FINAL TRANSCRIPT

Copper Mountain Mining Corporation

2012 Second Quarter Conference Call

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CORPORATE PARTICIPANTS

Rod Shier
Copper Mountain Mining Corporation – Chief Financial Officer

Jim O'Rourke
Copper Mountain Mining Corporation – Chief Executive Officer

PRESENTATION

Operator

Good morning. My name is Candice (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to Copper Mountain Mining Corporation's 2012 second quarter conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time simply press *, and then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. Thank you.

Mr. Rod Shier, Chief Financial Officer of Copper Mountain Mining Corporation, you may begin your call.

Rod Shier – Chief Financial Officer, Copper Mountain Mining Corporation

Thank you, Candice. After opening remarks, in which management will review the business and operational results for Q2 2012 we'll open the lines to participants as noted by Candice.

Please note that comments made today that are not of a historical factual nature may contain forward-looking statements. This information by its nature is subject to risks and uncertainties that may cause the stated outcome to differ materially from actual outcomes. Please refer to the bottom line of our latest news release for more information.

I'll now turn the call over to Jim O'Rourke, CEO of Copper Mountain Mining, for his remarks.

Jim O'Rourke – Chief Executive Officer, Copper Mountain Mining Corporation

Thank you, Rod. Good morning, everyone, and thank you for joining us today. Today we'll discuss the second quarter results, as mentioned, for Copper Mountain Mining Corporation. I'll briefly review the second quarter results and provide an update on the various activities, after which Rod will provide financial details.

The mine operated steadily during the quarter at a rate of about 160,000 tonnes per day, which was an improvement of about 16 percent over the past quarter. We mined a total of 2.5 million metric tonnes of ore and processed 2.3 million metric tonnes through the mill.

On the processing side, mill throughput was slightly higher than last quarter, but the average operating time at 82.7 percent was about 10 percent below our plan. Copper production for this quarter was 21 percent higher than the prior period.

During the first week of August, we installed the long awaited newly designed thicker SAG mill grates, installed rubber wear components on the tailing line, and ABB completed the electrical modifications to the mill motors. All of these improvements have adversely contributed to the mill downtime in the past few months. Completion of these outstanding maintenance items is a major step towards meeting our production goals.

The head grade averaged 0.404 percent copper with a mill recovery of 81 percent for the period. During the same period, the operation produced 16.6 million pounds of copper, 4,500 ounces of gold, and 113,500 ounces of silver. Site cash costs per pound of copper produced net of precious metal credits were $1.50 per pound for the period.

The interruptions that affected the operating time during the last two months of the quarter resulted in lower than planned production for the quarter and higher costs. Therefore, these cost figures contain shortfalls from the previously listed unexpected interruptions, and we expect unit cost reductions once the mill is running at its full capacity. I'll answer specific questions in the Q&A period on this matter for those wishing more details.

I'd like now to turn the call over to Rod to discuss the financial results.

Rod Shier

Thank you, Jim. Gross revenues for Q2 2012 were 75.3 million before pricing adjustments and smelter charges and 144.7 million for the six months ended June 30, 2012. Please note there are no comparative figures as the mine was not in production during the comparative period in the prior year.

Since our first shipment of concentrate to the Onahama smelter in Japan in September 2011, the mine has continued to maintain monthly shipments. During the second quarter, the mine shipped a total of 18.1 million pounds of copper, 5,600 ounces of gold, and 124,000 ounces of silver, bringing the six-month totals to 33.8 million pounds of copper, 11,300 ounces of gold, and 248,500 ounces of silver at June 30, 2012.

Cost of sales for the second quarter were 54.6 million, resulting in a gross profit of 6.1 million, and cost of sales of 98.2 million for the six months ended June 30, 2012, for a gross profit of 33.5 million for the six months ended.

General and administrative expenses were 1.2 million for the quarter and 2.4 million for the six months ended June 30, 2012, compared to 0.9 million for Q2 2011 and 1.9 million for the six months ended June 30, 2011.

