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TKO.TO - Q3 2019 Taseko Mines Ltd Earnings Call

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PRESENTATION

Operator

Good morning. My name is Leony, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Taseko Mines Q3 Earnings and Production Results Conference Call. (Operator Instructions) Thank you. I would now like to turn the call over to your host, Mr. Brian Bergot. Please go ahead, sir.

Brian Bergot - *Taseko Mines Limited - VP of IR*

Thank you, Leony. Welcome, everyone, and thank you for joining us today to review Taseko's third quarter 2019 financial results. The news release announcing our financial results were issued yesterday after market close and are available on our website at tasekomines.com. Additionally, we filed an updated 43-101 technical report for Gibraltar yesterday, which can be found both on our website and on SEDAR.

With me today in Vancouver is Russ Hallbauer, CEO; Taseko's President, Stuart McDonald; John McManus, COO; and Taseko's Chief Financial Officer, Bryce Hamming. After opening remarks by management, which will review the third quarter business and operational results, we will open the phone lines to analysts and investors for question-and-answer session.

Before we proceed, I would like to remind our listeners that our comments and answers to your questions will 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. For further information on these risks and uncertainties, I encourage you to read the cautionary note that accompanies our third quarter MD&A and the related news release as well as the risk factors particular to our company.

I would now like to turn the call over to Stuart for his remarks.

Stuart McDonald - *Taseko Mines Limited - President*

Okay. Thanks, Brian, and good morning, everyone. Thanks for dialing in to our third quarter earnings call.

I'll start with a review of the third quarter results at Gibraltar and talk about recent developments at Florence as well. Bryce will then review the Q3 financials in more detail, and we'll hand the call over to Russ to wrap up, to review some of the improvement initiatives that we have on the go at Gibraltar and Florence.

So the third quarter was another period of steady performance at Gibraltar. We produced 33 million pounds of copper. Average head grade for the period was 0.25%. Copper recoveries were just over 87%, and mill throughput was approximately 83,000 tons per day, all of which were generally in line with our expectations and life of mine averages. We remain on track to meet our original 2019 guidance of 130 million pounds of copper, plus or minus 5%, and we expect 2020 copper production to be at similar levels.

Third quarter earnings from mine operations were CAD 12 million and adjusted EBITDA was $8 million. The financial results were certainly impacted by falling copper prices. We saw a continued downward trend in the price over the quarter. This affected the margin of our third quarter shipments, and we also have to revalue [QPs] from prior quarter shipments. Overall our realized sales price for Q3 was $2.56 a pound compared to $2.69 in the previous quarter.

Over the last month, we've seen a modest recovery in copper prices, but really, for our business, we're focused on the medium- and longer-term outlook. And in that respect, we remain optimistic.

Looking around the world today, there are supply challenges. Whether it's Chile, Peru, Africa or Indonesia, it's challenging for the industry to maintain production levels, let alone bring on a new mine. So we're optimistic about the supply/demand fundamentals, and we're well positioned with a lot of leverage to an improving price and with assets in good jurisdictions.

For the third quarter, site operating costs net of by-product credits came in at $1.72 per pound and our total operating costs per pound were USD 2.05. These numbers are generally in line with the previous quarter as our total site spending has been at a consistent level in recent periods. That being said, we do see opportunities for cost and efficiency improvements at Gibraltar, and Russ will talk more about those in a minute.

We're also expecting lower treatment and refining costs for our copper concentrates next year. In fact, we recently concluded a spot contract at a rate significantly below benchmark rates in the mid-30s per ton. So that's helping our cost profile and is also a positive indicator for the copper market as demand for concentrates remained strong.

Moly production has been a bright spot for us in 2019 so far, and October was actually a very strong month with over 300,000 pounds produced. So moly will remain an important byproduct credit for us going forward.

