

TASEKO MINES
August 12, 2011
11:00 a.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the Q2 2011 Taseko Mines earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time.

If any one should require assistance during the conference, please press star then zero on your touchtone telephone. As a reminder, this conference call is being recorded. I would now like to turn the conference over to your host, Taseko Mines. You may begin.

Moderator: Good morning, ladies and gentlemen, and welcome to Taseko Mines 2011 second quarter results conference call. With me today in Vancouver is Russ Hallbauer, President and CEO of Taseko, and Peter Mitchell, Taseko's Chief Financial Officer. After opening remarks by management in which we will review business and operational results for 2011 Q2, 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 material from actual outcome. Please refer to the bottom of our latest news release for more information. I'll now turn the call over to Russ for his remark.

Russ Hallbauer: Thank you, Ainsley. Good morning, everyone. Thank you for joining us today to discuss our second-quarter results and the ongoing status of Company initiatives. Operating profit for the quarter was CAD\$11.8 million. This was affected by the large inventory buildup of nine million pounds in concentrate sitting in our warehouse at Vancouver Warf's at quarter end.

Adjusted net earnings for the quarter were CAD\$7.3 million, and as I alluded to above, we're obviously affected by inventory buildup as well as by circumstances relating to operations and costs that I'll speak about in a few minutes. Sales of 10.7 million pounds were affected by shipping schedules as spoken about.

We would like to have as little inventory as possible at quarter end to allow operating profit performance in terms of production and sales, but up until this point in time many circumstances have affected that even pipeline flow of concentrate through from the mine to our end users.

We haven't quite determined how to solve that problem on a go-forward basis, but we are working on it. In April, we closed our \$200 million senior note issuance, so we are all cashed up with plenty of money to advance our projects and in particular GDP3.

In May, we announced a reserve update at Gibraltar, expanding our recoverable metal reserves to 4.3 million pounds, making Gibraltar the largest copper-moly reserve in Canada with a mine life, once we complete our next expansion to 85,000 tonnes per day, of 27 years. All in all we're pretty happy with those two events.

In June, we purchased put options on the majority of our 2012 copper production, ensuring a minimum selling price of \$3.50 a pound. This matches our ongoing hedges strategy whereby we attempt to eliminate as much of the downside risk to our business, while still being in position to benefit from the upside, therefore ensuring our profitability in uncertain times.

For example, last year when we hedged with our put strategy for the third quarter of this year, we struck puts at \$4 per pound floor price. At the time there were skeptics on this initiative, but I expect today those skeptics may not be thinking it was such a bad idea.

As for this quarter, we will receive a minimum of \$4 a pound. And going forward after that for the fourth quarter and all of 2012 we will receive a minimum \$3.50 a pound and still participate in upside copper price if it does go up. So we sleep pretty easily knowing that our cash flows are secure.

In our MD&A you will see a very simple graphic comparison of 2011 first-half cost comparisons versus 2010 on non-controllable factors affecting our cost structure. I urge everyone to look at those charts so you can appreciate where we believe we'll be going once we optimize our concentrator feed and through-put.

The majority influence of cost per pound of production is obviously metal production and exchange rates. Specifically looking at this quarter, once we fired up our SAG pit feed system in mid-May, we discovered that a bank of our floatation cells that we installed in 2007 had defective liners installed back then. Normally these liners last over 15 years. Ours, unfortunately, lasted a little over three.

So we had the replacement at the same time we had one of our ball mills go offline for a serious trending issue. These two unforeseen events affected our ability to actually commission the SAG mill the way it was supposed to be commissioned. So, effectively, we've had the new system online for 90 days. We've only been working on full plant capacity for less than 60 of those days.

Looking back and then looking forward in terms of where we expect to be, for the first six months of this year we averaged about 42,000 tonnes per day and that was primarily 50 percent of the old SAG feed system and 50 percent of the new SAG feed system. In July, we moved that through-put tonnage to nearly 48,000 tonnes per day and for the past 10 days we've averaged a little over 51,000 tonnes per day.

Now that we are operating at total capacity we are in the process of determining if the internal screens, lifters and other mechanical issues in the SAG mill are affecting through-put rates with this new product feed. In that respect we've ascertained that we are carrying too much pulp, as the lifters are blinding off and our distort port sizes and screens are not big enough.

Each one of these factors take considerable engineering and physical changes to ascertain the answer and each must be done methodically. We are making headway on them all. For the last 10 days, for example, we've averaged a little over 51,000 tonnes per day through the SAG with peaks of

over 60,000 tonnes per day. So we know that the milling capacity is definitely there.

