

**COPPER MOUNTAIN**  
**MINING CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

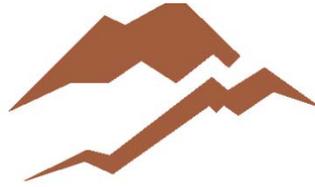
**For the years ended**

**December 31, 2012 and 2011**

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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 YEAR ENDED DECEMBER 31, 2012**

March 18, 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 year ended December 31, 2012. 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](http://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 December 31,		Year ended December 31,	
	2012 \$	2011 \$	2012 \$	2011 \$
Revenues	50,086,260	44,710,034	229,473,610	66,531,355
Gross profit	6,236,705	5,534,826	38,220,542	16,203,386
Operating income	4,894,106	2,807,068	31,512,632	7,777,193
Adjusted (loss) <sup>1</sup> earnings	7,415,999	(1,863,724)	27,932,610	8,613,040
Net income (loss)	2,397,766	8,098,610	27,421,885	(14,679,471)
Earnings (loss) attributable to shareholders of the Company	2,214,713	5,590,703	19,776,352	(12,698,124)
Earnings (loss) per share <sup>2</sup>	0.02	0.06	0.20	(0.13)
Adjusted earnings (loss) per share <sup>3</sup>	0.08	(0.02)	0.28	0.09
Adjusted EBITDA <sup>4</sup>	13,988,160	10,944,580	61,716,744	21,997,417
Cash and cash equivalents			24,300,790	39,094,343
Working capital			11,781,230	7,208,869
Equity			244,005,027	213,370,648
Site cash costs per pound of copper produced (net of precious metal credits) (US\$)	\$1.77	\$1.11	\$1.83	\$1.26
Total cash costs per pound of copper sold (net of precious metal credits) (US\$)	\$2.27	\$1.94	\$2.32	\$1.71

- Gross profit for the year was \$38.2 million.
- Revenues for 2012 were \$229.5 million from the sale of 59.1 million pounds of copper, 19,900 ounces of gold, and 402,000 ounces of silver.
- Total production for the 2012 year at Copper Mountain mine (100%) was 56.6 million pounds of Copper, 18,900 ounces of gold, and 354,000 ounces of silver.
- Mining activities continued to improve during the year, exiting 2012 at a rate of 186,500 TPD mined
- Milling activities continued to improve during the year, with the resolution of a number of one off issues in the mill
- Average realized copper price for 2012 was \$3.61 per pound, in line with the average London Metal Exchange price for 2012
- Site cash costs for the year was US\$1.83 per pound of copper produced net of precious metal credits.
- Total cash costs for the year was US\$2.32 per pound of copper sold net of precious metal credits and after all off- site charges.

<sup>1</sup> 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. 2011 comparatives have been adjusted to include pricing adjustments on concentrate metal sales for comparison.

<sup>2</sup> Calculated based on weighted average number of shares outstanding under the basic method based on earnings attributable to shareholders.

<sup>3</sup> Calculated by dividing the total adjusted earnings by the weighted average number of shares outstanding under the basic method.

<sup>4</sup> Earnings before interest, taxes, depreciation and amortization .Refer to the Non-GAAP Performance measures section of this MD&A. 2011 comparatives have been adjusted to include pricing adjustments on concentrate and metal sales for comparison with 2012 figures.

## 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 new 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 development plan is 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 present 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.

Mining activities continued in the Pit #3 area at the beginning of 2012 with the push-backs on the eastern wall. Part way through the year, the Company relocated two of the production shovels from the Pit#3 area to the Pit #2 area for the commencement of mining activities there. During the year a total of 59.6 million tonnes of material was mined, including 12.5 million tonnes of ore and 42.5 million tonnes of waste during the year, resulting in approximately a 3.4 to 1 waste to ore strip ratio and exited 2012 with an average mining rate of 186,258 tonnes of per day moved during December 2012. The projected life of mine strip ratio is 2 to 1 but higher in the early years. The increase in the average mining rate per day during 2012 as compared to 2011 is attributable to the additional mining equipment purchased at the beginning of the year, the

commencement of mining activities in the Pit #2 area and increased operating efficiencies. Ore is hauled to the 60 inch x 89 inch gyratory primary crusher located northeast of Pit #2. The crushed ore is then conveyed 1 kilometer to the coarse ore stockpile where it is feed into the mill.

The mill is comprised of one SAG mill, two ball mills, a rougher floatation circuit, regrind mill, a cleaner floatation circuit, a concentrate thickener, and a pressure filter that produces copper concentrate at about 26% copper and 9% moisture.

