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TCK.B.TO - Q1 2015 Teck Resources Ltd Earnings Call

EVENT DATE/TIME: APRIL 21, 2015 / 03:00PM GMT

OVERVIEW:

Co. reported 1Q15 revenue of CAD2b.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Teck's First Quarter 2015 conference call. At this time, all participants are in listen-only mode. Later we will conduct a question and answer session. I would like to turn the meeting over to Mr. Greg Waller, Vice President, Investor Relations and Strategic Analysis. Please go ahead.

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

Thanks so much, Operator. Good morning, everyone. Thanks for joining us for Teck's First-Quarter 2015 Results conference call. Before we begin, I'd like to draw your attention to the forward-looking information on slide 2. This presentation contains forward-looking statements regarding our business. There are risks and uncertainties in our business that are more fully disclosed on EDGAR and SEDAR. The various risks and uncertainties may cause actual results to vary. Teck does not assume the obligation to update any forward-looking statements. With that, I'd like to turn the call over to Don Lindsay, our President and CEO.

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

Thanks, Greg. Good morning, everyone. I will begin with a brief overview of our first-quarter results. And then Ron Millos, our CFO, will provide additional color from a financial perspective. I will then follow up with some comments on the dividend announcement earlier this morning and provide a few closing comments. Then we will have a Q&A session where Ron, myself, and additional members of our Senior Management Team, who are both here in Vancouver and on the line, would be happy to answer any questions.

Our industry continues to face difficult markets. In general, the commodity price environment has been weak. In the first quarter, steel-making coal prices fell further as the market continued to be over-supplied. Copper and zinc prices both dropped earlier in the quarter, then rebounded. Average prices ended up being lower than in Q4.

We are countering these conditions with our ongoing focus on cost management and on operational performance. Unit costs have declined, and we are also helped significantly by the strong US dollar and low oil prices.

Overall, we are in good position to weather these market conditions. All of our operations are generating positive cash flows after sustaining CapEx. We are also maintaining a solid financial position, with more than CAD5 billion in liquidity.

Looking at the overview of our first-quarter results on slide 4, revenues of CAD2 billion were CAD60 million lower than the previous Q1, but overall, profitability was only CAD1 million lower at CAD68 million. After removing unusual items, adjusted profit attributable to shareholders declined CAD41 million from the same period last year. This was driven of course by lower coal and lower copper prices, partially offset by higher zinc prices and the benefits of a stronger US dollar.

Looking at some operational highlights from the quarter on slide 5. Our operations performed well. In coal, we set first-quarter sales and production records.

Mined and refined zinc production were also higher overall. This includes production from Pend Oreille, which continues to move towards full production, which we expect in the second quarter.

Copper production was lower, which is consistent with our previous guidance that production would be weaker in the first quarter but stronger in the final quarter of the year.

We also significantly reduced unit costs in both coal and copper.

Turning to our business unit results, starting with steelmaking coal on slide 6. As I mentioned, we set first-quarter sales and production records, both at 6.8 million tonnes. Line Creek and Cardinal River both set new first-quarter production records themselves.

However, ongoing over-supplied market conditions, indications of weakening demand in China, continue to impact coal prices. On a Canadian dollar basis, our average realized price was down CAD15 per tonne to CAD128.

The results of our cost-reduction efforts are offsetting lower prices. We reduced coal site costs by CAD3 per tonne, and transportation costs by CAD2 per tonne. Costs have fallen even further in US dollar terms.

We were able to maintain our gross profit before depreciation and amortization despite lower prices.

Looking forward, coal prices for Q2 have been agreed with the majority of our customers, based on $109.50 for the highest-quality products. We expect sales at or around 6 million tonnes.

Turning to our base metals businesses, starting with copper on slide 7. Revenues declined by 20%, with sales volumes down by 12,000 tonnes and our average realized price down 18% in US dollar terms.

Sales volumes were unusually low this quarter, due to the timing of shipments. And we expect to make this up over the next quarter or two.

Copper production was also down overall, despite higher production at Highland Valley. This was primarily due to lower ore grades at Antamina and Quebrada Blanca. This is consistent with our expectations and we continue to expect full-year production of between 340,000 and 360,000 tonnes, with the last half of the year being stronger than the first half.

Our cost-reduction efforts are producing significant results, with total cash unit costs down by 6% on a US dollar basis, which again is in line with our guidance for a significant decline this year.

Looking at our zinc business unit on slide 8. I should first note that Antamina and Duck Pond's zinc-related results are reported in our copper business unit, as zinc is considered to be a by-product at both mines. Duck Pond is scheduled to close at the end of Q2.

Overall, higher zinc prices and the benefits of a stronger US dollar are yielding higher profits, with gross profit before depreciation and amortization up by CAD58 million or 48%. This highlights the benefits of our diversified business model.