Noncash share-based compensation reflects an expense of 0.8 million for the three months ended, and 1.1 million for the six months ended June 30, 2012, as compared to an expense of 2 million for the three months ended and 3 million for the six months ended June 30, 2011. The decrease in the share-based compensation was a result of the full vesting of stock options issued in prior periods.

Finance income was 0.7 million for the quarter and 0.9 million for the six months ended June 30, 2012, as compared to finance income of 0.6 million for Q2 2011 and 0.7 million for the six months ended June 30, 2011.

Finance expenses were 2.5 million for the quarter and 4.3 million for the six months ended June 30, 2012, as compared to finance expenses of 8,776 for Q2 2011 and 11,780 for the six months ended June 30, 2011. This increase in interest expense is a result of the Company capitalizing interest during the construction period of the mine.

The Company recognized a noncash unrealized foreign exchange loss of 6.7 million for the three months ended June 30, 2012, and 1.5 million for the six months ended June 30, 2012, compared with an unrealized foreign exchange gain of 1.7 million for Q2 2011 and 7.4 million for the six months ended June 30, 2011.

The Company recognized an unrealized loss on the interest rate swap of 3.3 million for the three months ended June 30, 2012, and 3.4 million for the six months ended June 30, 2012, as compared with an unrealized loss on the interest rate swap of 3.4 million for Q2 2011 and 3.4 million for the six months ended June 30, 2011.

The unrealized loss on the interest rate swap for the quarter was a result of the revaluation of the interest rate swap entered into by the Company as part of the project loan, which was required by the project lenders. The unrealized loss in foreign exchange for the period was attributable to a portion of the Company's long-term debt, as it's denominated in US dollars, and unsettled copper concentrate sales that are denominated in US dollars.

It should be noted that these adjustments to income are required under IFRS, and are of noncash in nature as outlined in the Company's statements of cash flow.

For the quarter, the Company reported a resource tax expense of 0.3 million. This all results in a net loss attributable to shareholders for the second quarter 2012 of 6.4 million or $0.07 per share as compared to a loss of 3.6 million for the three months ended June 30, 2011, or $0.04 a share.

For the six months ended June 30, 2012, the Company reported net income attributable to shareholders of 14.8 million or $0.15 per share as compared to a loss of 1.3 million or $0.01 per share for the six months ended June 30, 2011.

If we take out all the accounting noncash items, the Company reported adjusted earnings of 7.8 million for the three months ended June 30, 2012, or about $0.08 per share, and adjusted earnings of 29.4 million for the six months ended June 30, 2012, or about $0.30 a share.

At June 30, 2012, the Company had cash on hand of about 27.2 million, and working capital of about 34.6 million compared to working capital of 7.2 million at December 31, 2011.

On the hedging front, I'd like to remind everyone on the line today that we have no commodity hedging in place and also have our extremely attractive debt financing.

I'd like to turn it back to Jim now.

Jim O'Rourke

Yeah. Thank you, Rod. In conclusion, we're encouraged by our continued progress. Although we have faced many challenges over the last few months, we have an excellent team on the fight and with our recent modifications we are confident we'll reach our design capacity on a sustainable basis in the near future.

Candice, I'd now like to open the lines for questions that people may have.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question please press *, and then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from Mark Turner with Scotiabank. Your line is open.

Mark Turner

Thank you. Thanks for having the call, guys, and thanks for taking my questions. I have a number of them, but maybe I'll just start with three before getting back in the queue here.

And I guess my first one for Rod, just trying to understand the 7.8 million adjusted earnings a little better. A large portion of that appears to me anyways to be added back from adjustments on the provisional pricing on concentrates still outstanding at the end of the quarter. Am I assuming that that 5.7 million is the contracts that are still outstanding at the end of the quarter? And just maybe a little bit on the thought process of that because I think a lot of your peers sort of mark their revenue to the pricing at the end of the quarter. So it just seems to be a little inconsistent maybe with some of your peers on that.

