to the next slide, our pricing adjustments, lower prices resulted in CAD141 million of negative pricing adjustments this quarter compared with negative CAD28 million in the third quarter of last year. Copper was down US$0.30 per pound from the end of the second quarter of this year and zinc was down US$0.14 per pound. These adjustments are included in our income statement under other operating income and expenses.

The chart on the right represents the simplified relationship between the change in copper and zinc prices and the reporting settlement adjustment, and usually provides a good estimate of our pricing adjustments each quarter. Third-quarter settlement adjustments were a little outside the typical range due to larger volumes for most of the quarter and due to the pricing adjustments for silver and some of our other products. And, as a reminder, refining and treatment charges in the Canadian/US dollar exchange rate should be considered in your analysis of the impact of price changes in the adjustment. And you should also consider taxes and royalties when analyzing the impact on our profits.

Turning to slide 12, as Don mentioned, we had CAD2.9 billion of asset impairment charges this quarter on a before tax basis, which is about CAD2.2 billion on an after-tax basis.

About two-thirds of the changes, or almost CAD2 billion, relates to our coal operations but there were charges in each of our business units.

We went through a robust and detailed process to determine the level of charges that, in our view, best reflects market conditions. We consider both internal and external information, use discounted cash flow approach to estimate the recoverable amount of our assets. This analysis is based on market view of short-, medium- and long-term prices. Our key commodity price assumptions are based on current prices and gradually escalate to real long-term prices in 2020. We look at a range of sources to determine the best estimates of prices, including spot prices, forward prices, forecasts from analysts and consultants, and what other companies are using in transactions, plus our own views. And we've also factored in exchange rates, our mine plans and our expected long-term cost structures. Ultimately the appropriate carrying value is a management determination, but our auditors have to review this and ultimately agree that the impairment testing and the assumptions used are reasonable.

We summarized some of the key assumptions in the table on the left side of the chart there. It further details in our profit and adjusted profit section on page 4, in the critical accounting estimates and judgment section on page 27, and in note 8 to the financial statements on page 56 of our news release. These page references might differ from those in the Marketwire version, if any of you are looking at that particular release.

Looking at our credit ratings on slide 13, since the end of the second quarter, our credit ratings were downgraded to non-investment grade by Moody's, S&P and Fitch. DBRS typically review our ratings in the fourth quarter.

You should note that there is no impact on our credit ratings beyond an increase in costs relating to both drawn and undrawn amounts. There are no restrictions on borrowing or additional covenants triggered under the credit facilities as a result of the downgrades.

We still desire an investment grade credit rating and we believe that Teck generally has the attributes of a company that warrants an investment grade credit rating in the long term. However, we appreciate that there may be times of cyclically low prices and/or periods of high project spend when our credit metric will be below our targets. We are currently in such a period and we are taking many steps to ensure our financial strength, and we will continue to do so.

Turning to slide 14, we've received a lot of questions on our credit facilities over the past month or so and on our public debt indenture. So, we've provided quite a bit of additional disclosure on these items in the financial position and liquidity section of our earnings release. And some of the key features are summarized on slide 14.

We maintained two primary revolving committed credit facilities which are available for general corporate purposes. Our US$3 billion facility matures in July 2020 and has a letter of credit sub-limit of US$1 billion. Our US$1.2 billion facility matures in June 2017 and it can be drawn fully for cash or for letters of credit. As previously noted, the credit rating downgrades result in slightly higher costs to maintain these facilities and higher borrowing rates if we were to draw on them.

We also maintain a number of uncommitted bilateral credit facilities that total CAD1.5 billion for the issuance of letters of credit, primarily for future reclamation obligations. And we currently have CAD1.15 billion of these letters of credit issued under these facilities. And we do expect that we will have to put an additional CAD225 million in place by the end of 2015.

All of our bank credit facilities are unsecured and any borrowings rank *pari passu* with our outstanding public notes. And none of our notes or credit facilities are guaranteed by any of our subsidiaries.

Our credit facilities contain a financial covenant requiring us to maintain our debt to debt-plus-equity ratio below 50%. And following the impairment charges taken in Q3, the debt repayment on October 1 and receipt of the cash from the Antamina silver stream in October, we are currently at 35%, well below the 50% covenant in these agreements. And there's also no requirement for us to maintain a particular credit rating.

On slide 15 I've addressed our potential requirements to post additional letters of credit as a consequence of the recent ratings actions.

We are required to deliver up to US$672 million of letters of credit pursuant to the long-term power purchase agreement for QB2, and up to CAD425 million relating to pipeline and storage agreements for Fort Hills. However, we are currently in discussions with counterparties regarding deferral or reduction of letters of credit requirements.

