COPPER MOUNTAIN
MINING CORPORATION

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**For the three months ended**

**March 31, 2013**

**Suite 1700 – 700 Pender Street**

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COPPER MOUNTAIN
MINING CORPORATION

**FORM 51-102F1**
**COPPER MOUNTAIN MINING CORPORATION**
**(The "Company")**

# MANAGEMENT'S DISCUSSION & ANALYSIS ("MD&A") OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS FOR THE PERIOD ENDED MARCH 31, 2013

May 14, 2013

**Introduction**

*Management's discussion and analysis ("MD&A") focuses on significant factors that affected Copper Mountain Mining Corporation's performance and factors that may affect its future performance. In order to better understand the MD&A, it should be read in conjunction with the audited consolidated financial statements for the period ended March 31, 2013. The Company reports its financial statements in accordance with International Financial Reporting Standards ("IFRS"). The Company's significant accounting policies are set out in Note 3 of audited consolidated financial statements for the year ended December 31, 2012. The Company's financial statements and the MD&A are presented in Canadian dollars and are intended to provide a reasonable basis for the investor to evaluate the Company's development and financial situation.*

**Forward-Looking Statements**

The MD&A contains certain statements that may be deemed "forward-looking statements." All statements in this MD&A, other than statements of historical fact, that address exploration drilling, exploitation activities, and events or developments that the Company expects to occur, are forward-looking statements. Estimates regarding the anticipated timing, amount and cost of mining at the Copper Mountain mine are based on assumptions underlying mineral reserve and mineral resource estimates and the probability of realizing such estimates are set out in the Updated Feasibility Study on the Copper Mountain Mine. Capital and operating cost estimates are based on extensive research by the Company, recent estimates of construction and mining costs and other factors that are set out herein and in the Updated Feasibility Study. Production estimates are based on mine plans and production schedules, which have been developed by the Company's personnel and independent consultants. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential", "targets" and similar expressions , or that events or conditions "will", "would", "may" , "could", or "should" occur. Information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward-looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in the forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include, but are not limited to: general business, economic, competitive, political and social uncertainties; the limited operating history of the Company; actual results of reclamation activities; conclusions of economic evaluations; fluctuations in the value of the Canadian dollar relative to the United States dollar; changes in project parameters as plans continue to be refined; failure of equipment or process to operate as anticipated; changes in labor costs and other costs and availability of equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the mining industry, including but not limited to environmental hazards, cave-ins, pit-wall failures, flooding, rock bursts and other acts of God or unfavorable operating conditions and losses, detrimental events that interfere with transportation of concentrate or the smelters ability to accept concentrate, including declaration of Force Majeure events, insurrection or war; delays in obtaining governmental approvals or revocation of governmental approvals; title risks and Aboriginal land claims; delays or unavailability in financing or in the completion of development or construction activities; failure to comply with restrictions and covenants in senior loan agreements, actual results of current exploration activities; volatility in Company's publicly traded securities; and the factors discussed in the section entitled "Risk Factors" in the Company's annual information form and in the Company's continuous disclosure filings available under its profile on SEDAR at www.sedar.com. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

**Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources.** This discussion Uses the terms "measured resources" and "indicated resources". The Company advises investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. **Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves."**

## Highlights

| (CDN$ except for cash cost results) | Three months ended March 31, 2013 $ | 2012[1] $ |
|---|---|---|
| Revenues | 55,093,821 | 71,019,733 |
| Gross profit | 8,064,408 | 29,168,059 |
| Operating income | 6,309,499 | 27,698,266 |
| Adjusted earnings[2] | 7,844,294 | 19,248,195 |
| Net income (loss) | (2,271,910) | 30,666,929 |
| Earnings (loss) attributable to shareholders of the Company | (2,274,775) | 22,602,587 |
| Earnings (loss) per share[3] | (0.02) | 0.23 |
| Adjusted earnings (loss) per share[4] | 0.08 | 0.20 |
| EBITDA[5] | 7,461,709 | 39,631,757 |
| Adjusted EBITDA | 17,577,913 | 28,213,023 |
| | | |
| Cash and cash equivalents | 8,738,558 | 23,982,788 |
| Working capital | 10,078,877 | 43,517,691 |
| Equity | 255,103,182 | 244,889,185 |
| Site cash costs per pound of copper produced (net of precious metal credits) (US$) | 1.62 | 1.22 |
| Total cash costs per pound of copper sold (net of precious metal credits) (US$) | 2.18 | 1.71 |

### First Quarter Results & Highlights (100%)

- Copper concentrate shipments totalled approximately 26.8 DMT[6] during the first quarter of 2013.
- Concentrate contained approximately 15.0 million pounds of Copper, 5,800 ounces of Gold, and 69,000 ounces of Silver.
- Total production for the 2013 first quarter was 14.2 million pounds of copper, 5,300 ounces of gold and 64,200 ounces of silver.
- Gross revenues were $63.3 million or $55.1 million after pricing adjustments and treatment charge deductions.
- Gross profit for the quarter was $8.1 million.
- EBITDA and Adjusted EBITDA were $7.5 million and $17.6 million respectively.
- Adjusted earnings for the period were $7.8 million or $0.08 per share.
- Site cash costs were US$1.62 per pound of copper produced net of precious metal credits.
- Total cash costs were US$2.18 per pound of copper sold net of precious metal credits and after all off-site charges.

[1] 2012 comparatives have been adjusted for adoption of IFRIC 20and change in accounting policy related to inventory cost allocation.
[2]Adjusted earnings (loss) is a non-GAAP financial measure which removes unrealized gains/losses on interest rate swaps, pricing adjustments on concentrate metal sales and foreign currency gains/losses.
[3] Calculated based on weighted average number of shares outstanding under the basic method based on earnings attributable to shareholders.
[4] Calculated by dividing the total adjusted earnings by the weighted average number of shares outstanding under the basic method.
[5] Earnings before interest, taxes, depreciation and amortization .Refer to the Non-GAAP Performance measures section of this MD&A.
[6] Dry metric tonnes

## Overview

Copper Mountain Mining Corporation was incorporated under the provisions of the British Columbia *Company Act* on April 20, 2006. The Company owns 75% of the Copper Mountain mine through a subsidiary and Mitsubishi Materials Corporation ("MMC") owns the remaining 25% of the Copper Mountain mine through a subsidiary.

The Company is a mid-tier copper-gold producing company that is fully focused on optimizing the Copper Mountain mine. Following the successful exploration programs of 2007 and 2008 the Company completed an updated Feasibility Study and committed to the development of the new mine. On April 1, 2010 the BC Government issued the approval that allowed for construction of the $438 million development to proceed.

The Feasibility Study development plan was based on combining the three existing pits into one larger super pit and constructing a new 35,000 tonnes per day (TPD) concentrator designed to produce approximately 100 million pounds of copper per year in a copper concentrate with gold and silver credits. Over the initial 17 year mine life the mine is planned to produce 1.48 billion pounds of copper, 4,490,400 ounces of silver and 452,000 ounces of gold.

Mechanical completion of the concentrator and associated facilities was achieved by the end of May 2011, and testing of the equipment was finished by the end of June 2011. Production of copper concentrate commenced during the third quarter of 2011.

The Company trades on the Toronto Stock Exchange under the trading symbol "CUM".

## Copper Mountain Mine

The Copper Mountain mine is situated 20 km south of Princeton, British Columbia and 300 km east of the port of Vancouver. The development was based on the 2008 Feasibility Study and consisted of the construction of a 35,000 TPD concentrator. Based on Feasibility Study reserves, the mine has a life of 17 years. The property consists of 135 Crown granted mineral claims, 156 located mineral claims, 14 mining leases, and 12 fee simple properties covering an area of 6,702.1 hectares or 67 square kilometers.

The mine is a conventional open pit, truck and shovel operation. Mining is divided into multiple development phases with sequential pushbacks in each of the pits. This development sequence is designed to maximize the discounted cash flow which is reflected in the planned pit phases. In order to maximize the head grade being delivered to the concentrator in the initial years the Company is processing ore greater than 0.20 % Cu, while ore that is less than 0.20 % Cu but greater than 0.1% Cu is being mined and stockpiled (low grade stockpile) for processing in later years.

The Company's mining equipment fleet consists of two Komatsu PC 8000 hydraulic shovels, a Hitachi EX 5500 hydraulic shovel, thirteen Komatsu 240 ton capacity haul trucks, six Euclid 260 ton haul trucks, a Komatsu WA 1200 loader, four Komatsu D375 dozers, and three Caterpillar 16G graders.

