Copper Mountain Mining Corporation

Consolidated Financial Statements
December 31, 2010 and 2009

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March 29, 2011

Independent Auditor's Report

To the Directors of
Copper Mountain Mining Corporation

We have audited the accompanying consolidated financial statements of Copper Mountain Mining Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive income (loss) and retained earnings (deficit), cash flows and changes in shareholders' equity for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Copper Mountain Mining Corporation and its subsidiaries as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Copper Mountain Mining Corporation

Consolidated Balance Sheets

As at December 31, 2010 and 2009

	2010 **$**	**2009** **$**
Assets		
Current assets		
Cash and cash equivalents	153,078,528	50,428,303
Restricted cash (note 14)	1,023,000	-
Accounts receivable and prepaid expenses	20,953,309	932,678
Inventory (note 3)	1,084,673	-
	176,139,510	51,360,981
Reclamation bonds (note 6)	4,008,000	3,539,000
Deferred financing costs	-	860,362
Property, plant and equipment (note 4)	344,672,715	85,739,822
	524,820,225	141,500,165
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	40,509,294	12,765,073
Asset retirement obligations (note 6)	2,387,507	1,245,500
Long-term derivative liability	2,021,250	-
Long-term debt (note 5)	308,476,843	168,754
	353,394,894	14,179,327
Non-controlling interest (note 7)	49,667,631	44,929,079
Shareholders' Equity		
Share capital (note 8)	116,286,786	81,421,380
Contributed surplus	3,800,668	2,253,493
Retained earnings (deficit)	1,670,246	(1,283,114)
	121,757,700	82,391,759
	524,820,225	141,500,165

Nature of operations (note 1)

Commitments and contingencies (notes 14 and 15)

Subsequent events (note 16)

Approved on behalf of the Board of Directors

(signed) Jim O'Rourke Director (signed) Bruce Aunger Director

The accompanying notes are an integral part of these consolidated financial statements.

Copper Mountain Mining Corporation

Consolidated Statements of Operations, Comprehensive Income (Loss) and Retained Earnings (Deficit)

For the years ended December 31, 2010 and 2009

	2010 $	2009 $
Expenses		
Accretion of asset retirement obligations	130,632	-
Amortization	42,471	17,025
General and administration	2,022,850	683,826
Stock-based compensation (note 9)	1,978,601	285,354
Wages and salaries	903,944	451,980
	5,078,498	1,438,185
Other (income) expense		
Interest and other income	(587,754)	(199,517)
Foreign exchange gain	(12,201,906)	-
Unrealized loss on derivatives (note 5)	2,269,250	-
	10,520,410	199,517
Income (loss) before tax and non-controlling interest	5,441,912	(1,238,668)
Non-controlling interest (note 7)	(2,488,552)	(29,079)
Income (loss) and comprehensive income (loss) for the year	2,953,360	(1,267,747)
Deficit - Beginning of year	(1,283,114)	(15,367)
Retained earnings (deficit) - End of year	1,670,246	(1,283,114)
Income (loss) per share - basic and diluted	0.03	(0.03)
Weighted average number of common shares outstanding	86,202,222	45,104,988

The accompanying notes are an integral part of these consolidated financial statements.

Copper Mountain Mining Corporation

Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

	2010 $	2009 $
Cash flows from operating activities		
Net income (loss) for the year	2,953,360	(1,267,747)
Items not affecting cash		
Accretion of asset retirement obligations	130,632	-
Amortization	42,471	17,025
Unrealized foreign exchange gain	(11,396,415)	-
Unrealized loss on derivatives	2,269,250	-
Non-controlling interest	2,488,552	29,079
Stock-based compensation	1,978,601	285,354
Other	-	(7,500)
	(1,533,549)	(943,789)
Net changes in working capital items (note 13)	(612,753)	(1,863,779)
	(2,146,302)	(2,807,568)
Cash flows from investing activities		
Reclamation bonds	(469,000)	(100,000)
Restricted cash	(1,023,000)	-
Development of property, plant and equipment	(249,173,381)	(38,448,323)
	(250,665,381)	(38,548,323)
Cash flows from financing activities		
Issue of common shares - net of issue costs	34,883,165	49,873,642
Contributions from non-controlling interest	2,250,000	44,900,000
Due from related party	-	438,187
Short-term mortgage repayment	-	(2,000,000)
Short-term loan repayment	-	(12,010,796)
Term loan - net of financing costs	317,506,085	(860,362)
Capital lease payments	822,658	187,814
	355,461,908	80,528,485
Increase in cash	102,650,225	39,172,594
Cash - Beginning of year	50,428,303	11,255,709
Cash - End of year	153,078,528	50,428,303

Supplementary cash flow disclosures (note 13)

The accompanying notes are an integral part of these consolidated financial statements.

