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TCK.B.TO - Q1 2014 Teck Resources Limited Earnings Conference Call

EVENT DATE/TIME: APRIL 22, 2014 / 03:00PM GMT

OVERVIEW:

TCK.B.TO reported 1Q14 profit attributable to shareholders of CAD69m or CAD0.12 per share.

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Teck's first quarter 2014 conference call.

(Operator Instructions)

This conference call is being recorded on Tuesday, April 22, 2014. 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, operator.

Good morning, everyone, and thanks for joining us this morning for Teck's first quarter earnings conference call.

Before we start, 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 results to vary. Teck does not assume the obligation to update any forward-looking statement.

You'll notice this morning we've got a change in our presentation format in our slides. It's a little shorter this morning. We'll get to Q&A quicker.

But as we've started over the last few calls, we will be limiting the call to one hour this morning. So get your questions in.

I'll turn the call over to Don.

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

Thanks, Greg.

Good morning, everyone. I'll begin with a brief overview, followed by highlights from our first quarter results. And then Ron Millos, our CFO, will provide additional color on the quarter from a financial perspective. We will then conclude with a Q&A session where Ron, myself and additional members of our management team would be happy to address any questions that you may have.

Starting with a brief overview on slide 3. We continue to see good demand for all of our principal products, and we are starting to see improvements in global economic conditions.

However, prices clearly remain weak, particularly for steelmaking coal. Coal prices are currently at their lowest level since 2007, and margins are at their lowest level in 10 years. We continue to be surprised that there remains so much uneconomical supply on the market, although we did see an announcement this morning of some supply coming off.

We estimate that as much as 35 million to 40 million tonnes of global seaborne traded steelmaking coal is currently being produced at a negative cash margin at current prices. Clearly, that's not sustainable; and even a portion of that closing down would bring the market back to balance.

Fortunately, we are starting to see some curtailments. But more is needed in order to bring the market back into balance to achieve better pricing.

In these circumstances, we are increasing our efforts to reduce operating costs and capital expenditures where possible.

We are in a strong financial position, with CAD2.4 billion in cash at March 31st, and no substantial debt due over the next three years. At the same time, we are mindful of returning cash to shareholders. And in January we paid our semi-annual dividend, which is CAD0.90 on an annualized basis.

Turning to slide 4 and the highlights from our first quarter 2014. You may have noticed that we have changed the format of our press release this quarter, as Greg mentioned, including additional disclosures on our cost of sales. We hope that you will find the changes useful.

Operationally, we did have a good quarter, with a number of mines achieving increases in throughput. Steelmaking coal production increased by almost 500,000 tonnes to 6.7 million tonnes, including a new record for monthly coal production in January. Production of copper was also up in the quarter, despite scheduled downtime at Highland Valley related to the completion of the Mill Optimization Project.

Lower prices for all of our principal products impacted profitability in the first quarter, resulting in negative pricing adjustments of CAD63 million, most of which was in copper. In addition, we incurred a CAD30 million charge for coal inventory write-downs. And this is partially offset by the positive effect of a stronger US dollar, relative to the Canadian dollar. And that has a favorable effect on our operating margins, since our sales are denominated in US dollars.

Looking at our profitability in the quarter on slide 5, gross profit before depreciation and amortization was CAD732 million, compared with CAD994 million in the same quarter last year. EBITDA was CAD557 million, and our profit attributable to shareholders was CAD69 million or CAD0.12 per share.

As you can see from this chart, there are a few adjustments that you need to make to calculate comparative earnings figures for the first quarter. And when you include these items, adjusted profit was CAD105 million, or CAD0.18 per share, compared with CAD328 million or CAD0.56 a share in the same period last year. This decline was primarily due to lower commodity prices, especially coal, partially offset by the positive impact of the stronger US dollar.

I'll now review our results by business unit, starting with the steelmaking coal business on slide 6. First quarter sales were negatively impacted by rail performance issues, and came in slightly under our guidance and down 400,000 tonnes from last year.

In addition, the oversupply conditions in the steelmaking coal market impacted our average realized price, which declined 11% to CAD143 per tonne. The overall result was that revenue declined by 17% to CAD880 million.

As I mentioned earlier, we set a new monthly production record for steelmaking coal in January, and production rose 500,000 tonnes in the quarter to 6.7 million tonnes. So on an annualized basis, this represents around 27 million tonnes, which is about 1 million tonnes below our current capacity of 28 million tonnes.

Unit costs in coal increased 14% in Q1 to CAD95 a tonne, which is consistent with our annual guidance.

Site costs increased by CAD4 a tonne to CAD52. Over half of this increase was due to a reduction in capitalization of stripping costs, as raw coal strip ratios decreased.

Costs increased as a result of higher prices for diesel and natural gas, partially due to the strengthening of the US dollar, combined with additional maintenance parts costs and partially offset by improved labor productivity. We also had a one-time write-down of CAD30 million in coal inventories in the quarter, which was equivalent to CAD5 per tonne.

Transportation costs increased CAD2 a tonne to CAD38, primarily due to higher fuel surcharges on rails and higher loading costs. Overall, gross profit before depreciation and amortization declined by CAD224 million to CAD292 million, primarily due to lower coal prices.