The following table sets out the major operating parameters for the mine for the three months ended March 31, 2013.

| **Mine Production Information** | **Three months ended March 31,** | |
|---|---|---|
| **Copper Mountain Mine (100% Basis)** | **2013** | **2012** |
| **Mine:** | | |
| Total tonnes mined (000's[7]) | 14,591 | 10,887 |
| Ore tonnes mined (000's) | 4,337 | 2,384 |
| Waste tonnes (000's) | 10,254 | 8,503 |
| Stripping ratio | 2.36 | 3.57 |
| **Mill:** | | |
| Tonnes milled (000's) | 2,241 | 2,092 |
| Feed Grade (Cu%) | 0.35 | 0.38 |
| Recovery (%) | 82.69 | 78.83 |
| Operating time (%) | 85.90 | 79.00 |
| Tonnes milled (TPOD[8]) | 29,000 | 29,000 |
| **Production:** | | |
| Copper production (000's lbs) | 14,243 | 13,709 |
| Gold production (oz) | 5,300 | 4,196 |
| Silver production (oz) | 64,200 | 96,423 |
| Site cash costs per pound of copper produced (net of precious metal credits) (US$) | $1.62 | $1.22 |
| Total cash costs per pound of copper sold (net of precious metal credits) (US$) | $2.18 | $1.71 |

Mining activities continued in the Pit #3 and Pit #2 area during the quarter. A total of 15.5 million tonnes of material was moved, including 4.3 million tonnes of ore and 10.2 million tonnes of waste and 0.7 million tonnes from stockpile during the quarter, and had an average mining rate of 172,000 tonnes per day moved during the first quarter of 2013. The Komatsu haul fleet continues to have excellent mechanical availability. The ore grade averaged 0.35% Copper for the first quarter.

Mill throughput improved significantly after the scheduled maintenance shutdown in early March. The mill achieved a 93.3% availability during February and after a planned shutdown in early March, the mill achieved above budget availability of 92% to the end of the month as compared to an availability of 85.9% averaged during the first quarter. Prior to the shutdown in early March a contractor was engaged to crush a 70,000 tonne sample of our hardest Pit 3 ore to minus two inch. Upon starting up on March 8th the mill treated the finely crushed sample and demonstrated that with pre-crushing the SAG mill can achieve throughput rates above the designed 35,000 tpd. The test confirmed that secondary crushing is an option to pursue to ensure stable and consistent increased long term mill throughput rates for ore from all Pit areas. Immediately following the fine crush sample test, another test was completed with ore from high energy blasting and limited supplemental pre crushing. This test also successfully demonstrated increased mill throughput and has provided a path for short term tonnage improvements, however, an evaluation of

[7] Excludes ore re-handle from stockpile
[8] Tonnes per operating day

alternatives confirms that the longer term solution would be the installation of a secondary crushing unit to ensure consistency in the SAG Mill feed size. Plans are to continue to utilize high energy blasting that creates more fines in the SAG Mill feed and continue with a contractor to crush up to 10,000 tpd of minus 2 inch SAG mill feed for the short term. Management will continue to evaluate the pre crush solutions for a final decision as to the long term plan by mid-year.

Copper concentrate production during the period totaled 14.2 million pounds of copper, 5,300 ounces of gold, and 64,200 ounces of silver.

During the period, the Company completed a total of three shipments containing approximately 15.0 million pounds of copper, 5,800 ounces of gold, and 69,000 ounces of silver which generated $55.1 million in revenue net of pricing adjustments, as compared to 15.7 million pounds of copper, 5,800 ounces of gold, and 124,500 ounces of silver which generated $71.0 million in revenue net of pricing adjustments during the same period last year. As a result of reduced copper, gold and silver prices revenues were down $5.9 million compared to the same period last year. In addition negative pricing adjustments of $4.1 million were recorded during the first quarter of 2013. This compares to a positive pricing adjustment of $6.0 million in the prior year period.

The Company currently has 380 operating employees and 31 summer students engaged at the mine site.

**Exploration – Mine Site**

The 2013 mine site exploration program is being reviewed based on the 2012 results. The 2012 exploration program consisted of a total of 18,400m of core drilling in 66 holes and 3,120m of shallow percussion drilling in 110 holes. Exploration was successful in confirming the continuity of deep mineralization below the Pit #2 area, extending mineralization to the north and northwest of Pit #2, and intersecting high grade mineralization below the Super pit bottom in Pit #3. The most significant results from the drill program were intersections of 123m grading 0.75% CuEq and 122.8m grading 0.69% CuEq at depths in excess of 150m below the bottom of the Super pit in the Pit #2 area; an intersection of 102m grading 0.70% Cu immediately below the bottom of the Super pit in the center of Pit #3 area; and an intersection of 32m grading 3.03% CuEq in the southern end of Pit 3.

## Results of Operations

| (CDN$) | Three months ended March 31, 2013 $ | 2012[9] $ |
|---|---|---|
| **Revenues** | 55,093,821 | 71,019,733 |
| **Cost of sales[10]** | (47,029,413) | (41,851,674) |
| **Gross profit (loss)** | **8,064,408** | **29,168,059** |
| | | |
| **Other income and expenses** | | |
| General and administration | (1,696,867) | (1,211,984) |
| Share based compensation | (58,042) | (257,809) |
| **Operating income (loss)** | **6,309,499** | **27,698,266** |
| | | |
| Pricing adjustments on concentrate and metal sales | 4,146,749 | (6,140,269) |
| Finance income | 99,481 | 209,079 |
| Finance expense | (2,099,319) | (1,844,513) |
| Income tax expense | (297,409) | (674,368) |
| Deferred income tax expense | (314,707) | - |
| **Adjusted earnings (loss)[11]** | **7,844,294** | **19,248,195** |
| | | |
| Pricing adjustments on concentrate and metal sales | (4,146,749) | 6,140,269 |
| Unrealized gain (loss) on interest rate swap | 289,837 | - |
| Unrealized gain (loss) on foreign exchange | (6,259,292) | 5,278,465 |
| **Net income (loss) and comprehensive income (loss) for the period** | **(2,271,910)** | **30,666,929** |
| | | |
| **Net income (loss) and comprehensive income (loss) attributable to:** | | |
| Shareholders of the company | (2,274,775) | 22,602,857 |
| Non-controlling interest | 2,865 | 8,064,072 |
| | **(2,271,910)** | **30,666,929** |
| | | |
| **Earnings (loss) per share** | **(0.02)** | **0.23** |
| **Adjusted earnings (loss) per share** | **0.08** | **0.20** |

[9] 2012 comparatives have been adjusted for application of IFRIC 20 and change in accounting policy related to inventory cost allocation.
[10] Cost of sales consists of direct mining and milling costs (which include mine site employee compensation and benefits, mine site general and administrative costs, non-capitalized stripping costs, maintenance and repair costs, operating supplies and external services), depreciation and offsite transportation costs.

[11] Adjusted earnings (loss) is a non-GAAP financial measure which excludes unrealized gains/losses on derivative instruments, changes in fair value of financial instruments, foreign currency gains/losses, pricing adjustments related to metal sales and non-recurring transactions.

***For the Three Months Ended March 31, 2013***

The Copper Mountain mine produced 14.2 million pounds of copper during the three months ended March 31, 2013 compared to 13.7 million pounds of copper in the prior year. The mine shipped and sold a total of 15.0 million pounds of copper, 5,800 ounces of gold, and 69,000 ounces of silver during the three months ended March 31, 2013; compared to a total of 15.7 million pounds of copper, 5,871 ounces of gold and 124,546 ounces of silver during the three months ended March 31, 2012. Site cash costs were US$1.62 per pound of copper produced, net of precious metal credits, and total cash costs were US$2.18 per pound sold, net of precious metal credits, for the three months ended March 31, 2013; compared to site cash costs of US$1.22 per pound of copper produced and total cash costs of US$1.71 per pound of copper sold, net of precious metal credits for the three months ended March 31, 2012.

During the period the Company adopted a new accounting policy referred to as IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20"). IFRIC 20 was applied to production stripping costs incurred on or after January 1, 2012 and resulted in an increase in the capitalization of production stripping assets on the consolidated balance sheet and an increase in profit and earnings per share on the income statement. Inventories were reduced to reflect capitalized production stripping costs included in fixed assets. The depreciation of stripping activity assets is included in the cost of inventories. Concurrent with the adoption of IFRIC 20, the Company has changed its method of allocating mining costs between high grade and low grade inventory to use a contained metal allocation basis.

As a result of the new accounting standards for deferred stripping, $31.2 million of stripping costs were capitalized in 2012. Figures for 2012 have been restated so that figures are presented on a comparable basis. This new standard results in a decrease in production costs and an increase in depreciation and amortization expense.