Copper Mountain Mining Corporation

Consolidated Statements of Changes in Shareholders' Equity

	Share capital				
	Number of shares	Amount $	Contributed surplus $	Retained earnings (deficit) $	Total $
Balance as at January 1, 2009	31,625,002	31,806,566	1,984,726	(15,367)	33,775,925
Shares issued for cash	45,675,000	52,526,250	-	-	52,526,250
Share issue costs	-	(3,215,853)	-	-	(3,215,853)
Options exercised	42,000	25,200	-	-	25,200
Fair value of options exercised	-	16,587	(16,587)	-	-
Brokers warrants exercised	228,375	262,630	-	-	262,630
Stock-based compensation	-	-	285,354	-	285,354
Loss for the year	-	-	-	(1,267,747)	(1,267,747)
Balance as at December 31, 2009	77,570,377	81,421,380	2,253,493	(1,283,114)	82,391,759
Share issued for cash	11,327,500	33,975,097	-	-	33,975,097
Share issue costs	-	(1,986,483)	-	-	(1,986,483)
Options exercised	620,500	536,300	-	-	536,300
Fair value of options exercised	-	211,742	(211,742)	-	-
Brokers warrants exercised	990,268	1,784,474	-	-	1,784,474
Fair value of warrants issued	-	-	573,778	-	573,778
Fair value of warrants exercised	-	344,276	(344,276)	-	-
Stock-based compensation	-	-	1,529,415	-	1,529,415
Income for the year	-	-	-	2,953,360	2,953,360
Balance as at December 31, 2010	90,508,645	116,286,786	3,800,668	1,670,246	121,757,700

The accompanying notes are an integral part of these consolidated financial statements.

1 Nature of operations

Copper Mountain Mining Corporation ("the Company") was incorporated under the provisions of the British Columbia Business Corporations Act on April 20, 2006 and is a mining exploration and development company. The Company through its 75% owned subsidiary Similco Mines Ltd. ("Similco") owns the Copper Mountain mine.

On August 19, 2009, Mitsubishi Materials Corporation ("MMC") acquired a 25% interest in Similco.

2 Significant accounting policies

a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

b) Consolidation

The Company consolidates entities in which it holds a majority voting interest or variable interest entities ("VIE") in which it is the primary beneficiary. These consolidated financial statements include the accounts of the Company and its subsidiaries, Similco (75% owned), Copper Mountain Operating Corporation and Similco Finance Ltd. (75% owned).

All significant intercompany transactions have been eliminated.

c) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant areas where judgment is applied include asset retirement obligations, the carrying value of property, plant and equipment, valuation allowances for future income taxes, and valuation of stock-based compensation expense. Actual results may differ from those estimates.

d) Income (loss) per share

Income (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted income (loss) per share is calculated using the treasury stock method whereby all "in the money" options and warrants are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the year.

e) Inventory

Finished product, work in process and ore stockpile inventories are valued at the lower of cost and net realizable value. Ore stockpiles include materials extracted from the mine and stockpiled before and after the crushing process. Work in process inventory includes material in the milling process. Finished goods include concentrates located at the mine, port facility or in transit.

Ore stockpile, work in process and finished product inventory costs include all direct costs incurred in production including direct labour and materials, freight, depreciation and amortization, and directly attributable overhead costs. Waste rock stripping costs related to ongoing mine production are included in the cost of inventories as incurred.

When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. If the circumstances that caused the writedown no longer exist, the amount of the writedown is reversed.

Consumable stores inventories are valued at the lower of average cost and net realizable value. Cost includes acquisition, freight, and other directly attributable costs.

f) Property, plant and equipment

Property, plant and equipment

Plant and equipment are recorded at cost less accumulated amortization. Costs for facilities under construction include all expenditures incurred directly in connection with project development. Interest and financing costs that relate to the project and are incurred during the construction period are capitalized.

