

TASEKO & COMINCO

Introduction

Fish Lake is an enormous copper/gold porphyry system located 160 km due north of Vancouver in southern British Columbia. To date, according to Taseko, a 600 million ton mineral resource has been identified.

Ownership - 1: Taseko - 100%
 Ownership - 2: Cominco - residual rights
 Resource: 600 m tons @ 0.32% copper
 600 m tons @ 0.016 oz/t gold
 Maximum Depth: +/- 2,200 feet
 Metallurgy: Apparently awkward
 Forecast Output: 66,000 t/day
 260,000 oz of gold/year*
 102 m lbs of copper/year*

Life: 20 years +
 Capital Cost: C\$400 - 450 million

* Denotes initial output at lower grades.

Comment

At first sight the Fish Lake deposit appears to be an excellent exploration play, representing an extremely valuable, vertically plunging, orebody, approximately 3,000 feet in diameter. It is reported to contain 10m oz of gold plus 4bn lbs of copper, representing a gross ore value at today's metal prices of C\$6.5 billion. In addition, the deposit is not too remote from the infrastructure of B.C.'s interior to preclude development. Other plus factors include: (i) the ore's low work index of around 10, half the reported figure for the Mount Milligan deposit, (ii) the waste rock is acid consuming, an increasingly important factor in an environmentally conscious world, (iii) a relatively low stripping ratio of 1.2 : 1.0, and (iv) no royalties are payable. However, there are some significant negative factors:-

1. **Metallurgy** - Cominco reportedly had difficulties in making a satisfactory concentrate from Fish Lake's ore. Taseko has confirmed there are problems and apparently are still unable to yet make a concentrate exceeding 18% copper and 1.0 oz/t of gold. The company reports that 77% of the gold and 88% of the copper is expected to be recovered by standard flotation techniques. An 18% copper content would make Fish Lake's concentrates one of the lowest grade available to smelters in the world today. In itself, this need not necessarily be a fatal problem, however:

(i) Smelters always prefer concentrates with higher copper grades, i.e. usually an absolute minimum of 23 - 25% copper. Smelters make their principal profits from the amount of copper they produce and, where metal contents are below average, substantial penalties can be charged. The Fish Lake concentrates are known to contain arsenic, mercury and lead which will

incur penalties of approximately US\$12/ton of material smelted. In consequence, should a smelter be found which is prepared to take Fish Lake's relatively low grade concentrates, then the TC/RC charges would probably be amongst the highest charged in the world and likely, in today's markets of restricted smelter capacity, to exceed an effective figure of US\$0.40/lb of copper produced.

(ii) There is currently a critical shortage of copper smelting capacity developing worldwide, this is unlikely to be alleviated much before 1995/96 at the very earliest. In any event, the erection of any copper smelter has now become an extremely sensitive environmental issue, as discovered by Mitsubishi at its now abandoned Texas City project. As a result, in the "green" 1990's, few are likely to be built outside the Third World. The only conclusion which can be reached is that copper smelters are: (a) likely to continue charging very high treatment and refining fees throughout much of this decade, and (b) remain reluctant to treat low grade/poor quality concentrates.

2. **Distribution of Copper and Gold Values** - At depths of more than 600 feet, the Fish Lake orebody shows a marked increase in metal values. The top part of the orebody is hosted in quartz diorite and feldspar porphyries, with grades of 0.27% copper, as opposed to a figure of around 0.35% in the fine grained tuffs at greater depths. Gold values also increase at greater depths. As a result, the first 6 - 7 years mining at Fish Lake would have to be undertaken in relatively low grade ore.
3. **The Cominco Time Fuse** - Three years may sound like a long time in the mining industry. However, should Taseko not have sold the Fish Lake property by 31st May 1995, ownership reverts back to Cominco, with Taseko retaining a 20% Net Profits Interest and a first right of refusal on any proposed sale for another 2.5 years.

Also, with regards to any future sale, Cominco must receive a minimum of C\$20 million, on any sale price up to C\$60 million. On a sliding scale, this increases to a maximum of C\$48 million at a realisation price of C\$120 million or more.