Refined zinc production was up 13,000 tonnes, with higher throughput at Trail driven by improved operating efficiencies including the new acid plant.

As I mentioned, we expect to reach full production of 44,000 tonnes per year at Pend Oreille in Q2.

Then on slide 9, taking a brief look at our base metals markets. Markets are currently vulnerable to any supply disruption, as overall stock levels are reasonably low.

In copper, LME stocks have risen 160,000 tonnes on a year-to-date basis, after declining 189,000 tonnes last year. But this is still low on a days-of-consumption basis at 10 days of consumption, as compared with the long-term average of 12 days of consumption. We've already seen significant copper mine supply disruptions this year.

In zinc, mine enclosures are expected to continue in the second half of the year, which is expected to accelerate the deficit. Reported stocks again are low, at 17 days of consumption. That compares to a long-term average of 22 days. I would note that they dropped below 500,000 tonnes just last week.

Turning to slide 10 and an update on Fort Hills. We are well into construction, and the project is achieving key milestones. Engineering activities were over 75% complete at the end of Q1, including substantial completion of engineering for the ore preparation plant, and the extraction and tailings area.

In the photo on the right, you can see the primary separation cells and flotation columns in the extraction and tailings area. The work force is currently around 3,000 people and will continue to ramp up to a 2016 peak.

As an aside, if you would like to see more photos of the Fort Hills project, they are available on our website. We did hold an Investor and Analyst day in Toronto at the end of March. There are slides and videos of all of the presentations posted on the Investor section of the website, if you missed it. We've provided an update on the Fort Hills project, and on each of our business units and related markets.

The Fort Hills partners are focused on capital discipline, working with our contractors to take advantage of the current economic environment. Our share of CapEx was CAD243 million in the quarter, leaving only CAD600 million to be funded over the remaining three quarters, based on our guidance of CAD850 million for the full year. In addition, our remaining earn-in commitments were fulfilled in early April. So that means that going forward, our funding percentage will be reduced from the 27.5% down to 20%.

Logistics solutions are starting to be put in place. We have contracted with Enbridge for pipeline capacity for diluent to Fort Hills and diluted bitumen to Hardisty. In addition, Teck has contracted with Gibson Energy for construction and operation of a 500,000-barrel diluted bitumen storage tank in Hardisty, which will be dedicated to our use.

On slide 11, you can see the future location of our dedicated storage tank at the Gibson terminal in Hardisty.

The Gibson terminal is the major pipeline hub, with connections to multiple inbound and outbound pipelines. It also connects to a unit train loading facility. This gives us multiple options for sale of our diluted bitumen to North American and overseas markets, which we are currently advancing.

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

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

Thanks, Don. I've summarized our changes in cash for the quarter on slide 12. Our cash flow from operations was CAD372 million. I would note that within this, there was CAD120-million working capital build, which we normally experience at this time of year due to seasonality of sales from Red Dog. We typically recover this working capital again in the last half of the year.

We spent CAD371 million on capital projects, including Fort Hills. As Don mentioned, our remaining earn-in was fully paid in April, with go-forward funding now at the 20% level.

Capitalized stripping costs were CAD166 million in the quarter. We paid CAD177 million in interest payments and CAD15 million in principal on our debt, for a total of CAD192 million. We also paid CAD259 million in dividends.

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 about CAD1.6 billion.

I should point out that due to the seasonality of Red Dog shipping season, our cash from operations is usually lowest during the first two quarters of the year and highest in the last quarter, although commodity prices and exchange rates can have a big effect on this trend. In addition, we have our semi-annual interest payments to make on approximately $4.3 billion of our debt in the first quarter of the year. As noted in our release, we expect to end the year with about a CAD1billion of cash at existing debt levels. That assumes that we meet our full-year guidance for production volumes, cost, capital spending; and assuming current commodity prices and exchange rates, with no unusual transactions or events occurring in the balance of the year.

Moving on to the next slide, our pricing adjustments for the first quarter are summarized on slide 13. Lower prices resulted in CAD44 million of negative pricing adjustments this quarter, compared with negative pricing adjustments of CAD63 million in the same period last year. Copper was down $0.13 per pound, and zinc was down $0.05 per pound compared with Q4 2014. These adjustments are included in our income statement under Other Operating Income and Expense.

Again 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. You should also consider taxes and royalties when analyzing the impact on net earnings.

The chart on the right on this slide represents a simplified relationship between the change in copper and zinc prices and the reported settlement adjustment, and usually provides a reasonably good estimate of our pricing adjustments each quarter. This quarter, the actual settlement adjustment was basically on the line.

Turning to the balance sheet and liquidity on slide 14. Teck is in solid financial position, with about CAD5 billion of liquidity as of March 31st. We currently have roughly CAD1.4 billion in cash, and only $300 million of notes due later this year; and then nothing until January 2017. Our revolving credit facility of $3 billion also remains unused.