Mobile mining equipment is recorded at cost and amortized over its estimated useful economic life based on hours used. Other equipment and buildings are recorded at cost and amortized over their estimated useful lives on the straight-line basis. Mobile mining equipment is depreciated upon the commencement of pre-production mining activities, while the mill will be depreciated starting immediately after the commencement of commercial production.

The Company records its interests in mineral properties and all direct expenditures incurred on them at cost. All direct and indirect costs relating to the acquisition and development of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment in value. Resource property costs are amortized on a unit of production basis over the proven reserves to which they relate.

Impairment of long-lived assets

The Company assesses impairment in the net carrying value of its long-lived assets when events or circumstances indicate the carrying value may not be recoverable. Management calculates the estimated undiscounted future net cash flows relating to the asset or asset group using estimated future prices, proven and probable reserves and other mineral resources, and operating, capital and reclamation costs. When the carrying value of an asset exceeds the related undiscounted cash flows, the asset is written down to its estimated fair value, which is usually determined using discounted cash flows.

Leases

Assets financed by leasing agreements that give rights approximating ownership (finance leases) are capitalized at fair value. The capital elements of future obligations under finance leases are included as liabilities in the balance sheet and the interest element is charged to the income statement. Annual payments under other lease arrangements, known as operating leases, are charged to the income statement on a straight-line basis.

g) Financial instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, debt and derivative instruments.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and other short-term investments with initial maturities of less than three months. Cash subject to restrictions is excluded. Cash and cash equivalents, restricted cash and reclamation bonds have been classified as loans and receivables and are recorded at amortized cost.

Accounts receivable

Accounts receivable are classified as loans and receivables and accordingly are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest rate method.

Derivatives

The Company periodically enters into derivative instruments to mitigate risk. The Company does not apply hedge accounting. Derivative financial instruments are classified as held-for-trading and measured at fair value. Changes in fair value of derivative instruments are recorded in net income.

Accounts payable and accrued liabilities and debt

Accounts payable and accrued liabilities and debt are classified as other financial liabilities and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in net earnings over the period to maturity using the effective interest rate method.

h) Revenue recognition

Sales of copper concentrate are recognized when the rights and obligations of ownership pass to the customer and the price is reasonably determinable. Copper concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Revenues are recorded at the time of sale based on forward prices for the expected date of the final settlement. Changes between the price recorded upon recognition of revenue and the final price due to fluctuations in commodity prices result in the existence of an embedded derivative in the accounts receivable. This embedded derivative is recorded at fair value, with changes in fair value classified as a component of revenue.

i) Income and resource taxes

The Company accounts for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income and resource tax bases. Future tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net assets are recognized.

j) Stock-based compensation

The Company measures and records compensation expense in connection with stock options granted using the fair value method. The fair value of stock options is measured using the Black-Scholes model, at the date of grant for employee options or at the date of a subsequent amendment. Stock-based compensation expense is recorded over the vesting period of the options, with the offsetting entry made to contributed surplus. If the stock options are exercised, the proceeds are added to share capital, and the applicable amounts of contributed surplus are transferred to share capital.

Stock-based compensation expense relating to deferred share units is accrued over the vesting period of the units based on the quoted market price. As these awards can be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

k) Asset retirement obligations

The Company recognizes a liability for legal obligations relating to retirement of property, plant, and equipment, arising from the acquisition, construction, development, or normal operation of those assets. This asset retirement obligation is initially recognized at fair value in the period incurred. The associated asset retirement costs are added to the carrying value of the asset and are amortized into income on the same basis as the underlying asset. Asset retirement obligations are accreted to full value over time. The value of asset retirement obligations is evaluated on an annual basis or as new information becomes available on expected amounts and timing of cash flows required to discharge the liability. These changes are recorded in the period in which they are identified and when costs can be quantified reasonably.

l) Recent accounting pronouncements

Business Combinations and related sections

In January 2009, the Canadian Institute of Chartered Accountants (“the CICA”) issued Section 1582, *Business Combinations*, to replace Section 1581. The prospective application of this standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards (“IFRS”). The new standard revises guidance on the carrying amount of assets acquired, liabilities assumed, goodwill and non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, which replaced Section 1601, *Consolidated Financial Statements*. Section 1601 provides guidance on the preparation of consolidated financial statements and Section 1602 provides guidance on non-controlling interests in consolidated financial statements subsequent to a business combination. The Company will adopt the provisions of CICA 1582, 1601 and 1602 effective January 1, 2011.

