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TKO.TO - Full Year 2019 Taseko Mines Ltd Earnings Call

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CORPORATE PARTICIPANTS

Brian Bergot *Taseko Mines Limited - VP of IR*

Bryce Hamming *Taseko Mines Limited - CFO*

Stuart McDonald *Taseko Mines Limited - President*

PRESENTATION

Operator

Good morning. My name is Sylvie, and I will be your conference operator today. At this time, I would like to welcome everyone to Taseko Mines' Fourth Quarter and Year-End Conference Call. (Operator Instructions)

Thank you. Taseko, you may now begin your conference.

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

Thank you, Sylvie. Welcome, everyone, and thank you for joining us today to review Taseko's Fourth Quarter and Annual 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.

With me today in Vancouver is Stuart McDonald, President; John McManus, COO; and Taseko's Chief Financial Officer, Bryce Hamming. Russ, who is traveling today, will not be participating on the call. After opening remarks by management, which will review the fourth quarter and annual business and operational results, we will open the phone lines to analysts and investors for a 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 annual MD&A and the related news release as well as the risk factors particular to our company.

I would like to now 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 2019 and fourth quarter earnings call. I will be starting with a review of our fourth quarter results at Gibraltar and also give an update on Florence and our other development projects. I'll then hand the call over to Bryce for a review of the financials.

So fourth quarter earnings from mine operations were \$24 million and adjusted EBITDA was \$18 million. At Gibraltar, we produced just -- produce and sold just over 33 million pounds of copper. Average head grade for the period was 0.25%, which is in line with life-of-mine average grades. Copper recoveries were 84.5%, which was slightly lower than the previous 2 quarters due to a higher proportion of oxide ore being processed, although the impact of that was offset by higher mill throughput, which averaged about 85,000 tons a day for the quarter.

Molybdenum was a bright spot again as we produced 728,000 pounds in the quarter. We did experience some negative impacts from the CN Rail strike in November, which forced us to adjust the mine plan towards lower grade areas and lower production as we were temporarily constrained by a lack of concentrate storage capacity. The resulting delay in getting our product to the port backed up our concentrate pipeline and delivery schedules, and we weren't able to fully recover and get inventory levels down at year-end. So that had an impact on cash flow for the period, which Bryce can talk about in a minute, although I should say that we haven't seen any impact from the recent rail blockades in Canada, and our rail service is running normally at this time.



So while Q4 production and sales were slightly lower than planned, we still achieved our annual production guidance for the year. In terms of costs, the total site spending was about [5%] (inaudible) although the allocation of capitalized stripping costs was lower than normal, which affects our C1 cost in P&L. In terms of operating cost per ton mill, we came in at just under CAD 11 per short ton for the year, and we believe that makes Gibraltar one of the most cost-efficient copper mines in the world.

Looking ahead to 2020, we're expecting production again in the range of 130 million pounds, plus or minus 5%. Waste stripping will increase in the Pollyanna pit and initial [ore mine] new pit will come later in the year.

Obviously, the news of the coronavirus, the potential impact on the Chinese economy and the negative sentiment that comes from that, has had a big impact on copper prices and our share price over the last month or so. But we're starting the year with a comfortable cash balance of \$53 million as well as \$14 million of value in inventory. In January, we acquired copper put options to cover most of our production and protect the minimum price of \$2.60 a pound until the end of April. And we're continuing to focus on cost control. We're seeing savings in 2020 related to concentrate treatment and refining costs, where benchmark TCRCs have fallen 20% this year. We're also seeing lower fuel prices and other savings driven by our own initiatives with suppliers. So that totals about \$0.07 a pound in cost reductions to start the year.

We'll continue to focus on cost containment and managing the downside and ensure that we're well placed with the upside in copper price that we expect in the months and years ahead. And as we've seen recently, our share price has a lot of leverage to those upward price movements.

Moving on to Florence now. The production test facility continues to perform as expected. It's proving out our technical ability to produce copper and at the same time, demonstrating that we can maintain control of leach solutions within the ore body in compliance with our permits. We've been producing copper for about 10 months now and in recent months, we've been able to maintain a PLS grade from the center recovery well of about 2 ounce per liter at steady state, and that's in line with our expectations. Our operating team has gained import experience and data, which will be invaluable when we move to the commercial phase.

The permitting process for the commercial facility is advancing, and our technical team is in active dialogue with the 2 key regulators, the Arizona Department of Environmental Quality and the Federal EPA. Both permit applications were submitted last summer, and we've been working diligently with the regulators through their technical review processes which are ongoing. Once this is complete, a draft permit will be issued, followed by a public comment period on public hearings. The ADEQ is moving expeditiously with clear time frames, and we expect the draft permit to be issued by midyear. We also have ongoing dialogue with the EPA and although their timeline is less clear, we now expect the draft UIC permit to be issued in the second half of the year. So we're still targeting to have permitting for the commercial facility completed in 2020. We have the benefit of all the previous work done on permitting the PTF as well as the recent operating data, and we're not seeing any significant new issues being raised. Nonetheless, it's a process that we need to work through and something that's not entirely within our control.

In the meantime, we're continuing to advance discussions with potential JV partners and believe that the sale of a minority stake in the project could represent a significant portion of the funding required to build the commercial facility. Discussions with lenders as well as streaming and royalty providers are also ongoing. We'd like to have committed financing in place before the permits are received so we can move smoothly into construction on receipt of permits.

