

# Conference Call Transcript

## Taseko Mines Earnings Conference Call – Q3 2007

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### CORPORATE PARTICIPANTS

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**Russ Hallbauer**

*Taseko Mines - President, CEO*

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*Note: All dollar figures are expressed in C\$ unless otherwise stated.*

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#### Operator

Good day, ladies and gentlemen, and welcome to the Third Quarter 2007 Taseko Mines Earnings Conference call. My name is Nicole 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 towards the end of this conference.

I would now like to turn the call over to Mr. Brian Bergot, Investor Relations. Please proceed.

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

Thank you, Nicole. Good morning, ladies and gentlemen, and welcome to Taseko Mines' third 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 Vice President of Operations. After opening remarks by management, which will review third 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.

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#### **Russ Hallbauer - Taseko Mines - President, CEO**

Thank you, Brian. Good morning, everyone. Thank you for joining us today to discuss Taseko's third quarter 2007 financial and operating results. Taseko generated \$55.9 million in revenue for the quarter from sales of 13 million pounds of copper in concentrate, 556,000 pounds of cathode copper and 138,000 pounds of molybdenum in concentrate.

After tax earnings were \$12.4 million, an increase of \$8.3 million over the comparable period last year. Of particular note, operating profit for the nine-month period is up \$40.9 million and net earnings up \$21.9

million in comparison to the same period in 2006. Copper costs, net of byproducts, during the quarter were impacted by exchange rate fluctuations between the Canadian and US dollar and additional operating expenses. We'll speak about that later in the call.

Copper metal production has been steadily increasing over the past three quarters. In Q1, we produced 10.6 million pounds and in Q2, we produced 11.7 million pounds. And even though we experienced a fire in our crusher MCC room, which shut down our crushing facilities for nine days, and our transition to the new flotation cells, which affected recoveries, we produced 12.7 million pounds in Q3.

Had we not experienced these two issues, copper production would have exceeded 14.5 million pounds of the production rates we'd achieved for the previous six weeks. In terms of operations, tons crushed in the third quarter was 12% higher than the second quarter. Tons milled in the third quarter was up 15% over the second quarter. And mill operating time was up 10% in the quarter compared to the year-to-date numbers.

Cathode production is continuing to increase from an average of 6,000 pounds per day in the winter-spring months, to 14,000 pounds per day in June and July. Operational staff continue to work on the issues that have affected operational performance over the past eight to ten months. The Granite Pit has been stripped to the point that ore release will be available in a few weeks.

As the Granite ore has not been processed by this present operating group of the mine, a large bulk tonnage test was run to ascertain operating parameters. The test run proved very successful, with high crushing tonnages, along with steady state metallurgical performance.

This test reconfirms our expected performance when our Granite Lake ore is presented to the new sag mill later in the year. The new mining faces available in the Granite Pit will allow mining flexibility between the Pollyanna and Granite Pits and will help alleviate a number of the operational issues faced over the past months when we counted the wet Pollyanna ore.

As a result, we are very happy with the progress of operations and our construction at site. We continue to be on time and on budget with our concentrator expansion and upgrade. The ten new flotation cells are fully operational and we should see benefits from those in the coming months. The sag mill building is complete and machinery is being installed. The sag mill gear is in Montreal being prepared for shipment to site as we speak and the sag mill shell has left Spain and is in transit.

Our reserve drilling is complete for the time being, as we step back and evaluate the impact our new reserve will have on our life of mine model in terms of optimizing Gibraltar's profitability going forward. A new reserve update will be coming out next month which will add to our reserves and obviously add value to the Company.

Although we will complete reserve drilling, we will continue to do exploration drilling on identified mineral occurrences in close proximity to our operating pits. We have recently begun drilling in the Gun Zone and the most recent hole returned assays of 0.36% copper and 0.005% moly over 150 feet, very near surface. We're excited about this initial hole.

Prosperity is moving along nicely and we are doing some additional technical evaluation to enhance the feasibility study. We are anticipating completing this work over the next few months.

I'd like to now turn things over to Jeffrey to discuss the financials.

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**Jeffrey Mason - Taseko Mines - Secretary, CFO, Director**

Thank you, Russell, for summarizing operations and covering some of the financial aspects, as well. First off, before I get into the financial specifics, I want to mention that we are extremely proud of the operational personnel. Often, we are focused on the financial capital, but in these times, it is even more critical to assemble a strong production team, which primarily commenced in the fall of '04, where after commercial operations started in January '05.

Along with the human capital that has been built up since September '04, total assets have increased from \$131 million to \$340 million, and shareholders' equity has increased from negative \$5 million to \$150 million by June '07. I'm excited about the near term, as we can see operations and people develop, along with some recent additions of personnel.