Moving on to Florence, our Florence Copper Project now. And as noted in our release yesterday, we recently had an independent review of the project completed by Roscoe Postle Associates. This was a U.K. regulatory requirement as a part of our LSE listing process. RPA's report outlines a project with an NPV of USD 667 million, an IRR of 40% and a payback period of just over 2 years from the start of the commercial operation. As part of their report, RPA made several adjustments to the estimates from our 2017 technical report, but the overall economics in terms of NPV, IRR and payback remain essentially unchanged. And the review represents a strong third-party endorsement by an independent engineer.

It's important to note that the RPA study did not take into account the recent results of our PTF operations, and as we've highlighted in our recent announcements, we continue to make very good progress at the production test facility. We're producing high-quality copper cathode, and the PLS grades and production rates continue to increase as we test different well field operating strategies. The experience we're gaining will be invaluable as we study ramp-up scenarios for the commercial phase, and Russ will talk more about that later in the call.

We continue to advance project financing discussions as well and as part of that, targeting to sell a minority stake in the project. We're engaged with a number of potential JV partners. And if we can get the right deal, this could be -- this could represent a significant portion of the capital required to get the project running in the commercial phase.

Discussions with bank and institutional lenders as well as streaming and royalty providers are ongoing. We'd like to have a plan in place early next year for committed funding so that we can move into construction upon receipt of permits. And the project permitting continues to advance. Our team is working closely with both the ADEQ and the EPA on the 2 key permits that we need to move to the commercial phase. It's time-consuming detailed work, but we remain confident that the required permits will be issued in the middle of next year.

Low CapEx projects in copper are few and far between, and we believe Florence represents an excellent opportunity to create long-term value and value that is not reflected on our stock price. So development of the project remains a priority for the company. It's a unique asset with a lot of positive attributes and will have a significant impact on Taseko's production and cost profile in the coming years.

In the meantime, we're keeping a close eye on the balance sheet and our liquidity. Our cash balance remained stable in the third quarter, and in the fourth quarter, we expect to finalize a transaction that will release about $37 million of cash that is currently tied up for reclamation bonding in the Gibraltar JV.

Recently, we announced our intention to list on the company on the London Stock Exchange main market. Although we're not intending to raise capital at this time, we believe the listing will give us access to a larger pool of institutional investors where we can broaden our shareholder base. The market for mining finance has been very challenging in recent years, and in London, we see a good opportunity for a small cap copper producer with operations in stable jurisdictions. So we're moving forward with that and expect to complete the listing before the end of the year.

It's a good time to be introducing the company to new investors. We're well positioned with a stable operation at Gibraltar, Florence advancing towards commercial production and a pipeline of projects for the future.

So with that, I'd like to now hand the call over to our CFO, Bryce Hamming. Bryce, over to you.

Bryce Hamming - *Taseko Mines Limited - CFO*

Thanks, Stuart. Good morning. I'd like to cover in further detail the third quarter financial results that were released. We reported earnings from mine operations before depletion and amortization of $12.3 million on a quarterly basis, bringing our year-to-date amount to $46.7 million. Earnings from mine operations continued to be impacted by the copper price. Realized copper price in the quarter was $2.56 per pound, a 3% decrease from the same quarter last year and a 6% decrease from Q2.

Site operating costs for the 3 months ended September 30, 2019, decreased by $2.2 million compared to the prior year, primarily due to the higher capitalized stripping costs this quarter due to the commencement of greater stripping activity in the Pollyanna pit. We capitalized 9.7 million in stripping costs this quarter. Looking ahead to 2020, we expect to have at least these levels of allocation to capitalized stripping costs or our share to the balance sheet per quarter as we continue initial mining into Pollyanna. That will have a positive impact on C1 costs and EBITDA in 2020.

As we noted in Q2, we continued to recognize higher levels of depreciation previously capitalized stripping costs for the Granite pit as we continue to mine more ore in this pit. This resulted in $28 million of depreciation expense this quarter in line with our guidance compared to $30 million last quarter. This greater depreciation of expense of approximately $30 million per quarter is expected to continue for the next year as we continue mining more from the Granite pit.