Looking forward to the second quarter, prices have been agreed to with the majority of our quarterly contract customers at $120 per tonne, for the highest quality product. We expect our coal sales to be at or above 6.5 million tonnes in the quarter.

Turning to our copper business unit on slide 7, sales were similar to last year, but realized copper prices were 8% lower in US dollar terms. This was more than offset by the positive effect of the stronger US dollar. Lower revenues were primarily a result of lower by-product sales volumes.

Gross profit before depreciation and amortization for our copper business unit decreased by 9% or CAD33 million in Q1, compared with the same period last year.

Copper production was 2,000 tonnes higher than the comparable quarter in 2013, and slightly higher than planned, with strong performance at Antamina and Quebrada Blanca.

Highland Valley was affected by scheduled downtime, to tie in the final components of the Mill Optimization project and commissioning activities. We are on track to meet our production guidance of 320,000 to 340,000 tonnes for the full year.

Total cash unit costs, after by-product margins, were up 5% compared with the same period last year, primarily due to lower by-product prices and volumes. Unit costs, though, were below our full-year guidance range; and that represents a great start to the year.

All of the operations performed well from a cost perspective, as we continued to focus on productivity improvements and cost-reduction initiatives. Unit costs are expected to increase for the remainder of the year, as ore grades decline, particularly at Antamina. Higher processing rates will be required to maintain production levels.

Slides 8 and 9 provide an update on the Highland Valley Mill Optimization project. First, I would like to highlight that the project was completed without a single lost time accident and was recently awarded the 2014 Canadian Institute of Mining, Metallurgy and Petroleum Mining and Minerals Project Development Safety Award. So we're pleased with that.

All of the feed material was transferred over to the new flotation facility on February 28th. Commissioning of the new flotation plant is progressing on schedule.

We replaced 264 old float cells, with only 21 new and much larger float cells with modern process control. This is expected to significantly improve performance, as well as lower the maintenance costs associated with this area of the process facilities.

Design throughput rates for the new facilities were exceeded in March, the first full month of operation. And throughput was an average of 139,000 tonnes per day in March, with 175,000 tonnes during the highest throughput day when optimal feed material was available. Now that we know that the plant can handle higher tonnage, we are focused on maximizing recovery at these expanded rates by fine-tuning the process control technology and addressing minor deficiencies in the back end of the processing circuit.

While we're still early in the commissioning phase, so far we are very pleased with the performance of the new plant.

In addition, the new pebble crushing circuit, which was fully commissioned late last year, continues to run well.

Slide 9 provides a look inside the new flotation plant. The now-completed project is expected to support mining activities at Highland Valley to the year 2027 at least. Potentially beyond, if the mine life can be extended, which we believe it will.

It enables an increase in mill throughput of at least 10%, and improves recoveries and lowers sustaining capex going forward. While production levels will vary significantly in future years depending on the grades and qualities of the ore sources available from the various open pits, the new facilities enable copper production rates that are approximately 12% higher than would otherwise have been possible with the old facilities. And we expect to hit our guidance range of 110,000 tonnes to 120,000 tonnes for the full year at Highland Valley.

Turning to our zinc business on slide 10, I should first note that Antamina and Duck Pond share zinc production sales are included in these figures. However, their financial results are reported in our copper business unit, as zinc is considered to be a by-product at both Antamina and Duck Pond.

We had higher sales of zinc and concentrate this quarter, entirely due to higher sales from Red Dog, which more than offset declines in sales at both Antamina and Duck Pond. Our realized price for zinc declined by 2% compared with the same period last year, to $0.91. With the lower realized price and lower by-product sales at Trail, revenues declined by CAD34 million to CAD551 million, And gross profit before depreciation and amortization declined by CAD5 million to CAD121 million.

Production of concentrate was strong this quarter, as we benefited from higher ore throughput rates at Red Dog, due to softer ore. Refined zinc at Trail was impacted by reliability problems associated with the current acid plans, which of course we are currently investing in and replacing by the end of Q2.

Zinc concentrate operating costs and royalty costs rose primarily in relation to increased sales volumes, and operating costs in refining were relatively flat. Overall gross profit, before depreciation, was down 6% at CAD121 million.

Looking at our Pend Oreille mine on slide 11, we are planning to restart our Pend Oreille lead zinc mine in Washington State, which has been on care and maintenance since early 2009. Over a three-year period commencing last year, approximately 1.5 million tonnes of current zinc production will be closed, due to mine depletion. This is a significant figure in a 13-million-tonne market.

Pend Oreille is an underground mine with the capacity to produce approximately 44,000 tonnes of zinc in concentrate annually. It is expected to take approximately seven months to ready the mine for operations, and a further five months to full production.

Pend Oreille is expected to have at least five years of further life, based on our current reserves and resources. The capital cost of the restart is approximately $45 million. Now, this is a high-return project. All production at Pend Oreille will be processed at Trail. And the combined benefit of reducing transportation costs and enhancing concentrate feed provide us with the approximately CAD15 million of annual benefit that could not be obtained from other sources of concentrate. This is something we're looking forward to. And we're well on the way on looking at it, but the final decision hasn't quite been made. It will be made very shortly.

Turning to our energy business unit on slide 12 and an update on Fort Hills. Construction is on schedule, and spending is consistent with the project budget.