Mill production was adversely affected during the year by greater than expected tailings line wear, failure of the ball mills motor controls, a lack of clear reclaim water in the tailings management facility, and the premature breakage of SAG mill grates. These down time interruptions resulted in an 82% plant availability for the year resulting in lower than planned copper production and higher costs for repair items that were expensed during the year. High wear components of the tailing line have been repaired with rubberized parts and a preventative maintenance program was established to prevent future failures. During the first half of the year the ball mill motors failed on numerous occasions as a result of a programming software issue. This issue was identified and corrected by the supplier last summer with no similar failures since, and the Company considers this issue resolved. Early in the 2012 year, the Company experienced a shortage of reclaim water as a result of freezing in the tailings management facility. Last summer extra water was added to the tailings management facility which resolved this water shortage issue. During the first half of the year, the plant continued to experience down time due to broken grates in the SAG Mill. At the start of August the mill installed newly designed grates that were ordered approximately 11 months earlier from a new supplier. Since the installation of the newly designed grates, the mill has experienced reduced grate wear and the grate replacements are on a program of scheduled change outs every three months.

Following the planned mill maintenance shutdowns throughout the year, the Company was able to resolve all of these issues by year end, and in early 2013 the mill achieved for the first time a 93.3% plant availability, compared to a budgeted 92% availability. However, the mill is still experiencing challenges meeting its tonnage throughput goals as a result of the variability in ore hardness entering the SAG Mill from various open pit locations. Management has engaged an engineering firm to review the option of adding a secondary crusher to pre-crush ore entering the SAG Mill to increase the tonnage throughput. Preliminary designs for this secondary crusher involve s ore from the coarse ore stock pile conveyed to the new crushing facility where it would be crushed to 80% minus one inch. Initial estimates indicate the pre-crushing would result in an expansion to the grinding circuit of the mill and will ensure the mill meets the original design capacity with potential to increase the grinding capacity of the SAG to 40,000 tonnes per day range. Additional modifications will be required to the SAG Mill grate size and discharge screen size to accommodate the smaller material entering the SAG Mill. Preliminary work estimates that the crushing facility would cost approximately \$40 million and would be funded out of cash flow or additional debt. It is estimated that the new crushing facility could be in place by the end of 2013 subject to necessary approval to proceed before the end of April 2013.

Copper concentrate from the mine is trucked to the port of Vancouver where it is placed in a 15,000 tonne capacity storage shed for loading onto ocean going vessels for transportation to Japan. Copper concentrate production during the year totaled 56.6 million pounds of copper, 18,900 ounces of gold, and 354,000 ounces of silver.

During the year, the Company completed a total of thirteen shipments containing approximately 59.1 million pounds of copper, 19,900 ounces of gold, and 402,000 ounces of silver which generated \$229.5 million in revenue net of pricing adjustments.

The Company currently has 369 operating employees engaged at the mine site.

The following table sets out the major operating parameters for the mine for the three months and year ended December 31, 2012.

<b>Mine Production Information</b>	<b>Three months ended</b>		<b>Year ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
<b>Copper Mountain Mine (100% Basis)</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Mine:</b>				
Total tonnes mined (000's <sup>5</sup> )	16,180	8,822	54,983	37,722
Ore tonnes mined (000's)	4,148	2,711	12,509	6,526
Waste tonnes (000's)	12,032	6,111	42,474	31,196
Stripping ratio	2.90	2.25	3.39	4.78
<b>Mill:</b>				
Tonnes milled (000's)	2,583	1,921	9,427	3,566
Feed Grade (Cu%)	0.30%	0.36%	0.34%	0.37%
Recovery (%)	81.3%	81.3%	79.5%	76.9%
Operating time (%)	83.1%	80.6%	82.1%	70.9%
Tonnes milled (TPOD <sup>6</sup> )	34,000	26,000	31,000	23,000
<b>Production:</b>				
Copper production (000's lbs)	13,800	12,397	56,600	22,128
Gold production (oz)	5,800	3,834	18,900	7,799
Silver production (oz)	66,700	84,182	354,000	161,830
Site cash costs per pound of copper produced (net of precious metal credits) (US\$)	\$1.77	\$1.11	\$1.83	\$1.26
Total cash costs per pound of copper sold (net of precious metal credits) (US\$)	\$2.27	\$1.94	\$2.32	\$1.71

## Exploration

During 2012 the Company continued with its exploration program which forms the first part of an ongoing exploration strategy for the property. The objectives of the exploration program are threefold: determination of the potential long-term pit limits, conversion of resources to reserves in order to assist with near to mid-term mine planning and continued exploration of new targets of mineralization adjacent to the mine. There were two diamond drills on the property which were focused on mineralization at depth in the southern end of Pit #3 and around Pit #2. Results will continue to be released as they come in and are evaluated.