3 Inventory

	2010 **$**	**2009** **$**
Supplies	1,084,673	-

4 Property, plant and equipment

			2010
	Cost $	**Accumulated amortization $**	**Net $**
Licensed vehicles	994,849	186,094	808,755
Buildings	50,000	9,920	40,080
Mobile mining equipment	42,191,969	1,661,553	40,530,416
Office equipment	281,299	170,164	111,135
Construction-in-progress	261,704,642	-	261,704,642
Mineral property costs	41,477,687	-	41,477,687
	346,700,446	2,027,731	344,672,715

			2009
	Cost $	**Accumulated amortization $**	**Net $**
Licensed vehicles	278,561	55,381	223,180
Buildings	50,000	7,920	42,080
Mobile mining equipment	1,689,392	635,778	1,053,614
Office equipment	281,299	113,904	167,395
Construction-in-progress	58,842,588	-	58,842,588
Mineral property costs	25,410,965	-	25,410,965
	86,552,805	812,983	85,739,822

Interest capitalized and included in construction-in-progress totals $2,888,900 for the year ended December 31, 2010 (2009 - $1,008,938).

Mineral property costs include $9,820,087 relating to pre-production stripping.

5 Long-term debt

	2010 $	2009 $
Subordinated loan (a)	9,006,704	-
Senior credit facility (b)	145,537,602	-
Term loan (c)	153,188,450	-
Other	744,087	168,754
	308,476,843	168,754

a) Subordinated loan

In April 2010, the Company entered into a loan agreement with a subsidiary of MMC for $9.6 million. The loan bears interest at a fixed rate of 4.8%. The loan matures on June 30, 2023 and is prepayable at any time without penalty.

The outstanding amount of $9,006,704 is net of issue and transaction costs of $930,802, which are amortized over the life of the loan.

b) Senior credit facility

In July 2010, the Company entered into a senior credit facility ("the SCF") with a consortium of Japanese banks. These funds may only be used for the development of the Copper Mountain Project.

The maximum amount available under the SCF is US$162,000,000. The SCF carries a variable interest rate of LIBOR plus 2% and matures on June 15, 2023. The SCF is repayable in 24 semi-annual instalments commencing December 15, 2011, with 40% of the principal balance due in the final two years before maturity. The instalments are payable on a fixed schedule, subject to mandatory prepayment based on the cash flows relating to the project.

The SCF is collateralized by all the assets of Similco and is insured by Nippon Export and Investment Insurance. In addition, the Company and MMC have guaranteed the SCF until project completion is achieved.

As at December 31, 2010 the SCF has a principal amount outstanding of US$152,900,000. The outstanding amount of $145,537,602 is net of issue costs of $6,327,853, which are amortized over the life of the loan.

As at December 31, 2010, US$9,100,000 of the SCF remained available for drawdown. Minimum principal repayments of the amounts outstanding under the SCF are as follows:

	US$
2011	5,351,500
2012	9,938,500
2013	9,174,000
2014	5,351,500
2015	1,529,000
2016 - 2023	121,555,500
	152,900,000

Under the terms of the SCF, the Company was required to complete an interest rate swap on 70% of the principal amount of the facility. The Company has swapped a LIBOR plus 2% variable rate interest payment stream for a 3.565% fixed rate interest payment stream on US$113,400,000 of the principal. The interest rate swap maturities match the maturities of the SCF.

As at December 31, 2010, the swap had an unrealized fair value loss of $2,269,250.

c) Term loan

In July 2010, the Company entered into a term loan (“the Term Loan”) with the Japan Bank for International Cooperation. These funds may only be used for the development of the Copper Mountain Project.

The maximum amount available under the Term Loan is US$160,000,000. The Term Loan carries a variable interest rate of LIBOR plus 0.551% and matures on February 10, 2022. The outstanding loan of $153,188,450 is net of issue costs of $6,249,872, which are amortized over the life of the loan. The Term Loan is guaranteed by MMC in exchange for a fee of 0.2% per annum.