As a reminder, there are no financial covenants in our public debt indenture and just one financial covenant in our bank credit agreement, which requires us to maintain a debt-to-debt-plus-equity ratio below 50%. At March 31st, the ratio was 33%.

Looking at our credit ratings on slide 15, our current credit ratings are summarized in the table on the right. You may have noticed that Fitch downgraded our credit rating by one notch last week to BBB low, within investment grade and they also provided us with a stable outlook. This was largely expected, following similar moves by Standard & Poor's in January and Moody's in March. These changes seem to be well received by the market. The chart on the left shows that our 10-year bond spreads have tightened since the S&P rating change, confirming our investment-grade rating, and importantly, giving us a stable outlook.

As always, retaining our investment-grade credit rating is important to us.

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

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

Thanks, Ron. Before we close I would like to address the change to our dividend announced this morning, speaking to slide 16.

The Board makes all decisions related to our dividend, and it's considered very carefully. They consider a number of factors, including commodity price outlook -- that would be for all of our key commodities -- and also our capital expenditure profile in the future. In general, our dividend policy is aimed at paying a sustainable dividend, commensurate with growth in earnings and cash flow.

The graphs on the right side show the changes in the prices of our products and cash margins of our business units since the fourth quarter of 2012, when we last raised the dividend to CAD0.90 an on annualized basis. Overall, as you can see, prices are down substantially in US dollar terms; and margins are down 25% or more. Our cash margins are also there to fund capital expenditures, debt, overhead, and taxes.

Commensurate with the decline in earnings and cash flow, and in line with the aim of our dividend policy, the Board has decided to reduce the dividend to CAD0.15 per share, or CAD0.30 per share on an annualized basis. We believe this is an appropriate level in light of current market conditions, as it preserves flexibility in the funding of our capital program; and importantly, it helps to maintain the strength of our balance sheet.

To wrap up with a summary of our near-term priorities on slide 17, we are continuing to focus on cost reductions and operating performance. At the same time, we are maintaining a strong financial position with a target for at least CAD1 billion dollars in cash at the end of the year without any material change in our overall US dollar debt level.

With that, we would be happy to answer your questions. 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 as we sort out who will be answering it. Thank you.

Over to you, Operator.

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions)

Our first question is from Orest Wowkodaw from Scotiabank.

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

Just wondering a clarification. In your disclosure about your target for cash balance at the end of the year of CAD1 billion, you've inserted a line that says in that assumption that you exclude any other currently implemented events. Can you give us a description of what you're referring to in that statement?

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

The dividend forecast is based on results so far this year, Orest, and expectations for the balance of the year. The comment there is more that there's no asset sales or other transactions or unusual events that might occur during the year that would affect that number.

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

Okay, thank you very much.

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

Sort of an all things being equal kind of thing.

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

Yes, that's the best way of putting it.

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

Thank you.

Operator

Thank you. The following question is from Greg Barns from TD Securities.

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

Thank you. Don or Réal, I wonder if you could comment on the change in tone on the coal market. We all know it's weak, but I think this is the first time you've acknowledged that demand is weak. I'm wondering what you're seeing, particularly in China, obviously.

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

I think that's a fair question. We have seen some change in tone in the last four weeks or so, but I'll turn it over to Réal.

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

All right. Thanks, Greg. I guess first, when we look at forecasts for steel demand in 2015, WSA is still forecasting similar increase in demand as it did in 2014, around 2%. Demand continues to be good in markets outside of China. There's no doubt that the market is over-supplied, as we've seen with prices coming down during the quarter. Price assessments have lost somewhere around $20 in the quarter. As a result of that, a number of customers have delayed their purchasing decisions. But coal stocks at steel mills have been relatively low following the global financial crisis, so we're starting to see customers coming back to the market. Yes, demand is weaker in China, but it's also good in markets outside of China.

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

Can you quantify the weakness in China somehow?

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

It's difficult to say at this time. There has been changes. Demand is actually lower, but it's a little bit uncertain at this point. The Chinese government introduced a number of measures aimed at supporting the domestic producers. The outcome of all those measures are a little bit unclear. So far, for February year to date, imports from the seaborne market in China were around 2 million tonnes lower than they were last year; but it's a little difficult. When we're talking to various parties in China, we hear that Q1 could be the lowest quarter of the year, and then there could be slight recovery as we go forward in the remaining three quarters. But as I say, at this point it's a little bit uncertain.

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

Greg, I might just add to that, based on meetings with customers that I had personally three weeks ago, if you look at the numbers that Réal is referring to, last year the seaborne imports to China were 48 million tonnes. If you looked at the first two months and annualized it, you'd get to 36 million tonnes for the year. However, our key customers, two of the five largest steel companies in China who I met with the senior people, they believe that the first two months were unusual, and that there would be more of a return to last year's rate in the balance of the year. Whether we end the year with a reduction of as much as 12 million tonnes of imports into China, or much less than that, we don't know. We'll have to see how the year unfolds; but certainly it has been weak so far.