Rod Shier

I don't think so, Mark. We took a look at that through Coopers & Lybrand what the other people were doing, and you're trying to isolate what that really noncash component was and try to get down to what actually happened in the quarter. So you're taking out those noncash unrealized gain or losses, whichever way they swing, whether it's the interest rate swap, whether it's your US debt, or in the fact of unsettled concentrate sales because they're going to be going both ways until you reach a final settlement.

Mark Turner

Right. Okay. Just for—like on the interest rate and the foreign exchange I completely understand. Just for my own benefit then on the 5.7 million that you back out, so that's the difference between what was priced at the time you actually—the ship sailed versus sort of what the outstanding contracts were at the end of the quarter?

Rod Shier

That is correct.

Mark Turner

Okay. Okay. Yeah. Maybe I'll follow up with you afterwards on that one.

Rod Shier

Sure.

Mark Turner

The second question more on the cost side. I guess costs operating or related sales were a little bit higher than what I had expected in the quarter, but you'd also done a lot more stripping, getting ahead I guess on the push backs in Pit 2 or Pit 3, sorry. That stripping was—maybe you can give us a sense of what was proportioned to the operating costs versus what was capitalized? And maybe what we can expect for the second half of the year?

Rod Shier

Yeah. You must be looking from a per pound basis because from a total cost basis our costs are right in line. We don't capitalize stripping costs. We take it as the month comes.

Mark Turner

Okay.

Rod Shier

So it's just a function of your denominator, right? As Jim mentioned, there were some challenges in later part of the quarter and you just don't have the denominator there to reflect the lower per pound costs.

Mark Turner

Right. Right. No, no, I can appreciate that, I mean the variability as you're ramping up here. I guess I was just wondering, so all the stripping costs associated with the higher, the 4.5 being higher than the life of mine, that was all put through sort of the income statement and none of it capitalized? Is that correct?

Rod Shier

Yeah.

Mark Turner

Okay.

Rod Shier

That's correct. I mean it's in line with our budget what we're looking for. And if you go back to the original plan you had a little higher strip in the early years of the mine life…

Mark Turner

Right.

Rod Shier

Because that life of mine is 2:1 over the life of the mine.

Mark Turner

Okay. No. Yeah. Perfect. Just wanted to make sure we're—everything was sort of encapsulated in that.

And then I guess just my last question here before I get back in the queue, you'd mentioned the grade, the fee grade in Q2, and then I guess the weighted average for the first part of the year being 0.39 versus guidance that was given, I guess, a little while ago, 0.35 for the year. What's the expectation sort of now for Q3 and Q4? I mean because obviously we look at what's implied by the 0.35 it has the grade falling off a fair bit, and I know you guys are looking at potentially revising the mine plan to sort of optimize that. Should we be looking at the 0.35 as being the average and implied lower grades in the second half?

Jim O'Rourke

Let me answer that for you, Mark. It's Jim here. Yeah. We just in the last couple of months we have a new Chief Engineer, and we are going through all the optimization considerations to ensure that, number one, we meet our budget, of course, but we are looking at ways to improve it.

At this time I think we have to say that our average is still projected at 0.35 for the year, but we're going to do everything possible to try and improve on that.

Mark Turner

Okay. Perfect. Thank you. I'll leave it there and get back at the queue for some more operational questions after others have a chance. Thanks. Thanks a lot.

Jim O'Rourke

Okay.

Operator

Your next question comes from Aleem Ladak with PI Financial Corp. Your line is open.

Aleem Ladak

Hi. Good morning, everyone. My first question on the grades were already answered by the previous question and answer. But just to confirm, the guidance of 85 to 90 million pounds this year on a 100 percent basis Is unchanged, right?

Jim O'Rourke

I think we're still reviewing that. I think the first half of the year has been a little rougher than we had anticipated when we gave guidance, but I think the jury's still out on that question.