Our intention is that, if ultimately required, these additional letters of credit would be issued under the US$1.2 billion committed facility. And you should also note that issued letters of credit do not constitute debt for the purpose of the debt-plus-equity covenant in our bank agreements, and would not be required if and when we gain investment grade credit ratings.

Moving on to slide 16, our debt profile with the repayment of the US$300 million notes on October 1, we have no substantial debt due until 2017. And further out our average maturity is a little under US600 million per year. And as I mentioned earlier, including the impairment charge taken in Q3, the debt repayment on October 1, receipt of the Antamina silver streaming cash, our current debt to debt-plus-equity ratio is 35%, well below the 50% covenant in our lending agreement. And our net debt to net-debt-plus-equity ratio is currently at 30%.

So, with that, I'll turn the call back over to Don.

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

Okay, thanks, Ron. I think simply to wrap up, we're closely managing our cash and we now expect to finish the year with around CAD1.8 billion, as Ron detailed earlier. So, with that, we would be happy to answer your questions. And I do want to 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 sort out who's the best person to answer it.

Okay, thanks. Operator, open for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions)

The first questions from Wilfredo Ortiz from Deutsche Bank.

Wilfredo Ortiz - ***Deutsche Bank - Analyst***

Yes, good morning, everyone. Just on the writedowns and the US$75 WTI price that you're using for Fort Hills, I just wanted to get a sense as to the level of conservatism that you think you're taking relative to where spot prices are right now, and considering the discount assumption that you're using relative to where I believe the discount is right now relative to the forward curve. Or put another way, should prices remain at current levels, how could you adjust this price and perhaps incent for further writedowns at Fort Hills?

Ron Millos - ***Teck Resources Limited - CFO***

We look at a range of different commodity prices for all of the products and oil is one of them. We look at what market people are doing, what consensus is, what we think others are doing. And of course these writedowns are based on substantial amount of judgment in the commodity prices, the exchange rate and the various other factors that impact the ultimate netbacks we get from the site. We think that those are generally conservative numbers but others can have different views on what that would be.

The other thing, when we look at these writedowns, the accounting rules require us to use roughly what a market participant would use regardless of what our views are. So, we need to be in that range and we think we are. Certainly, if current prices stay where they are for a longer period of time we're required at the end of every quarter to look at impairments. But we would not expect that on a quarter by quarter basis there would be a substantial change in what our view on the longer-term prices would be.

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

Ron, I'd just like to add a comment on this market view aspect of it. This is Greg Waller, operator. The consensus view right now, when you look at the consensus summary views provided by consulting firms, the commodity analysts with the big banks that cover us, is US$79 a barrel. And, again, as Ron says, we have to use what market expectations are and that's US$79 a barrel. I also think it's probably a reflection of when people are asked about long term they are probably thinking 15 maybe 20 years. And keep in mind that this is a 50-year asset, so we're using already a conservative number at US$75 relative to the consensus view at US$79. But, again, they're probably not contemplating the 50-year term we need to think about for the valuation of this asset.

Wilfredo Ortiz - ***Deutsche Bank - Analyst***

Got it. And if I may follow-up on another question, regarding the letter of credit I know the intention is to use the US$1.2 billion committed credit facilities. Is there a risk that at some point, some cash could be restricted if market conditions deteriorate or some of the ratios deteriorate rather than improve? Is there a risk at any point in time that some part of the cash could be restricted?

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

I'll turn it over to Scott Wilson. Scott's our Treasurer.

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

At this stage we don't see that as a risk. We'll have to evaluate circumstances as they develop, but not a present concern.

Wilfredo Ortiz - ***Deutsche Bank - Analyst***

Okay, thank you very much.

Operator

Thank you. The next question is from Orest Wowkodaw from Scotiabank.

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

Hi, good morning. A couple more questions, just on your liquidity. Do you think you have more room for other potential streaming deals across the portfolio? And then just a follow on, just curious what your new rates will be on the credit lines if they are drawn, now that you're no longer investment grade. Thank you.

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

I'll let Scott answer the second one first and then comment on your next question.

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

Sure. The drawn cost on our committed credit facilities would be LIBOR plus 2.25%.

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

And on the potential for further streaming, the answer is yes, there is potential, but we are not looking at it at present because we're comfortable with the situation with having CAD1.8 billion cash currently, more than the amount required to finish Fort Hills, and a forecast of CAD1.8 billion in cash at year end at which time there's only 18 months to go until commissioning Fort Hills. So, we feel comfortable and are not looking at further streaming at the moment

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

Okay. But just so I'm clear in terms of optionality, under your debt indentures, would you be allowed to stream out any of the North American assets?

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

Yes.

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

Thank you.

Operator

Thank you. The next question is from Lucas Pipes from FBR.