Greg Barnes *- TD Securities - Analyst*

Okay, thank you.

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

But to highlight what Réal said as well, elsewhere we're seeing pretty strong demand.

Operator

Thank you. The following question is from Harry Mateer from Barclays.

Harry Mateer *- Barclays Capital - Analyst*

Hi, good morning. Ron, you noted your credit ratings during the presentation. Although you have stable outlooks, you're now at the lowest rung of investment grade. Can you just talk a bit more about liquidity and other levers you might be willing to pull to maintain the investment grade rating, given where spot prices are, and with your leverage climbing as EBITDA slips?

Ron Millos *- Teck Resources Limited - CFO*

The stable outlook, usually barring some major changes in economic environment however, usually means we're relatively safe for a year or so. But you never know how the rating agencies might change their views. Other levers that we have, we have some smaller assets that are on the books that are sort of on the back burner for potential development down the road. We could look to monetize those at some point in time. Now is probably not the best environment to do that. We've talked about looking at streaming transactions in the past, but haven't moved on that. Those are a couple of the major levers we have to protect the rating.

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

We should note that each of Moody's, S&P, and Fitch have now given us a stable investment grade rating, and that was with us paying the former dividend. Since then with this cut in the dividend, that makes available another CAD1.05 billion that wasn't in their models. That's sort of the first point of flexibility.

Harry Mateer *- Barclays Capital - Analyst*

Okay, thanks. Both of you have made some strong comments in the past about your commitment to the rating. I'm just wondering, given the business environment you currently find yourselves in, has that changed at all? You mentioned some asset sales. Are there any realistic options on the table for raising external capital, maybe beyond those asset sales you mentioned, or do you guys consider an equity raise? Is that just not on your radar at this point?

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

That is absolutely not on our radar. We have stable investment grade and another CAD1 billion. We're remaining committed to investment grade, as we've said. I think we've taken appropriate steps.

Harry Mateer ***- Barclays Capital - Analyst***

Okay, thank you.

Operator

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

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

Good morning, thanks for taking my question. My understanding is that the rail contract includes fuel price pass-throughs. With those moving in your favor, do you include this in the impact of your sensitivity analysis. Is the impact material enough year to date that this CAD36 a tonne in Q1 may be sustainable through the rest of the year?

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

It is included in the sensitivity number that we give, Ralph. I'll let Ian speak to how it might affect the operating cost.

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

Yes, Ralph, the rail costs have been obviously positively affected by the fuel price. I guess other factors are just the particular routes that we use for the transport to our ports. With a greater proportion going to the Vancouver ports, it's meant that costs have come down a little bit. We expect the trend to be positive throughout the year.

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

Okay, great. Ron if you could help me on some capitalized interests disclosure, which right now it's running at about CAD50 million a quarter, how will that move in 2016 and 2017 in relation to spending at Fort Hills? Right now I have it at about 40% of total interest cost.

Ron Millos *- Teck Resources Limited - CFO*

It's based on the spend on the particular projects, Ralph, so it's going to gradually increase as more spending gets capitalized against those projects.

Ralph Profiti *- Credit Suisse - Analyst*

Okay, great. Thank you.

Operator

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

Kerry Smith *- Haywood Securities Inc. - Analyst*

Thanks, operator. Ron, the first question I had was you gave us guidance on sustaining CapEx of CAD480 million for this year, and you only spent about CAD66 million in Q1. I was just wondering how the rest of that -- well, call it CAD420 million -- would get spent over the next three quarters, just even a rough percentage?

Ron Millos *- Teck Resources Limited - CFO*

Oh, I don't have the nitty-gritty detail, but Q1 is usually a little bit on the lower side, because you can't do a heck of a lot at Red Dog in the winter season, so its spend is heavily weighted to the July to October period. But it's a little early to sort of break down where we're ultimately going to end up the year there, Kerry.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Okay, but if we assume the bulk of it gets done in Q2 and Q3, that would be --?

Ron Millos *- Teck Resources Limited - CFO*

Yes, usually there's a little bit more in the summer just because of the weather issues.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Okay. Then Réal, just on the coal, the weakening market in China, last quarter you had pre-sold 6.2 million tonnes for Q1, and then you've sold 5.5 million for Q2 now. That's down about 11%. Is that all a reflection of the weakness in China, then? Can we assume that China is 10% less demand, is that a reasonable assumption, and everything else is flat?

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

Not quite, Kerry. I guess we need to put this in perspective a bit. You're right. Last quarter what we had priced at the time of guidance was 6.2, but if you go back to Q2 and Q3 of 2014, we also had 5.5 million tonnes priced at the time we provided guidance.

