Conference Call Transcript

Taseko Mines Earnings Conference Call – Q2 2007

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CORPORATE PARTICIPANTS

Brian Bergot
Taseko Mines – Manager, Investor Relations

Russ Hallbauer
Taseko Mines - President/CEO

Jeffrey Mason
Taseko Mines - CFO/Director

John McManus
Taseko Mines - VP-Operations

CONFERENCE CALL PARTICIPANTS

John Tumazos
Prudential - Analyst

Tom Bishop
BI Research - Analyst

Eric Sol
Raymond James - Analyst

Mel Zumik
Esdev Holdings - Analyst

Richard Stoneman
Dundee Securities - Analyst

PRESENTATION

Operator

Great day, ladies and gentlemen, and welcome to the Second Quarter 2007 Taseko Mines Earnings Conference Call. My name is Katina, and I'll be your coordinator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session toward the end of this conference .I would now like to turn the presentation over to your host for today's call, Mr. Brian Bergot of Investor Relations. Please proceed.

Brian Bergot ***- Taseko Mines – Manager, Investor Relations***

Thank you, Katina. Good morning, ladies and gentlemen, and welcome to Taseko Mines second quarter 2007 results conference call. My name is Brian Bergot, and I am the Investor Relations Manager for Taseko. With me today in Vancouver is Russ Hallbauer, President and CEO of Taseko; Jeffrey Mason, Secretary, CFO and Director of Taseko; and John McManus, Taseko's VP of operations. After opening remarks by management, which will review second 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 for more information.

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

Russ Hallbauer ***- Taseko Mines - President/CEO***

Thank you, Brian. Good morning, everyone. Thank you for joining us today to discuss Taseko's second quarter 2007 financial and operating results.

Taseko generated $51.6 million in revenue for the quarter from the sale of 11.8 million pounds of copper at US$3.13 per pound and 160,000 pounds of molybdenum at US$20.60 per pound, resulting in after tax earnings of $11.5 million or $0.09 per share, an increase of $8.4 million or $0.06 per share from the comparable period in 2006.

The Company continues to produce strong cash flows as we take advantage of our non-hedged metal production and sell strategically into the market, with revenue increasing by $14.1 million compared to the same period last year.

Our strong cash flow has enabled us to continue to invest in Gibraltar without incurring long-term debt.

Gibraltar's copper production costs, net of byproduct credits, of US$0.96 per pound are down from US$1.07 per pound on the comparable quarter in 2006, reflecting the declining strip ratio of the Pollyanna pit and increased value of byproduct credits. Our cost structure is moving in the right direction.

Increased mining flexibility and ore blending capabilities will be enhanced in the coming months as ore release begins from the Granite pit. Operations staff have worked hard to develop a number of ore phases over to past months, which will help the efficiency of mining operations.

I'm very pleased to report that our first set of four new float cells were operational last week, and we have commenced the removal of the remaining parts of the flotation system. We anticipate the next five new cells to be operational by the end of July. As a result, our expansion is on time and on budget.

As well, our three new 240-ton haulage trucks have been operating for the past three weeks. When the Board approved the truck purchases and we began looking for new trucks a number of months ago, we thought the delivery would be approximately eight months. We managed, however, to reduce that by six months by purchasing three trucks in Alberta that were available as a result of a purchaser being unable to take delivery.

This advancement on delivery times will be important to the development schedule for our concentrator ramp-up, as we were able to get a significant jump on our waste stripping well in advance of ore requirements and make up for the stripping shortfalls we incurred as a result of the truck tire shortage, which affected our truck fleet size over the past year.

At present, we have 14 haulage trucks in our operating fleet as opposed to roughly seven to eight operating over the last year. As well, with aggressive purchasing, we were able to jump the queue for a primary crusher, when an on-place order fell through with the crusher manufacturer and we filled that spot. This will reduce our delivery time for a new crusher by eight months, from a 24-month lead time to 16 months. We expect to have the new crushing system up and operating by October of '08.

When we announced our mine expansion plans last March, we felt the Gibraltar ore body would continue to expand, and we set the SAG mill size accordingly, to capture any extra capacity that may be available to us. Our recent drilling indicates the ore deposit will grow. As a result, we are beginning detailed engineering to increase concentrator throughput from our Phase One upgrade capacity of 46,000 tons per day to 55,000 tons per day. If we begin Phase Two work immediately, we believe we can have Gibraltar's concentrator throughput rate at 55,000 tons per day by the end of calendar year 2008. By the end of 2008, we expect to have production capacity of 115 million pounds of copper and 1.4 million pounds of moly annually from Gibraltar. Capital costs for the Phase One expansion will be in the order of C$35 million.

Our technical team continues to advance our work on the Prosperity project, both in the concentrator and pit designs as well as environmental and permitting aspects, and we are looking forward to timely advancement of the regulatory regime towards a full review and ultimately a production decision sometime over the next year.