Lucas Pipes - ***FBR Capital Markets - Analyst***

Good morning, everybody. To follow-up on the streaming question, maybe could you expand on that and give us a little bit of a sense for what other asset sales could be on the table if you choose to do so?

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

I think we mentioned in previous times that you could look at several; assets that have either silver or silver and gold, or there's all sorts of products we produce at Trail where you could create things. So, I don't think there's really much more to say other than that. I want to repeat my statement, we are not looking at further streaming at this time.

Lucas Pipes - ***FBR Capital Markets - Analyst***

Helpful, thank you. And then on Fort Hills, I remember you wanted to update the market at some point on the transportation options that you're pursuing. Could you give us an update at this point in time on where you stand and when we could maybe look forward to more details on that side of the project?

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

Ray Reipas

Ray Reipas - ***Teck Resources Limited - SVP of Energy***

Yes, thanks, Lucas. We are working hard to finalize our transportation and logistics arrangements beyond Hardisty. You will remember that we did announce with our partners on Fort Hills arrangements to both provide diluent to the site and blended bitumen service down to Hardisty to get us to that market hub in Alberta. And then we are looking beyond that. We will put all those arrangements in place well ahead of Fort Hills start up in late 2017.

Lucas Pipes - ***FBR Capital Markets - Analyst***

That's helpful. And if I may ask one final question on the cost side, obviously you've done a great job bringing down costs, specifically on the coal side. And I wondered, could you maybe give us a flavor on what else you could be looking at as we head into 2016?

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

Is that within coal or just across the board? Or maybe I'll just answer both. We are intensely focused on further cost reductions. We've launched specific programs in coal at the moment but watched closely by copper and zinc. And we've targeted finalization of some new plans to present to our Board next month. We believe we will be able to make further cost reductions but we couldn't quantify it at this point what the amount would be. Work in progress, but certainly, some interesting potential ideas and very good focus.

Lucas Pipes - ***FBR Capital Markets - Analyst***

Great. Good luck with everything.

Operator

The next question is from Greg Barnes from TD Securities.

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

Yes, thanks. Just approaching the carrying values of the coal assets from a different side rather than the price, what about costs? What kind of long-term costs have you assumed? Are they in line with where we are now and going up slightly? Or how do you model that out in the carrying value calculation?

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Ron Millos - ***Teck Resources Limited - CFO***

Greg, they're pretty much in line with where we're at now. In this low price environment, the models are obviously being tweaked in how they would change the mine plans and everything in response to these low price. But they generally in line with the current prices that we're at.

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

And, Greg, I'd comment that the nature of your question highlights what the nature of the impairment issue is; that a lot of it is iterative. If you assume low commodity price in the future then you're likely to modify your mine plans. If you have higher prices you have different production profile. You'll recall last quarter we were working on the mine plans and so chose to finish that job and to see if there were more data points on the market before making our decisions on that. We could look out two or three quarters from now and have a completely different situation in all of the things -- outlook for commodity price, exchange rate, cost profile. At the end of the day we take our best judgment on it.

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

Okay. Just a second question, on the zinc market, in the context of the large cuts announced by Glencore. That was surprisingly large, in my view. I'm just wondering what your take is and why that level of cut back was required.

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

I'm going to let Andrew Stonkus answer that.

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

Thanks, Don, thanks, Greg. With regard to their cuts, they made it for their own reasons. They didn't add much commentary other than the fact that they didn't want to take the resource out of the ground at these valuations. So, it's their own decision. But you have to remember that this is on top of the closures that are taking place at Century Mine, which the final concentrates are being delivered, as we speak, to the market. So, on top of the Century closure and the Lisheen mine closure coming up to the end of the year, this just adds to the shortfall on concentrates that we're going to be seeing in the months ahead. That will just cascade into the metal site. So, it's unfolding as we thought in terms of the concentrate shortfall that's going to transpire in the next few months.

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

The zinc price really hasn't done much.

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

Yes, I think the zinc price will -- the fundamentals are lining up. On the supply side it's going to be a challenged situation on concentrate availability. We look at the Chinese imports at 60% of concentrates imported into China. Those concentrates will not be available to the marketplace with these closures so that will have probably an impact on metal production out of China.

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

Okay, thank you.

Operator

Thank you. The next question is from Oscar Cabrera from Bank of America.

Oscar Cabrera - ***BofA Merrill Lynch - Analyst***

Thank you, operator. Good morning, everyone. I was wondering, just following up on Greg's question with regards to your coal assets, if you could give us a sense of if any of the reserves that you have reported at the end of 2014 were impaired with the changes in mine plan?

Ron Millos - ***Teck Resources Limited - CFO***

Could you repeat? We couldn't hear the end of the question, Oscar, if you could repeat it, please.