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

Our results are even earlier this year than they were last year.

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

That's right, yes. So it's a reflection of what we have priced to date. Again, I made a comment a little bit earlier to Greg's question that with the price assessments coming down in Q1, quite a bit and quite fast, more so than expected, some customers were delaying purchasing decisions. We're seeing demand coming down, we're seeing customers returning to the market.

Kerry Smith *- Haywood Securities Inc. - Analyst*

Okay, thank you.

Operator

Thank you. The next question is from Lucas Pipes from Brean Capital.

Lucas Pipes *- Brean Capital, LLC - Analyst*

Thanks for taking my question. Réal, not to beat this to death here, but in terms of customers delaying the purchasing decisions, are those your traditional customers? Is this more from the Chinese market? I'm just surprised to hear that language.

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

Lucas, it's more around customers where we price sales on shorter than quarterly basis. We have arrangements in place that contemplate volumes over the duration of the contract period; but it's not necessarily 100% precise as to when exactly the tonnage will be picked up. It could be priced earlier in the quarter or in the middle of the quarter or later in the quarter. That's all that is referring to.

Lucas Pipes *- Brean Capital, LLC - Analyst*

Okay, but in terms of full-year sales expectations at this point, do you think it's too early to tweak that? What gives you confidence in the full-year guidance figures?

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

Yes, it's a little bit early, as we explained earlier, and as Don mentioned too. With the uncertainty in China, it's difficult to say what exactly will happen in that market. Outside of China, it seems to be continuing to grow at a stable rate, and demand is actually quite good. If you look at our sales in China, part of the overall sales book, the ratio of our sales to China used to be around 30% at the peak. We started producing sales to China in Q4 of 2013. 2014 we were down to around 25%, so we could see a smaller percentage of our total sales going to China for 2015.

Lucas Pipes *- Brean Capital, LLC - Analyst*

That's very helpful. I appreciate that. Maybe to shift gears for a second, Don, in the past you provided some color on M&A and how you think about the market, both as a buyer and as a seller. How would you describe the opportunity set out there today, what would you be looking at, and what sort of size? What market would you be focused on, and what size do you think would make sense in this environment?

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

As I've said in the past, we review all of the opportunities that you might read about. Some for five or ten minutes, some for five or ten days, some in great detail and with actual site visits. Most of what you've seen that has happened in the last year or two, probably all of what you've seen, we've looked at it in some form. Going forward that would be the same thing. That's their job -- Andrew Golding and his team. That's what they do all day.

In that context, and more directly related to your question, we do have a long-term interest in copper. We do think this year and into next year a bit is a much weaker time, so if you're a buyer, you'd rather buy when it's roughly closer to the bottom than to the top. We think we're close with all of the key commodities. We're actively looking, but truthfully there's not a lot out there. The industry went through quite a phase of consolidation a while back, and it takes a long time for new production to come into place, just the permitting cycle and the rest is much longer than it was in years past. Then there's also quite a bit of competition in terms of private sector money, and also other mining companies that sometimes then are willing to use a long-term commodity price significantly higher than where the spot prices might be.

To the extent you think you can get very good value because you're closer to the bottom of the cycle than the top, that may not necessarily be as easy as it looks, given the competition. We'll keep looking, but as I said at our Investor Day a couple weeks ago, we don't have anything in the very near term, but someday, we might.

Lucas Pipes *- Brean Capital, LLC - Analyst*

Great. I appreciate the color, thank you.

Operator

Thank you. The following question is from Oscar Cabrera from Bank of America Merrill Lynch.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

Thanks, operator. Good morning, everyone. To get back to your comments on coal. This is with regards to some of your clients waiting to get the shipments. Have you seen, or can clients that are contracted on a quarterly basis change to spot? I believe I asked you the same question last quarter, and the expectation was for spot sales to be around 40%. Has that changed?

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

Yes, Oscar, close to half of our sales are continuing to be priced on a quarterly basis. The exact percentage that is being priced on shorter than quarterly basis in 2014 was about 55%. What that reflects, over the years, our ratio of sales price on shorter than quarterly basis has increased. That's a trend we've observed in the market generally. To put it in perspective, in 2013 our ratio was about 40%. In 2012 it was about 30%, and pre-2012 it was somewhere between 15% and 25%, depending on the year. Overall, that is our ratio right now. It's been about 55% for 2014, and we're expecting it to be fairly similar for 2015.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

In terms of the behavior of the folks that are in the 50% quarterly contract, are they any of them that want to shift to the spot market, or have you observed any of that?

