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MIRACLE AT FISH LAKE . . .

TASEKO: THE TWINNING OF MT. MILLIGAN

When Bob Hunter and Bob Dickinson, Vancouver's most outstanding mine developers, needed an encore for Mt. Milligan, they looked no farther than Taseko Mines Limited.

Taseko's Fish Lake gold-copper potential is formidable. Already it has caught the attention of senior mining analysts in Canada, including Tony Garson of L.O.M. Western Securities and Alan Ferry of Goepel Shields. Ferry estimates drill indicted reserves of 450 million tons at a grade of 0.21% copper and 0.012 ounces of gold, the equivalent of close to 2 billion pounds of copper and over 5 million ounces of gold.

"When we evaluated the Fish Lake deposit for acquisition," says Dickinson, "we saw a Mt. Milligan twin. The only hurdle was Cominco."

Such a hurdle didn't phase the two long-distance mine builders whose ten-year track record with Breakwater, North American Metals and Continental Gold Corp. has made high-tonnage success look easy. Hunter and Dickinson expect to add Taseko's Fish Lake property to their list, extending an unbroken string of gold producers, any one of which would exceed the lifetime expectations of the most successful mining men.

Taseko could well be a sleeping giant, although dormant and relatively inactive on the VSE for most of the 25 years since it acquired the Fish Lake property. Its mammoth gold-copper deposit has always intrigued those who have sampled it, but enthusiasm was tempered by traditional mining practice that viewed the relatively low copper and gold values taken singly. It was the more recent technology that recovered both the contained gold and copper values, as in Mt. Milligan, that unlocked the true value.

But work crews kept coming back. When the Taseko crew left the property in 1973, they painted a warning in foot-high letters on the site shack for the benefit of squatters, hippies and raccoons: "Don't touch a thing - we'll be back." That came to pass, and in good company.

Phelps Dodge as owner/operator in the early 1960's initiated trenching, geophysical and geochemical surveys and diamond drilling. In 1979, Bethlehem Copper became optioner/operator, and its acquisition by Cominco in 1980 brought Cominco into the picture.

"The Fish Lake deposit," says Tony Garson, senior analyst with L.O.M. Western Securities Ltd. in Vancouver, "parallels in size, economics and location the well-known Mt. Milligan gold-copper porphyry deposit which was recently the subject of a successful $258 million takeover bid by Placer Dome Inc."

Located 140 miles north of Vancouver, the Fish Lake property caught the attention of Cominco with the latter's acquisition of Bethlehem, which held an option on the property acquired 12 years ago to earn an 80% interest contingent on placing the property into production. 168 drill holes were punched for a total of 20,000 metres, followed by an economic evaluation performed by Wright Engineers.

Meanwhile, because development proceeded slowly under Cominco, as is often the case with the majors, Taseko management attempted to terminate the agreement in 1985. Cominco successfully won two court cases, the first in 1985 and again in 1988 when Taseko appealed the ruling. It was against this background that Hunter and Dickinson and their associates Jeff Franzen and Doug Forster found it opportune to acquire a 51% position in Taseko for $1 million each.

Under the new management of Hunter and Dickinson, Taseko offered Cominco an entirely new arrangement, whereby Taseko will control the development and sale of the Fish Lake property or more likely - as has been the style of the management team in past projects of this type - structure a takeover of Taseko.

From Cominco's point of view, if the new management group is successful in marketing Fish Lake or Taseko, Cominco will receive between 20% and 40% of the sales price. On the other hand, Taseko shareholders would net between 60% and

80% of the proceeds. The higher the sales price, the lower the percentage of the deal flowing to Cominco.

If Taseko does not succeed, the property will revert to Cominco with Taseko retaining a 20% net profits interest and a right of first refusal on any subsequent sale of Fish Lake. Smart money on the street is betting that the newly energized Taseko will be successful.

Because of its size and potential cost to production, the Fish Lake property is a likely candidate for acquisition by a major, always on the lookout for elephant-sized properties. As Hunter and Dickinson launch into a major drilling program, they are open to offers. As demonstrated by the record, they have never let the love of a particular orebody stand in the way of shareholder profitability.

"Any major that wants to buy us out," says Dickinson, "knows that we make all technical data available and that we deal straight up."