Oscar Cabrera - ***BofA Merrill Lynch - Analyst***

Yes, sorry. My new phone set is just not great. Apologies. I'm just saying with the new assumption in long-term met coal prices, would any of your reserves -- because you had about 1 billion tonnes in reserves at the end of 2014 -- and with the change in mine plans, did any of those reserves become impaired? Do you have a lower number?

Ron Millos - ***Teck Resources Limited - CFO***

We're in the process of finalizing that work. There may be change between reserve and resource but it's still preliminary at this stage, Oscar, to give a definitive answer on that. We don't anticipate it's going to be substantive but the work is ongoing.

Oscar Cabrera - ***BofA Merrill Lynch - Analyst***

Okay. And then with regards to your comments on cost containment, the grade in some of the copper assets like Highland Valley have been, last quarter and this quarter was pretty high. So, how sustainable is that? And what expectations do you guys have in terms of mine plan going forward for Highland Valley in specific?

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

Dale Andres will answer it.

Dale Andres - ***Teck Resources Limited - SVP of Copper***

Thanks, Oscar. We're very pleased with the performance of Highland Valley in the third quarter. It's an unusually high grade. We don't expect those kind of grades to continue, although grade will be above reserve grade for the fourth quarter. As we head into next year, we are going to be coming towards the end of the high grade phase of Phase 8 in the mine plan in the Valley pit. So, towards the end of the year, next year, the grades will start to drop down significantly. But for the next four quarters, we should see above reserve grade.

In general, how that translates into cost, obviously that helped, it helped our costs in the third quarter. There are puts and takes depending on the different operations, but in general we're quite confident in our cost guidance for the year and we'll achieve that.

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

And just some further color, Oscar, in your original question on coal. We keep a certain tonnage in the reserve category but, really, we look at the business and the overall resource broadly defined, which is 5.9 billion tonnes. And the work that we're doing which we would report at the end of the year, nothing substantive would be changing in terms of the nature of the business related to adjustments to mine plan currently.

Oscar Cabrera - ***BofA Merrill Lynch - Analyst***

That's helpful, Don, thank you.

Operator

Thank you. The next question is from Kerry Smith from Haywood Securities.

Kerry Smith - ***Haywood Securities Inc. - Analyst***

Good morning. First, could you just remind me the CapEx left to spend at Fort Hills, the CAD1.5 billion, does that include the working capital for the ramp up for the 12 months after you start up?

Ron Millos - ***Teck Resources Limited - CFO***

That's the construction cost, Kerry.

Kerry Smith - ***Haywood Securities Inc. - Analyst***

Okay. So that doesn't include the working capital, okay. And can you hazard a guess as to what you think the working capital requirement will be?

Ron Millos - ***Teck Resources Limited - CFO***

Not at this stage. We'll get back to you.

Kerry Smith - ***Haywood Securities Inc. - Analyst***

Okay. And then just on Pend Oreille, it's not making any money at the operating level at these prices, but obviously there are benefits to having that concentrate going to Trail. Is there a price that you think about possibly taking that 45,000 tonnes of zinc off the market? Or is there no price that makes sense, it makes more sense to ship it to Trail?

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

We have shut it down before so, obviously, there is a price. We are, in this low commodity price environment, viewing all assets constantly. That one certainly is on the list. No decision has been made. But you're quite right, it is a key source of concentrate for Trail for a number of reasons, transportation cost being just one. So, unfortunately at this stage we couldn't say much more than that but I think it's a valid question.

Kerry Smith - ***Haywood Securities Inc. - Analyst***

Okay. And then, Ron, just one last thing. You had talked previously about exiting this year with CAD1 billion in cash. Now you're CAD1.8billion cash, but that's after basically CAD1.3 billion of, call it, asset sales, if you want to count the streams. So, the delta there is CAD0.5 billion difference to the negative. Is that all from price or are there other?

Ron Millos - ***Teck Resources Limited - CFO***

It assumes the same debt level. At the beginning of the year when we put out the CAD1 billion we assumed that we were going to refinance the US$300 million note with the revolver. We've chosen to use cash to do that to basically save the fees on the banking agreements. And then the rest is the transactions that we've talked about and the various changes in costs, commodity prices, et cetera. The exchange rates also moved in our favor, as well.

Kerry Smith - ***Haywood Securities Inc. - Analyst***

Right, okay. But the net effect of the lower prices and the favorable exchange is really that CAD0.5 billion. Okay, that's fine. And just maybe one last question just to follow-up on Dale's comment about the grades at Highland Valley which will come down by the end of next year, are there any other significant changes that you could see in any of the mine plans at any of the other operations that might significantly affect your C1 cash costs like at Antamina, say, or anything? I'm just wondering if the cash costs you've got now at US$1.44 a pound is pretty good. I'm just wondering how sustainable that is, if there's maybe something in a mine plan that might impact that either positively or negatively next year, let's say.