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

No, those contracts are in place, as we speak, and customers are continuing to take their tonnes according to the quarterly benchmark and we have schedules for the coming quarter for Q2 that show they will be lifting their tonnes on a rateable basis through the year. The comment that I made about some customers delaying purchasing decision was more around the ones that are priced on shorter than quarterly basis.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

Thank you, Réal. Then if I may, you talked about in the event that commodity prices continue to be weak, you talk about different levers that had to do with more with the capital structure. I wonder if you have considered doing anything else, other than your cost savings programs, i.e., closing of high-cost operations in the event of weakening commodity prices?

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

We do look at those kind of questions all the time depending on what the market conditions are; but at this stage all of our operations are cash positive after sustaining capital. Then we are well aware of our competitors who do not have that situation and who are draining cash. At this point, our decision is to not do that. We'll continue to monitor the situation, and then see if it's worth changing that position; but so far not.

Oscar Cabrera *- BofA Merrill Lynch - Analyst*

Great. Thanks very much.

Operator

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

Karl Blunden *- Goldman Sachs - Analyst*

Hi, good morning. I just wanted to focus in on the size of the dividend cut. Is there anything you can share for us, how that ultimate size was reached? Is it in relation to the CAD1billion cash goal at the end of the year? Do you still want to preserve some extra flexibility? Do you think that's enough to maintain IG? Just wanted to understand your thought process behind that.

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

Sure. Well we were on track to hit our CAD1billion cash target at the end of the year before the dividend cut, so it wasn't really related to that at all. I think it was more about bringing both the dividend yield and the dividend payout ratios more in line with the rest of the market comparables and so on. It's a capital allocation decision. We got a lot of feedback from a lot of shareholders. I've met with or talked to in some form at least 150 institutions in the last three months or so, and most felt that this was the right thing to do, and to have that capital available. Whether it was just straight balance sheet strength and the flexibility on future capital expenditures, or whether it was other capital allocation opportunities, people thought it was the right thing to do. We weren't getting paid in our share price for it. It was more about bringing things into alignment with the current commodity price environment.

Karl Blunden *- Goldman Sachs - Analyst*

That's actually very helpful context. In terms of, you mentioned now that an equity raise would be off the table. Does that comment still stand if you see an attractive asset? You also mentioned that assets at this point in time are starting to look more attractively priced, potentially in copper. Is that something you could look to fund with equity, if you did see is something out there?

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

I was going to interrupt you part way through your question to take out the word probably, but I credit you with giving enough provisos in there that I couldn't do that. Look, the odds of us issuing equity for anything at this stage with these valuation levels are very low. Certainly, I would do everything possible not to issue equity. But if there was some transaction as you described that made sense that was powerfully accretive and that sort of thing, then maybe. You can never say never, but certainly my bias is not to.

Karl Blunden *- Goldman Sachs - Analyst*

Fantastic. Thanks very much.

Operator

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

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

Hi, good morning. As you noted, the zinc market has been tightening for a couple years now. We're now below 500,000 tonnes in LME inventories, and we're really starting to see the tightness reflected in the price. You've re-started Pend Oreille obviously, but do you have the ability to increase production at Red Dog or elsewhere? Do you think the acquisition of zinc-producing assets might make sense if the opportunity presented itself, or is that something you wouldn't even look at right now because of the Fort Hills commitment and focus on cash preservation?

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

Okay, so there are probably about three parts to that question. I'm going to save the last part. I'm going to ask Andrew Stonkus, our new Senior VP of Marketing & Sales, to talk about the zinc market, because it is unfolding exactly how he's been telling me for the last couple years it's going to unfold, so I give him full credit, and we're very excited about it.

But onto first our ability to expand zinc production in the short to medium term, the answer is basically no. We could bring Pend Oreille on fairly quickly. We have tremendous resources and resource potential in Alaska, but it's the kind of thing that would take several years. I'm not even sure how many years. Rob Scott is here with me, but five-plus to bring on anything material.

By the way, we think we have very good zinc business, one of the highest quality zinc businesses in the world, if not the highest. Our zinc units come from Red Dog and Antamina primarily, two of the best mines in the world. Our zinc smelter and refining complex in Trail has very low-cost clean energy, and doing very well. We don't think we have to be that much bigger and dilute the quality by doing that.

In terms of buying zinc production capacity out there, we look at that all the time, just as I described we look at all the opportunities. We don't say no, we won't buy something in zinc. The diversified strategy that we have, basically the main purpose is to give us the flexibility to allocate our capital to the best risk-reward ratio. If that is in zinc then that's what we will do. But what we found as we looked at the zinc opportunities is the risk part of that risk-reward ratio in terms of the quality of the asset is generally higher than we like. But we'll keep looking there, too, but it's unlikely. Now for the really more interesting part of the answer to your question, Andrew Stonkus.