The Term Loan is unsecured and repayable in increasing instalments every six months commencing February 2012, with the majority of the loan falling due at the last six instalment dates of the Term Loan.

Principal repayment amounts outstanding under the Term Loan are as follows:

	US$
2012	1,600,000
2013	3,200,000
2014	3,200,000
2015	4,800,000
2016 - 2022	147,200,000
	160,000,000

6 Asset retirement obligations

a) Reclamation bonds

The Company has on deposit $4,008,000 with the Government of British Columbia in support of reclamation liabilities at the Copper Mountain mine site. The Company is required to place on deposit an additional $500,000 by June 2011 and a further $3,500,000 by June 2012.

b) Asset retirement obligations

The Company has a liability for remediation of current and past disturbances associated with mining activities at the Copper Mountain property. Asset retirement obligations are as follows:

	2010 $	2009 $
Beginning of year	1,245,500	2,189,000
Obligations acquired during the year	-	1,450,000
Changes in estimated costs and timing	1,011,375	(2,393,500)
Accretion expense	130,632	-
End of year	2,387,507	1,245,500

The Company used an inflation rate of 2.815% and a discount rate of 4.815% in calculating the estimated obligations. This reduction in reclamation obligations for past activities will be accreted as an expense over the life of the mine. The liability for retirement and remediation on an undiscounted basis is $3,106,495. The expected timing of payment of the cash flows commences in 2028.

7 Non-controlling interest

In August 2009, the Company and MMC signed a Shareholders' Agreement and a Share Purchase Agreement ("the Agreements") whereby MMC acquired a 25% interest in Similco. Under the terms of the Agreements, the Board of Directors of Similco is composed initially of three members representing the Company and two members representing MMC. All substantive decisions related to the development and operation of the Copper Mountain Project require unanimous board approval.

The Company determined that Similco is a VIE and consequently uses the principles of AcG 15, *Consolidation of Variable Interest Entities,* to determine the accounting for its ownership interest. Management concluded that the Company is the primary beneficiary and, therefore, consolidates 100% of Similco, with a non-controlling interest representing the 25% MMC ownership interest.

The non-controlling interest balance is as follows:

	2010 **$**	**2009** **$**
Beginning of year	44,929,079	44,900,000
Contributions made during the year	2,250,000	-
Share of income	2,488,552	29,079
End of year	49,667,631	44,929,079

8 Share capital

a) Authorized - Unlimited number of common shares without par value

b) Issued

In September 2009, the Company completed a $50,025,000 equity financing consisting of 43,500,000 common shares at a price of $1.15 per share. The Company granted the underwriters an over-allotment option to purchase a further 5% of the common shares sold pursuant to the offering. On October 1, 2009, the underwriters exercised the over-allotment option and purchased an additional 2,175,000 common shares of the Company at a price of $1.15 per share for additional proceeds of $2,501,250.

In April 2010, the Company completed a $34,548,875 equity financing consisting of 11,327,500 common shares at a price of $3.05 per share. Net proceeds from the financing will be used to fund the Company's share of working capital required for the Copper Mountain Project in British Columbia and for general corporate purposes. The Company also issued 566,375 broker warrants that entitle the holder to purchase common shares at a price of $3.05 per share up until April 26, 2011.

c) Broker warrants

In conjunction with financing activities, the Company has granted warrants to brokers for financing fees as follows:

	2010		2009	
Broker warrants outstanding	**Number of warrants**	**Weighted average exercise price $**	**Number of warrants**	**Weighted average exercise price $**
Beginning of year	2,055,375	1.15	675,476	2.28
Granted	566,373	3.05	2,283,750	1.15
Expired	-	-	(675,476)	2.28
Exercised	(990,268)	1.80	(228,375)	1.15
End of year	1,631,480	1.72	2,055,375	1.15

As at December 31, 2010, 1,631,480 broker warrants are outstanding entitling the holders to acquire shares of the Company as follows:

Date of broker warrants grant	**Number of warrants**	**Exercise price $**	**Expiry date $**
September 23, 2009	1,317,931	1.15	March 23, 2011
October 1, 2004	87,000	1.15	March 23, 2011
April 26, 2010	226,549	3.05	April 26, 2011
	1,631,480	1.72	

The fair value of the broker warrants is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions: a risk-free rate of 1.28%, an expected life of 1 year, an expected volatility of 71%, and no expectation of dividend payments.

d) Warrants

As at December 31, 2010, there were no warrants outstanding. During 2009, 5,011,904 warrants expired unexercised.