The cumulative effects to net income relating to the adoption of IFRIC 20 and the change in method of allocating mining costs between inventory categories for the period ended March 31, 2012 have been outlined in the following table:

| | **March 31, 2012 (Restated)[12]** | **March 31, 2012** |
|---|---|---|
| | **$** | **$** |
| Net Income (loss) | 30,666,929 | 28,842,737 |
| Profit attributable to: | | |
| Shareholders of the Company | 22,602,857 | 21,234,711 |
| Non-controlling interest | 8,064,072 | 7,608,026 |
| Earnings per share: | | |
| Basic | $0.23 | $0.21 |
| Diluted | $0.23 | $0.21 |
| Adjusted earnings[13] | 19,248,195 | 17,424,003 |
| Adjusted earnings per share | $0.20 | $0.18 |
| Cash Costs: | | |
| Site cash costs per pound of copper produced (net of precious metal credits) ($US) | $1.22 | $1.41 |
| Total cash costs per pound of copper sold (net of precious metal credits) ($US) | $1.71 | $1.83 |

[12] Adjusted for application of IFRIC 20 and change in accounting policy related to inventory cost allocation.
[13] Pricing adjustments on concentrate and metal sales have been removed for the March 31, 2012 adjusted earnings for comparability to the restated March 31, 2012 figures

The cumulative effect on earnings for the first quarter of 2013 is set out in the following table:

| | **March 31, 2013** |
|---|---|
| | **$** |
| Additional amounts capitalized | 3,131,285 |
| Inventory change | (2,316,023) |
| Effect on gross profit | 815,262 |
| Tax effect (25%) | (203,815) |
| Net effect on profit to shareholders | **611,467** |

During the period the Company recognized revenues of $55.1 million, net of pricing adjustments and treatment charges based on an average provisional copper price of around US$3.56 per pound; compared to revenues of $71.0 million net of pricing adjustments and an average copper price of US$3.73 per pound for the period ended March 31, 2012. This reduction in revenue is primarily a result of lower metal prices as compared to the same period last year. Mining operations for the three month period ended March 31, 2013 resulted in a gross profit of $8.1 million as compared to a gross profit of $29.2 million for the period ended March 31, 2012. The Company reported a net loss attributable to the shareholders of the Company of $2.3 million or $0.02 per share for the three months ended March 31, 2013, compared to a net income of $22.6 million or $0.23 per share for the three months ended March 31, 2012. The net loss for the quarter was directly attributable to a non-cash unrealized foreign exchange loss of $6.3 million related to the Company's debt that is denominated in U.S. dollars. This compares to an unrealized foreign exchange gain of $5.3 million for the three month period ended March 31, 2012.

Cost of sales represent direct mining and milling costs (which include operating, non-capitalized waste stripping costs, maintenance and repair costs, mine site general and administrative costs, operating supplies and external services), employee compensation and benefits, depreciation and transportation costs. The cost of sales for the three month period ended March 31, 2013, was $47.0 million compared to $41.8 million for the three month period ended March 31, 2012. The increase in costs during the quarter is a result of the increase in size of the mine operating fleet over the prior year and the increase in operating time in the concentrator which increased consumables consumption compared to the three months ended March 31, 2012.

General and administration expenses for the three months ended March 31, 2013, were $1.7 million compared to $1.2 million for the three months ended March 31, 2012. Non-cash share based compensation reflected an expense of $0.06 million for the three months ended March 31, 2013, compared to an expense of $0.3 million for the three month period ended March 31, 2012. The decrease in non-cash share based compensation was a result of the vesting provisions of stock options issued in prior periods.

Other items recorded include finance income of $0.1 million, finance expense of $2.1 million and a current and deferred income and resource tax expense of $0.6 million for the three months ended March 31, 2013, compared to finance income of $0.2 million, finance expense of $1.8 million, and resource tax expense of $0.7 for the three months ended March 31, 2012. Finance expense primarily consists of interest on loans and the amortization of loan related financing fees.

## Summary of Quarterly Results

The following table contains selected quarterly financial information derived from the Company's financial statements and should be read in conjunction with the consolidated quarterly financial statements reported under IFRS.

| Quarter | Cash flow from Operations $ | Revenue[14] $ | Net Income (Loss) $ | Profit (Loss) Attributable to Shareholders $ | Income (Loss) per Share Basic $ | Income (Loss) per Share Diluted $ |
|---|---|---|---|---|---|---|
| March 31, 2013 | (4,737,604) | 55,093,821 | (2,271,910) | (2,274,775) | (0.02) | (0.02) |
| December 31, 2012 | 23,506,201 | 50,086,260 | 2,397,766 | 2,214,713 | 0.02 | 0.01 |
| September 30, 2012 | 73,080 | 47,646,402 | 4,144,495 | 2,751,917 | 0.03 | 0.03 |
| June 30, 2012 | 13,222,377 | 60,721,215 | (7,963,113) | (6,424,989) | (0.07) | (0.07) |
| March 31, 2012 | (8,194,881) | 71,019,733 | 28,842,737 | 21,234,711 | 0.21 | 0.21 |
| December 31, 2011 | 8,331,184 | 44,710,034 | 8,098,610 | 5,590,703 | 0.06 | 0.06 |
| September 30, 2011 | 14,797,083 | 21,821,321 | (22,508,160) | (16,979,679) | (0.17) | (0.17) |
| June 30, 2011 | (6,630,317) | - | (4,003,813) | (3,594,072) | (0.04) | (0.04) |

Cash flow from operations and Net Income (Loss) and Profit (Loss) attributable to the shareholders varies from period to period primarily as a result of operational performance discussed in the overview section above, non-cash share based compensation charges, changes in foreign exchange rates and valuation of the interest rate swap related to a portion of the Company's long-term debt denominated in U.S. dollars.

## Liquidity

As at March 31, 2013, the Company had working capital of $10.1 million (made up of cash $8.7 million, accounts receivable of $23.7 million, inventory of $21.4 million, and offset by $24.2 million in accounts payable, $19.1 million in current portion of long term debt, and a current tax liability of $0.4 million) compared with working capital of $10.7 million at December 31, 2012 (made up of cash $24.3 million, accounts receivable of $15.3 million, inventory of $20.9 million, and offset by $30.9 million in accounts payable, $18.8 million in current portion of long term debt, and a current tax liability of $0.1 million) .

The Company holds its excess cash in interest bearing accounts or in cashable Guaranteed Investment Certificates at major Canadian or United States banks.

As at March 31, 2013 the Company had a total of $8.7 million on deposit with the Government of British Columbia in support of reclamation liabilities at the Copper Mountain Mine. The Company does not have access to this money but does receive interest on the funds on deposit.

As at March 31, 2013, the Company had the following consolidated contractual obligations:

| | Payment Due By Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligation (CDN$)** | **Total** | **Less than 1 Year** | **1 – 3 Years** | **4 – 5 Years** | **After 5 Years** |
| Long term debt | 310,572,372 | 14,309,978 | 26,523,249 | 45,495,368 | 224,243,777 |
| Lease obligations | 18,997,642 | 5,985,274 | 11,935,722 | 1,076,646 | - |
| Decommissioning & restoration provision | 8,259,191 | - | - | - | 8,259,191 |
| Accounts payable | 10,878,906 | 10,878,906 | - | - | - |

[14] Net of treatment and refining charges and price adjustments

Cash to meet the Company's future cash commitments will come from existing cash on hand, plus cash flow from operations.

The Company had no material commitments for capital expenditures as of March 31, 2013.

## Capital Resources

Cash at the end of the quarter totaled $8.7 million as a result of having the last shipment of the quarter landing on March 31, 2013. This shipment had a value of $16.2 million, of which the 90% provisional payment was received on April 3, 2013 bringing cash resources to $23.3 million. *The Company does not anticipate requiring any additional funds other than cash on hand and cash from operations to fund the mine to designed capacity.* (Forward-looking statement italicized).

## Off-Balance Sheet Arrangements

None

## Transactions with Related Parties

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.

- During the period ended March 31, 2013 the Company sold copper concentrates to MMC with revenues totalling $55,093,821, including pricing adjustments. (2012 – 71,019,733)
- During the period ended March 31, 2013 the Company accrued interest on the subordinated loan with MMC totalling $115,200 (2012 - $116,480)
- During the period ended March 31, 2013, the Company paid $13,516 (2012 – $35,629) in office rent to Kobex Minerals Inc. Kobex Minerals Inc. is related to the Company by a common director.
- Key management includes the company's directors and officers. Compensation awarded to key management includes:

| | **Three months ended March 31,** | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| Salaries and short-term employee benefits | 857,336 | 321,552 |
| Share-based payments | (145,199) | - |
| | **712,137** | **321,552** |

## Proposed Transactions

None

## Critical Accounting Estimates

The Company's significant accounting policies are presented in note 3 of the audited consolidated financial statements for the period ended December 31, 2012. The preparation of consolidated financial statements in accordance with International Financial Reporting Standard "IFRS" requires management to select accounting policies and make estimates. Such estimates may have a significant impact on the consolidated financial statements. These estimates include:

- mineral resources and reserves,
- current and deferred income and resource taxes
- the assumptions used in determining the decommissioning and restoration provision

Actual amounts could differ from the estimates used and, accordingly, affect the results of operations.