Dale Andres - ***Teck Resources Limited - SVP of Copper***

Thanks for the follow-up. For Antamina, we anticipate costs and production to continue to be strong into next year. CDA, we don't anticipate any material changes from this year heading into next. The one question mark and we're currently working on is the Quebrada Blanca mine. And we'll provide further update at the end of the fourth quarter on that but that's a relatively small percentage of our tonnes currently and heading into next year.

Kerry Smith - ***Haywood Securities Inc. - Analyst***

Okay, that's good. Thank you, Dale.

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

Just supplemental on the Pend Oreille question, the other aspect is that we're just finishing the ramp up and getting to full production this quarter, and that will allow us to come to a view on what the real cost structure is at full production, which is a key factor in any decisions going forward. We are quite encouraged by the outlook for further reserves and resources in terms of a longer-term mine plan. So, these are all things in the back of our mind.

Operator

Thank you. The next question is from Jeremy Sussman from Clarkson.

Jeremy Sussman - ***Clarksons Platou Securities - Analyst***

Yes, hello there. Just based on where you see things now, can you give us a sense of how you see maintenance CapEx, growth CapEx and deferred stripping coming into play next year and how that compares to 2015 levels?

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

Okay, three questions there. We're going to start with Greg.

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

Jeremy, we've had that question a lot recently. Really all we can say at this point is we give our formal guidance in our Q4 report but it comes out in February. But, broadly, I think you can assume that it will be in the same order of magnitude as where we are now. As you look at where we are in the four major buckets of capital, sustaining capital we've got down quite a bit. We think we can run in that range for a few years.

In new growth projects, Fort Hills, construction will peak next year. Right now we're running about CAD200 million a quarter. It will be up a little bit higher from that next year so let's say maybe CAD225 million a quarter, so in the CAD900 million range. So, that pushes up a bit from the CAD850 million guidance this year. And of course we were at a higher share earlier this year. We've now stepped down to the 20% so that's one of the reasons why we are only spending CAD200 million a quarter right now, roughly.

And then on capitalized stripping that will continue to be in the same level. So all-in we would expect to, again subject to giving our more formal guidance in February, but we would expect the number to be more broadly similar to where we are right now.

Jeremy Sussman - ***Clarksons Platou Securities - Analyst***

Okay, that's very helpful. And maybe just switching gears on the coal front, are you seeing any signs of life, anything positive out there at this juncture? Or is it status quo and you're still -- obviously we're all waiting for some of the high cost production that seems to be a bit stickier than most of us would have thought to come off line. So, I'll listen to what you have to say. Thank you very much.

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

We're all smiling around the table. It's probably status quo, is the answer. We were just waiting for the first question on coal. Réal Foley, go ahead.

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

Thanks, Jeremy. To summarize it maybe off the top, there's been a lot of production cuts that have been announced, close to 50 million tonnes now. And about half of that has been implemented, by our estimates. The thing, however, is that as those production cuts are happening, we are also seeing see seaborne demand from China come down by very similar levels. So, the two numbers are happening at the same time and that explains why prices are still under pressure.

Now, when we look a little bit closer at the numbers, you realize that US is under a lot of pressure. All suppliers are under pressure but US even more so. If you look at the stats, US exports annualized year to date at the end of August are down by 7 million tonnes compared to last year. We're just getting into negotiation for annual pricing in the US, as we speak, and we expect that pricing in the domestic market for 2016 will come down even further, so again adding more pressure on the suppliers, especially in the US. So, that could lead to additional production cuts for 2016.

Jeremy Sussman - ***Clarksons Platou Securities - Analyst***

Great, thank you very much.

Operator

Thank you. The next question is from Garrett Nelson from BB&T Capital markets.

Garrett Nelson - ***BB&T Capital Markets - Analyst***

Hi, good morning. Another question on the writedowns. The silver lining from the earnings perspective is lower book value should equate to lower D&A. And it looks like your coal D&A was running at about CAD28 per tonne year to date. Could you help us out what D&A per tonne we should be modeling from that segment going forward?

Ron Millos - ***Teck Resources Limited - CFO***

We might have to get back to you on that one but overall, the Company's D&A is going to be about CAD10 million a month lower because of the impairments.

Garrett Nelson - ***BB&T Capital Markets - Analyst***

CAD10 million a month?

Ron Millos - ***Teck Resources Limited - CFO***

Yes, Company-wide.

Garrett Nelson - ***BB&T Capital Markets - Analyst***

Okay, that's helpful. And then how are you thinking about the dividend at this point? Are you comfortable maintaining the CAD0.30 annualized level? Or has your thinking changed at all regarding whether it would be better to keep that CAD170 million or so of annual cash?

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

The dividend is always a Board decision. And I think nine of the last ten years we reviewed that at the November Board meeting, so it will be the same this year. The Board will take a look at it in November.