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

Thanks, Don. Yes, the markets are evolving as we were expecting and forecasting. It comes down to the supply situation for the mining side. To date, the International Zinc Study Group has already forecasted a deficit of around 7,000 tonnes of contained zinc – a deficit already year to date. We're going to be seeing the significant mine closures as we've been talking about coming on in the second half this year. When these significant mine closures, be it Century, which is the first one, and then the Irish mine, Lisheen comes to the end of their life, that's going to have a significant impact on the supply side of the concentrates for the global market. Chinese imports in concentrates are as well up so far this year, over 20%. The demand for concentrates is very strong, but the supply side is going to be constrained.

That being reflected on the metal side where you see the draw-downs on the LME inventories now below 490,000 tonnes, so down significantly, to continue to be drawn down. That metal has been entering into the marketplace. Once those LME inventories are drawn down further, we're going to be constrained on the metal side, as well. Mine supply is going to be constrained, and metals being pulled out of the LME warehouses. It's a matter of going down the path of the constrained supply, and demand is fairly robust. You look at the galvanized production in China, specifically -- it's increasing significantly, and as value-added products start being produced. Demand side is also helping the consumption of metal going forward.

It's all lining up. Consumption of metals and supply of concentrates will be constrained.

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

Okay, that's a great answer. Could you just clarify the Fort Hills CapEx numbers? In the press release it says there's CAD2 billion of remaining CapEx as of the end of March; but I think the Annual Report filed in early March said there was about CAD1.8 billion left to be spent. I know you've been warning that capital cost could change some because the US dollar is strengthening in the portion of Fort Hills CapEx denominated in US dollars. Is that the discrepancy?

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

We've got three people looking to answer. Ron, why don't you start, and then Ray or Tim may want to comment.

Ron Millos *- Teck Resources Limited - CFO*

Sure. When the project was sanctioned, it was roughly CAD2.9 billion to spend our share. We spent CAD60 million of that in 2013, CAD616 million of that in 2014, and then CAD243 million so far in 2015. Take that off the CAD2.9 billion leaves CAD2 billion left to go. Garrett, just to be clear, the original CAD2.9 billion capital estimate, that was a Canadian dollar number.

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

Got it, okay.

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

Including escalation.

Ron Millos *- Teck Resources Limited - CFO*

That's right.

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

Okay, thanks.

Operator

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

Jeremy Sussman *- Clarkson Capital Markets - Analyst*

Yes, good morning.

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

Good morning.

Jeremy Sussman *- Clarkson Capital Markets - Analyst*

The 6 million tonne figure for Q2 on the coal front, just to go back -- if we don't see any improvement in the market is that sort of a good run rate to be using? The follow-up would be, either way, when we look at Q2, if 6 million tonnes is in fact the number, should we do anything on the cost side one way or the other, given the fixed-cost nature of coal mining from time to time?

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

Really going to turn that to Ian. Go ahead.

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

Thanks. Obviously, we are hoping to be able to do better than that 6 million tonnes. As Réal says, there's -- some customers are returning to the market. But of course, we continue to rigorously assess our operations in every aspect to continue cost reduction. We've seen costs continue to reduce. Our quarter one coal costs were lower than last year's quarter one. With continued effort broad across the spectrum from commodity purchasing, focus on reducing contractor usage, truck productivity efficiency, we expect to keep the pace in focusing on those cost reductions, and mitigating the pressure on the margins.

Jeremy Sussman *- Clarkson Capital Markets - Analyst*

Okay. Thank you very much.

Operator

Thank you. The following question is from David Wang from Morningstar. Please go ahead.

David Wang *- Morningstar - Analyst*

Hi, thanks for taking my question. I'm just wondering if you can add some color on to future copper production. For instance, on the QB2 project is it still something we're looking at a little bit down the road on the after Fort Hills? What you think about aggregate copper production in later years?

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

Okay, the current schedule is that the earliest we could sanction QB2 and start any major capital expenditure would be the February Board meeting of 2017. Fort Hills would be just about finished. I think we're about 25 months away from the end of construction at Fort Hills. There would be a ramp-up time period QB2. There will be almost no overlap. Now having said that, we are doing everything we can to work with the Chilean government and regulatory authorities to improve that schedule, but we don't know and won't know until it's done. That's sort of the nature of the beast.

David Wang ***- Morningstar - Analyst***

All right. Thank you.

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

I just wanted to comment on the buying activity in coal, just to try and put some more context on this. Réal's made different comments of seeing customers come back to the markets. If you're a buyer, you don't necessarily have a mandate where you have to buy equal tonnage every week throughout the year. Your job is to optimize price and other factors, as well. If you have the view that prices are declining, as we've seen in the last four weeks, it would not be unusual, in fact it would be normal, to hold back and try to buy things a little more cheaply later. Then of course what happens on the way up is the reverse. If you have drawn down your inventories while you were holding back, if all of a sudden you see the tone change, then you've got to move in and try and buy while the prices are low. You don't want to get caught having to buy later at a much higher price. Then your tactic of slowing down purchases will have backfired.