(e) Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return on investment to shareholders and, to the extent possible, maintain a flexible capital structure that optimizes the cost of capital at acceptable risk. There were no changes to the Company's approach to capital management during the year ended December 31, 2010. The Company is required to maintain, until the long-term debt has been repaid in full, certain externally imposed covenants.

9 Stock-based compensation

a) Stock options

The Company has a stock option plan whereby it can issue up to 5,500,000 stock options exercisable for a period of up to five years from the grant date.

	2010		2009	
Stock options outstanding	**Number of shares**	**Weighted average exercised price $**	**Number of shares**	**Weighted average exercised price $**
Beginning of year	3,646,800	0.65	3,801,300	1.29
Granted	2,095,000	2.39	3,538,800	0.61
Expired	-	-	(3,363,800)	1.27
Forfeited	-	-	(287,500)	2.20
Exercised	(620,500)	0.74	(42,000)	0.60
End of year	5,121,300	1.32	3,646,800	0.65

As at December 31, 2010, the Company has 5,121,300 options outstanding under the plan as shown below:

Date of stock option grant	Number of options	Exercise price $	Expiry date
May 6, 2009	2,851,300	0.60	May 6, 2014
July 14, 2009	175,000	0.80	July 14, 2014
January 14, 2010	250,000	2.26	January14, 2015
March 1, 2010	50,000	2.26	March 1, 2015
May 21, 2010	15,000	2.26	May 21, 2015
June 18, 2010	35,000	2.47	June 18, 2015
June 25, 2010	1,430,000	2.39	June 25, 2015
July 19, 2010	70,000	2.45	July 19, 2015
August 12, 2010	245,000	2.55	August 12, 2015
	5,121,300		

As at December 31, 2010, 4,045,779 options were fully vested and exercisable.

Included in the above tables are 242,500 options granted subject to shareholder approval.

The fair value of the stock options granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: a risk-free interest rate of 2.61%, an expected life of 5 years, an expected volatility of 93%, and no expectation of dividend payments.

	2010	2009
Weighted average fair value of options granted	$1.36	$0.27
Weighted average remaining life of options outstanding	3.80 years	4.33 years

b) Deferred Share Unit Plans

i) Deferred Share Unit Plan for Non-Employee Directors (“DSU-D”)

The Company established a deferred share unit (“DSU”) plan that allows directors to receive director fees in the form of deferred share units. Directors can elect to receive common shares or cash upon exercise of the DSU. DSUs may only be exercised when the holder ceases to be a director. Vesting terms of the DSUs are established by the directors at the time the DSUs are granted.

ii) Deferred Share Unit Program for Employees ("DSU-E")

The Company established a deferred share unit program that allows executive officers to receive incentive compensation in the form of deferred share units. Executive officers can elect to receive common shares upon exercise of the DSU by paying the exercise price or they can elect to receive cash equal to the difference between the exercise price and the market price of the Company's common shares at the time of exercise of the DSU. Vesting terms of the DSUs are established by the directors at the time the DSUs are granted

The table below shows the changes to the deferred share units as at December 31, 2010:

Units	**DSU-D Units** [(1)]	**DSU-E Units** [(2)]
Beginning of year	-	-
Granted	33,784	329,646
End of year	33,784	329,646
Liability	**DSU-D $**	**DSU-E $**
Beginning of year	-	-
Stock-based compensation expense	219,257	229,928
Exercised	-	-
End of year	219,257	229,928

(1) As at December 31, 2010, all DSU-Ds had vested.
(2) As at December 31, 2010, 82,411 of the DSU-Es had vested.

As at December 31, 2010, the following deferred share units were outstanding:

Date of grant	**Number of units**	**Exercise price $**	**Expiry date**
DSU-D - September 17, 2010	33,784	-	September 17, 2020
DSU-E - September 17, 2010	329,646	3.70	September 17, 2020
	363,430		

The Company has recorded a liability and an expense of $449,185 in respect of DSUs issued during the year.

