

Conference Call Transcript

Taseko Mines Earnings Conference Call – Q1 2007

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the First Quarter 2007 Taseko Mines Earnings Conference Call. My name is Bill, and I'll be your conference coordinator for today.

As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the call over to your host for today's presentation, Mr. Brian Bergot, Manager of Investor Relations. Please proceed, sir.

Brian Bergot - Taseko Mines - Director of Investor Relations

Thank you, Bill. Good morning, ladies and gentlemen. And welcome to Taseko Mines first quarter 2007 results conference call. My name is Brian Bergot, and I am the investor relations contact for Taseko. With me today in Vancouver is Russ Hallbauer, President and CEO of Taseko and Jeffrey Mason, secretary, CFO and Director of Taseko.

After opening remarks by management, which will review first quarter business and operational results, we will open the phone lines to analysts and investors for a question and answer session. I would also like to remind our listeners that our comments and answers to your questions may contain forward-looking information.

This information, by its nature, is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Please refer to the bottom of our latest news release and to our 2005 management's discussion and analysis for more information.

I will now turn the call over to Russ for his remarks.

Russell Hallbauer - Taseko Mines - President and CEO

Thank you, Brian. Good morning, everyone. Thank you for joining us today to discuss Taseko's first quarter 2007 financial results. I'm pleased to report that Taseko recorded cash flow of \$25.5 million in the quarter or \$0.20 per share, and after-tax earnings of \$11.7 million or \$0.09 per share. During the quarter, the company sold \$16.9 million pounds of copper and concentrates, at an average price of US\$2.70 per pound, and 143,000 pounds of molybdenum at US\$23.70 per pound.

Total mine and concentrate production at Gibraltar were negatively impacted by a truck tire shortage spoken about in past calls. During the quarter, roughly 40% of our truck fleet was parked because we did not have enough tires to operate them, or roughly four out of our 11 numbers of trucks. Correspondingly, from the same period last year, we mined 2.4 million tons less total material in the mine. It's a credit to our operational staff that we managed to provide

the feed to the concentrator we did, considering the type of ore we encountered and the limited flexibility operations had with a truck fleet comprising of only seven trucks.

The truck tire problem has been rectified in the last six weeks, and we now have our whole fleet of 11 trucks up and running. Goodyear, since coming off its strike, has delivered to Gibraltar its full tire allotment, as well as extra tires. And we have managed to source tires from other suppliers in the province.

During the quarter, we continued the ongoing drilling program with three drills. At the end of February, we'll decide if we have adequate drilling to upgrade more resources to reserves, or we continue to drill to expand those. We continue to encounter significant intervals of mineralization which should allow significant reserve expansion in the coming months.

For example, 1,500 feet from our present pit high wall, we have encountered mineralized zones of over 500 feet of greater than 0.5% copper equivalent. This is very exciting for the company. The SX-EW plant is performing as anticipated and we presently have 145,000 pounds of cathode copper on site awaiting shipment. The construction of our new SAG mill building and the replacement of the flotation system is going very well. It is on time and budget. If you want to see any of this, we have a photo gallery on the Gibraltar Web page.

We recently issued a purchase order for the purchase of three additional new 240-ton trucks for roughly \$10 million. These trucks will be operational in May and will provide the stripping capacity as we begin picking up backlogged stripping from the tire shortage problem we've experienced.

Engineering has begun on our new in-pit crushing and conveyance system, which will augment our mill expansion and help further decrease operating costs as we develop the granite pit.

Finally, I would like to stress our position with respect to developing our Prosperity property. We're actually moving forward on Prosperity to development. Yes, there are hurdles. Yes, there are challenges. But in the last 14 months, we've spent roughly \$5 million on environmental assessment.

We are now into the public meetings with local communities. I believe we have a mine. The 43-101 report we just produced shows we have a mineable ore body. If anyone would like to review what is going on with Prosperity, we have a Web site, WWW.PROSPERITYPROJECT.CA. And I think it's important that you all look at it and to appreciate the scope of work that we have undertaken.

We have 19-year mine life and a recoverable gold reserve of 4.5 million ounces, and a recoverable copper reserve of 2 billion pounds. None of this intrinsic value is shown in our company. Gold resources, not reserves, are being valued and purchased at roughly US\$85 per ounce. If we use that number as the value of our reserve at Prosperity, the intrinsic value is US\$380 million, exclusive of the copper values.

The gold reserve we have at Prosperity is one of the largest proven mineable gold reserves in Canada -- not a resource, but a reserve. To put this in context, Agnico-Eagle today is in the process of completing a transition with Cumberland Resources, whereby Agnico-Eagle is acquiring Cumberland for roughly C\$700 million and acquiring 2.9 million ounces of reserves, paying roughly C\$244 per mineable ounce.

So Taseko management, over the course of the next year, will attempt to rectify this in the market and this value reflected in the company's net asset value. I want to stress Taseko is not just a single-mine copper company. But we're an expanding company that will develop and mine mineral deposits of all types to add value to our shareholders.