And very soon, substantially higher levels of production and sales, and importantly, a long-term platform of modern facilities, combined with long life mine reserves, it is all in place to happen. Realizing that we continue to build on our current base, let's start by reviewing the balance sheet, to which I will talk in millions of Canadian dollars.

The essence of the balance sheet and Taseko's direction is best summarized by, one, investment in the future by way of property, plant and equipment purchases of \$37.1 million in Q3, following \$34.9 million in Q2; two, all capital additions financed at an operating cash flow and existing cash on hand, which remains strong at \$48.7 million at quarter end, including \$4.4 million of restricted cash to secure increased electrical power.

Three, Taseko generated from operations cash inflow of \$14.6 million in Q3, following \$12.3 million in Q2. And four, after funding capital additions in the quarter and various normal course account balance changes, the overall working capital stands at \$62.7 million -- that's current assets, less current liabilities, which decreased by only \$15.7 million in the quarter.

Overall, in summary, Taseko is essentially converting working capital and cash inflows into long-term investments in property, plant and equipment, which will benefit operations for years to come. Since September 30, '06, property, plant and equipment, net of amortization, has risen by \$93.4 million in only nine months, from \$43 million to \$137 million.

As mentioned, Taseko's 100% owned mineral properties, plant and equipment increased by \$37 million in Q3. The details are as follows. One, mill expansion, \$14.4 million in Q3. Last quarter, it was \$12.4 million. This is comprised of year-to-date \$37.6 million, project to date \$43 million. Expected remaining expenditures to December 31, '07, \$31 million. And important to note, on time and on budget, as Russell mentioned, at about \$74 million in total costs.

The mill expansion in the quarter relates to equipment and contractors for primary, secondary grinding, flotation, surface facilities and buildings. As planned, the 34-foot SAG mill is being shipped during August as part of the Phase I expansion, as noted by Russell.

Phase two expansion, which commenced in Q2, is scheduled to complete in late 2008, at a cost of \$40 million. It is well underway, focused on engineering and procurement, which will take mill production from 46,000 tons per day under Phase I to 55,000 tons in 2008, or an additional 20% increase.

Importantly, the construction team is ongoing. Again, securing the right human capital with some positive economics, including the construction crew is fully trained on the Gibraltar site activities, in-house Gibraltar supervisory staff, which will be retained expertise for future projects, optimization of scheduling, because as Phase I activities are decreasing, we're refocusing on installation.

Phase two activities are ramping up and focusing in on engineering and procurement, and Phase II and Phase I plans are integrated, thus avoiding duplication and increasing efficiency and effectiveness. On to mine site equipment. Mine site equipment purchased of \$2.1 in the quarter, last quarter, \$12.9 million. Year-to-date, Taseko has expended \$18.2 million. In the quarter, it was mainly comprised of a primary crusher payment of \$1 million, tailings line \$0.5 million, and some other minor balances.

Also, to note, a \$1 million deposit classified as prepaid on the balance sheet was made on a P&H 4100 shovel, expected in August 2008. Both the shovel and the crusher are expected to be operational in the fall of 2008.

Other equipment planned expenditures are new production drills, \$4.5 million, and tailings dam raised of \$2.3 million. Mine operations in the period included capitalized pre-stripping of the Granite Pit. That has an expected mine life of 11-plus years, extendable, potentially, under the 2007 current exploration program.

Pre-stripping amounted to \$9.6 million in the quarter, followed by last quarter at \$6.8 million. Project to date, \$21.6 million. Balance to expend, and this is a somewhat rough estimate, as the extent of the pit is not fully defined, about \$18 million. But this will be sequenced over various quarters as the east and west Granite Pit ore is exposed and depending on the actual ore release to the mill.

This pre-stripping is capitalized and it represents a future non-cash amortization cost of about \$3.6 million per year or about US\$0.037 per pound of copper over the life of the Granite Pit, which hosts approximately a billion-plus pounds of copper. This pre-stripping cost has been financed out of current operating cash flow. It will become a sunk cost, but will result in a long-term cash inflow, hence the capitalization and the future amortization.

Property went up in the quarter by \$10.5 million, comprised of a property purchase of \$8.4 million and exploration that we capitalized of \$2.1 million, for a total of \$10.5 million. In June '07, Taseko completed the acquisition of all the issued and outstanding shares in the capital private company with a project in northeastern British Columbia, Canada. In summary, the purchase was recorded as cash out the door of \$1.8 million, common shares and warrants \$3.8 million, future income tax provision \$2.8 million, accounts payable-minor \$0.01 million, for a total of \$8.5 million.