Aleem Ladak

Okay. But as of now it's still unchanged? Like you haven't just submitted to the market any new guidance, right?

Jim O'Rourke

That's correct.

Aleem Ladak

Okay. Thanks. And finally the last question is would you be able to provide unit production costs on a per tonne of ore mills basis?

Rod Shier

No, we have not done that.

Jim O'Rourke

We haven't done that.

Rod Shier

No, we haven't disclosed. We've disclosed our guidance budget on a per tonne basis, and that's what we had before, Aleem, which was our budgeted plan of mine costs of about $7, milling was about 5, $5.04, and admin about 0.47 for an all-in of 12.42

per tonne milled. But that's the only disclosure we've made at this point because you're just ramping up, as Jim pointed out.

Aleem Ladak

Okay. Great. Thanks a lot, guys.

Jim O'Rourke

And also emphasize that our costs per month are right on. It's just a question of the unit costs being out because of the effects of production.

Aleem Ladak

Great. Thanks.

Operator

Your next question comes from Adam Low with Raymond James. Your line is open.

Adam Low

Good morning, Rod. Good morning, Jim.

Jim O'Rourke

Good morning.

Adam Low

I wanted to re-visit the question regarding the strip ratios. So the strip ratio during the quarter I think was about 4.5:1. Is that correct?

Rod Shier

Yes.

Adam Low

And I think 1Q was something like 3.6:1. Just wondering when do you expect to have caught up on that pre-stripping that you got behind on.

Jim O'Rourke

Well, I guess what we're doing, Adam, is as I said earlier, we're trying to revise the mine plan to maximize our copper production, and we're running steadily now at about 160,000 tonne a day. And if by doing that we can increase our head grade then that's great and we'd work toward that.

Adam Low

Should we be expecting a strip ratio in the back half of this year, so third quarter and fourth quarter something similar to what you guys had in Q2?

Jim O'Rourke

Yes. I would think so. Yes.

Adam Low

Okay. And what happens to the strip ratio then going forward as you start to get caught up? I mean I know the life of mine now are just 2:1, but I would imagine that the earlier years still have a slightly higher strip ratio. What do you think happens to the strip ratios, for instance, in 2013?

Jim O'Rourke

Yeah. I think as I mentioned, we have a new mine engineer. We're currently redoing the whole mine plan and trying to optimize it to maximize our copper production. And we'll have that done in November for approval by our Board for next year's plan, but right now I really can't comment on that.

Adam Low

And in the press release you guys mention that you've had a number of electrical outages due to lightning strikes in the area. Just curious, I mean this is obviously something—not something you guys can control, but is there anything being done to prevent electrical surges from causing down time on the mill? Any kind of redundancy systems being put in place?

Jim O'Rourke

Well, that's a BC Hydro issue. It's not our local issue. I think there's been a disproportionate of thunderstorms in the Okanagan this year for whatever reason. I don't know. And unfortunately it's knocked us out a few times, but that I don't think is our major contributor to down time. We've also had a number of other issues that we believe we've overcome now, and I think one if you're talking about electrical was the issue of the grinding mill motors.

We had a torque issue on the ball mills that kicked them out, and we've had ABB representatives there from Switzerland over the past few weeks, and we've found some glitches in software. We've had to make some adjustments in delays, in starting one motor versus another motor, so there's been a lot of changes made in the last couple of weeks.

Adam Low

Now those issues you've had with the motors, you've had a number of those over the ramp-up period. I think I can recall you guys having some in late 4Q of last year, as well as early 1Q of this year. What's different, with regards to the fix this time around relative to previous times? Had ABB been on site previous times? I guess what I'm asking, has it been that much more in-depth review of what the root causes of the problems are and resolving those?

Jim O'Rourke

Yes. I would say so. The initial problem was a programming problem in the electronics that controlled them. We were blowing a lot of control cards, and they were replacing these on warranty. We finally sent some back to the factory. They reviewed them, and found that there was a software problem with them.