## Change in Accounting Policies, Including Initial Adoption

The Company adopted a new inventory cost allocation policy based on a contained metal basis to allocate costs to the components of inventory. This change in accounting policy was adopted in conjunction with IFRIC 20.

## New Accounting Standards Adopted

*IFRS 10 – Consolidation*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

*IFRS 11 - Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

*IFRS 12 – Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

*IFRS 13 - Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

*IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine*

The Company adopted new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with transitional provisions outlined in the respective standards.

The Company adopted IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") and applied the requirements to production stripping costs incurred on or after January 1, 2012, in accordance with the transitional provisions of IFRIC 20.

The interpretation provides guidance on how to account for waste stripping costs in the production phase of a surface mine. Stripping activity related to inventory produced is accounted for in accordance with IAS 2, Inventories. Stripping activity that improves access to ore is accounted for as an addition to or enhancement of an existing asset.

Under IFRIC 20, stripping activity assets are recognized when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

Stripping activity assets capitalized under IFRIC 20 are classified as mineral properties and mine development costs within property, plant and equipment, which is consistent with the classification of the asset these costs relate to. These assets are amortized on a units-of-production basis over the remaining proven and probable reserves of the respective components.

The adoption of IFRIC 20 resulted in an increase in the capitalization of production stripping assets on the consolidated balance sheet and an increase in profit and earnings per share. Inventories were adjusted to reflect capitalize production stripping costs. The depreciation of stripping activity assets is included in the cost of inventories. Concurrent with the adoption of IFRIC 20, the Company has changed its method of allocating mining costs between high grade and low grade inventory to use a contained metal allocation basis.

The adoption of IFRIC 20 has significantly increased the capitalization of production stripping costs as compared to our previous accounting policy. As at March 31, 2013, a cumulative total of $34.4 million of stripping activity assets have been capitalized.

## Financial Instruments and Other Instruments

Please refer to note 3(d) of the audited financial statements for the period ended December 31, 2012.

## Non-GAAP Performance Measures

This document includes certain non-GAAP performance measures that do not have a standardized meaning prescribed by IFRS. These measures may differ from those used by, and may not be comparable to such measures as reported by, other issuers. The Company believes that these measures are commonly used by certain investors, in conjunction with conventional IFRS measures, to enhance their understanding of the Company's performance. These measures have been derived from the Company's financial statements and applied on a consistent basis. The following tables below provide a reconciliation of these non-GAAP measures to the most directly comparable IFRS measure.

### Cash costs per pound

Cash costs of sales include all costs absorbed into concentrate inventory, as well as precious metal credits, treatment & refining costs and transportation costs, less non-cash items such as depreciation. Total cash cost per pound sold is calculated by dividing the aggregate of the applicable costs by copper pounds sold. Site cash costs of production include all costs absorbed into inventory less non-cash items such as depreciation and non-site charges such as trucking charges capitalized to concentrate inventory. Site cash costs per pound produced are calculated by dividing the aggregate of the applicable costs by copper pounds produced. These measures are calculated on a consistent basis for the periods presented.

| **Total Cash Cost of Sales Per Pound of Copper Sold** | **Three months ended March 31,[15]** | | **Three months ended March 31,** |
|---|---|---|---|
| | **2013** | **2012 (restated)** | **2012** |
| **Cost of Sales** | **47,029,413** | **41,851,674** | **43,675,866** |
| Add: Treatment & refining charges | 4,099,111 | 4,553,502 | 4,553,502 |
| Less: non-cash items: | | | |
| Depreciation | (7,121,665) | (6,655,026) | (6,625,921) |
| **Cash costs of sales** | **44,006,859** | **39,750,150** | **41,603,447** |
| Average foreign exchange rate (CDN$ to US$) | 0.9915 | 0.9989 | 0.9989 |
| **Cash costs of sales (US$)** | **43,632,801** | **39,706,425** | **41,557,683** |
| Less: Precious metal credits (US$): | (10,922,372) | (12,696,070) | (12,696,070 |
| **Net cash costs of sales (US$)** | **32,710,429** | **27,010,355** | **28,861,613** |
| **Total pounds of copper sold** | **15,000,000** | **15,748,009** | **15,748,009** |
| Total ounces of gold sold | 5,800 | 5,781 | 5781 |
| Total ounces of silver sold | 69,200 | 124,546 | 124,546 |
| **Cash Cost per pound of copper sold net of precious metal credits (US$)** | **$2.18** | **$1.71** | **$1.83** |

[15] 2012 comparatives have been adjusted for application of IFRIC 20 and change in accounting policy related to inventory cost allocation.

| Site Cash Cost Per Pound of Copper Produced | 2013 | Three months ended March 31, 2012 (restated) | Three months ended March 31, 2012 |
|---|---|---|---|
| **Cash Cost of Sales** | 44,006,859 | 39,750,150 | 41,603,447 |
| Net change in concentrate inventory | (2,316,023) | (1,388,717) | (674,677) |
| | **41,690,836** | **38,361,433** | **40,928,770** |
| Less: Off-site related costs | | | |
| Treatment & refining charges | (4,099,111) | (4,553,502) | (4,553,502) |
| Transportation costs | (2,341,040) | (3,280,811) | (3,280,812) |
| Trucking charges | (983,120) | (1,037,277) | (1,037,277) |
| **Total Site Cash Costs of Production** | **34,267,565** | **29,489,843** | **32,057,179** |
| Average foreign exchange rate (CDN$ to US$) | 0.9915 | 0.9989 | 0.9989 |
| **Total Site Cash Costs of Production (US$)** | **33,976,291** | **29,457,404** | **32,021,916** |
| Less precious metal credits (US$) | (10,922,372) | (12,696,070) | (12,696,070) |
| | **23,053,919** | **16,761,334** | **19,325,846** |
| **Total pounds of copper produced** | **14,243,000** | **13,709,034** | **13,709,034** |
| Total ounces of gold produced | 5,300 | 4,196 | 4,196 |
| Total ounces of silver produced | 64,200 | 96,423 | 96,423 |
| **Site cash costs per pound net precious metal credits (US$)** | **$1.62** | **$1.22** | **$1.41** |

## Cash Margin

Cash margin represents the average realized copper price per pound sold less total cash cost per pound sold.

| | Three months ended March 31, 2013 | 2012 |
|---|---|---|
| Average realized copper price for the period (US$ per pound) | $3.56 | $3.73 |
| **Less:** | | |
| Total cash cost of sales net of precious metal credits(US$ per pound sold) | $2.18 | $1.71 |
| **Cash margin (US$ per pound)** | **$1.38** | **$2.02** |

## Adjusted Earnings (Loss)

Adjusted earnings (loss) removes the effects of the following transactions from operating income as reported under IFRS:

- Unrealized gains/losses on derivative instruments;
- Changes in fair value of financial instruments;
- Foreign currency translation gains/losses and
- Non-recurring transactions

Management believes that these transactions do not reflect the underlying operational performance of the Company’s mining operations and are also not indicative of future operating results.

## EBITDA and Adjusted EBITDA

EBITDA represents earnings before interest, income taxes and depreciation. Adjusted EBITDA includes further adjustments for non-recurring items and items not indicative to the future operating performance of the Company. The Company believes EBITDA and adjusted EBITDA are appropriate supplemental measure of debt service capacity and performance of its operations.