Suncor has indicated that it plans Fort Hills project spending to be CAD3.16 billion in 2014. And of this, Teck's share would be CAD850 million, including our earning commitment. In the first quarter, our share of spending was CAD114 million, including remaining earn-in commitments.

I'll now turn it over to Ron to provide additional color on the quarter from a financial perspective.

Ron Millos *- Teck Resources Limited - CFO*

Thanks, Don.

I'm moving on to slide 13, where we've summarized our changes in cash for the quarter.

Our cash flow from operations was CAD470 million. We spent CAD400 million on capital projects, including our investment at Fort Hills, and CAD204 million on capitalized stripping costs.

We also paid CAD259 million for our semi-annual dividend, and CAD172 million on principal and interest payments on our debt. After these items, distributions to non-controlling interest, foreign exchange translation, and other changes in working capital, we ended the quarter with cash and short-term investments of approximately CAD2.4 billion.

The next slide shows our pricing adjustments for the quarter. Pricing adjustments were negative CAD63 million, primarily due to the 34% decline in the copper price. These adjustments are included in our income statement under other operating income and expense.

The chart on the right side of the slide simplifies the relationship between the change in copper and zinc prices, and the reported settlement adjustments.

And again, as a reminder, refining and treatment charges and 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 earnings.

With that, I'll turn the call back to Don.

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

Okay. We'd like to look at slide 15, and operating cost and capex reductions.

We began a cost reduction program originally in the second half of 2012 and exceeded our initial goal. We identified CAD380 million in our annual operating cost savings. And to date, we have implemented CAD366 million and realized CAD345 million.

Going forward, in light of our current market conditions, we are increasing our efforts on reducing our costs and capex to ensure that we maintain our competitiveness. We are intensely focused on reducing our operating costs further, targeting CAD200 million in additional annual operating cost reductions.

Half of the reduction is expected to come from a 5% reduction in our workforce, which represents approximately 600 positions. This will be achieved through a combination of attrition, hiring freezes, and reductions in contractors and employees, including layoffs. We are also targeting an additional 5% reduction across all our other operating costs.

We will also reduce our sustaining and development capital by approximately CAD150 million. This will primarily be achieved through the deferral of equipment purchases, and a reduction of spending on our development projects, with the exception of Fort Hills. Including approximately CAD45 million of Pend Oreille restart costs, our 2014 capital expenditure forecast has been reduced by another CAD105 million to CAD1.8 billion.

In addition, we are deferring the potential restart of our Quintette steelmaking coal mine. The project is being put on care and maintenance until market conditions are favorable for a restart.

We will continue to work on obtaining outstanding permits, so we could restart quickly when market conditions improve. Production could commence within 14 months of a construction decision.

Looking forward on slide 16, and to summarize our near-term priorities, we are focused intensely on further operating cost reductions. We are prudently reducing our capital expenditures, where possible. We are deferring the restart of Quintette until steelmaking coal market conditions are favorable. And we are excited about our plan to restart our Pend Oreille lead zinc mine, which should have final approval shortly.

With that, we would be happy to answer your questions. Please note that some of our management team members are on the line in different locations, so there may be a pause after you ask your questions. Thanks very much. Operator, over to you.

QUESTION AND ANSWER

Operator

(Operator Instructions)

Our first question is from Curt Woodworth from Nomura. Please go ahead.

Curt Woodworth *- Nomura Securities Intl - Analyst*

I wanted to start on the met coal side. It seems like there's roughly anywhere from 30 million to 50 million tonnes at least of global supply that's uneconomic. Yet you really haven't seen very material production cuts announced, and some companies are increasing production, like BHP. Do you think that there are a lot of frictional elements in the market, such as take-or-pay commitments with rails, or other hidden costs that you think are preventing more production cuts? And then I also had a question on what you think China's cost position looks like, in terms of how much domestic China supply is uneconomic right now?

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

Okay. We're going to start with Real Foley on that one, but there may be others here at the table who may add some color.

Real Foley *- Teck Resources Limited - VP - Coal Marketing*

All right. So Curt, you're right, we have seen some production cuts announced, starting to be announced, and a couple examples of those are Walter idling their Western Canadian operations. Arch, there were reports this morning that they're cutting production as well, they're cutting their sales estimates for next year. In terms of take-or-pay, yes, we are hearing that there are still take-or-pay commitments in places like Australia, for instance, and that is having an impact. In terms of domestic supply in China, we're hearing that the current market conditions and the large price drops that they have seen with the domestic price are also impacting their margin. So I guess in short, it's a little bit unclear right now how long the weak market conditions will continue. There is clearly oversupplied coal in the market, and that is definitely impacting pricing.

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

We think Real's covered it pretty well. The only thing I would add is, there are a number of different estimates out there, as to how much of the industry is uneconomic. One, last week, or maybe the week before, from a major US bank suggested that 60% of the whole seaborne coking coal market was underwater at the current benchmark and 76% was uneconomic at the current spot price. And clearly whether that's right or wrong, or the low number is right, but one way or another, these things can't go on forever, but they certainly have gone on a long time, and we're looking forward to the day when the real cuts do come, because they are needed to balance the market.

Curt Woodworth *- Nomura Securities Intl - Analyst*

Okay. And just a follow-up on QB2, in terms of -- obviously the liquidity position is good but the cash flow profile has definitely been degraded from the met profile. Do you think that if the met market were to stay weak for a more prolonged period of time, that that would alter some of the capital that you would look to put into QB2?