Garrett Nelson - ***BB&T Capital Markets - Analyst***

Okay, thanks a lot.

Operator

Thank you. The next question is from Ralph Profiti from Credit Suisse.

Ralph Profiti - ***Credit Suisse - Analyst***

Good morning. Thanks for my question. Just have one, Don. There was an implied 700,000 tonne draw on coal inventories in Q3. I'm just wondering how is Teck positioned from an inventory standpoint into Q4 coal deliveries relative to previous years. I'm just trying to gauge how close we are from, say, weather factors or logistics issues becoming an issue into year end. Thank you.

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

Okay, Réal.

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

Thanks, Ralph. Yes, you're right. We have reduced inventory during the quarter, but we're in a position to meet all of our contractual commitments and committed sales going into Q4. So, at this point, we don't see any major issues with meeting our commitments.

Ralph Profiti - ***Credit Suisse - Analyst***

Thank you.

Operator

The next question is from Geoff McKinney from Bank of America Merrill Lynch.

Geoff McKinney - ***BofA Merrill Lynch - Analyst***

Hi, good morning, thank you. I just wanted to confirm a couple points on the LCs, if that's okay. The CAD1.15 billion figure updated as of this quarter, is that related to the CAD985 million and the CAD91 million that you had disclosed in the Annual Report that looked to be related to the uncommitted facilities or is this a new figure?

Ron Millos - ***Teck Resources Limited - CFO***

Sorry, you were breaking up a little bit there and I missed the first figure that you referred to.

Geoff McKinney - ***BofA Merrill Lynch - Analyst***

The CAD1.15 billion figure for this quarter for the LCs related to the uncommitted CAD1.5 billion of credit facilities, is that related to the CAD985 million and the CAD91 million as of calendar year end that was disclosed.

Ron Millos - ***Teck Resources Limited - CFO***

Yes, those are all for basically outstanding reclamation commitments. And those amounts grow as you disturb more land, et cetera.

Geoff McKinney - ***BofA Merrill Lynch - Analyst***

Okay, that's helpful, thank you. Can you describe how these uncommitted facilities are negotiated from an extension standpoint, given the reference to generally having a one-year term? Is it reasonable to expect any changes in terms of size or terms of these facilities? And if so, would it be reasonable to expect the CAD1 billion sub limit on the 2020 credit facility to be the back stop here?

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

Scott Wilson?

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

Sure. Thanks for the question. The uncommitted facilities, first of all, are distributed amongst about 10 of our relationship banks, including Export Development Canada who's a very significant participant in all of this. And they are renewed and renegotiated every year, and we would expect to continue to be able to do that going into the future. To the extent that we need to increase these facilities, as Ron mentioned, the reclamation obligations generally grow a little bit each year. So, we've been adding a little bit to them as we go. And if we need more letter of credit capacity on our principal committed credit facilities, we would expect to be successful with the banks to increase those, as well.

Geoff McKinney - ***BofA Merrill Lynch - Analyst***

Okay, thank you. And, lastly, in reference to the expectation for met coal prices staying under pressure next year and the market where it is today for both copper and zinc, can you talk about how you're thinking about the balance sheet as we move closer to 2017, given the upcoming maturities in 2017 through 2019, and the US$1.2 billion credit facility, and just how you would think about managing that, when you would potentially start to address it, and where you think the capital structure can move to?

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

Scott will start with that and we'll see what's left.

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

The US$1.2 billion credit facility has a two-year maturity. We would typically talk to the banks every year about further extension of the tenor of those facilities. So, next spring, I expect we would be talking with the lenders there to extend the term of that facility, should it be required. And we would also consider doing that on the main US$3 billion facility, as well.

Geoff McKinney - ***BofA Merrill Lynch - Analyst***

Okay. And understanding that the cash balance at year end is expected to effectively offset the Fort Hills spending over the next two years and the potential changes to the credit facilities, I'm just curious how you're thinking about managing the upcoming maturities beginning in 2017, given that we're one quarter closer at this point. And this is under the assumption that certainly under the risk that commodity prices don't rebound in the next, call it, 12 to 15 months.

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

I just want to highlight, just in case others on the phone aren't sure what you're referring to, the upcoming maturities are just US$300 million in January 2017 and then another US$300 million, I believe, in August of 2017. So, not a material challenge. But Scott will be able --.

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

Sure, thanks. First and foremost, we would look to refinance those maturities in the public debt market. That market would be a little bit challenging today, for sure, but possible. And assuming that those markets are available, that's probably what we would do. If those markets were not available, our credit facilities are sized at this stage to be able to handle that refinancing.

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

And we would point out that Fort Hills is scheduled to be finished construction in the middle of 2017 after just one of those CAD300 million maturities. So, the cash profile of the Company switches over from CAD850 million notes hopefully within a matter of months from that cash flow coming in. So, quite a switch.