Adjusted EBITDA is calculated by removing the following income statement items:

- Unrealized loss/gain on interest rate swaps;
- Foreign exchange loss/gain;
- Pricing adjustments on concentrate and metal sales

| **EBITDA and Adjusted EBITDA** | **Three months ended March 31, 2013** | **2012** |
|---|---|---|
| Net income (loss) | (2,271,910) | 30,666,929 |
| Add (Deduct): | | |
| Finance income | (99,481) | (209,079) |
| Finance expense | 2,099,319 | 1,844,513 |
| Depreciation | 7,121,665 | 6,655,026 |
| Current resource tax expense | 297,409 | 674,368- |
| Deferred income tax expense | 314,707 | - |
| **EBITDA** | **7,461,709** | **39,631,757** |
| Add (Deduct): | | |
| Pricing adjustments on concentrate and metal sales | 4,146,749 | (6,140,269) |
| Unrealized loss (gain) on interest rate swaps | (289,837) | - |
| Unrealized foreign exchange loss (gain) | 6,259,292 | (5,278,465) |
| **Adjusted EBITDA** | **17,577,913** | **28,213,023** |

## Other MD&A Requirements

(a) Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

The following details the share capital structure as at May 9, 2013 the date of this MD&A.

| | **Expiry Date** | **Exercise Price** | **Number** | **Number** |
|---|---|---|---|---|
| Common shares | - | - | - | 98,616,236 |
| Share purchase options | May 6, 2014 | $0.60 | 2,526,000 | |
| | January 14 – August 12, 2015 | $2.26 - $2.55 | 1,695,000 | |
| | September 11, 2016 – April 5, 2017 | $4.52 - $5.48 | 1,010,000 | |
| | February 10 –May 1, 2016 | $7.01 – 7.22 | 395,000 | |
| | | | **5,626,000** | |
| **Fully diluted shares outstanding** | | | | **104,242,236** |

## Internal Controls Over Financial Reporting and Disclosure Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures. Our internal control system over financial reporting is designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Our internal control system over disclosure controls and procedures is designed to provide reasonable assurance that material information relating to the Company is made known to management and disclosed to others and information required to be disclosed by the Company in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined effective can provide only reasonable assurance with respect to financial reporting and disclosure. Other than changes related to our conversion to IFRS, there have been no changes in our internal control over financial reporting and disclosure controls and procedures during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting and disclosure.

The Company’s management, at the direction of our chief executive officer and chief financial officer, have evaluated the effectiveness of the design and operation of the internal controls over financial reporting and disclosure controls and procedures as of the end of the period covered by this report, and have concluded that they were effective at a reasonable assurance level.

## Risks and Uncertainties

The Company’s success depends on a number of factors, most of which are beyond the control of the Company. Typical risk factors include copper, gold and silver price fluctuations, foreign currency fluctuations, and operating uncertainties encountered in the mining business. Future government, legal or regulatory changes could affect any aspect of the Company’s business, including, among other things, environmental issues, land claims, permitting and taxation costs all of which could adversely affect the ability of the Company to develop the Copper Mountain mine. These risks and uncertainties are managed by experienced managers, advisors and consultants, by maintaining adequate liquidity, and by cost control initiatives.

# Copper Mountain Mining Corporation

Consolidated Financial Statements

**For the Three Months Ended March 31, 2013**

(Unaudited)

# Copper Mountain Mining Corporation

Consolidated Statement of Financial Position
Canadian dollars (Unaudited)

| | March 31, 2013 $ | December 31, 2012 (restated note 3) $ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 8,738,558 | 24,300,790 |
| Accounts receivable and prepaid expenses (note 4) | 23,698,355 | 15,352,990 |
| Inventory (note 5) | 21,423,939 | 20,874,281 |
| | 53,860,852 | 60,528,061 |
| **Restricted cash** | 6,141,131 | 6,013,726 |
| **Reclamation bonds (note 9a)** | 8,816,500 | 8,200,500 |
| **Deferred tax asset** | 1,598,629 | 1,301,220 |
| **Property, plant and equipment** (note 6) | 539,417,966 | 541,607,854 |
| **Low grade stockpile (note 5)** | 19,416,226 | 14,168,942 |
| | **629,251,304** | **631,820,303** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (note 7) | 24,245,720 | 30,968,685 |
| Current portion of long-term debt (note 8) | 19,111,994 | 18,756,271 |
| Current tax liability | 424,261 | 126,851 |
| | 43,781,975 | 49,851,807 |
| **Decommissioning and restoration provision (note 9)** | 7,005,735 | 6,997,883 |
| **Interest rate swap liability** | 10,718,654 | 10,980,888 |
| **Long-term debt (note 8)** | 309,274,762 | 304,178,343 |
| **Deferred tax liability** | 3,366,996 | 2,754,880 |
| | 374,148,122 | 374,763,801 |
| **Equity** | | |
| **Attributable to shareholders of the Company:** | | |
| **Share capital** | 158,110,551 | 157,942,209 |
| **Contributed surplus** | 9,619,528 | 9,469,280 |
| **Retained earnings (deficit)** | 15,750,982 | 18,025,756 |
| | 183,481,061 | 185,437,245 |
| **Non-controlling interest** | 71,622,121 | 71,619,257 |
| **Total equity** | 255,103,182 | 257,056,502 |
| | **629,251,304** | **631,820,303** |

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 Statement of Income (Loss) and Comprehensive Income (Loss)
For the Three Months Ended March 31,
Canadian dollars (Unaudited)

| | **March 31, 2013 $** | **March 31, 2012 (restated note 3) $** |
|---|---|---|
| **Revenue (note 11)** | 55,093,821 | 71,019,733 |
| **Cost of sales** (note 12) | 47,029,413 | 41,851,674 |
| **Gross profit (loss)** | 8,064,408 | 29,168,059 |
| **Other income and expenses** | | |
| General and administration (note 12) | 1,696,867 | 1,211,984 |
| Share based compensation (note 10) | 58,042 | 257,809 |
| **Operating income (loss)** | 6,309,499 | 27,698,266 |
| Finance income | 99,481 | 209,079 |
| Finance expense (note 13) | (2,099,319) | (1,844,513) |
| Unrealized (loss) on interest rate swap | 289,837 | - |
| Foreign exchange (loss) gain | (6,259,292) | 5,278,465 |
| **Income (loss) before tax** | **(1,659,794)** | **31,341,297** |
| Current resource tax expense | (297,409) | (674,368) |
| Deferred income tax expense | (314,707) | - |
| **Net income (loss) and comprehensive income (loss)** | **(2,271,910)** | **30,666,929** |
| **Net income (loss) and comprehensive income (loss) attributable to:** | | |
| **Shareholders of the Company** | (2,274,775) | 22,602,857 |
| **Non-controlling interest** | 2,865 | 8,064,072 |
| | **(2,271,910)** | **30,666,929** |
| **Earnings per share:** | | |
| **Basic** | (0.02) | 0.23 |
| **Diluted** | (0.02) | 0.23 |
| **Weighted average shares outstanding, basic and diluted** | 98,616,236 | 98,481,155 |
| **Shares outstanding at end of the period** | 98,619,427 | 98,504,377 |

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

**Copper Mountain Mining Corporation**

## *Consolidated Statements of Cash Flows*

## *For the Three Months Ended March 31,*

Canadian dollars (Unaudited)

| | March 31, 2013 $ | March 31, 2012 (restated) $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income (loss) for the year | (2,271,910) | 30,666,929 |
| Adjustments for: | | |
| Depreciation | 7,121,665 | 6,655,026 |
| Unrealized foreign exchange loss (gain) | 6,422,325 | (4,909,573) |
| Unrealized loss on interest rate swap | (289,837) | - |
| Deferred income tax expense | 314,707 | - |
| Finance expense | 1,266,505 | 1,782,710 |
| Share based compensation | 58,042 | 257,809 |
| | 12,621,497 | 34,452,901 |
| Net changes in working capital items (note 15) | (17,359,101) | (36,235,076) |
| **Net cash from (used in) operating activities** | (4,737,604) | (1,782,175) |
| **Cash flows from investing activities** | | |
| Reclamation bonding | (616,000) | - |
| Restricted cash | (127,405) | - |
| Deferred stripping activities | (3,131,286) | (6,412,707) |
| Development of property, plant and equipment | (3,226,429) | (5,108,163) |
| **Net cash (used) in investing activities** | (7,101,120) | (11,520,870) |
| **Cash flows from financing activities** | | |
| Issue of common shares - net of issue costs | 115,350 | 76,450 |
| Loan from non-controlling interest | - | 199,320 |
| Term loan principal (paid) | (1,650,240) | (798,000) |
| Interest paid | (1,027,566) | (816,894) |
| Finance lease payments | (1,177,599) | (81,087) |
| **Net cash (used in) from financing activities** | (3,740,055) | (1,420,211) |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | 16,547 | (388,299) |
| **Decrease in cash** | (15,562,232) | (15,111,555) |
| **Cash and cash equivalents - Beginning of period** | 24,300,790 | 39,094,343 |
| **Cash and cash equivalents - End of period** | 8,738,558 | 23,982,788 |