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

At the moment, it's at least two years away before we could make a construction decision on QB2, and certainly a lot can change in two years. If you went and looked backwards two years, certainly a lot has changed since then, and look at the difference between March of 2009 and March of 2011 as a two-year period. If it were similar conditions to today, yes, we would not have the financing available to go ahead with QB2. And we'd either have to look for new partners or do something else. But it's far enough away, and that's not even a firm date, in terms of when the construction decision is, that we'll deal with that when we get much closer to it.

Curt Woodworth *- Nomura Securities Intl - Analyst*

Thank you.

Operator

Thank you. The following question is from Meredith Bandy from BMO Capital Markets. Please go ahead.

Meredith Bandy ***- BMO Capital Markets - Analyst***

Hi, good morning. So I just wanted to ask you a little bit more about the cost reductions that you announced, specifically the CAD200 million. How much of that is related to the reduction in workforce? Is it particularly weighted toward any one area? And I guess the same question for the sustaining and development capex, is that spread fairly evenly?

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

I'll turn it over to Ian, but just start by saying that it is not just one area, it is across the Company.

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

Thanks, Don. The cost reduction effort will be right across the Company. It's really an intensification of a program that has been ongoing. We expect around half of the savings will be from the personnel reductions, but we'll also be looking at reducing the cost of consumables, adjusting our mine plans, carrying on with improvements in truck productivity, managing contractors, managing overtime, the whole gamut of levers that we have to pull to reduce our costs. And again, with the capital reductions, they'll be spread right across the business units and our development projects, with the exception of Fort Hills, and we'll be just basically looking to defer replacement of equipment. We really invested very strongly in mining equipment over the last three years, and we have excellent truck and shovel fleets. We've upgraded the size of our truck fleet in coal from principally 240 tonne trucks to 320 tonne trucks with some 400 tonne trucks there. And so our need to replace capital equipment in the next 18 months is not as great, and so we're going to be very disciplined about that.

Meredith Bandy ***- BMO Capital Markets - Analyst***

Do you think there's any potential for lower met coal or copper cost guidance? I didn't see any change this quarter.

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

For lower guidance?

Meredith Bandy ***- BMO Capital Markets - Analyst***

Yes, for the cost guidance.

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

I think we want to wait at least a quarter to see these results come in. Always recall that fluctuations in diesel and gas and other sorts of inputs can cancel out the actual productivity improvements and cost reductions that you make, and we've seen some of that already. We won't be changing the guidance just yet.

Meredith Bandy *- BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

Thank you. The following question is from Mitesh Thakkar from FBR Capital Markets. Please go ahead.

Mitesh Thakkar *- FBR & Co. - Analyst*

Good morning, everybody. My first question is just kind of getting more color on the operating cost reductions, which Meredith asked about. How should we think about impact on various segments? I know you can't update your guidance right now, but if we were to think about from an operating segment standpoint, where are most of these cuts coming from, like the staffing reductions, and everything else?

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

We'll be very cognizant of the different situations of our different business units. Whereas in copper and zinc, we have the opportunity to push production, and we're working very hard to get the very most out of our operations and our concentrators. Don noted the excellent throughputs we've got out of Highland Valley copper, exceeding our initial expectations. We really can't do the same thing in coal, as the market is weaker, so the cuts will be biased in towards larger cuts in coal than the other business units. But they will be right across the organization.

Mitesh Thakkar *- FBR & Co. - Analyst*

Okay. Great. And just a follow-up on the capex reduction side. Can you update us on your new sustaining capex number after accounting for this CAD150 million?

Ron Millos *- Teck Resources Limited - CFO*

Yes, probably about half would be out of the sustaining capital, so we had CAD620 million, I think, was the previous guidance, so CAD580 million-ish.

Mitesh Thakkar *- FBR & Co. - Analyst*

Okay. Perfect. Thank you very much.

Operator

Thank you. The following question is from Lucas Pipes from Brean Capital. Please go you ahead.

Lucas Pipes *- Brean Capital, LLC - Analyst*

Appreciate you taking my question. I also wanted to follow up on the CAD200 million of potential cost savings. Could you maybe give us the time frame by when you hope to realize those?

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

I guess we see that as being realized over the rest of the year. We'll be taking action immediately, which will reduce costs going forward in the short term. For example, the Quintette deferral will see a reduction of about 80 people and other short-term reductions will occur, but the remainder will happen gradually over the next six months, over the rest of the year.

Lucas Pipes *- Brean Capital, LLC - Analyst*

But so essentially holding all else equal, costs in 2015 should be CAD200 million lower than Q1 2013 annualized. Is that the right way to think about it?

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

They will be CAD200 million lower than our budget.

Lucas Pipes *- Brean Capital, LLC - Analyst*

All right. Thank you. And then maybe a follow-up question, also for Ian, and maybe Real can also pitch in a little bit. A lot of these discussions on production cuts have been described in a third-party type of environment, but when you look at your portfolio, prices are getting pretty awfully close to your production costs. So at what point would you say let's exercise a little bit more discipline, or would you maybe even take the opposite approach, your name plate capacity is above your current projected sales levels, could you maybe even increase production in order to lower costs? How do you think about your strategy in this market environment?