Geoff McKinney - ***BofA Merrill Lynch - Analyst***

Thank you, that's helpful. And lastly, if I can, the negotiations around deferring the LCs, should we think about that from a temporary deferral or are you looking for more of a permanent restructuring of terms? Or how should we think about that?

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

We have to provide the counterparties with comfort that we're financially capable of managing our obligations to them. And we think that we can do that. But there are provisions in the agreement when we're non-investment grade that they have the ability to ask for some sort of security, which is LCs. We think they will be mindful. But they will generally be one-year extensions, I would think. So, if we are successful convincing them that we will be able to honor our obligations, we'll get that for a year, and then we'll go back and do it the following year and the following year and the following year until we go back to hopefully investment grade.

Geoff McKinney - ***BofA Merrill Lynch - Analyst***

Okay, thank you, guys, very much. I appreciate that.

Operator

Thank you. The next question is from Karl Blunden from Goldman Sachs.

Karl Blunden - ***Goldman Sachs - Analyst***

Hi, good morning, guys. Thanks for taking the call. I just wanted to focus a little bit on the debt here. You mentioned that you would look for the 2017 maturities to refine the debt markets if those are open to you. Any thoughts of unsecured debt or would you do secured debt, as well, if the rate is reasonable?

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

It's Scott again. Our preference would not be to have to issue secured debt. That would have implications for the unsecured holders. It is an alternative and we have disclosed in the liquidity section of our news release the Company's capacity to do that. But it wouldn't be our first choice.

Karl Blunden - ***Goldman Sachs - Analyst***

Thanks. And just a follow-up on the revolvers. It's a two part. How much would you be comfortable drawing on the revolver versus issuing secured debt? You mentioned if the public markets aren't open you'd do the revolver. And then the second thing is, any restrictions on drawing on those revolvers in an unsecured fashion? So, if you were to issue secure debt would you need to secure the revolvers? Anything we should know about the restrictions and limitations there?

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

It's Scott again. No, if we were to issue secure debt there would be no requirement to have to also secure the unsecured creditors, if you will, provided that we didn't exceed the secured limit basket which is in the range of CAD3 billion.

Karl Blunden - ***Goldman Sachs - Analyst***

Thanks very much. Appreciate that.

Operator

The next question is from Matt Vittorioso from Barclays.

Matt Vittorioso - ***Barclays Capital - Analyst***

Yes, thanks for taking my questions. Just a couple quick modeling questions. I just want to make sure we are reflecting the streaming agreements coming out of your EBITDA. It looks like in the third quarter you essentially zeroed out the gold ounces that are going to Royal Gold. Is that how you'll approach the Franco stream, as well, that you'll essentially reduce your by-product revenue in the copper business by that silver stream?

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

John Gingell, our Controller.

John Gingell - ***Teck Resources Limited - Controller***

It's a fourth-quarter transaction and we are still under discussion as to how we'll do that. It will either reduce our costs or our revenue or add to our revenues. I'm unsure as to which way we will go on that at this stage.

Matt Vittorioso - ***Barclays Capital - Analyst***

Okay. And can you comment on how much generally, say, either on a quarterly or annual basis, either volume of silver or cash dollars are essentially going out to Franco? I think you've disclosed in the past that you, I think, produced about 12 million ounces of silver at Antamina. Is that a good run rate going forward? How do we think about the cash going to Franco from that stream?

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

Andrew Golding.

Andrew Golding - ***Teck Resources Limited - SVP of Corporate Development***

Yes, hi. Very simple terms -- if you look at the 2014 production, Antamina produced 12 million ounces of silver. Our share is 22.5% of that. If you effectively model it as the loss of 95% of the silver revenue, then depending on what silver price you assume, you can easily calculate what silver revenue has foregone as a result of the stream. So, 22% of 12 million is the figure in 2014. It varies a little bit from year to year going forward. That's a rough reasonable approximation.

Matt Vittorioso - ***Barclays Capital - Analyst***

And 12 million ounces going forward is at least ballpark?

Andrew Golding - ***Teck Resources Limited - SVP of Corporate Development***

Yes. And the thing to remember is that we retain an ongoing payment of 5% of the prevailing spot price of silver.

Matt Vittorioso - ***Barclays Capital - Analyst***

Yes. One last modeling question for me, when you report zinc business unit revenue, say, in the third quarter of CAD805 million, would it be possible to break that out between payable pounds of zinc that were sold, how much revenue was generated from actual zinc sales versus, say, lead and some of the other co-products? Do you guys have that by metal, the CAD805 million of zinc revenue by metal?

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

Greg Waller.