On the exploration front, to expand existing reserves in the quarter, we expended on 64,000 feet of drilling, \$2.3 million last quarter, \$2.1 million. Year-to-date, \$5.2 million. To finish the 2007 existing program is approximately \$1.8 million. The other balance sheet fluctuations compared to March 31, '07 and September 30, '06 are essentially due to normal course operating timing differences, such as accounts receivable, payable, inventory and deferred revenue.

These other balances are essentially unchanged, except for taxes, which I'll address later. Moving to the statement of operations. Operating profit is up 56% to \$28.4 million, compared to Q3 '06 from unhedged sales totaling \$55.9 million, from sales of 13 million pounds of copper at US\$3.53 per pound, for revenues of \$47.8 million. Also, we sold 138,000 pounds of moly at US\$31.95 per pound, for revenues of \$5.6 million, and capital copper and silver contributed \$2.5 million.

Total cash cost of production stood at US\$1.46 per pound in Q3. On a Canadian dollar basis, production costs per quarter have been quite constant. However, when you convert these Canadian dollars at average U.S. exchange rate of 1.0984 in Q3 versus 1.1716 in Q2, it accounts for about an absolute \$0.07 increase in U.S. dollars per pound of copper.

Therefore, this quarter's cash costs, before adjusting for the foreign exchange, are closer to US\$1.39 per pound, when compared to last quarter's \$1.33 per pound. The balance of the increase is the result of some isolated nonrecurring events, such as Russell alluded to earlier. As to the update on the copper capital of business, Taseko signed an agreement with a buyer in Q2, covering 5,800 metric tons of copper for approximately the next two years.

Production in Q3 was 0.9 million pounds or about 10,000 pounds per day last quarter. In Q4, capital copper sales are already strong at 1.1 million pounds to date. Total other non-expenses in Q3 '07 of \$9.3 million, compared to \$8.6 million in Q3 '06 are, for the large part, comprised of exploration \$2.2 million, consisting of engineering, permitting, et cetera, on the Prosperity project.

Unrealized foreign exchange loss of \$1.5 million due to the increasing strength of the Canadian dollar as compared to the U.S. dollar, as applied to our U.S. dollars on hand, net of U.S. liabilities, general and administration \$1.3 million for normal course activities. Interest expense and accretion on the convertible debt totaling \$2.2 million, and unrealized change in the fair value of financial instruments due to market decrease and investments held of \$2.3 million, and non-cash stock-based compensation of 1.9 million.

This is all offset by interest income due to our cash on hand of \$2.4 million, all of this resulting in earnings after taxes in the quarter of \$12.4 million, a continued improvement compared to \$11.5 million in Q2 '07 and \$4.1 million in Q3 '06. Year-to-date nine months net earnings stand at \$35.6 million, versus \$13.9 million for the same nine-month period in '06. This is up 156% over the comparative period.

Just before I move to income taxes, it is important to note that Taseko has doubled nine-month year-to-date earnings per share over last year from \$0.13 to \$0.28, of which Taseko has earned \$0.09 per share in each of Q1 and Q2, plus \$0.10 in Q3.

Next, a short review of income tax on earnings. First, in fiscal '06, Taseko utilized most of its tax pools and did not pay any income taxes in fiscal '06. In Q3, Taseko provided for current income taxes of \$5 million and future income taxes of \$1.7 million, totaling \$6.7 million for an effective accounting tax rate of about 35% in Q3. The cash cost of taxes for the year-to-date amount to \$13.1 million, as presented as a current liability on the balance sheet. This amount is determined based on tax yield that we're currently creating based on pre-stripping, exploration, mill and mine expansion, and some other activities. Taseko is continuing to target methods to minimize taxes actually payable both through tax shield created by expansion activities and some other tax planning strategies.

On M&A activity, Taseko continues to actively 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 transactions. The Taseko group meets regularly to assess these targets, also ensuring to benchmark against organic growth opportunities, including the Prosperity project and additional expansion at Gibraltar, such as Gibraltar-2 and maybe even a Gibraltar-3. To date, organic growth shows the greatest potential for long-term shareholder wealth creation.

But as expansion expenditures decrease over the next little while and higher production levels are accomplished of over 100 million pounds of copper per year, Taseko's goal is to be fully ready in advance to leverage off higher net cash inflows into accretive acquisitions and mining property development opportunities.

In conclusion, Taseko continues to invest in property, plant and equipment, with the near-term goal of producing over 100 million pounds of copper per year from a modern updated mill over a long mine life and Taseko remains financially strong, with 63 million in working capital, of which 49 million is in cash and reclamation liabilities are funded with an additional cash of \$33 million on deposit.

Thank you very much, Russ.

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

I'd like to thank everyone for joining us today. We look forward to a great quarter next quarter and to chatting to you then. Have a good day.