**Supplementary cash flow disclosures (note 15)**

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

**Copper Mountain Mining Corporation**
Consolidated Statements of Changes in Equity
Canadian dollars (Unaudited)

### Attributable to equity owners of the company

| | Number of shares | Amount $ | Contributed surplus $ | Retained earnings (deficit) $ | Total $ | Non-controlling interest $ | Total equity $ |
|---|---|---|---|---|---|---|---|
| **Balance January 1, 2012** | 98,466,877 | 157,596,608 | 6,602,387 | (11,027,878) | 153,171,117 | 60,199,531 | 213,370,648 |
| Options exercised | 37,500 | 76,450 | - | - | 76,450 | - | 76,450 |
| Fair value of options exercised | - | 41,305 | (41,305) | - | - | - | - |
| Share based compensation | - | - | 775,158 | - | 775,158 | - | 775,158 |
| Income (Loss) for the year | - | - | - | 22,602,857 | 22,602,857 | 8,064,072 | 30,666,929 |
| **Balance – March 31, 2012 (restated)** | **98,504,377** | **157,714,363** | **7,336,240** | **11,574,979** | **176,625,582** | **68,263,603** | **244,889,185** |
| | | | | | | | |
| Options exercised | 66,550 | 150,780 | - | - | 150,780 | - | 150,780 |
| Fair value of options exercised | - | 77,066 | (77,066) | - | - | - | - |
| Share based compensation | - | - | 2,210,106 | - | 2,210,106 | - | 2,210,106 |
| Income (Loss) for the year | - | - | - | 6,450,777 | 6,450,777 | 3,355,654 | 9,806,431 |
| **Balance December 31, 2012 (restated)** | **98,570,927** | **157,942,209** | **9,469,280** | **18,025,756** | **185,437,245** | **71,619,257** | **257,056,502** |
| | | | | | | | |
| Balance as at January 1, 2013 | 98,570,927 | 157,942,209 | 9,469,280 | 18,025,756 | 185,437,245 | 71,619,257 | 257,056,502 |
| Options exercised | 48,500 | 115,350 | - | - | 115,350 | - | 115,350 |
| Fair value of options exercised | - | 52,992 | (52,992) | - | - | - | - |
| Share based compensation | - | - | 203,240 | - | 203,240 | - | 203,240 |
| Income (Loss) for the period | - | - | - | (2,274,775) | (2,274,775) | 2,865 | (2,271,910) |
| **Balance March 31, 2013** | **98,619,427** | **158,110,551** | **9,619,528** | **15,750,982** | **183,481,061** | **71,622,121** | **255,103,182** |

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

## 1 General Information

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 Canadian development and operating mining company. The Company maintains its head office at Suite 1700 – 700 West Pender Street, Vancouver, British Columbia. The Company through a subsidiary owns 75% of the Copper Mountain mine while Mitsubishi Materials Corporation ("MMC") owns the other 25% in the Copper Mountain mine.

## 2 Basis of presentation and adoption of IFRS

a. The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). These consolidated financial statements were approved for issue on May 9, 2013, by the Board of Directors.

b. Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency translation differences are recognized in profit or loss.

## 3 Adoption of New and Amended IFRS Pronouncements

The Company's accounting policies have not changed from the year ended December 31, 2012 except for the adoption of following new and amended IFRS Pronouncements below.

The Company adopted new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with transitional provisions outlined in the respective standards.

*Production stripping costs*

The Company adopted IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") and applied the requirements to production stripping costs incurred on or after January 1, 2012, in accordance with the transitional provisions of IFRIC 20.

The interpretation provides guidance on how to account for waste stripping costs in the production phase of a surface mine. Stripping activity related to inventory produced is accounted for in accordance with IAS 2, Inventories. Stripping activity that improves access to ore is accounted for as an addition to or enhancement of an existing asset.

Under IFRIC 20, stripping activity assets are recognized when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

Stripping activity assets capitalized under IFRIC 20 are classified as mineral properties and mine development costs within property, plant and equipment, which is consistent with the classification of the asset these costs relate to. These assets are amortized on a units-of-production basis over the remaining proven and probable reserves of the respective components.

The adoption of IFRIC 20 resulted in an increase in the capitalization of production stripping assets on the consolidated balance sheet and an increase in profit and earnings per share. Inventories were adjusted to reflect capitalize production stripping costs. The depreciation of stripping activity assets is included in the cost of inventories. Concurrent with the adoption of IFRIC 20, the Company has changed its method of allocating mining costs between high grade and low grade inventory to use a contained metal allocation basis. The tables in Note 3a below outline the adjustments to our financial statements for all comparative periods presented.

The adoption of IFRIC 20 has significantly increased the capitalization of production stripping costs as compared to our previous accounting policy. As at March 31, 2013, a cummulative total of $34.4 million of stripping activity assets have been capitalized.

*Consolidation*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

*Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

*Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. There was no impact to the Company.

*Fair value measurement*

The Company adopted IFRS 13, Fair Value Measurement ("IFRS 13") with prospective application from January 1, 2013. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements for fair value measurements.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement, so assumptions that market participants would use should be applied in measuring fair value.

The adoption of IFRS 13 did not have an effect on the consolidated financial statements for the current period. The disclosure requirements of IFRS 13 will be incorporated in the annual consolidated financial statements for the year ended December 31, 2013. This will include disclosures about fair values of financial assets and liabilities measured on a recurring basis and non-financial assets and liabilities measured on a non-recurring basis.

**a. Transition to IFRIC 20 - Adjustments to Consolidated Financial Statements**

*Adjustments to consolidated balance sheet*

| | December 31, 2012<br>$ | March 31, 2012<br>$ |
|---|---|---|
| **Equity before accounting changes** | **244,005,027** | **243,064,993** |
| **Adjustments to:** | | |
| Inventory (including low grade stockpile) | (13,823,395) | (4,588,515) |
| Property, Plant and Equipment | 31,225,362 | 6,412,707 |
| Deferred tax asset | (1,595,612) | - |
| Deferred tax liability | (2,754,880) | - |
| **Equity after accounting changes** | **257,056,502** | **244,889,185** |
| **Equity under accounting changes attributable to:** | | |
| Shareholders of the Company | 185,437,245 | 176,625,582 |
| Non-controlling interest | 71,619,257 | 68,263,603 |

*Adjustments to consolidated statement of income*

| | Three months ended March 31, 2012 $ | Year ended December 31, 2012 $ |
|---|---|---|
| **Net Income (loss) before accounting changes** | **28,842,737** | **27,421,885** |
| **Adjustments to:** | | |
| Cost of sales | 1,824,192 | 17,401,967 |
| Deferred income and resource tax recovery | - | (4,350,492) |
| | **30,666,929** | **40,473,360** |
| **Profit after accounting changes attributable to:** | | |
| Shareholders of the Company | 22,602,857 | 29,053,634 |
| Non-controlling interest | 8,064,072 | 11,419,726 |
| **Earnings per share after accounting changes** | | |
| Basic | 0.23 | 0.29 |
| Diluted | 0.23 | 0.29 |

## 4 Accounts receivable and prepaid expenses

| | 2013 $ | 2012 $ |
|---|---|---|
| Amounts due from concentrate sales | 22,110,720 | 9,092,647 |
| Pricing adjustments | (3,204,687) | 1,033,310 |
| Other receivables | 3,622,928 | 4,041,426 |
| Prepaid expenses | 1,169,394 | 1,185,607 |
| | **23,698,355** | **15,352,990** |

## 5 Inventory

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| Supplies | 11,892,058 | 11,306,189 |
| Ore stockpile | 4,624,868 | 2,062,188 |
| Crushed ore stockpile | 1,460,914 | 1,490,524 |
| Copper Concentrate | 3,446,099 | 6,015,380 |
| | **21,423,939** | **20,874,281** |
| Low grade stockpile[16] | **19,416,226** | **14,168,942** |

Inventory expensed during the period ended March 31, 2013 totaled $37,566,708 (2012 – $31,915,837).

Concentrate and ore stockpile inventories are valued at the lower of average cost and net realizable value. Ore stockpiles include materials extracted from the mine and stockpiled before and after the crushing process. Concentrate inventories include concentrates located at the mine, port facility or in transit. The low grade stockpile is not expected to be processed in the next twelve months and represents non-current inventory.

Ore stockpiles and concentrate 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 have been capitalized in accordance with IFRIC 20 and the depreciation of stripping assets are included in the cost of inventories as incurred. Concurrent with the adoption of IFRIC 20, the Company has changed its method of allocating mining costs between high grade and low grade inventory to use a contained metal allocation basis.

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 write-down no longer exist, the amount of the write-down 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.