So Gibraltar operations and Florence development are certainly our top priorities for this year. But don't forget, we also have a pipeline of valuable development projects, and we continue to advance those as well to unlock value. In January, we released an updated technical report on our Yellowhead copper project. We've reengineered that project and made significant improvements to the design and economics. In the longer term, this has the potential to become Taseko's third operation and could add 200 million pounds of annual production by 2025. Over the next year, we plan to work at developing our relationship with local First Nations and (inaudible) environmental assessment work. We'll likely need a partner for that project as well, and we have begun very preliminary discussions on that front.

At New Prosperity, we recently announced that Taseko has entered into a dialogue with the Tsilhqot'in national government to try to obtain a long-term solution to the conflict regarding that proposed project. The provincial government of BC has agreed to facilitate that dialogue, and the parties have agreed to a standstill on certain outstanding litigation and regulatory matters. That's really all we can say on that matter at the current time, but we think the fact that the 3 parties are willing to have that dialogue is a very positive step.

And last but not least, our Aley Niobium project. In the coming months, we expect to produce ferroniobium metal on a pilot scale using the process that we've developed. And we believe that will assist us in marketing that product.

So we have a lot of initiatives on the go and 2020 is shaping up to be an exciting year. So with that, I'd like to hand it over to our CFO, Bryce Hamming.

Bryce Hamming - *Taseko Mines Limited - CFO*

Thanks, Stuart. Good morning, everyone. I'd like to cover in further detail the fourth quarter and 2019 year-to-date financial results that were released. We reported earnings from mine operations before depletion and amortization of \$23.9 million on a quarterly basis, bringing our annual total to \$70.6 million. Earnings from 2019 continued to be impacted by the copper price. The realized copper price for the year was \$2.74 per pound, a \$0.10 per pound realized decrease from 2018. 2019 copper sales of 122 million pounds was also below our production levels by 3.5 million pounds as our copper concentrate inventory remained elevated at 5 million pounds on a 100% basis at the end of December. This inventory would have had a sales value of approximately CAD 14 million for a 75% share. Due to the CN Rail strike that Stuart mentioned in late November and the associated freight backlog, we were unable to get this copper concentrate inventory loaded into a ship. We expect to generally bring down our copper concentrate inventory levels in 2020.

Site operating costs for the 3 months ended December 31, 2019, increased by \$12.1 million compared to the same period in 2018 primarily due to the lower levels of capitalized stripping occurring in the quarter and our next mining pit phase, Pollyanna. We capitalized only \$4.3 million in waste-stripping costs this quarter compared to almost \$19 million in Q4 2018, and that lower capitalized amount had a negative impact on our P&L. As we noted in Q2, we continue to recognize higher levels of depreciation previously capitalized stripping costs for this last phase of Granite pit as we mine more ore from the bottom of this pit. This resulted in \$31.4 million of depreciation in Q4, in line with our quarterly guidance compared to \$28 million and \$30 million of depreciation in the prior 2 quarters. Compared to 2018, our annual depreciation was \$39 million higher for the year. We expect this level of depreciation for the next 3 quarters.

Revenue in the quarter was \$89.9 million, an increase from the prior quarters by 9% due to the higher comp price trends seen in December and related provisional price adjustments, which totaled \$0.14 per pound. On a year-to-date basis, our revenue is \$329 million and lower than 2018 due to the lower sales volumes related to the greater inventory and the \$0.10 per pound lower realized copper price. This was partially offset by slightly weakening Canadian dollar over the year and increases in moly revenue. We had record production of 2.7 million pounds of moly this year compared to 2.4 million pounds last year.

Cash flow from operating activities was \$9.2 million for the quarter and \$43 million on a year-to-date basis. This substantially funded our capital expenditures at Gibraltar, which totaled \$9.8 million in Q4 and \$37 million year-to-date. Taseko spent \$5.2 million net of cathode sales on Florence in the quarter and \$16 million for the year. We also spent \$4.3 million on our projects in 2019, being Yellowhead, New Prosperity and Aley. We continue to closely manage our discretionary spend on these projects in the current copper price environment.

GAAP net loss for the quarter was \$9.9 million and after adjustments for the unrealized foreign exchange gain on our U.S. dollar-denominated debt of \$6 million and derivatives, we are reporting an adjusted net loss of \$16.2 million or \$0.07 per share. Our cash position improved to finish the year at \$53 million on the back of our reclamation refinancing initiative, which completed in November, and that we still -- and that I spoke about on the last earnings call. This transaction released \$36 million of cash back to Taseko, previously held in restricted cash and reclamation deposits.

We also continued with our long-standing strategy purchasing copper put options in January to cover up the 100% of our share of production from Gibraltar until the end of April, at \$2.60 per pound strike price. This will assist us in providing us protection as we navigate through the economic impact that the coronavirus may have on the global economy and demand for copper in the near term.

I'll now turn it back over to the operator for questions.

Operator

(Operator Instructions)

Stuart McDonald - *Taseko Mines Limited - President*

Okay, operator, I think we're -- I think there aren't any questions, so maybe we can just wrap it up. But certainly, if people do have questions after the call, they can contact myself or Brian Bergot. Thanks, everyone, for joining, and we'll talk to you next quarter.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines. Enjoy the rest of your day.

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