Revenue in the quarter was $82.4 million, a 5% decrease from the second quarter due to the lower copper price mentioned earlier and a decrease in moly revenue, and sales volumes and prices were slightly lower this quarter. On a year-to-date basis, our revenue is $239.2 million, $6.5 million higher than the 9 months ended Q3 2018. Realized copper prices were $0.21 per pound less in the first 9 months of 2019 compared to last year, but this was partially offset by our greater copper concentrates sold by 3.4 million pounds per Taseko share, a slightly weaker Canadian dollar this year and increases in moly revenue. For the 9 months year ended September 30, 2019, we have 2 million pounds sold on 100% basis compared to 1.6 million pounds for the 9 months ended 2018.

Cash from operating activities improved from Q2. It was $15.2 million for the quarter and $33.4 million on a year-to-date basis. Operating cash flow from Gibraltar continued to fund our capital expenditures at Gibraltar, Florence Copper and other projects. I thought I'd take a moment here to highlight Taseko's spend on Florence through the end of September 30.

As most of you know, we acquired the Florence project in November 2014, and as of September 30, 2019, we carry the Florence investment at a cost totaling $181 million. This includes $85 million in project development and other costs over the last 5 years since our acquisition, of which we have substantially funded directly or indirectly from the cash flow and credit quality of Gibraltar. This investment is still a small fraction, roughly 20% of the underlying NPV of Florence, recently confirmed by RPA in their CPR.

This quarter also saw another financial milestone for Florence in that we delivered our first copper cathode LME Grade A shipments and with regular deliveries from our PTF expected going forward. Cathode sales from the PTF are applied against our Florence development costs on our balance sheet.

Our cash position remained the same as Q2, and we ended the quarter at $42 million. We also continued with our long-standing strategy of purchasing copper put options in the quarter to cover 100% of our share of production from Gibraltar to the end of the year. Our copper concentrate inventory remains notable at 5 million pounds on 100% basis at the end of September with -- when combined with our moly inventory, would have sales value of approximately $12 million for 75% share.

In Q3, we had an unrealized foreign exchange loss on U.S. dollar-denominated debt, $3.6 million, due to a weakening Canadian dollar in the quarter. GAAP net loss for the period was $24.5 million, and after adjustments for the unrealized foreign exchange loss and derivative loss, we're reporting an adjusted net loss of $20.6 million or $0.08 loss per share this quarter.

We continue to optimize our borrowings against the equipment fleet at Gibraltar in Q3 and concluded a third notable equipment refinancing on a shovel with a relationship bank at an attractive rate and 4-year tenure beyond the bonds. Net proceeds from the transaction totaled $8 million for Taseko's 75% share. These equipment refinancing initiatives at Gibraltar are a great example of the value in our operating assets and our ability to tap sources of liquidity at low borrowing costs with covenant-light conditions when we choose to.

We are well advanced in moving forward with our reclamation refinancing initiative. This transaction, when completed, will release $37 million of our cash back to us, which will further enhance our liquidity and net debt position at an attractive cost of capital. We are aiming to close this transaction in the coming weeks.

In the current copper price environment and looking ahead to 2020, we remain cost conscious, disciplined and value seeking. We continue to expect to efficiently utilize our operating cash flow from Gibraltar to fund our investment in Florence while we continue to work with the many interested financing partners to structure the remaining external funds needed for the commercial scale facility at Florence.

I'll now turn it over to Russ.

Russell Edward Hallbauer - *Taseko Mines Limited - CEO & Director*

Thank you, Stuart and Bryce. I'd just like to spend a few minutes on a couple of topics that folks are probably not focused on or fully appreciated, and that is a bit of how we view and manage our cost structure. In the not-too-distant past, the price of minerals year-over-year usually was declining in real terms. Those miners who wish to have longevity of their mining businesses had to be very innovative and aggressive on the cost side, as costs would escalate by general inflation while prices remained flat or decreased, and that's just the nature of this business as we all know. Thus, there is always constant pressure on the cost side, and you see a lot of big companies, such as Rio Tinto, Teck coming up with raising names to highlight the focus on their cost containment initiatives.