In fact, overtures from the majors, according to Dickinson, have already begun.

Being receptive to such overtures has never been a problem for the two Vancouver elephant hunters. Their credentials for developing major properties for eventual resale go back to the early 1980's. Hunter first distinguished himself from the multitude of mining entrepreneurs when he parlayed Breakwater Resources into an outstanding gold producer near Wenatchee, Washington, serving as President, Chairman and until recently, Director.

He and Dickinson, a brilliant geologist, next developed the North American Metal's Golden Bear project near Dease Lake, B.C. Having brought Golden Bear to near the production stage, they accepted a $40 million takeover offer from Homestake Mining Company of San Francisco, which acquired a 73% position in the Company. A feature of the negotiation process was their persuading Homestake to increase substantially the payout to NAM shareholders over its initial offer, a trademark of all Hunter-Dickinson dealings.

They next turned their attention to Continental Gold Corp., which became the vehicle through which they developed the vast Mt. Milligan bimetallic deposit in northern B.C.

United Lincoln Resources had entered a joint venture agreement with BP Canada, and subsequently earned a 70% interest in the Mt. Milligan property. Continental Gold took over United Lincoln and in short order brought Mt. Milligan to feasibility and pre-production as a world-class gold-copper mine. Hunter and Diekinson then sold Continental to Placer Dome Inc. for $20 per share, once again a highly profitable gain for shareholders.

The tonnage and grade are only two of the surprising similarities between Taseko and Mt. Milligan, proving that using the word "twin" is no idle exaggeration. In fact in key economic factors such as mining ratios, gold and copper values, metal recoveries and net smelter returns, the two properties have almost identical profiles.

Garson points out other similarities. "Taseko's management is led by the same Board of Directors which guided Mt. Milligan towards Placer's successful $258 million bid for 6.2 million ounces of contained gold valued at $41.60 per contained ounce."

Garson adds that, at the current stage of development and at a recent price of $3.90, Taseko's stock is undervalued, indicating that "a value in excess of $6.50 is warranted."

In his full-blown discounted cash flow evaluation of the Fish Lake property, Garson projects cash inflows and deducts expected capital and operating costs. In his analysis, he uses a comparative analysis with Mt. Milligan.

Garson notes two advantages that Fish Lake demonstrates over Mt. Milligan. While waste/ore ratios are similar through the mine life of each, Fish Lake has a clearly advantageous 0.2:1 strip ratio during the four year first stage of a three-stage pit design.

Secondly, while the tonnages and grades of the two orebodies are remarkably consistent, the cylindrical shape of the Fish Lake deposit has made possible fewer drill holes necessary to prove ore than those undertaken on the tabular Mt. Milligan orebody. The Fish Lake deposit, according to Garson, is open at depth and to the north and west.

As to the composition of the Taseko deposit, copper grade improves with depth, such that mining by open pit will focus on the higher grade centre of the deposit. Gold grades throughout remain relatively constant.

Environmental and socio-economic factors, increasingly important in government permitting, are highly favourable in the Fish Lake area. In the entire area there are no known parks, conservation areas, agricultural or Crown reserves.

Permitting of hydro lines and access road upgrading are believed to be minor considerations. The milling process will be conventional copper flotation to produce copper concentrate containing gold, and sufficient quantities of carbonate-origin minerals indicate that waste rock and tailings will be acid-consuming rather than acid-generating. There are no indications of metals such as mercury, antimony or cadmium that might create an environmental concern.

There are adequate areas for the disposal of overburden and waste rock, all environmentally acceptable from a permitting point of view.

The economic evaluation of Taseko's Fish Lake, just as it might be viewed by a prospective major takeover candidate, is highly impressive. Garson has supplied a wide-ranging model for the value of the property, allowing for such variables as copper and gold prices, production throughput and total capital and operating costs.

Assuming capital costs including contingency and working capital of $400 million, and production of 94 million pounds of copper and 215,000 ounces of gold per annum over an estimated mine life of 16 years, Garson projects an annual discounted cash flow of between $100 million and $130 million.

There are many variables and assumptions, but any of the apparent outcomes in the Taseko/Cominco agreement have an excellent chance of richly rewarding the Taseko shareholders and vindicating the investment of Hunter, Dickinson and their associates in the emerging Taseko Project.

By William Annett
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