The Company has continued to move forward on many fronts technically, operationally and financially. We are complementing our management capabilities at the site with the addition of a new manager of mining operations, who is now responsible for Gibraltar's mine operations, mine maintenance and engineering.

As well, we have hired a new human resources superintendent, who is responsible for enhancing and developing our present workforce.

We understand the government is nearing completion of the land management plan for the Queen Charlotte Islands. And when complete, we will review the implications the plan will have on the future of our Harmony project. It is our understanding that our Harmony property is in an area now designated for mineral development, which is very encouraging.

I would like to now turn the mike over to Jeffrey to review our financial performance.

Jeffrey Mason ***- Taseko Mines - CFO/Director***

Thank you, Russell, for summarizing operations and covering some of the financial aspects, as well.

This morning I'm going to address some of the key highlights. Further explanation is, naturally, covered in the statements, MD&A and the comprehensive news release in the public filing.

First off, before I get into the details, I want to mention that I'm extremely proud of the operations personnel as they continue to transition a dated mill and operation to a modern first-class operation, while all along maintaining very positive cash flows.

I'm excited about the near-term, as we see the operations and people develop, the very soon substantially higher levels of production and sales, and, importantly, a long-term platform of modern facilities combined with long life reserves and significantly increased production, moving towards doubling existing production.

But let's look at the history as it stands, realizing this is the base, starting with the balance sheet, to which I will talk in millions of Canadian dollars.

The instance of the balance sheet in Taseko's direction is best summarized by, one, investment in the future by way of property, plant and equipment purchases of $34.9 million in the quarter; two, all capital additions financed out of existing cash on hand, which remains strong at $67 million at quarter end; three, Taseko generated $12.3 million in cash from operations in the quarter; and four, after funding capital additions in the quarter and various normal course account balance changes, the overall working capital is $78 million -- that's current assets less current liabilities -- which decreased only by $14 million in the quarter.

Moving to the significant line items on the balance sheet, I'll cover the major changes in the quarter. One, investments increased from 11.5 million to 19.5 million in the quarter. It represents a redemption of the Continental Minerals Corporation promissory note and the reinvestment into equity totaling $11.5 million actual cash.

We both redeemed and then reinvested the moneys. This occurred in February 2007, after Taseko earned interest at 16% per annum over a period of six months. On conversion, Taseko got a 5% bonus by way of getting 12.1 million in Continental units for its $11.5 million investment.

The investment shares are classified as available for sale financial assets under the new financial instruments policy, and I recommend you see Note One to the financial statements, whereas the warrants are deemed a derivative. Hence, both are fair valued at the time of purchase. Plus, the shares on warrants thereafter are mark-to-market at the quarter end.

This resulted in an overall value of $18.5 million. This results in a $5.5 million unrealized gain, of which the share gain, amounting to 5.1 million, is included in comprehensive income, not reflected in the earnings and within the shareholders equity section on the balance sheet, while the warrant gain of 0.4 million is included in net earnings and earnings per share.

From a straight business perspective, Taseko, one, owns 7.8 million shares or 6.5% of Continental purchased at an average price of $1.58 per share. The stock currently trades at about $1.80 or 14% higher than costs.

Two, Taseko owns 7.3 million warrants of Continental exercisable at $1.80 until February 20, 2008, valued under Black and Scholes at $3.5 million. Three, Taseko has a preemptive right to purchase 50% of future equity issuances by Continental until it reaches 19.9% of Continental. And four, Continental is advancing to a feasibility study and permitting in 2007 on the Xietongmen copper-gold pore-free property in China.

On other investments, Taseko acquired one million shares at a $1 per share of the private mineral company, Copper Mountain, for a total of $1 million, to which Copper Mountain is in the IPO process, going public in May 2007, at $1.45 per share. Copper Mountain owns mineral claims covering 18,000 acres over the former Similco copper mine near Princeton, British Columbia.

As mentioned, mineral properties plant and equipment increased by 34.9 million in the quarter. The details are, one, mill expansion, 12.4 million in the quarter. This is comprised of the year-to-date 23 million, project-to-date 29 million, expected remaining expenditures to December 31, 2007, 43 million and important to note, as Russ noted, on time and on budget at about $72 million for the total costs.

The mill expansion in the quarter relates to equipment and contractors for primary, secondary grinding, flotation, surface facilities and building erection.

Two, Granite pit, with a mine life of 11-plus years, extendable potentially under the 2007 current exploration program, pre-stripping 6.8 million in the quarter, project-to-date 12.3 million, balance to expand up to a maximum of 12 million, but sequenced over various quarters as to the east and west Granite pit, as it is exposed, and depending on the actual ore release to the mill.

Three, as Russ mentioned, mine site equipment. Mine site equipment purchased of 12.9 million in the quarter, year-to-date 16.7 million, balance to go, mainly related to the drill and the crusher, in the quarter comprised of three 240-ton haul trucks and 11 truck boxes.

For the existing truck fleet, Taseko purchased lighter and bigger boxes, hence, bigger payload, approximately 8% productivity increase or, said another way, 11 truck boxes times 8% productivity gain equates to approximately one free truck on a productivity basis.