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

I'm going to start with that one and then Ian may add some color. So we are in a better position on the cost curve than a large part of the industry, particularly those that are cash negative. So if we actually cut production and cause the price to go up, we would be helping them to stay in business, and our shareholders would be the losers for that, at least in terms of market share; they may gain some on an increasing price. As we've mentioned, there are millions of tonnes that are a negative cash margin, and eventually that has to stop. Bankers or others won't fund it eventually. As each week and month goes by, we get closer to that date. The key for us is to maintain our position on the cost curve as more competitive than all of those others, and so that's certainly what we're doing and these cost reductions help with that position. Ian, do you want to add anything?

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

Yes. Basically, we have to think about the cost of the marginal tonne. At this point, we're still looking to achieve our budgeted production for the year. In general, you've got to strike a balance between the effort you put into that marginal tonne and therefore how much it costs, and the benefits of the marginal tonne, which generally aren't great, because they do not absorb or they help absorb the fixed costs and therefore the actual profit on the marginal tonne, unless you're on overtime or using contractors or something like that, is generally good. So at this point, we're sticking to the budget.

Lucas Pipes *- Brean Capital, LLC - Analyst*

Thank you very much for this detailed answer. That's very helpful.

Operator

Thank you. The following question is from Greg Barnes from TD Securities. Please go ahead.

Greg Barnes *- TD Securities - Analyst*

Thank you. Maybe Real could get a little more granular on the coal market. The 35 million to 40 million tonnes of too much production, how much surplus production is there right now? How much is the market in surplus, in your view?

Real Foley *- Teck Resources Limited - VP - Coal Marketing*

Thanks, Greg. Our estimates, looking at Company reports and analysts are pretty similar to what you're describing, the 35 million to 40 million tonnes. When we look at overall market, there's probably more than half of that in the US, but at the current pricing levels, there is no question that it's putting pressure on all suppliers in the market. There are a few things to keep in mind, too. If you go back to pre-2008, US exports were less than 30 million tonnes, and in some years, they were even less than 20 million tonnes. That might help to put it a little bit in perspective, and we've already seen there are reports in Q1 saying that East Coast exports are down around 20% this year, so far. So it seems like there are some changes that are happening, and future direction, I suspect there will be more production cuts.

Greg Barnes *- TD Securities - Analyst*

So Real, you think the market's in surplus by 35 million to 40 million tonnes?

Real Foley *- Teck Resources Limited - VP - Coal Marketing*

No, we think that there is around 35 million to 40 million tonnes that is uneconomic right now.

Greg Barnes *- TD Securities - Analyst*

Okay. Just switching gears, quickly. Don, there has been some talk about the dividend in the current environment and you did say at the beginning you're mindful of returning capital to shareholders. The Board, you, where do you stand right now, given your current liquidity and your capex going forward in current markets?

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

Just before I touch on that, I'm not sure we ever clearly answered your question on what is the surplus.

Greg Barnes *- TD Securities - Analyst*

No.

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

And truthfully, nobody knows exactly, but our estimates have been 12 to 15 million tonnes. It really depends on the production levels you see coming out of Australia, because that's where the big ramp-up has come. They've taken an approach of significantly ramping up in order to help reduce their costs, and in doing so, of course they reduced their revenue per tonne more than their cost. But in the fight for market share, that's the approach they've taken and until you see a change in that, or until you have a good handle on that, it's hard to know exactly what the surplus is. So I hope that's a little bit more helpful.

Greg Barnes *- TD Securities - Analyst*

Thanks.

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

On the dividend, our answer remains the same. That's a Board decision but currently we have CAD2.4 billion in cash at quarter end. We're reducing our capex, reducing our costs, and all the other projects, other than Fort Hills, are within our control. So we don't have very much debt due in the next three years, so we feel we're in pretty strong condition. But I wouldn't want to prejudge the Board, it's their decision. Our approach on the dividend, as we've said to different shareholder meetings, is that there are two different types of approaches in the mining industry, or commodity industry, generally. There are those that have a base dividend, and then top-up if commodity prices are good, and that sort of thing. Some of the London-listed companies are like that. There are those that have a stable dividend that rises over time with increases in productive capacity and ability to do so. And that seems to be the North American way. We have more North American shareholders, as you know, so that's the approach our Board has adopted. And while dividend signaling is important, and part of the decision on dividend, I think a stable dividend is a pretty important thing to us. So again, it's up to the Board, and I'll leave it to them.

Greg Barnes *- TD Securities - Analyst*

Great. Thanks, Don.

Operator

Thank you. The following question is from Oscar Cabrera from Bank of America-Merrill Lynch. Please go ahead.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

Just wanted to first start with a comment. We share your enthusiasm on the zinc market, but could you provide more color on the decision to re-open Pend Oreille, versus expanding production at Red Dog?

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

That's an interesting one. Rob, do you want to start with that and then -- Rob Scott, our Senior VP of Zinc, will comment. We have been expanding production at Red Dog, due to higher throughput due to softer ores, and that won't last forever, but so far, so good.