<sup>5</sup> Excludes ore re-handle from stockpile

<sup>6</sup> Tonnes per operating day

## Results of Operations

	Three months ended		Year ended	
	December 31,		December 31,	
(CDN\$)	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Revenues</b>	50,086,260	44,710,034	229,473,610	66,531,355
<b>Cost of sales<sup>7</sup></b>	(43,849,555)	(39,175,208)	(191,253,068)	(50,327,969)
<b>Gross profit (loss)</b>	<b>6,236,705</b>	<b>5,534,826</b>	<b>38,220,542</b>	<b>16,203,386</b>
<b>Other income and expenses</b>				
General and administration	(797,283)	(1,686,161)	(4,252,973)	(4,616,051)
Share based compensation	(545,316)	(1,041,597)	(2,454,937)	(3,810,142)
<b>Operating income (loss)</b>	<b>4,894,106</b>	<b>2,807,068</b>	<b>31,512,632</b>	<b>7,777,193</b>
Pricing adjustments on concentrate and metal sales	1,878,416	335,286	1,641,593	5,658,400
Finance income	314,886	490,823	1,571,489	1,344,735
Finance expense	(2,316,055)	(5,496,901)	(8,388,716)	(6,167,288)
Deferred income and resource tax recovery	2,896,832	-	2,896,832	-
Current resource tax expense	(252,186)	-	(1,301,220)	-
<b>Adjusted earnings (loss)<sup>8</sup></b>	<b>7,415,999</b>	<b>(1,863,724)</b>	<b>27,932,610</b>	<b>8,613,040</b>
Pricing adjustments on concentrate and metal sales	(1,878,416)	(335,286)	(1,641,593)	(5,658,400)
Unrealized gain (loss) on interest rate swap	(394,705)	1,209,340	(3,654,594)	(9,351,657)
Unrealized gain (loss) on foreign exchange	(2,745,112)	9,088,280	4,785,462	(8,282,454)
<b>Net income (loss) and comprehensive income (loss) for the period</b>	<b>2,397,766</b>	<b>8,098,610</b>	<b>27,421,885</b>	<b>(14,679,471)</b>
<b>Net income (loss) and comprehensive income (loss) attributable to:</b>				
Shareholders of the company	2,214,713	5,590,703	19,776,352	(12,698,124)
Non-controlling interest	183,053	2,507,907	7,645,533	(1,981,347)
	<b>2,397,766</b>	<b>8,098,610</b>	<b>27,421,885</b>	<b>(14,679,471)</b>
<b>Earnings (loss) per share</b>	<b>0.02</b>	<b>0.06</b>	<b>0.20</b>	<b>(0.13)</b>
<b>Adjusted earnings (loss) per share</b>	<b>0.08</b>	<b>(0.02)</b>	<b>0.28</b>	<b>0.09</b>

<sup>7</sup> 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.

<sup>8</sup> 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 December 31, 2012**

The Copper Mountain mine produced 13.8 million pounds of copper during the three months ended December 31, 2012 compared to 12.4 million pounds of copper in the prior year. The mine shipped and sold a total of 13.1 million pounds of copper, 5,200 ounces of gold, and 71,600 ounces of silver during the three months ended December 31, 2012; compared to a total of 11.6 million pounds of copper, 4,372 ounces of gold and 86,431 ounces of silver during the three months ended December 31, 2011. Site cash costs were US\$1.77 per pound of copper produced, net of precious metal credits, and total cash costs were US\$2.27 per pound sold, net of precious metal credits, for the three months ended; compared to site cash costs of US\$1.11 per pound of copper produced and total cash costs of US\$1.94 per pound of copper sold, net of precious metal credits for the three months ended December 31, 2011.

During the period the Company recognized revenues of \$50.1 million, net of pricing adjustments and treatment charges based on an average provisional copper price of around US\$3.59 per pound; compared to revenues of \$44.7 million net of pricing adjustments and an average copper price of US\$3.38 per pound for the period ended December 31, 2011. Mining operations for the three month period ended December 31, 2012 resulted in a gross profit of \$6.2 million as compared to a gross profit of \$5.5 million for the period ended December 31, 2011. The Company reported a net income attributable to the shareholders of the Company of \$2.2 million or \$0.02 per share for the three months ended December 31, 2012, compared to a net income of \$5.6 million or \$0.06 per share for the three months ended December 31, 2011. The net income for the quarter was directly attributable to a deferred income and resource tax recovery of \$2.9 million which was offset by non-cash unrealized foreign exchange loss of \$2.7 million related to the Company's debt that is denominated in U.S. dollars and unrealized loss of \$0.4 million related to the revaluation of the interest rate swap liability required under the Company's loan agreement. This compares to a deferred income and resource tax recovery of \$nil, unrealized foreign exchange gain of \$9.1 million and an unrealized gain of \$1.2 million for the three month period ended December 31, 2011.