The more recent difficulties have been with regard to torque on the motors, setting up the dwell times on the start-ups, and we've also put in some separation in terms of the low-voltage criteria for starting the mills.

The two ball mills were on one bus, and we've now separated that, so they're all individual. We've stopped and started the mills a number of times recently, I'd say probably 30 times, and we haven't kicked out the other mills. Whereas before what was happening to us is if one mill was shut down for planned maintenance or whatever and you went to start it, you'd kick out the other mills. But as I said, we had a three-day shutdown at the start of the month and we had ABB engineers here, and I think we've overcome these issues.

Adam Low

Okay. I got one more question, then I'll jump back in queue. The recoveries are around 80 percent right now. What do you guys need to do to get them to the mid to high 80s, as per the feasibility study?

Jim O'Rourke

The feasibility study was based on material with virtually no soluble copper content, and if you look back at the historical operation on Pit 3 material, historical recoveries were between 80 and 81 percent. Unfortunately, in the feasibility study the samples that they based it on were sulphide samples that had very little oxide.

Our oxide content is running about in the order of 5 to 8 percent, whereas the test samples that gave 89 percent were much lower. And if we do lab work today, we can check them; we get about 91 percent recovery on our sulphide material and about 50 to 60 percent recovery on the oxide portions, so it's just a question of the blend.

Adam Low

And now I guess some of the oxides you're accounting are due to the old workings from previous operations at the mine. Where do you experience more of these old workings? And what happens to that oxide proportion as you go from one pit to the other?

Jim O'Rourke

Well, Pit 2, for example, had much better recoveries, and virtually no old workings in them. And we're looking at that right now, and in fact we are doing some work in Pit 2 now because we see some higher-grade materials in the short term.

Adam Low

All right. Thank you. I'll leave it for others there. Thanks.

Operator

Your next question comes from Stefan Ioannou with Haywood Securities. Your line is open.

Stefan Ioannou

Great. Thanks, guys. Just wondering if you do plan on updating your 2012 guidance at some point in time? Or if we're just going to have it sit at 85 million to 90 million pounds through the rest of this year?

Jim O'Rourke

Well, I think number one, we have to have a mine plan that is different and that we're confident of. I guess all of our projections to date have been based on the feasibility study that was done in 2008. And what we've encountered at the mine has not been completely in line with what was predicted, as we discussed, with regard to recovery.

So I think we need a bit of a breather here to really come up with a solid plan with the guys at the site all buying into it, and then probably we could give some guidance.

Stefan Ioannou

Okay. And you think the plan, again, won't be sort of in hand until it's probably sometime in November is what you're thinking right now?

Jim O'Rourke

Yes. I think that's right. I think there's a lot of work to do at the site.

Stefan Ioannou

Okay. And do you think in the interim, you've done some of these big improvements just first week of August with all the grate replacement and everything. Do you think we'll see an update, sort of call it in the next, I don't know, four to eight weeks as to how that's gone since the installation? Or do you think the next sort of update on where the performance is at will come with the Q3 production numbers?

Jim O'Rourke

Well, I guess I'm hopeful that it's going to go very well. And I guess what we could consider is a press release or something that would provide an update on the progress.

Stefan Ioannou

Mm-hmm. Mm-hmm. Okay. Great. I think most of my other questions have been answered by some of the other questions, so thanks very much.

Jim O'Rourke

Okay.

Operator

Your next question comes from Taylor Tumming (sic) (Jim Cumming) with Raymond James. Your line is open.

Jim Cumming

Hi, guys. It's actually Jim Cumming here. Just want to ask you a quick question. Now that you've made the adjustments to the SAG mill, in the short-term how is the production going?

Jim O'Rourke

It's going very well, Jim. We've still got a number of things we're doing, but generally speaking, we're getting good operating time. I mean we've had no major interruptions. More recently, I'd say we're averaging about 95 percent of plan.