[16] Stockpile of inventrory that is not expected to be processed until towards the end of the mine life

## 6 Property, plant and equipment

| Cost | Plant and equipment $ | Exploration and evaluation asset $ | Mineral properties and mine development costs $ | Total $ |
|---|---|---|---|---|
| As at January 1, 2012 | 441,183,510 | 2,587,022 | 90,896,242 | 534,666,774 |
| Additions | 15,818,467 | 3,288,503 | 31,424,808 | 50,531,778 |
| Restoration provision | - | - | 1,805,547 | 1,805,547 |
| As at December 31, 2012 | 457,001,977 | 5,875,525 | 124,126,597 | 587,004,099 |
| Additions | 3,055,778 | - | 3,301,935 | 6,357,713 |
| Restoration provision | | | (15,470) | (15,470) |
| **As at March 31, 2013** | **460,057,755** | **5,875,525** | **127,413,062** | **593,346,342** |

| Accumulated depreciation | Plant and equipment $ | Exploration and evaluation asset $ | Mineral properties and mine development costs $ | Total $ |
|---|---|---|---|---|
| As at January 1, 2012 | (12,961,635) | - | (1,654,077) | (14,615,712) |
| Depreciation charge | (25,407,275) | - | (5,373,258) | (30,780,533) |
| As at December 31, 2012 | (38,368,910) | - | (7,027,335) | (45,396,245) |
| Depreciation charge | (6,615,175) | - | (1,916,956) | (8,532,131) |
| **As at March 31, 2013** | **(44,984,085)** | | **(8,944,291)** | **(53,928,376)** |
| **Net book value** | | | | |
| As at December 31, 2011 | 428,221,875 | 2,587,022 | 89,242,165 | 520,051,062 |
| As at December 31, 2012 | 418,633,067 | 5,875,525 | 117,099,262 | 541,607,854 |
| **As at March 31, 2013** | **45,073,670** | **5,875,525** | **118,468,771** | **539,417,966** |

## 7 Accounts payable and accrued liabilities

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Trade accounts payable | 9,636,876 | 16,941,830 |
| Accrued liabilities | 12,238,534 | 11,910,290 |
| Amount due to related party | 1,086,069 | 659,521 |
| Current portion of interest rate swap liability | 1,128,279 | 1,155,883 |
| Deferred Share Units liability | 155,962 | 301,161 |
| | **24,245,720** | **30,968,685** |

## 8 Long-term debt

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Subordinated loan (a) | 10,268,764 | 10,127,870 |
| Senior credit facility (b) | 143,155,778 | 139,945,485 |
| Term loan (c) | 155,964,572 | 152,697,133 |
| Total long term debt | 309,389,114 | 302,770,488 |
| Leases (d) | 18,219,655 | 20,142,864 |
| Other | 777,987 | 21,262 |
| Total | 18,997,642 | 20,164,126 |
| Less: current portion | (19,111,994) | (18,756,271) |
| | **309,274,762** | **304,178,343** |

a) Subordinated loan

In April 2010, the Company entered into a loan agreement with a subsidiary of MMC for $9,600,000. The loan bears interest at a fixed rate of 4.8%. The loan principle and accumulated interest matures on June 30, 2023 and is pre-payable at any time without penalty. The loan and accumulated interest is subordinate to the senior credit facility. Total issue and transaction costs incurred were $930,802.

The outstanding amount of $10,268,764 is net of issue and transaction costs of $699,556 which are amortized over the life of the loan.

b) Senior credit facility

The Company has a senior credit facility (“the SCF”) with a consortium of Japanese banks.

The maximum amount available under the SCF was US$162,000,000 and this was fully drawn during the 2011 year. The SCF carries a variable interest rate of LIBOR plus 2% and matures on June 15, 2023. The SCF is repayable in twenty four 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. On December

15, 2011 the Company commenced instalment payments on the loans. As at March 31, 2013 cumulative principle payments totalled US$16,200,000.

Under the terms of the SCF, the Company is required to maintain certain debt service reserve balances which will fluctuate each year. As at March 31, 2013 the Company held a balance of $6,141,131( 2012 – $6,013,726) classified as restricted cash.

As at March 31, 2013 the SCF has a principal amount outstanding of $148,132,800 (US$145,800,000). The outstanding amount of $143,155,778 is net of issue costs of $5,133,641 which are amortized over the life of the loan.

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

Minimum principal repayments of the amounts outstanding under the SCF are as follows:

| | **US$** |
|---|---|
| 2013 | 9,720,000 |
| 2014 | 5,670,000 |
| 2015 | 1,620,000 |
| 2016 – 2023 | 128,790,000 |
| | **145,800,000** |

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$102,060,000 of the principal. The interest rate swaps mature on December 15, 2020.

As at March 31, 2013 the swap had an unrealized fair value loss of $11,846,933 (2012 - $12,136,771). The current portion of $1,128,279 is included in accounts payable and accrued liabilities.

The Company is subject to certain debt covenants on the SCF. As at March 31, 2013 the Company is in compliance with all covenants.

c) Term loan

In July 2010, the Company entered into a term loan ("the Term Loan") with the Japan Bank for International Cooperation.

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 15, 2022. As at March 31, 2013 the term loan has a principal amount outstanding of $159,308,800 (US$156,800,000). The outstanding amount of $155,964,572 is net of issue costs of $4,882,225 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 in the last six instalments. As at March 31, 2013 the Company cumulatively paid three instalments totalling US $3,200,000 in accordance with the loan agreement.

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

| | **US$** |
|---|---|
| 2013 | 1,600,000 |
| 2014 | 3,200,000 |
| 2015 | 4,800,000 |
| 2016 - 2022 | 147,200,000 |
| | **156,800,000** |

The Company is subject to certain debt covenants. As at March 31, 2013 the Company is in compliance with all covenants.

d) Leases

(i) In March 2012 the Company entered into a finance lease agreement with one of its equipment suppliers. The lease is payable in 48 instalments which commenced on March 26, 2012 and will end on March 26, 2016 with interest at a fixed rate of 5.5% per annum.

(ii) In September 2012 the Company entered into a finance lease agreement with one of its equipment suppliers. The lease is payable in 36 instalments which commenced on September 6, 2012 and will end on September 5, 2015 with interest at a fixed rate of 5.5% per annum.

| **Gross finance lease liability and minimum lease payments** | **2013** | **2012** |
|---|---|---|
| | **$** | **$** |
| Within one year | 6,833,005 | 6,833,005 |
| Between two and four years | 12,901,967 | 15,179,635 |
| | 19,734,972 | 22,012,640 |
| Future interest | (1,515,317) | (1,869,776) |
| Present value of finance lease liability | **18,219,655** | **20,142,864** |

The present value of the finance lease liability is repayable as follows:

| **Finance lease liability and minimum lease payments, net of interest** | **2013** | **2012** |
|---|---|---|
| | **$** | **$** |
| Within one year | 5,985,274 | 5,902,163 |
| Between two and four years | 12,234,381 | 14,240,701 |
| Total over one year | **18,219,655** | **20,142,864** |

## 9 Decommissioning and restoration provision

a. Reclamation bonds

The Company has on deposit $8,816,500 with the Government of British Columbia in support of reclamation liabilities at the Copper Mountain mine site. The Company receives interest on these bonds. Subsequent to March 31, 2013 the Company deposited an additional $616,000 with the government of British Columbia in support of this reclamation liability..

b. Decommissioning and restoration provision

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

| | **2013** | **2012** |
|---|---|---|
| | **$** | **$** |
| Opening balance | 6,997,883 | 5,152,382 |
| Changes in estimated costs and timing | (15,470) | 1,805,547 |
| Unwinding of discount on restoration provision | 23,322 | 39,954 |
| End of period | **7,005,735** | **6,997,883** |

The provision decreased as a result of the decline in the discount rate. The Company used an inflation rate of 1.20% ( 2012 – 1.90%) and a discount rate of 2.27% ( 2012 – 2.28%) in calculating the estimated obligation. The decommissioning obligations will be accreted as a finance expense over the life of the mine. The liability for retirement and remediation on an undiscounted basis is $8,259,191. The expected timing of payment of the cash flows commences in 2028.

**10 Share based compensation**

a. Stock options

The Company has a stock option plan whereby it can grant up to 7,500,000 stock options exercisable for a period of up to ten years from the grant date. As at March 31, 2013 the Company had 5,626,000 options outstanding as follows:

| | Number of shares | Weighted average exercised price $ |
|---|---|---|
| December 31, 2012 | 5,674,500 | 2.32 |
| Exercised | (48,500) | 2.38 |
| March 31, 2013 | **5,626,000** | **2.32** |

The weighted average share price on the date of stock option exercises during the year was $1.85.

| Date of stock option grant | Number of options | Exercise price | Expiry date |
|---|---|---|---|
| May 6, 2009 | 2,526,000 | $ 0.60 | May 6, 2014 |
| Jan. 14 to Aug. 12 , 2010 | 1,695,000 | $ 2.26 to $2.55 | Jan. 14 to Aug.12, 2015 |
| Feb. 10 to May 01, 2011 | 395,000 | $7.01 to $7.22 | Feb. 10 to May 01, 2016 |
| Sept. 11, 2011 to April 5, 2012 | 1,010,000 | $4.52 to $5.48 | Sept. 11, 2016 to April 5, 2017 |
| | **5,626,000** | | |

As at March 31, 2013, 5,383,250 options were fully vested and exercisable at a weighted average exercise price of $2.18.