We anticipate by year-end we will be at or near or above the 55,000 tonnes per day run rate that we predicted in our engineering studies in advancement of GDP2. So we're happy with that progress. Everyone should remember that SAG mills are complex engineering machines that ours is run by a 13,000-horsepower electric motors and a six-month ramp-up to deal with all the issues holding back production is a pretty progressive timeline.

I will answer specific questions in the Q&A on this matter if anyone wishes to discuss it more fully. We did spend more money in the quarter to get the pits in shape, which affected our costs and this will hold us in good stead in Q3 and Q4 and heading into (2005). Effectively we spent nearly CAD\$6 million more in this quarter than normal on all of these issues.

Looking at Gibraltar on a go-forward basis, GDP3 is progressing well. Thirty percent of the projected spend has been committed so far or roughly CAD\$70 million. We've begun site prep and are moving ahead expeditiously on construction activities.

We foresee little or no capital creep, and I can speak about that because there has been capital creep in many of the projects that are out there now and if we want to talk about that, I'll be happy to answer any questions on that.

With respect to Prosperity, we expect to have answered the official federal environmental assessment review process very shortly and when that occurs, we'll let everyone know.

We expect to be in the formal EA process by October. After that it will be a, we believe, a 365 day process to finalize the environmental assessment review for both the Federal Government and our amendments to our provincial environmental certificate.

Aley drilling is going well. We have a 60-man camp in place presently. We're three-quarters of the way through with a 55,000-foot drilling program that we started six weeks ago and samples are now up for assay.

We expect to have an inferred resource by mid-September and will advance a feasibility study going into 2012. Preliminary indications that we'll have an inferred resource north of 75 million tonnes of NB205 at roughly 0.6 percent grade. I'd like to now turn the call over to Peter to discuss our financial results.

Peter Mitchell: Getting into specifics, revenue for Q2 2011 was CAD\$48.3 million, down from CAD\$56.5 million in Q2 last year because of reduced shipping volume. A shipment scheduled at quarter-end completed on the first of July and will be included in Taseko's Q3 revenue.

The inventory increased to CAD\$38 million at the end of June of this year compares to CAD\$21.3 million at year-end and is primarily attributable to this concentrated accumulation.

Cost of sales was affected by lower production rates, consumable cost increases, and the strength in Canadian dollar. The second quarter 34 percent gross profit compares favorably with the 2010 level of 29 percent as a result of improved copper price realizations.

General and admin costs were CAD\$4.9 million for the second quarter, up from CAD\$3.3 million in 2010 quarter due to increased professional personnel supporting the Company's growth initiatives, as well as consulting expenses. Other operating expense was CAD11 million in the second quarter of 2011 and included CAD\$10.8 million of unrealized losses on copper derivatives and compares to CAD5 million of gains in Q2 2010.

CAD\$3.8million loss on contribution to the joint venture is the result of a cap on a capital commitment that was established under a sale arrangement last year. This expense was a return of funds to our partner for money advanced beyond this agreed amount.

Finance expense was CAD\$7.2 million for the quarter and reflects bond interest for the quarter and the primary reason for the increase over the CAD\$1.2 million recorded in the same quarter last year. Finance income in the second quarter of 2011 includes interest income on our cash position and gains associated with Continental Minerals transaction.

The income tax recovery for the second quarter of CAD\$0.9 million stems from the pre-tax loss position of CAD\$2 million. The effective tax rate in the first half of 2011 is 59 percent and includes the effect of permanent differences, including share-based compensation and deferred tax adjustments related to BC mineral tax.

Adjusting after-tax earnings for unrealized gains/losses on derivatives, the JV transaction, foreign currency translations and other gains/losses provides adjusted net earnings of CAD\$7.3 million for Q2 2011 as compared to CAD\$0.8 million for Q2 2010.

The year-to-date adjusted net earnings to June 30, 2011 are CAD\$18.1 million compared to CAD\$9.3 million last year. This corresponds to adjusted earnings per share in the second quarter of CAD\$0.04 and CAD\$0.09 year-to-date versus breakeven for last year's second quarter and CAD\$0.05 year-to-date at June 30, 2010.

Cash and working capital were CAD\$259 million and CAD\$402 million respectively at the end of Q2 2011. In addition to this cash, our money market investments beyond three months maturity were CAD\$120.6 million and included in marketable securities at June 30, 2011. Cash provided by operating activities was CAD13 million in the second quarter.

On the hedging front, we have extended our copper puts through 2012 and that's at revenue protection at \$3.50 per pound or better from now until the end of 2012 for 90 percent of Gibraltar's share of Gibraltar production. The recent moves in copper prices affirm the logic of this, considering the capital required for GDP3 during this period. We intend to extend this hedge position into the future subject to market conditions.

In conclusion, Taseko is in a strong financial position from a capital structure and earnings perspective for the second half of 2012 with ample margin protection to both operate and grow our business in these volatile times.

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