We definitely have periods when we're over our design capacity now. And although they may be short, the key really is now to get those on a sustainable basis and continuous. And it's given us a lot of confidence the results that we've had since the shutdown.

Jim Cumming

Okay. That's great. Thanks.

Operator

Your next question comes from Ray Martin with Canaccord Genuity. Your line is open.

Ray Martin

Hi, Jim. Hi, Rod. This is…

Jim O'Rourke

Hi, Ray.

Ray Martin

Hi. Just can you give me sort of an exploration update, please?

Jim O'Rourke

Sure. We've got Peter Holbeck here, our Vice President of Exploration, and I'll get Peter to comment on that.

Peter Holbeck

Yeah. I guess I mean I can't say too much because we're just in the process of compiling the data from the drilling that we've done. And once we get all the results in for this phase of drilling, we'll probably put those numbers out in a press release, but essentially we've completed the first phase that we set out to do, and everything went relatively smoothly.

Ray Martin

Okay. Appreciate that. Thank you.

Operator

And again, if you'd like to ask a question, please press *, 1 on your telephone keypad.

Your next question comes from Adam Low with Raymond James. Your line is open.

Jim O'Rourke

Hi, Adam.

Adam Low

Hi again. A question with regards to the various components of the grinding circuit. Can you provide us with a little bit of detail on what the rate of capacity of the SAG mill, the ball mills, and the pebble crusher are? I'm trying to get a sense as to what the relative capacity of the ball mills are relative to the SAG, and the pebble crusher relative to the SAG.

Jim O'Rourke

The pebble crusher we've operated at over 350 tonne an hour. The SAG mill it's so variable. I mean we've run from—I would say currently we're sort of in the range of 1,300 to 1,700 tonne an hour, depending on the feed. And the ball mills have good capacity in the sense that on occasion when we've had a ball mill down for service or whether it's down for electrical or whatever, we've run the mill up to 1,100 tonne an hour.

Adam Low

That's each of them 1,100 tonnes per hour?

Jim O'Rourke

Sorry? No, no, the SAG mill with one ball mill.

Adam Low

Okay.

Jim O'Rourke

So the ball mills have lots of capacity.

Adam Low

And the pebble crusher, how utilized has it been so far like on a percentage basis? Are you guys anywhere near to tapping out its availability?

Jim O'Rourke

I would say no, Adam. And it's an interesting question because we're obviously trying to maximize its use, and at times we can get large tonnage going through it and other times we just can't seem to get the large tonnage coming through the SAG mill that we can feed to the crusher.

So it's really dependent on the SAG mill operation. I think, as you're aware, we've got 85-millimetre grates in the SAG mill now, and we've got 18-millimetre openings in the screen. So anything greater than 18 millimetres and less than 85 millimetres is going to go to the crusher, but depending on the ore and depending on how the mill's running it varies quite substantially.

Adam Low

And last question for me. What are your expectations for the remainder of this year and I guess next year on CapEx? I know you guys did the major capital spending with regards to the new mine fleet equipment you acquired earlier this year, but is there any other major items? Or if not, could you at least give us a sense as to what you think you might be incurring in terms of maintenance CapEx on a go-forward basis?

Jim O'Rourke

Yeah. We don't have any major items that we foresee at this time and typically maybe $5 million.

Rod Shier

That's right. Yeah. On a sustaining capital basis that's right. And all our maintenance that's put through is expensed, Adam. It's not capitalized.

Adam Low

Right. Okay. Thank you very much.

Jim O'Rourke

Okay.

Operator

And we have no further questions. I turn the call back to our presenters for closing remarks.

Rod Shier

Well, thank you very much, everyone, for attending our Q2 conference call. And as usual we're always open for additional questions if you want to call us directly.

Thank you very much.

Operator

And this concludes today's conference call. You may now disconnect.

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