This is one of the reasons why you see the volatility in the pricing and get some pretty large moves sometimes, is that people all take the same view. Remember, it's a fairly concentrated market. There aren't thousands of buyers out there. There's only so many around the world. They all take the same view, they all run down their inventories. Then something occurs that changes the tone. They'll all do the same thing and have to buy the cargoes that they didn't buy for a couple weeks. We're waiting to see whether that's what's occurring in the market in terms of people who have slowed down purchases, which we've seen many times over the years, or if there's some structural shift in demand. Elsewhere in the world we're seeing good demand; so we're not seeing any structural shift there. Meanwhile we've also seen in China the government's taken a serious step in terms of its reserve ratios to stimulate the economy. That kind of thing does flow into construction and home purchases and the rest. All of those things could have an effect. We've just got to wait and watch and see what happens over the next couple of months before we make any particular decisions in that business going forward.

Operator

Thank you. The following question is from Brian Murphy from Legal and General Investments.

Brian Murphy *- Legal and General Investments - Analyst*

Hi, just a couple questions. The first one, in terms of 2015, if spot prices remain where they are right now, and given your capital expenditures you're anticipating for 2016, I should say, are you anticipating a free cash flow neutral 2016?

Ron Millos *- Teck Resources Limited - CFO*

No, with the capital spending program in place, we'll be drawing down cash in 2016.

Brian Murphy *- Legal and General Investments - Analyst*

Okay, so what's a comfortable level in terms of your cash balance that you'd be willing to run that down to?

Ron Millos *- Teck Resources Limited - CFO*

We think we could take it down to the CAD350- to CAD400-million level. That gives us the cash to manage the business on a day-to-day basis. Of course, we have the line of credit available to us, as well.

Brian Murphy *- Legal and General Investments - Analyst*

Basically, just whittle away at the cash balance and your CapEx program; meanwhile your leverage is increasing, certainly to levels that potentially are a little bit more concerning from an investment grade standpoint. Yet from an equity standpoint, you said the equity raise isn't even on the radar. It seems to me that might be a little bit more dogmatic. Just trying to get a sense about how you're thinking about the balance sheet from here on out?

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

Well we just had three rating agencies go through things in great detail and give us a stable investment grade rating. Then on top of that we've just reduced the dividend that frees up another CAD1 billion between now and when cash flow starts at Fort Hills, so those are significant steps.

Operator

Thank you. The following question is from Brian MacArthur from UBS.

Brian MacArthur *- UBS - Analyst*

Good morning. I just want to follow-up. I think the Antamina revolving facility gets paid back this month. Does that free up any cash in and out of the operation at a corporate level, or does it make any difference whatsoever?

Ron Millos *- Teck Resources Limited - CFO*

That doesn't make any difference, Brian. We probably will renew that facility. It's -- our share of that is CAD22 million.

Brian MacArthur *- UBS - Analyst*

Okay, great, thanks.

Operator

Thank you. The next question is from Jorge Beristain from Deutsche Bank.

Jorge Beristain *- Deutsche Bank - Analyst*

Hi, good morning guys. My question is on Fort Hills. You mentioned earlier when it's cash flowing. Can you describe the mechanism as to how that cash would flow back to Teck? Would it be in the form of dividends? Would you be partially consolidating the EBITDA of that business? Just talk about how Fort Hills would impact your financials in the future?

Ron Millos *- Teck Resources Limited - CFO*

It likely will be accounted for a proportionate consolidation basis. Then the cash, we would just pick up our share of the cash flow. It would be similar in structure to how Antamina works.

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

We actually take our product in kind, so it's similar to others like Antamina.

Jorge Beristain *- Deutsche Bank - Analyst*

Thanks. Would there be any proportional consolidation as well for the balance sheet, particularly net debt balance?

Ron Millos *- Teck Resources Limited - CFO*

Yes, proportionate consolidations throughout the entire financial statements.

Jorge Beristain *- Deutsche Bank - Analyst*

Do you have a target net debt that that asset would have at start up?

Ron Millos *- Teck Resources Limited - CFO*

Well, it won't have any debt. The debt -- any debt is on the partner's books. We just get cash calls for our share of the spending at Fort Hills.

Jorge Beristain *- Deutsche Bank - Analyst*

Got it. In terms of your debt that's due out to 2016, I think you've put in a slide that you've got about CAD300 million. Is the intent just to roll that over?

Ron Millos *- Teck Resources Limited - CFO*

That would be the intention at this stage, that as our debt matures we would roll them over.

Jorge Beristain *- Deutsche Bank - Analyst*

Okay, thanks very much.

Operator

Thank you. We have no further questions registered. I'd like to turn the meeting back over to Mr. Lindsay.

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

Okay. Well, thank you for your time today, and we'll look forward to doing it all again one quarter from now. Thanks very much.

Operator

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