That's -- the management teams these days don't have much experience in that area, and that's why you see across the board escalations of costs that are in step with the metal price regime changes. But they're obviously learning how to deal with that with these initiatives and that they are looking at pricing not always going up but the costs increasing. Simplistically, many rationalize their costs based on what they're getting for the metal, and you can see it all the time. And that is a long-term recipe for disaster. So certainly, when you see prices that we've seen in the copper business over the last year or so, you need to recognize that to maintain your margins, you have to do things differently.

In our case, our philosophy has always been don't think about what we're selling a pound of copper metal for or a pound of moly for. Focus on costs alone. Even though today copper is at, say, $2.70 a pound, which is the consensus long-term price or near it, costs are inching higher, as I said, whether it be fuel, taxation, labor, explosive, reagents, steel to name but a few. It's an ongoing creep higher. Sometimes, they come down marginally, but the trend usually is always higher.

So we have to adapt and we have to mitigate those noncontrollable costs by being smarter, using technology, engineering, process control and now the new buzzwords of artificial intelligence to maintain and lower our cost structure and to either maintain or grow our margins. That is critically important for a company like us when we are operating a lower grade mine.

Now in that regard, specifically, we know we have opportunities before us at Gibraltar, and those are primarily related to the concentrated performance as in simplistically maximizing throughput. Thus, we have been working -- John and his team have been working on projects that will enhance consistent throughput increases.

Presently, we have 2 very different milling lines. Mill 1 is a sag mill with 6 ball mills, and Mill 2 is a sag mill with 1 ball mill. Mill 1 is older technology with the 6 ball mills. So to make it perform, we need to eliminate a number of bottlenecks caused by that design. Mill 2, which we built and designed at 30,000 tons per day is achieving 40,000 tons a day. So obviously, Mill 1 cannot achieve design capacity for us because of those bottlenecks. And those bottlenecks are easier to talk about than solve, but we now have a plan, which we're going to work on over the next 12 months. We estimate at this juncture that $12 million invested over the next 12 to 18 months in our concentrators is going to reduce our cost per ton milled by approximately $0.45 per ton. On 31 million tons, that's a lot of money. It's roughly $0.11 per pound savings or approximately $14 million to $15 million per year. It's significant value enhancement. That $12 million investment has an NPV of roughly $80 million.

We're continuing to work on other aspects of costs as well relating directly to our input mining operations, and we expect some of the new AI technology will show added cost savings as well. It's pretty amazing, the advancements that are going on right now in that field. Over the past 8 years, we have kept our average cost per ton milled at approximately $10.50 per ton, give or take, plus or minus. With initiatives I have noted above, we believe we are going to maintain or reduce that number going forward.

Stuart has spoken briefly about our Florence projects, as had Bryce, and I think it's time we are more illustrative on how development time lines will work in that regard. In a conventional mining operation, you would build a concentrator. Say it takes 18 to 24 months to build it. You would pre-strip the open pit or develop the underground depending on what kind of mining operation you have and then you feed ore to the mill and work on debugging the whole complex for the next 18 to 24 months. All your capital will be spent with no revenue coming until the concentrator's commissioned and then the time to get to full design.

That's not how our Florence process expects to unfold. Once we construct the commercial SX/EW plant and a portion of the well field, we anticipate being able to provide pregnant solution to the SX/EW plant as soon as the portion of the well field is complete and brought online. Then we'll begin producing cathode copper very quickly, similar to what we're doing at our PTF, which in turn will create revenue and reduce cash outflows on the capital [spike spend].

So it's a completely different sequencing than conventional development. Just means that while we talked generally that we would require $225 million, give or take, to build it out as if it was a conventional mine, those dollars will be reduced once we completely refine the commercial plant ramp-up. Yes, the $225 million will be spent over time for the total well field because as it's being spent, we're generating revenue, so the net amount will be that amount less.