10 Income taxes

a) The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2010 $	2009 $
Earnings (loss) before income taxes	5,441,912	(1,238,668)
Effective statutory tax rate	28.50%	30%
Income tax expense (recovery) at statutory tax rate	1,550,945	(371,600)
Increase (decrease) due to		
Non-deductible items	435,883	88,399
Non-taxable items	(2,231,882)	(882,131)
Change in enacted rates and other	(31,300)	(80,220)
Other items	88,353	-
Change in valuation allowance	188,001	1,245,552
	(1,550,945)	371,600

Future income tax assets reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's future income tax assets at December 31, 2010 and 2009 are as follows:

	2010 $	2009 $
Future income tax assets		
Non-capital loss carry-forward	2,925,670	1,577,000
Property, plant and equipment expenditures	6,534,796	6,873,684
Share issue costs	1,084,713	1,003,162
Derivative instruments	567,312	-
Asset retirement obligations	596,877	311,375
Other	311,116	-
	12,020,484	9,765,221
Valuation allowance	(9,953,221)	(9,765,221)
	2,067,263	-
Future income tax liabilities		
Debt issue costs	546,372	-
Unrealized foreign exchange gain on debt	1,520,891	-
	2,067,263	-
Net future income tax liability	-	-

b) The Company has non-capital losses of approximately $11,704,000 expiring in stages to 2030 as follows:

	2010 **$**	**2009** **$**
Expiry date		
December 31, 2010	-	10,000
December 31, 2011	-	-
December 31, 2012	98,000	98,000
December 22, 2025	67,000	67,000
December 31, 2026	1,471,000	1,471,000
December 31, 2027	989,000	989,000
December 31, 2028	1,630,000	1,630,000
December 31, 2029	2,369,000	2,369,000
December 31, 2030	5,080,000	-
	11,704,000	6,634,000

c) Similco will be subject to BC mineral tax at a rate of 13% of mineral taxable income when the Copper Mountain mine commences production. Construction and development costs incurred for the project will be deductible for mineral tax purposes.

11 Financial instruments

a) Fair values

The Company's financial instruments are classified into the following categories of financial assets and liabilities (shown at carrying value):

Financial asset/liability	**Classification**	**2010** **$**	**2009** **$**
Cash and cash equivalents	Loans and receivables	153,078,528	50,428,303
Restricted cash	Loans and receivables	1,023,000	-
Accounts receivable	Loans and receivables	20,953,309	932,678
Accounts payable and accrued liabilities	Other financial liabilities	39,359,371	12,765,073
Long-term derivative instrument liabilities	Other financial liabilities	2,021,250	-

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy at December 31, 2010:

	Level 1 $	Level 2 $	Level 3 $	Total fair value $
Financial assets				
Cash and cash equivalents		153,078,528	-	153,078,528
Restricted cash		1,023,000	-	1,023,000
Financial liabilities				
Derivative instrument liabilities	-	2,269,251	-	2,269,251

b) Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. The Company deposits cash and cash equivalents with high credit quality financial institutions. The majority of the Company's receivables relate to tax amounts due from government. The carrying value of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

c) Market risks

Interest rate risk

The Company's interest rate risk arises primarily from the interest received on cash and short-term deposits and interest paid on floating rate borrowings. The floating rate deposits and borrowings expose the Company to cash flow interest rate risk. This risk is managed through the use of interest rate swaps.

Deposits are invested on a short-term basis to ensure adequate liquidity for payment of operational and capital expenditures. To date, no interest-rate management products, such as swaps, are used in relation to deposits.

The floating-to-fixed interest rate swaps as at December 31, 2010 covered 49.47% of the Company's floating rate debt at a rate of 1.5725% per annum. The final maturity of the swaps coincides with the final debt repayment date of June 15, 2023. The impact on net income of a 1% change in interest rate would be a $2,154,088 increase or decrease to net income.

Currency risk

The Company incurs expenditures in Canadian and US dollars. The measurement and reporting currency of the parent company is Canadian dollars. Foreign exchange risk arises because the amount of the US dollar cash and cash equivalents, receivables and payables will vary in Canadian dollar terms due to changes in exchange rates. The Company has not hedged its exposure to currency fluctuations. The net impact of a 1% increase or decrease in the US dollar to the Canadian dollar exchange rate at December 31, 2010 would result in a $4,243,035 increase or decrease in net income.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet obligations, it will consider securing additional equity funding or will engage in negotiations to extend terms with debtors. The Company manages liquidity by continuously monitoring and forecasting cash flows.