This leads me into corporate development. As you know, we've had much on the go over the past quarter in terms of corporate development. And I'd like to turn things over to Jeffrey Mason to discuss briefly that as well as the financial impact of what we've done in the last three months. Jeffrey?

Jeffrey Mason - Taseko Mines - Secretary, CFO and Director

Thank you, Russell, for summarizing operations, and of course, touching on some of the financial aspects as well. This morning, I'm going to address some of the key highlights. And, as Brian mentioned, more detail can be found in the financial statements, MD&A and news release.

Cash remains at \$89 million -- no change from the end of December 2006. During the first quarter of 2007, Taseko generated \$26 million from operations. \$24 million was expended on property, plant and equipment capital additional, with the balance of \$2 million used in common share purchases of BC Metals Corp., and that was recorded as marketable securities. Cash flow from operating activities amounted to about \$0.20 per common share for the quarter, as compared to \$0.49 per share for all of 2006. This continues Taseko's very strong generation of cash per common share from ongoing operations.

In addition, Taseko has \$33 million in cash held on deposit to fund future closure costs. Therefore, total cash held by the company remains at a strong \$122 million or about \$0.95 per share. During the quarter, concentrate inventory was shipped and booked as revenue, thus bringing down inventory current assets and the current liability portion of deferred revenue, each by about \$12 million.

This is a good use of working capital, converting inventory into cash. All has to do with the availability and timing of shipments. Naturally over the year, this will tend to normalize. Accounts receivable decreased by \$6 million due to concentrate sales collection and settlements, some GST collections and some other normal course activities. While accounts payables decreased by \$1 million to \$21 million, all in the normal course.

A strategic investment of a one-year convertible debenture with Continental Minerals Corporation for \$11.5 million was made in August 2006. This investment earned 16% interest per year or about \$155,000 per month, to which Taseko has taken cash in September, October and December. However, in November '06 and January '07, Taseko elected to take about 96,000 and 90,000 Continental shares, respectively, in lieu of cash. They were priced at \$1.58 and \$1.75 per share. The stock closed yesterday at \$1.89.

The \$11.5 million investment is convertible into Continental shares at \$1.95 in the first six months, and that is ending February 28, 2007, and \$2.14 in the second six months, after allowing for a conversion discount of 5%. Note also, importantly, that Continental has the right to pay out with cash the debenture after February 28, 2007.

Taseko also has a preemptive right, and this is a very important right that we have within the convertible debenture, to participate in a Continental financing by way of converting the debt at the financing crisis, taking 105% of the principal amount of the debt divided by the financing price, essentially a 5% discount calculated.

Continental announced that financing on January 30, 2007, followed by a news release on February 12, 2007 stating that Continental financing was fully subscribed as to \$25 million. This financing is priced at \$1.65 per unit containing one common share, and a full warrant exercisable to purchase additional common share at \$1.80 for one year.

Taseko has elected to convert the \$11.5 million because of; one, Continental has an advanced copper-gold mine project in China in the feasibility engineering stage with proven resources of 220 million tons at 0.78% copper equivalent, for a total of 2.1 billion pounds of copper and 4.3 million ounces of gold. Production is already potentially planned for 2010.

Two, upside exists for additional deposit discoveries on the 100% owned 121 square kilometer property. Exploration has already encountered comparable grade and length intercepts. More exploration is planned commencing next quarter. Three, the pricing of financing is essentially \$1.57 per share after the 5% discount, plus a warrant at \$1.80, versus the conversion rate embedded in the verbal debenture of \$1.95.

This is 24% better and importantly now comes with a warrant. Furthermore, on conversion, Taseko receives a preemptive right to participate in future Continental financings, up to 50% of each financing, until it reaches 19.9% of Continental -- basically an embedded, creeping larger position can be accomplished from its current starting point at 7.8 million shares or 6.9% Continental.

As part of Taseko's due diligence, Taseko personnel attended the site in China and a two-day feasibility study update session last month. Taseko's assessment is that Continental makes a sound, strategic mine development partner for investment. Note importantly, that the conversion of the debt does not impact Taseko's current cash reserves, as the monies were advanced in August 2006.

Gibraltar's capital additions of \$24 million in the quarter are broken down as follows; mill expansion, \$10.7 million, bringing the total to date to \$16 million since the start of the project. We have about another \$50 million to complete. And note that the project is on-schedule to complete in December 2007. Two, Essex EW plant refurbishment of \$2.9 million, on-budget and on-time; and furthermore production is at target to date.

Granite pit pre-stripping of \$5.2 million -- total stripping is expected to amount to about \$24 million. And it will be completed some time in September '07. This will importantly expose an 11-year pit mine life for Gibraltar. Mine site equipment of \$3.7 million of various items. And now a computer system upgrade for \$0.4 million of a \$1.7 million planned program to have a fully integrated computer system to facilitate the long-term planning and operation of Gibraltar. Finally, we spent \$1 million on exploration, which was capitalized to increase reserves.

Convertible debt on the balance sheet remains unchanged at \$43 million and is composed of bonds amounting to \$33.6 million due 2011 at an interest rate of 7.125%. And these are convertible at C\$3.76 per share into 9 million shares -- a 40% premium at the time of issue. The balance of the convertible debentures are Boliden, now Breakwater Debenture, with a face value of \$17 million. It is interest-free, and it is convertible into Taseko shares currently at \$4.89 or 3.5 million shares.