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 1.57%, an expected life of 5 years, an expected volatility of 86% and no expectation of dividend payments.

During the period ended March 31,2013, share based compensation expense included $145,198 related to stock options (2013 - $ 517,348)

b. Deferred Share Unit Plans

*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.

*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 in the period to March 31, 2013:

| **Units** | **DSU-D** (1) | **DSU-E** (2) |
|---|---|---|
| December 31, 2012 | **34,684** | **329,646** |
| Granted in the period | 22,655 | - |
| March 31, 2013 | **57,339** | **329,646** |

| **Liability** | **DSU-D** **$** | **DSU-E** **$** |
|---|---|---|
| December 31, 2012 | **225,342** | **75,819** |
| Share based compensation expense (recovery) | (69,380) | (75,819) |
| March 31, 2013 | **155,962** | **-** |

(1) As at March 31, 2013, all DSU-Ds had vested.
(2) As at March 31, 2013, all DSU-Es had vested.

As at March 31, 2013, the following deferred share units were outstanding:

| **Date of grant** | **Number of units** | **Exercise price** | **Expiry date** |
|---|---|---|---|
| DSU-D - September 17, 2010 | 27,028 | - | September 17, 2020 |
| DSU-D - August 12, 2011 | 7,656 | - | August 12, 2021 |
| DSU-D - April 5, 2012 | 22,655 | - | April 5, 2022 |
| DSU-E - September 17, 2010 | 329,646 | $ 3.70 | September 17, 2020 |
| | **386,985** | | |

## 11 Revenue

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Copper concentrate | 52,235,211 | 56,684,053 |
| Gold metal sales | 9,214,643 | 9,167,937 |
| Silver metal sales | 1,889,827 | 3,580,976 |
| Treatment and refining charges | (4,099,111) | (4,553,502) |
| Pricing adjustments on unsettled concentrate and metal sales | (3,204,687) | 4,647,572 |
| Concentrate and metal sales settled in the year | (942,062) | 1,492,697 |
| | **55,093,821** | **71,019,733** |

Sales of metal in concentrates are recognized on a provisional pricing basis when title transfers and the rights and obligations of ownership pass to the customer, which occurs upon shipment. Final pricing for concentrates sold is not determined at that time as it is contractually linked to market prices at a subsequent date. These arrangements have the characteristics of a derivative instrument as the value of our receivables will vary as prices for the underlying commodities vary in the metal markets. These price adjustments result in gains in a rising price environment and losses in a declining price environment and are recorded as pricing adjustments to revenues.

## 12 Expenses by nature

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Direct mining and milling costs | 26,716,328 | 22,779,126 |
| Employee compensation and benefits | 10,850,380 | 9,136,711 |
| Depreciation | 7,121,665 | 6,655,026 |
| Transportation costs | 2,341,040 | 3,280,811 |
| **Cost of sales** | **47,029,413** | **41,851,674** |
| | | |
| General and administration: | | |
| Corporate employee compensation and benefits | 770,301 | 496,332 |
| Corporate administrative and office expenses | 926,566 | 715,652 |
| | 1,696,867 | 1,211,984 |
| | **48,726,280** | **43,063,665** |

Cost of sales consists of direct mining and milling costs (which include an allocation of operating waste stripping costs, maintenance and repair costs, operating supplies, and external services), employee compensation and benefits, depreciation, transportation costs and changes in the inventory balance.

## 13 Finance expense

| | 2013 $ | 2012 $ |
|---|---|---|
| Interest on loans | 2,016,072 | 1,573,753 |
| Amortization of financing fees | 59,925 | 261,111 |
| Unwinding of discount on restoration provision | 23,322 | 9,649 |
| | **2,099,319** | **1,844,513** |

## 14 Related party transactions

All transactions with related parties have occurred in the normal course of the Company's operations.

- During the period ended March 31, 2013 the Company sold copper concentrates to MMC with revenues totalling $55,093,821, including pricing adjustments. (2012 – $71,019,733)
- During the period ended March 31, 2013 the Company accrued interest on the subordinated loan with MMC totalling $115,200 (2012 - $116,480)
- During the period ended March 31, 2013, the Company paid $35,686 (2012 – $35,629) in office rent to Kobex Minerals Inc. Kobex Minerals Inc. is related to the Company by a common director.
- Compensation of key management:

Key management includes the company's directors and officers. Compensation awarded to key management includes:

| | 2013 $ | 2012 $ |
|---|---|---|
| Salaries and short-term employee benefits | 857,336 | 321,552 |
| Share based compensation | (145,199) | - |
| | **712,137** | **321,552** |

## 15 Supplementary cash flow disclosures

a. As at March 31, 2013, cash and cash equivalents consists of guaranteed investment certificates of $5,500,000 (2012 –$23,567,000) and $3,238,558 in cash (2012 - $415,788) held in bank accounts.

b. A reconciliation of net changes in working capital items is as follows:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Change in accounts receivable and prepaid expenses | (8,345,362) | (36,692,372) |
| Change in inventory | (4,386,474) | 1,104,633 |
| Change in mineral tax liability | 297,409 | 674,368 |
| Change in accounts payable and accrued liabilities | (4,924,674) | (1,321,705) |
| | **(17,359,101)** | **(36,235,076)** |

## 16 Contingencies and commitments

During the year ended December 31, 2010, the Company entered into a seven 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. Under the TSA, there is a minimum shipping tonnage requirement of 130,000 tonnes of concentrate annually. The Company accrued $330,574 representing penalty on the minimum annual shipping tonnage shortfall for 2012. As at March 31, 2013, $172,532 of the balance remains to be paid.

## 17 Financial instruments

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: fair value through profit or loss; loans and receivables; available for sale assets; and, for liabilities, amortized cost.

The following table shows the carrying values of assets and liabilities for each of these categories at March 31, 2013 and December 31, 2012

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Financial assets** | | |
| *Loans and receivables* | | |
| Cash and cash equivalents | 8,738,558 | 24,300,790 |
| Restricted cash | 6,141,131 | 6,013,726 |
| Reclamation bonds | 8,816,500 | 8,200,500 |
| Amounts due from concentrate sales (note 4) | 22,110,720 | 9,092,647 |
| | | |
| *Fair value through profit and loss* | | |
| Pricing adjustments (notes 4 and 11) | (3,204,687) | 1,033,310 |
| | | |
| **Financial liabilities** | | |
| *Amortized cost* | | |
| Accounts payable (note 7) | 9,636,876 | 16,941,830 |
| Long-term debt | 309,274,762 | 304,178,343 |
| | | |
| *Fair value through profit and loss* | | |
| Interest rate swap liability | 11,846,933 | 12,136,771 |

The carrying values of cash and cash equivalents, restricted cash, reclamation bonds, accounts payable and accrued liabilities and long-term debt approximate their fair value. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- Amounts due from concentrate sales. Copper concentrate is sold under pricing arrangements where final prices are set at a specified future date based on market copper prices. Changes between the prices recorded upon recognition of revenue and the final price due to fluctuations in copper market prices give rise to an embedded derivative in the accounts receivable. This derivative is recorded at fair value, with changes in fair value recognized as a component of revenue.

- Long-term debt. The company's long-term debt carries interest based on specified benchmark interest rates plus a spread (see note 8). The fair values of the company's debt obligations approximate their carrying amounts due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and there have been no significant changes in the company's own credit risk.

- Interest rate swaps liability. The company's derivative liabilities relate to interest rate swap contracts. The fair values of interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed legs, determined using applicable yield curves at each measurement date. Swap curves, which incorporate credit spreads applicable to large commercial banks, are typically used to calculate expected future cash flows and the present values thereof. Adjustments are also made to reflect the company's own credit risk and the credit risk of the counter party, if different from the spread implicit in the swap curve.

**Fair Value hierarchy**

The following table classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements.

The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy as at March 31, 2013:

| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | Total fair value<br>$ |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Pricing adjustments (note 4 and 11) | - | (3,204,687) | - | (3,204,687) |
| **Financial liabilities** | | | | |
| Interest rate swap liability (note 8b) | - | 11,846,933 | - | 11,846,933 |