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

Matt, I think the best thing to do on that is come to our modeling workshop coming up in Toronto on November 4. We'll go through the details of how you take gross production and get that down to payable pounds. And this is for anybody who's listening, if you're interested in attending this modeling workshop. It is held around every two years, just to help people take our reported financial information, add it to the information that's generally available in the markets to understand and how to model the Company going forward. That's, again, November 4 in the afternoon in Toronto. If you're interested in attending send us an e-mail and we'll get an invite out to you.

Matt Vittorioso - ***Barclays Capital - Analyst***

Okay, thanks.

Operator

Thank you. The next question is from Matt Farwell from Imperial Capital.

Matt Farwell - ***Imperial Capital - Analyst***

Thanks for taking my question. Just a question on the coal production, 25 million tonnes to 26 million tonnes. Do you have any flexibility to reduce production further than that with regard to the rail and port agreements that you have? Just looking at the all-in cost of the production, including the maintenance CapEx and production stripping, it seems like the cost is higher than current spot prices. So, is there any flexibility regarding those agreements?

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

Just checking. Ian Kilgour, are you on the line?

Ian Kilgour - ***Teck Resources Limited - COO***

Yes, Don.

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

Are you able to take that question? Did you hear it?

Ian Kilgour - ***Teck Resources Limited - COO***

Yes, for sure. Yes, Matt, we do have flexibility if we were going to alter our production. But at this point, as you said, our production is cash positive so we intend to produce, as we said in the release, in alignment with our sales expectation.

Matt Farwell - ***Imperial Capital - Analyst***

Okay. And then you're talking about looking to refinance the unsecured notes. Have you also considered -- I know this question comes up often -- in addition to cutting the dividend perhaps issuing equity as a means to lower your cost of capital?

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

Don is going to respond. Could you repeat the question?

Matt Farwell - ***Imperial Capital - Analyst***

Oh, yes, sure. The question has come up in the past. Can you address the dividend and that Board decision. And you're also discussing means of refinancing near-term maturities. Just looking at the cash numbers it seems like putting cash on the balance sheet might be a way of reducing your overall cost of debt if you were to come to the market with any deal, as suggested so. Just wondering management's comments on that issue.

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

Okay. I apologize but I still don't understand the question. You're talking about issuing more debt to put cash on the balance sheet?

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

Issuing equity.

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

Issuing equity? Absolutely not. I think we've been very clear on this issue on each quarterly call we have no plans to issue equity.

Matt Farwell - ***Imperial Capital - Analyst***

Thank you very much.

Operator

Thank you. The next question is from Alexander Mack from FDA/

Alexander Mack - ***FDA - Analyst***

Coming back on the zinc, how is the amount for zinc as fertilizer developing in China and India?

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

I didn't come with the latest number on that but certainly we got the formal recommendation from the Ministry of Agriculture I think about a year and a half ago. There have been a lot of training programs disseminating the information to the farming community, and many field agents from the Ministry that are out educating the farmers. I think there are at least six companies now manufacturing fertilizer that contains 1% zinc. So, it is rolling out throughout China. We track, actually, the number of incremental tonnes as a result of the increased use of fertilizers. But we'll have to get back to you with that number because I didn't bring it with me this morning. But it's certainly a positive development, both from a consumption of zinc point of view but, more importantly, from a productivity point of view because the results have been very exciting for each of rice and wheat and corn, and so on. So, that will continue to roll out but it will take several crop cycles before it reaches its maximum.

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

And with that, operator, we're going to cut questions now. We're at the top of the hour. If anybody is still in the backlog on the call we are certainly happy to do a call with you later this morning or later today, your time. So, let us know and we can certainly get back to you. I'll just turn it over to Don at this point for some closing comments.

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

Okay, just a couple of comments offering some perspective. A lot of the questions today were fairly short-term in nature, as we understand people are trying to update their models. And, as Greg said, we do have the modeling workshop coming and that will be helpful for that. Also, there are different what if questions that are based on the overall question of what if the cycle is dead and commodity prices stay at spot levels forever. I'd point out that when we deal with large institutions such as banks and other companies that are involved in long-term investments, whether they be in infrastructure or mining or other commodities, that they don't believe that the cycle has disappeared. And they fully recognize that there are down cycles and up cycles. So, I think that's important context.

I would also point out that we have a confident battle-tested team that is systematically working our way through what our, or at least some commodities, the worst market conditions in almost everyone on the phone's lifetime. And you could look up the prices in real terms and relative to cost curves and you'll see what I mean. But I'd also remind you that the best and most effective cure for low commodity prices is, and always has been, low commodity prices. And remember that the darker the winter, the brighter the spring will be. So, thank you very much for listening today and we look forward to talking to you one quarter from now.

Operator

Thank you. The conference call has now ended. Please disconnect your lines at this time/ And we thank you for participating.