Taseko has the right at any time to pay that out in shares or cash at the market prices. Site closure costs, as I mentioned -- each year we review the plan. The next submitted plan is anticipated for February 2008. But naturally we file each year the progressive reclamation.

With the expansion in the mine life to 21 years at the current production levels or 15 years at the new 46,000 tons per day level, starting in 2007, December, the annual amortization rate for plant equipment, accretion expense and the like has decreased, because of the longer life.

Let me touch on BC Metals investment. Taseko targeted BC Metals, which is the Red Chris project, as a potential project to infill the time period to develop Prosperity, naturally cognizant of the value economics of the project as to NPV, IRR and the potential accretion to market capitalization. The Taseko bidding process started at \$1.05 per share on November 23, 2006, but at a bid of \$1.70 per share by Imperial and cash, or about \$80 million plus of cash, including the American Bullion Purchase who has an interest in the Red Chris project. Taseko decided not to continue the bid.

On this Friday, February 16, Taseko will decide whether to tender its 3.2 million shares on hand, just about 8% of BC Metals, at \$1.70 per share for a total of \$5.4 million to Imperial Metals for a gain of \$1.75 million. This would be reflected in the second quarter.

Importantly, Taseko has numerous other target projects in companies under consideration within its acquisition group to grow Taseko along with the important development of Prosperity project. We are definitely in the game and ready to make the right purchases. Investment bankers have as well confirmed their support for such ventures, increasing the range and size of potential acquisition targets.

Now, I'd like to touch briefly on the statement of operations. The company's pre-tax earnings for the three months ended December 31, 2006 increased by 160% to \$17.4 million, compared to \$6.7 million for the three months December 31, 2005. The increase in pre-tax earnings is mainly due to higher sales of copper and moly and higher realized metal prices, as Russell mentioned. The company's after-tax earnings for the quarter increased to \$11.7 million, compared to \$6.7 million in the same period of '06.

Amortization expense decreased, as I mentioned, from \$0.8 million to \$0.4 million in the period, reflecting the increased life of the mine. Exploration expenses increased to \$1.9 million in the first three months, compared to \$0.3 million. And this is Gibraltar's goal to continue to increase the reserves and the potential of Gibraltar. We also capitalized \$1 million in exploration expenses, because it has already resulted in reserves extended at Gibraltar and expanded.

General administration expenses increased to \$1.4 million, compared to \$1 million. This mainly reflects our corporate activities, some higher staffing levels and company acquisition and tax planning strategies. We recorded a foreign exchange gain at \$1.5 million mainly by converting U.S. dollars to Canadian dollars in the first quarter and the variation there. Interest income increased to \$2.8 million, which again shows our strong cash position shining through as compared to \$1.6 million last period.

Income taxes of \$1.8 million were recorded in the quarter, compared to nil in the same period of fiscal '06. In addition, the company had a future income tax expense of \$3.8 million in the current quarter, compared to nil in the same period of fiscal '06. The increase in income tax is due mainly to the depletion of tax pools as a result of the company becoming increasingly profitable -- profits being a good thing.

Fiscal 2006 -- income taxes to be paid on March 31, 2007, regarding the '06 fiscal year, were originally planned at \$4.4 million and booked as such. But Taseko has been researching ways to possibly reduce that amount to as low as \$1 million due to refiling of '04 and '05 tax returns with accelerated capital cost allowance claims against the startup capital. This possible savings has not yet been booked, because we have not yet filed our tax returns.

As to '07 and future taxes, the company is facing a marginal tax rate of about 34% on taxable income. But Taseko is actively examining corporate and project opportunities, such as the Red Chris example, as well as tax advantaged investments to minimize taxes actually payable going forward. Long-term income taxes liability sitting on the balance sheet at \$21.6 million is essentially increasing for interest accruals.

But the company would like to reiterate comments that have been made in the past that, number one, Taseko does not file tax returns reflecting this liability. The company does not expect, more likely than not, to have to pay this amount. And the amount was booked two years ago in fiscal '04, again reflecting its non-current nature. And no assessments have ever been received. It's the most conservative presentation.

My concluding remarks -- Taseko is financially in a very strong position. Cash of \$89 million on hand; closure costs fully funded, \$33 million, for a total of \$122 million. All mill expansion, equipment purchases, pre-stripping of the granite pit, which has an 11-year mine life, as I mentioned, was financed out of operating cash flow of \$26 million in the quarter. All plant equipment, mine and the like is 100% owned.

And finally, Taseko is advancing the Prosperity project through permitting and the feasibility study, actively targeting corporate and project acquisitions and maintaining a very strong cash flow to finance mill expansion, pre-stripping and ongoing exploration to expand existing reserves and resources.

Thank you for supporting Taseko to get to this great position. Over to you Russell. Thank you.

Okay, thank you very much, operator. Thanks very much, everyone, for joining us. We really appreciate it. Talk to you next quarter.