Rob Scott *- Teck Resources Limited - SVP of Zinc*

That's a good introduction, Don. Red Dog is limited by mill throughput, so there is a potential to increase the production at Red Dog by expanding the mill, or at least maximizing the throughput of the existing mill. You can see in our results this quarter and in previous quarters, where we've gone a long way towards increasing the throughput to offset the lower end grade there. But in Pend Oreille's case, Pend Oreille is uniquely positioned in that it's 80 kilometers from Trail versus importing concentrates through the Port of Vancouver, which is over 1,200 kilometers by rail, or 1,300 kilometers by rail to Trail. It's got a unique position, the benefit of operating Pend Oreille together with Trail provides a good economic return for Teck overall, and so that's how we've been looking at the Pend Oreille decision.

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

We should also say that we have limited port capacity at Red Dog as well, and occasionally we get right up against the limit or pretty close, so if we wanted to expand Red Dog, there would be more capital involved with that, as well.

Rob Scott *- Teck Resources Limited - SVP of Zinc*

That's correct, Don. At a certain concentrate level, the port becomes the limiting constraint at Red Dog. So it's not only a mill expansion but also a port expansion, and there's a shipping season to consider there, a fairly short shipping season, and there's a fair quantity of concentrate that has to be shipped out, as well as supplies coming in. So it's a more complicated expansion, and a longer-term decision than starting an existing mine, that's already permitted to go.

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

And also, I guess there are other short-term opportunities, talking about the potential to marginally increase copper and zinc production this year. We were able to make use of the synergies we have across Teck. We have a project ongoing, called Mine-To-Mill, which is all about maximizing the fragmentation of the ore in the pit before it goes to the SAG mill and thus increasing SAG mill throughput, and work on that project is ongoing at Highland Valley, Carmen de Andacollo, and Red Dog. So we're able to use the learnings from one site to apply to another, and that's something that we're also using in our cost reduction program, where the projects that are happening at one site are communicated to all other sites, and thus, we're moving forward in a very efficient way.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

That's all very helpful. Thank you. And then going onto the copper business now, interested in your comments about changes in Chile, with respect to policy, and you name here the increase in the effective tax rate. As we understand it, there will also be changes in power requirements, like the government, I think, is looking to reduce for mining companies to reduce power utilization between 5% and 10%, and then there's other impacts in policy with regards to water. So I was just wondering if you have talked to the government about this, and also if that has changed your plans, or if you see changes in opex or capex going forward?

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

Dale Andres?

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

Sure, I'll respond to that. The new administration under the Bachelet government is relatively new. We are meeting with the government at multiple levels, and understanding their position and their initiatives, going forward. Obviously, tax reform is number one on their list, and they've put out a proposal that's currently being debated in Congress, that we think will likely go ahead. They do have the position in Congress to push that forward. In the end, that will raise the effective tax rate, and we put that into the release, and have commented on that previously. But as far as water and power, those are two big issues in Chile today, and that's not just with mining companies. That's across the board. I think that fits with our cost reduction program, when we look at power, and being more efficient in the way we use power at our sites, and no different on water and water efficiency. So I think our overall position on our investments in Chile and our current operations in Chile are no different. We still think it's a good place to do business, but we need to be efficient, and that's no different than in Chile or anywhere else.

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

I should add that at least with respect to QB2, we have already designed into the project that we're using desalinated water from the ocean. So the fact that they are requiring that now doesn't affect the plans that we had, and as we noted in our disclosure some time ago, we secured power for QB2 already, and so those plans are in place. From that point of view, there is no effect on QB2.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

Thank you.

Operator

Thank you. The following question is from Kerry Smith from Haywood Securities. Please go ahead.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Don, just on Pend Oreille, you talked about some approvals that are needed. Is that like a Board approval to proceed, or is that like a permit that's required that you need? I'm just trying to clarify exactly what you need there.

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

Basically final Board approval and the like. But the final decision will be made shortly but we didn't want to leave it out of our disclosure, because we're that close, and it's relatively immaterial. It's a new mine, 44,000 tonnes of production. But the final decision hasn't quite been made so I'm just not going there. But stand by…

Kerry Smith *- Haywood Securities Inc. - Analyst*

Okay, so it's not a permit that you're waiting for, though, it's really just your own approval internally to proceed? Okay.

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

That's correct.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Okay. And just on the coal side, you talked about this 35 million to 40 million tonnes that are not making any cash, or have negative margin. Would any -- on a gross basis, your overall business has great margins, even at these prices, or reasonable margins, I think it was 30%. Do you have any individual operations that are close to having a negative margin today, at current, say, spot pricing?

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

We always have a range of operations, so I'm going to turn that one over to Ian.

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

Yes, we have a range of operating costs, and it generally goes with volume that comes out of the mine, and our smaller mines are finding it more difficult at the moment, and that's where we have the maximum focus, I guess, on our cost reduction program, and so we're actively carrying out measures as we speak, to ensure that all our mines are going to be cash positive this year.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Okay. But if we assume the current spot price, of call it $110 a tonne, would all of your mines still have at least a modestly positive margin then, Ian or --?

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

We'll be making sure that's the case in the next few months.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Okay. That's great. Thanks. And then maybe just one last question, Don, could you provide an estimate of what the C1 cost may be for Pend Oreille if you thought of it in that way, I know you don't give those kind of numbers for the business unit, but just for that operation?

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

Ron can.