4. **The Depth Question** - Taseko's resource (not reserve) figure is inclusive of mineralised material to depths of around 2,100 - 2,200 feet, generally accepted as being 500 - 600 feet beyond the economic depth cutoff for open pit mining for all but the richest of orebodies. Island Copper, for example, with

about 3 - 4 years economic reserves left, is operating at depths of around 1,600 feet.

5. **Interpretation of Borehole Results** - Previous figures of 230 m tons, calculated by Cominco, showed grades of 0.24% copper and 0.014 oz/t of gold were based on the results of 168 small diameter holes to a depth of 600 feet. In 1991, Taseko drilled ten large diameter holes, nine of these were completed at depths of between 2,300 and 2,800 feet. As a result, 370 million tons of additional resource, at higher gold and copper grades, were then calculated based on the findings of these holes.

Much better core recoveries were obtained in these large diameter holes than previously. As a result, there is sound reason to expect some grade enhancement, however the paucity of data needed to justify the grade and size of the 600 million ton resource does give some cause for concern. This year's drilling program should confirm whether or not a 17% enhancement of grades in the shallowest 600 feet of the deposit is realistic.

6. **Identifying a Potential Buyer** - As noted earlier, the coming to power of the left-leaning NDP in B.C. has been a decided dampener on the mining industry in Canada's westernmost province. In consequence, a buyer for Taseko would probably have to be found from among those companies which already have significant interests in the province. A list of the seven most likely candidates is given below:

- (i) **BHP** - With Island Copper near closure, BHP will either sell up or develop the nearby Hushamu deposit. As majority owner of the fabulously rich Escondida Mine in Chile, why bother with Fish Lake? - Verdict: Unlikely Candidate.
- (ii) **Cominco** - Will regain possession in May 1995 if Fish Lake is not sold - Verdict: Unlikely Candidate.
- (iii) **Corona/Homestake** - Strained balance sheet and heavy commitments to Eskay Creek. Also the memory of the Golden Bear purchase lingers on - Verdict: Very unlikely Candidate.
- (iv) **Noranda** - Balance sheet still bleeding profusely, but does have major interests in mining in B.C. (Brenda closed in 1991 and Bell is forecast to close this year). However, Noranda would have to pay with paper, not cash - Verdict: Most likely Candidate.
- (v) **Placer Dome** - After Mount Milligan, the embarrassment would just be too great - Verdict: Very unlikely Candidate.

(vi) **Rio Algom** - Heavily involved with Kerness South in northern B.C. and Cerro Colorado in Chile. Fish Lake would be too much of an additional burden - Verdict: Unlikely Candidate.

(vii) **Teck** - Nowadays, effectively the parent of Cominco - Verdict: Unlikely Candidate.

Therefore, at an admittedly brief and superficial glance, the only candidate currently likely to want to purchase Fish Lake appears to be Noranda. Right now, it is a buyer's market for major mineral deposits, so with only one potential buyer, the implications for the price likely to be offered are obvious. However, should evidence of a pragmatic and favourable approach to mining emerge from the NDP, along with a global economic upswing, the situation could radically change for the better. There is, after all, still just over three years remaining before control of Fish Lake reverts back to Cominco.

7. **The Amortisation Factor** - Taseko currently enjoys a fully diluted market capitalisation of approximately C\$159 million. Allowing for Cominco's theoretical portion, at these share price levels, of C\$48 million, this means that the Fish Lake project is currently capitalised at around C\$207 million. Capital acquisition costs are not tax deductible, but are amortised - the size of the annual amortisation charge can often make a difference between future positive earnings or losses. Depreciating a capital cost possibly exceeding C\$450 million is another factor to consider.

8. **The Historical Factor** - Golden Bear and Mount Milligan - can lightning strike in the same place thrice?

9. **The "X" Factor** - Fish Lake lies close to a proposed Wilderness area and is located within the Fraser River catchment area. This means that environmental groups, and the Federal Department of Fisheries (concerned about salmon spawning areas) are likely to both become involved in what could be an arduous and prolonged permitting process.

Conclusion

In our opinion, there are too many imponderables regarding a positive decision to develop the Fish Lake deposit in the current political and economic climate. In consequence, we believe it will be very difficult to find a buyer prepared to pay a price for the deposit related to the present market value of C\$200-210 million for the foreseeable future. The most likely scenario we envisage for Fish Lake is that ownership will revert back to Cominco in May 1995.