In addition, we installed about a half a million worth of computer systems called Foresight Mine System as part of the overall modernization of the operations. And five, importantly, we continued our 2007 exploration program, totaling five million to expand existing reserves.

In the quarter, we expended $2 million, year-to-date $2.9 million, and to finish the 2007 program, $2.1 million.

The other balance sheet fluctuations are essentially due to normal course operating timing differences, such as accounts payable and deferred revenue. I will note that accounts payable and supplies inventory are running at higher levels due to construction activity, in addition to the ongoing operation. The other balances are essentially unchanged, except for taxes, to which I will address later.

Moving to the statement of operations. Operating profit is up 261% to 26.9 million compared to Q2 2006 from unhedged sales of 11.8 million pounds at $3.13 per pound and 155,000 pounds of moly at $26.60 per pound.

Total cash costs of production, importantly, dropped, as Russ mentioned, $1.50 to US$1.33 per pound of copper in the quarter due to lower strip ratios in the Pollyanna pit and the higher byproduct sales prices.

As to an update on the copper cathode business, i.e., the SX-EW plant, which is currently operating, Taseko signed an agreement with a buyer in the quarter covering 5,800 metric tons of copper for approximately two years. Production is currently averaging about 10,000 pounds per day or 300,000 per month, expected to rise over the summer period, and moving gradually to about five million pounds next year.

There were no sales in Q2, but we delivered 550,000 pounds in May Q3, yet to be priced under the contract terms.

Total other net expenses of 3.9 million are comprised of exploration of 2.5 million, consistent of engineering, permitting, et cetera, on the Prosperity project, general administration 2.8 million, reflecting higher legal, accounting, staffing levels, and general or corporate activity, and non-cash stock-based compensation of 2.3 million.

These expenses were offset in the period by a $1.5 million gain on the sale of $3.2 million BC Metals common shares and interest and other income totaling $3 million, resulting in earnings after taxes in the quarter of $11.5 million and year-to-date of $23 million.

Just before I move to income taxes, important to note that Taseko has doubled, doubled, year-to-date earnings per share over last year from $0.09 to $0.18, of which Taseko has earned $0.09 in each of quarter one and quarter two.

Next, I'd like to review income taxes, essentially, from the top level down. First, just to be clear, in fiscal 2006, Taseko utilized almost all its tax goals and did not pay any income taxes in 2006. Two, Taseko did, however, pay mineral tax of about $1 million in 2006.

Moving to 2007, on a year-to-date basis for the first six months, Taseko's 2007 earnings-to-date before taxes are $40.4 million. You add back the non-cash items and other differences in tax deductibles versus accounting deductibles, now it's about $6.6 million, and results in a taxable income for accounting purposes of $47 million.

You then apply tax, both current and future income taxes, and they amount to about $17 million, and that produces a tax rate of 36%. But currently we do have tax shield that's being created by pre-stripping, mill expansion. And consequently, current taxes or the amount that Taseko will actually pay based on year-to-date earnings amount to about $8.5 million as at the end of March 2007.

This amount, you will see, is reflected as a current liability on the balance sheet. The balance to get to the $17 million total provision for taxes is made up of non-cash future income tax expense.

Taseko is continuing to monitor this situation going forward with a view to minimize taxes actually paid, the true cash of the door, one, by maximizing tax deductions based on mill expansion, pre-stripping, other acquisitions; two, potential Canadian property acquisitions; and three, tax favorable strategic investments.

Taseko continues to investigate and monitor several potential strategic alliances with mining companies that will be accretive to Taseko's enterprise value and fundamentally sound NPV and NAV transitions.

The Taseko investment group meets regularly to assess these targets, also to ensuring benchmarking against organic growth opportunities, including the Prosperity project and additional expansion at Gibraltar, i.e., GIB-2.

At this point, I'd just like to summarize the great accomplishments this year by the operational personnel by going over just the magnitude of the additions on a year-to-date basis in fiscal 2007, just rounded to millions, just to give you an idea.

Mill expansion $23 million, mine site equipment $17 million, pre-stripping Granite pit $12 million, SX-EW plant rehabilitation $4 million, exploration targeting expanding reserves $3 million, total capital projects to date $58.7 million.

Note that all these items have a very significant long-term positive production impact of over 11-plus years. All plant equipment and the mine is 100 percent owned by Taseko and the capital additions, for the most part, have been financed out of cash flow from the very short-term period of only six months of fiscal 2007, whereby operational cash flow amounted to $37.8 million.

In percentage terms, 65% of the capital additions have been financed out of operational cash flow this year. The balance of $20.9 million has come from existing cash on hand.

In conclusion, Taseko continues to remain financially strong, with $78 million in working capital, of which $67 million is in cash, and reclamation liabilities, importantly, are funded with additional cash of $33 million on hand.

Thank you very much, Russell.

Russ Hallbauer ***- Taseko Mines - President/CEO***

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