The commercial plant will get off to a running start based on the ongoing work we are now doing on the test facility. That is a certainty. We are very pleased with our technical results. A normal surface heap leach can take 12 to 36 months to debottleneck, and we have accomplished commercial scale production through the test facility in less than 9 months. That bodes extremely well for a path forward on the final development of Florence.

So I'd like to turn the call back to Stuart.

Stuart McDonald - *Taseko Mines Limited - President*

Okay. Thanks, Russ and Bryce. And operator, I think we're ready to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Craig Hutchison from TD.

Craig Hutchison - *TD Securities Equity Research - Research Analyst*

It sounds like things are going really well at Florence, which obviously is very, very positive. I'm just kind of curious as to the interpretation by, I guess, Roscoe Postle Associates in terms of their view that metallurgical recoveries will be 65% just given how well things have gone to date. Just if you can provide some more color on how they kind of view it versus how you guys view it, I'd appreciate that.

John W. McManus - *Taseko Mines Limited - COO*

John here. Yes, it's recovery for a leach operation is different than for a milling operation. Obviously you don't really know what you're going to have for recovery until you're done. So what Roscoe Postle did was looked at our lab work, which we've been doing over the last 4 to 5 years, and their interpretation of what they think the recovery is going to be was slightly less optimistic than ours was. So we talked with them for quite a while over it and finally decided it's an estimate, and we'll go ahead. And their estimate is their estimate. They estimated 65%. We estimated 70%.

Craig Hutchison - *TD Securities Equity Research - Research Analyst*

You guys are sort of positioned now to sort of come up with what you view the recoveries are having to date. Or is it just too early?

John W. McManus - *Taseko Mines Limited - COO*

It's -- we still believe it's 70%. Roscoe Postle took a slightly....

Craig Hutchison - *TD Securities Equity Research - Research Analyst*

Based on the pilot test facility?

John W. McManus - *Taseko Mines Limited - COO*

Yes. Well, the pilot test facility, again, we won't know what the recovery is until we're done, right? We know that we're getting the grade that we expected from the deposit and it's increasing as we work with it. But it's going to be 4 years before that portion of deposit's depleted, and then you can calculate recovery so -- but based on our lab work, we still believe 70% is the correct number. Roscoe Postle took a little slightly different view.

Operator

Your next question is from CJ Baldoni from Principal Global Investors.

CJ Baldoni

Is there anything else you could say about your preferred path? You talked about project finance and selling a minority stake as well as streaming and royalty discussions. I guess in conjunction with that, I believe, on the prior call, you felt that you would have funding plans in place by year-end, and that time line seems a little bit different now. So I would be hear -- interested to hear what your thoughts are.

Stuart McDonald - *Taseko Mines Limited - President*

Yes. CJ, it's Stuart here. Yes, I think in terms of our preferred path, I think selling a minority stake in the asset is something that, again, we continue to be quite interested in given the value that we see in the assets. At the asset level that's not reflected on our equity, we think crystallizing that value will be a good thing for the company. Obviously, streams and additional bank debt are there as well, and we will continue those discussions.

In terms of timing, yes, we're, I would say, taking our time and making sure that we have the PTF operations running. We have our independent engineers come in -- likely coming in the next month or 2 to complete their review, and then we'll be going out with more formal requests for proposal to the banks probably early in the new year.

So we're taking -- we're not in a hurry. We have to get permits, obviously, in place before we can start construction but remain confident that we'll have the package in place well in advance of when we actually need the cash. I think early next year is a reasonable time line. So that's kind of where we are.

CJ Baldoni

Okay. And you mentioned that you expect permits in the middle of the year. Is that consistent with what your prior thinking was?

John W. McManus - *Taseko Mines Limited - COO*

John here, CJ. Yes, we -- it's a process that we have to work through, and the process is moving along as expected. So we haven't really changed when we think the completion will be. There's no reason to change.