Rob Scott *- Teck Resources Limited - SVP of Zinc*

It's in the release, and it's $0.80 a pound is our estimate, for the C1 cash cost.

Kerry Smith *- Haywood Securities Inc. - Analyst*

That's an all-in cost. Great. Thank you.

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

That is before the benefits to the overall Company from Pend Oreille concentrate going to Trail, which are pretty good.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Right. That's the CAD15 million a year you talked about; is that right?

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

When you calculate an IRR on this, it's very good.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Right. Okay. Okay, great. Thank you.

Operator

Thank you. The following question is from Brian Yu from Citi. Please go ahead.

Brian Yu *- Citigroup - Analyst*

Great. Thanks. I've got a couple clarifications on Pend Oreille. First, are you incurring any meaningful care and maintenance cost at the moment, that's going to go away? And then secondly, the CAD15 million in transport savings, are we going to see that as a higher netback on the Pend Oreille volumes, or will that accrete to Trail?

Rob Scott *- Teck Resources Limited - SVP of Zinc*

Sorry, can you repeat the first question, it's Rob Scott here. I didn't quite hear you.

Brian Yu - ***Citigroup - Analyst***

Just the care and maintenance costs that you're incurring now, is that a meaningful number that will go away once it restarts?

Rob Scott - ***Teck Resources Limited - SVP of Zinc***

It is a fairly significant number. It will go away once the project restarts, because we're holding the mine on a de-watered basis. We are continuing to de-water the operation, so we're keeping the underground open, which requires inspections and the like, and maintaining it de-watered. It's a fairly significant cost to keep it on care and maintenance.

Brian Yu - ***Citigroup - Analyst***

Do you have a dollar estimate for that?

Rob Scott - ***Teck Resources Limited - SVP of Zinc***

It's in the range probably minimum costs are in the range of $5 million to $6 million per year, and in terms of the overall benefits, the benefits are accrued to Teck overall as a Company, and so where they reside in each individual operations, is not the way we're looking at it. We're looking at it as an overall benefit.

Brian Yu - ***Citigroup - Analyst***

All right. Thank you.

Operator

Thank you. The following question is from Alec Kodatsky from CIBC. Please go ahead.

Alec Kodatsky - ***CIBC World Markets - Analyst***

Just two questions. Firstly, on the coal side, curious if you could just provide a bit more color around the shipment issues that you experienced in Q1, and are they resolved, and where they're sitting now? And then just curious how the 600,000 tonnes of material will be treated. Has it been sold in Q1, and therefore will be carry-over tonnes at the Q1 price level? Just curious how we should account for those going forward.

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

Ian?

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

The logistics issues in Q1 were primarily rail, where we railed about 10% less than our plan, essentially due to issues attributed by CP as being due to weather, extreme cold weather in parts of the country, the need to move a bumper grain crop. Basically that led to us not necessarily having the right blends of coal at the port, able to fill the vessels which we'd contracted. So eventually that has led to about 0.3 million tonnes loss in actual sales volume, which, yes, will carry forward into Q2.

Alec Kodatsky *- CIBC World Markets - Analyst*

Okay. Great. And if I could just follow up on Pend Oreille, I'm curious with the CAD15 million annual benefit that you've calculated, is that done on a present market basis? And I guess, what I'm curious is, presumably as the zinc market tightens and the concentrate market tightens, this material displaced what you intended to buy, and just curious if that CAD15 million is based off of current TCs, that will ultimately move lower as the market tightens, and then the annual benefit will, over all things being equal, in a better market, actually improve. I'm just sort of curious if I'm thinking about it the right way, or just how you're thinking about it.

Rob Scott *- Teck Resources Limited - SVP of Zinc*

It's Rob Scott, I'll answer the question. The 15 million consists of two components. There's a component related to reduced transportation costs. The mine is only 80 kilometers from the Trail smelter, versus bringing concentrates to the Port of Vancouver and it's about a 1300-kilometer rail from Port of Vancouver including the offloading cost from a ship. There's a transportation benefit to Teck overall shipping from Pend Oreille, versus bringing it through the Port of Vancouver, that's part of the CAD15 million. The second component to the CAD15 million is there are by-product credits in the Pend Oreille concentrate that we can recover at the Trail smelter, and that's another overall benefit that's independent of the treatment charges.

Alec Kodatsky *- CIBC World Markets - Analyst*

Okay. I think I understand where you're going. Thanks. Appreciate it.

Operator

Thank you. The following question is from Harry Mateer from Barclays. Please go ahead.

Harry Mateer *- Barclays Capital - Analyst*

First question, can you just tell us what your targeted cash balance is, in terms of the minimum you want to have on hand, just to run the business?

Ron Millos *- Teck Resources Limited - CFO*

We think we need about CAD500 million to run the day-to-day operations.

Harry Mateer *- Barclays Capital - Analyst*

Okay. Thanks. And then in terms of the capex reduction, I think you mentioned earlier on the call, about half of that is from lower sustaining capex. Is that something we should think of as permanent, and can be applied to sustaining capex in future years?

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

Some of that will be deferral from 2014 into future years. Some of it will be permanent, in the sense that we'll be relooking at some of the assumptions we're making about equipment replacement schedules, so it will be a mixture.

Harry Mateer *- Barclays Capital - Analyst*

Okay. Any sense you can give us for percentage that's deferrals versus other?