12 Related party transactions

All transactions with related parties have occurred in the normal course of the Company's operations and have been measured at their fair value as determined by management.

a) During the year ended December 31, 2010, the Company paid three of its officers consulting, management and geological fees aggregating $691,199 (2009 - $436,749).

b) During the year ended December 31, 2010, the Company paid $68,698 (2009 - $69,831) in rent to Compliance Energy Corporation ("Compliance") for office space under a prior obligation. Compliance is a public company, listed on the TSX Venture Exchange, and related by common directors.

c) During the year ended December 31, 2010, the Company paid $126,427 (2009 - $nil) in office rent to Kobex Minerals Inc., a company related to the Company by a common director.

d) During the year ended December 31, 2010, the Company incurred a guarantee fee to MMC of $173,249 relating to the Term Loan.

13 Supplementary cash flow disclosures

a) During the year ended December 31, 2010, the Company deferred $1,971,471 (2009 - $339,864) of amortization on vehicles and mobile mining equipment.

b) As at December 31, 2010, the Company deferred $2,888,900 (2009 - $1,008,938) of interest costs to property, plant and equipment. Interest paid was $737,977 (2009 - $nil).

c) As at December 31, 2010, the Company paid $nil in interest costs on leased mining equipment and vehicles.

d) As at December 31, 2010, $36,267,286 (2009 - $11,362,147) in accounts payable related to the development of the Copper Mountain Project.

e) Included in cash and cash equivalents at December 31, 2010 is $38,917,000 (2009 - $42,520,066) in guaranteed income certificates and $114,161,528 (2009 - $7,908,237) held in bank accounts.

f) A reconciliation of net changes in working capital items is as follows:

	2010 $	2009 $
Changes in accounts receivable and prepaid expenses	(316,507)	(400,355)
Changes in inventory	(1,084,673)	-
Changes in accounts payable and accrued liabilities	788,427	(1,463,424)
	(612,753)	(1,863,779)

14 Commitments

a) As at December 31, 2010, the Company had committed to $93 million in expenditures for the development of the Copper Mountain mine.

b) During the year ended December 31, 2010, Similco entered into a five-year terminal services agreement ("the TSA") with Kinder Morgan Canada Terminals Limited Partnership ("Kinder Morgan") in which Kinder Morgan will provide terminal storage and loading facilities for the Company's concentrate. As a result of this agreement, Kinder Morgan will incur development costs at its facilities and the Company has agreed to provide a letter of credit ("the LOC") in the aggregate amount of $3,000,000 in three instalments of $1,000,000, due October 29, 2010, January 15, 2011, and April 15, 2011, in partial support of the expenses Kinder Morgan will incur in connection with preparing the port facilities for use. To expedite the LOC, the Company provided the first and second instalments of the LOC on behalf of Similco to Kinder Morgan. The LOC will be held by Kinder Morgan until June 1, 2011, at which time the LOC will be returned. Under the TSA, there is a minimum shipping tonnage requirement of 130,000 tonnes of concentrate annually.

15 Contingencies

On October 15, 2010, the Company was found liable by the Supreme Court of British Columbia for approximately $465,000 in damages suffered by a waste disposal company that was hired to dispose of a transformer located on the Company's mine site. The cooling oil in the transformer contained a high concentration of Polychlorinated Biphenyl ("PCBs"). The waste disposal company claimed it was not advised of the high concentration of PCBs contained in the transformer oil and, as a result, mixed it with other materials collected in the course of its waste disposal business. In consequence, the waste disposal company claimed it incurred approximately $775,000 of extra costs to dispose of the PCB contaminated materials. The Company was found to be 60% responsible for those additional costs. The Company has accrued this liability and is presently reviewing the judgment with counsel to determine if an appeal is warranted.

16 Subsequent events

During February 2011, the Company completed an equity financing issuing 5,680,000 common shares at $7.05 per share for gross proceeds of $40 million. Net proceeds from the financing will be used to fund the Company's share of working capital required for the Copper Mountain Project in British Columbia and for general corporate purposes. The offering includes an over-allotment option of 700,000 common shares that was exercised in full by the brokers at a price of $7.05 per share.