CJ Baldoni

You mentioned before that you continue to be in active discussions with the community, kind of seek a path to end future litigation. Is there anything you can say as far as those efforts are going?

John W. McManus - *Taseko Mines Limited - COO*

No, not really.

CJ Baldoni

You mentioned that the expectations around the reclamation release are kind of on track, I guess, for the next few weeks. You -- in conjunction with that, you mentioned that you thought that cash balances would be greater than $100 million by the end of the year. Is that still the case?

Stuart McDonald - *Taseko Mines Limited - President*

I think where we're looking at, we've got roughly $40 million in the bank at the end of the quarter. The surety initiative looks to be about $37 million. So something in the range -- at current copper prices, something in the range of maybe $70 million to $75 million at year-end would be reasonable. I think when we were talking last quarter, about a higher balance, we were also considering options for streaming transactions, and those are still ongoing as well. And that could push the cash balance further, but we haven't made any decisions in that regard yet.

CJ Baldoni

And then lastly, it looks like you have 5 million pounds of concentrate in inventory and that's versus -- a little bit more the second quarter. So are you just waiting for a better environment to sell that?

Stuart McDonald - *Taseko Mines Limited - President*

No. I would say that, generally, we want to keep our inventories to a minimum. We always have inventory on the dock and the timing of when we can get that inventory loaded on to a ship around the quarter end can have an impact on our earnings and our cash flow as we always say. So this quarter, we -- as you point out, we have 5 million pounds of copper at quarter end. It's a little higher than normal, and we'll -- we're working hard and doing our best to get that, that inventory as low as possible at year-end. So yes, there's a significant amount of dollar value there, roughly $12 million of value that's tied up in that inventory. So...

CJ Baldoni

Yes, I thought maybe it was associated with timing. And so did you miss a vessel? Or is it more complicated than that?

John W. McManus - *Taseko Mines Limited - COO*

CJ, it's John here. There was -- September is an odd time of the year for that port. There's congestion with Red Dog ships coming out before the ice freezes up the port. So that's what happened to us. We had the inventory there. We couldn't get a ship onto the dock because of congestion.

Operator

Your next question is from Orest Wowkodaw from Scotiabank.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

A couple of questions around the new Gibraltar technical report. I didn't actually see a year-by-year mine plan in there. So I was curious if you could give us a sense of what the grade profile looks like over the next couple of years, whether you think it's going to stay around that new reserve grade of 0.25% or whether it oscillates year-to-year. And I guess the first question.

John W. McManus - *Taseko Mines Limited - COO*

Yes, Craig, on -- sorry, Orest, on a year-by-year basis, it's pretty steady and for the whole mine plan. It just does vary very much. On a quarter-by-quarter basis, it does vary but not on a year-by-year basis. We're pretty steady around that 0.25%, 0.26%.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. And the technical report also talked about tons per day at 85,000, which is higher than you've been running closer to kind of 81,000, 82,000. How would you think you'll take to get up to that on a sustainable basis to 85,000 tons a day?

John W. McManus - *Taseko Mines Limited - COO*

Well, (inaudible) to answer that.

Stuart McDonald - *Taseko Mines Limited - President*

As quickly as possible.

Russell Edward Hallbauer - *Taseko Mines Limited - CEO & Director*

Yes. That's some of the stuff we've been focused on and what I was talking a little bit about, Orest.

John W. McManus - *Taseko Mines Limited - COO*

Yes, it's something that we work on [time]. It's -- when you work through the system, that Mill 1 has not performed to what the design is. It never has since we built it. It was a refit of an old mill built in 1972, so it's certainly not a design that you would do on purpose. And we continue to improve it. Some of the initiatives that Russ talked about, I know that's going to take us up, hopefully, past 85,000 tons a day. But we don't put more in the long-term plan than we can achieve now. I think 85,000 is fully achievable.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. But that -- sounds like that could take a year or 2.