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

I think it's a little bit early for us to be able to give you more detail on that.

Harry Mateer *- Barclays Capital - Analyst*

Okay. And then last one from me, just are there any commodities you see out there right now strategically where you think there actually is value, in terms of being able to add exposure at an attractive cost, and I guess specifically, are precious metals of any interest, or is that still not a strategic fit?

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

That's an interesting question. So the position we've had on gold, I'll just use gold, rather than the phrase precious metals, because PGMs are a whole different thing. But on gold, historically has been that the gold companies traded at significantly higher multiples than a diversified mining company. So it made sense for us to find the gold through our exploration department, our geologists around the world, relationships with juniors and grassroots properties and the like, and then with our engineering department take it through to resource and reserve and pre-feasibility study and feasibility study and add value, and then sell it to a gold company that -- or often to junior and mid-cap gold company that want a near-term property, and we've made very good money doing that. And so we've been running the gold division with that philosophy for some time, and we do have Teck Gold, which attends the conferences and has its own management team, and its own internal Board of Directors, and does an appraisal each year, and they have a goal to -- they get CAD20 million a year, and if they want more money, they come back to the Board. It's sort of like a junior that would go to the market for CAD20 million, and then if they have something exciting, they might go to the market again. But they don't have to spend any time doing that financing, they can concentrate all their efforts on creating value. Their target is to build something worth between CAD500 million and CAD1 billion in five years, and they are on track to achieve that.

So in the last couple of years, there's been a structural shift in the gold industry, as the multiples in the gold sector have dropped dramatically. Originally, partly due to the ETF, but then due to other factors, performance and the like, and the gold companies are now trading, in many cases, at the same multiples that we do, sometimes even below.

So if you match that then with our overall Company strategy, which is to be diversified, not just because of diversified portfolio risk but more importantly, because we want to allocate our capital where the highest returns are, that would suggest that it should be possible to invest in a gold situation now, and show that it has higher returns than copper or zinc, or something else. Having said that -- so that is to say that we don't have a policy of no gold or no PGMs.

But having said that, we haven't looked to any of the higher-profile ones because there are still a lot of gold companies out there that have a need, not just for growth, but a need to replace depleting resources. They're on quite a treadmill that way, and they'd have a tendency to want to pay more than we would. We think it's still a competitive industry even though the valuations have come down, and so I'd say it's unlikely that we would do that, but I certainly wouldn't preclude it. It is possible. Sorry for the long answer, but that just gives you the whole spectrum of how we're thinking of development.

Harry Mateer *- Barclays Capital - Analyst*

That's great color. Thanks very much.

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

Operator I think we've just got time for one more call, and then for those of you who are queued up and don't get a chance, certainly happy to return your call after our formal conference call this morning.

Operator

The last question is from Lance Ettus from Tuohy Brothers. Please go ahead.

Lance Ettus *- Tuohy Brothers - Analyst*

Just wanted to know, with -- you're cutting maintenance capex by CAD150 million, is that all going to be just less equipment, or are you now, especially with the global commodity prices down, are you finding a little bit easier bargaining with suppliers and maybe some giveback, I would note that Joy Global, I'm sure, is one of your suppliers and I think they're still supposed to have an EBITDA margins of close to 20% this year.

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

It's right across the board, including equipment reductions, including looking at our spending on our development projects, and reducing those as well. We are in discussions with all of our suppliers, in terms of particularly reducing the use of them as contractors on our sites, and replacing them with our own people and we have a group, which we call Strategic Sourcing, which is always looking at our overall global agreements with those large suppliers, to get the very best deal that we can.

Lance Ettus *- Tuohy Brothers - Analyst*

Thank you.

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

Okay. With that, I think we're going to wrap it up. Just before we do, I wanted to add one more point on the gold question, just to give some illustration of when we might do something in gold. And that has to do with mine life. One of the things in gold, geologically, is they tend to have much shorter mine lives than what you see in our portfolio. Our portfolio has several operation with 50 years-plus. And we know that if you have 50 years, that you're going to experience not one but several cycles of two or three good years when you get all your capital back, and if you back calculate your IRR at the end of 50 years, if you've had 5, 6, or 7 times when you calculate back, you get a very good return. One of the dilemmas with gold is that most of them are 10, 12 years, or even shorter. If you get a bad run of three or four years, you don't get a chance to earn that kind of return, so that makes a big difference to us. We have a ratio that I talked about before, but maybe not enough, that we use called mine-life-to-payback. So, for example, if you have you a large capital investment or acquisition cost that you normally think of a payback in the seven to eight year range, if we want a minimum mine-life-to - payback of 3, which is our target, then you want to have at least a 25-year mine life. In several of our operations, in QB and Fort Hills, that we're building, these things have a 6 or 7 times mine-life-to-payback. So we have a lot of comfort that we're going to get a good return. It's very hard to find that in gold. But if we do, we'd be very interested. So hope that's just a little bit more color on how we think about that.

With that, I want to say thank you very much for your questions. As Greg said, if you have further questions, please don't hesitate to call him directly. And with that, we'll look forward to talking to you next quarter.

Operator

Thank you.

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

Bye for now.

Operator

Thank you. That concludes today's conference call. Please disconnect your lines at this time, and we thank you for your participation.