Russell Edward Hallbauer - *Taseko Mines Limited - CEO & Director*

I don't think so, right, John? Maybe when -- maybe if we -- maybe a little bit with the crusher, might take a little longer. But yes, I mean, I think John's plan is like I think we -- with the identified opportunities, we're about 300 tons an hour, so increase. So that would equate to about 2.5 million tons extra a year, which is about, I don't know, continuing them, what, I don't know.

John W. McManus - *Taseko Mines Limited - COO*

It's another 1,000 tons a day or 1,500 tons a day.

Russell Edward Hallbauer - *Taseko Mines Limited - CEO & Director*

Yes. So it's -- yes, they're all incremental gains.

John W. McManus - *Taseko Mines Limited - COO*

Yes. We get 100,000 tons a day for a long stretch, and then there will be a birth and the average comes down to less than the design of 85,000. But we're hitting 85,000 tons a day on a regular basis and more than that.

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Russell Edward Hallbauer - *Taseko Mines Limited - CEO & Director*

It doesn't take much of sensitivity, so you lose a couple of days. We're down and then, poosh, we're down to 82,000. So that's what the guys are going to be focusing on this year, increasing those incremental tons because that'll flow right to the bottom line because the cost associated with this is marginal compared to the pounds that you're getting out.

John W. McManus - *Taseko Mines Limited - COO*

So those are our 2 focuses, throughput and reliability. I mean, if you can keep the mill running, you get extra tons, too. So 85,000 tons a day is very doable.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. And then when we compare the life of mine unit costs and the new tech report versus the 2015, it looks like the cost per ton average moved up by about $0.50 a ton. Can you maybe talk about what's driving that increase? And I guess Russ earlier was talking about potentially saving $0.45 a ton. So is the goal to try to get back to that previous level, I suppose?

John W. McManus - *Taseko Mines Limited - COO*

It's mostly haul distance, which drives those types of changes, Orest. As we get deeper in the pit, we get into pits that are further from the crusher, you get a longer haul distance for waste and ore. We do move the crusher here in a couple of years down into the Gibraltar pit, which helps that. But the driver on most of that is not escalation of costs. We don't do that in our planning. We hold those steady, so understand what's going on without moving too many levers. So when you see a change like that, it's mostly haulage distance.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. And do those cost per ton, the $10.60 a ton life of mine average, do those include capitalized stripping in the OpEx?

John W. McManus - *Taseko Mines Limited - COO*

Yes.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. And I just finally didn't -- I didn't hear the earlier comment about capitalized stripping for 2020. Would you mind repeating that in terms of what the expectation is?

Bryce Hamming - *Taseko Mines Limited - CFO*

Yes. As I noted, we've capitalized this quarter, about 9.7 million, and we think that on a per quarter basis for next year, we'll be at those levels per quarter.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

But doesn't the strip ratio go down next year?

Stuart McDonald - *Taseko Mines Limited - President*

It may, but it's -- Orest, it's not just the total average strip ratio. It's -- we capitalize stripping in each pit. So what's happening now is we're beginning to take our waste from a new pit, Pollyanna, and most of the ore is coming from the existing Granite pit, where we've been for the last few years. So a lot of the waste stripping in Pollyanna is getting capitalized based on the strip ratio in that pit. So it's a little more complicated than just looking at the company's strip ratio.

Orest Wowkodaw - *Scotiabank Global Banking and Markets, Research Division - Senior Equity Research Analyst of Base Metals*

Okay. I see. Okay. But on a total cost per ton, including cap stripping, it should be similar than '20 versus '19. Yes. Okay.

Stuart McDonald - *Taseko Mines Limited - President*

Yes, generally, yes. We're -- generally, we're not -- we don't see any dramatic cost changes next year. And obviously, we're working on improvements in efficiencies as Russ described as well.

Operator

There are no more questions at this time. Back to Taseko.

Stuart McDonald - *Taseko Mines Limited - President*

Okay. Thanks very much, everyone, for participating, and we'll talk to you next quarter.

Operator

Ladies and gentlemen, this concludes your conference call today. We thank you for participating and ask that you please disconnect your lines.