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 December 31, 2012, was \$43.8 million compared to \$39.2 million for the three month period ended December 31, 2011. 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 December 31, 2011.

General and administration expenses for the three months ended December 31, 2012, were \$0.8 million compared to \$1.7 million for the three months ended December 31, 2011; the decrease in 2012 was primarily due to no senior management bonuses being earned in 2012. Non-cash share based compensation reflected an expense of \$0.5 million for the three months ended December 31, 2012, compared to an expense of \$1.0 million for the three month period ended December 31, 2011. The increase 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 \$0.3 million, finance expense of \$2.3 million and an income and current resource tax expense of \$0.2 million for the three months ended December 31, 2012, compared to finance income of \$0.5 million, finance expense of \$5.5 million, and current resource tax expense of \$nil for the three months ended December 31, 2011. Finance expense primarily consists of interest on loans and the amortization of loan related financing fees. The decrease in finance expense for the period is a result of 2011 including \$1.8 million payment on the interest rate swap liability and \$0.9 million for interest expense on the PC 8000 hydraulic shovels before they were converted into a four year lease.

**For the Year Ended December 31, 2012**

The Copper Mountain mine produced 56.6 million pounds of copper during the year ended December 31, 2012, compared to 22.2 million pounds of copper produced in the prior year. The mine shipped and sold approximately 59.2 million pounds of copper, 19,900 ounces of gold, and 402,000 ounces of silver during the year ended December 31, 2012; compared to 17.3 million pounds of copper, 6,181 ounces of gold and 132,223 ounces of silver during the year ended December 31, 2011. Site cash costs were US\$1.83 per pound of copper produced, net of precious metal credits and total cash costs were US\$2.32 per pound sold, net of precious metal credits for the year ended December 31, 2012; compared to site cash costs of US\$1.26 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 year period ending December 31, 2011.

During the period the Company recognized revenues of \$229.5 million, net of pricing adjustments and treatment charges based on an average provisional copper price of US\$3.61 per pound; compared to revenues of \$66.5 million net of pricing adjustments and an average copper price of US\$3.55 per pound for the year ended December 31, 2011. Gross profit for the year period ended December 31, 2012 was \$38.2 million as compared to \$16.2 million for the year ended December 31, 2011. The Company reported net income attributable to the shareholders of the Company of \$19.8 million or \$0.20 per share for the year ended December 31, 2012, compared to a net loss of \$12.7 million or \$0.13 per share for the year ended December 31, 2011. Net income for the year ended December 31, 2012, recorded a deferred income and resource tax recovery of \$2.9 million, an unrealized foreign exchange gain of \$4.8 million which was primarily related to the Company's debt that is denominated in U.S. dollars and an unrealized loss of \$3.6 million related to the revaluation of the interest rate swap liability required under the Company's loan agreements. This compares to a deferred income and resource tax recovery of \$nil, an unrealized foreign exchange loss of \$8.3 million and an unrealized loss of \$9.4 million related to the revaluation of the interest rate swap liability required under the Company's loan agreements for the year ended December 31, 2011.

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 year ended December 31, 2012, was \$191.2 million compared to \$50.3 million for the year ended December 31, 2011. The increase in costs during the year is a result of the Company capitalizing eight months of expenses in 2011 as the mine was in construction during the year ended December 31, 2011.

General and administration expenses for the year ended December 31, 2012, were \$4.2 million compared to \$4.6 million for the year ended December 31, 2011. Non-cash share based compensation reflected an expense of \$2.4 million for the year ended December 31, 2012, compared to an expense of \$3.8 million for the year ended December 31, 2011. The decrease in non-cash share based compensation was a result of the full vesting of stock options issued in prior periods.

Other items recorded under other income and expenses include finance income of \$1.6 million, finance expense of \$8.4 million and an income and a current resource tax expense of \$1.3 million, compared to finance income of \$1.3 million, finance expense of \$6.2 million and a current resource tax expense of \$nil. Finance expense primarily consists of interest on loans and the amortization of financing fees. The increase in finance expenses in 2012 is a result of a portion of interest expense being capitalized in 2011 prior to the commencement of mill operations.

## Selected Annual Information

	Years ended December 31,		
	2012	2011	2010
	\$	\$	\$
Revenue	229,473,610	66,531,355	-
Net income (loss)	27,421,885	(14,679,471)	5,441,912
Net income (loss) attributed to shareholders	19,776,352	(12,698,124)	2,953,360
Basic earnings (loss) per share	0.20	(0.13)	0.03
Diluted earnings (loss) per share	0.20	(0.13)	0.03
Total assets	616,013,948	598,538,319	526,234,940
Total non-current liabilities <sup>9</sup>	322,157,114	324,153,673	314,300,315

## 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 <sup>10</sup>	Net Income (Loss)	Profit (Loss) Attributable to Shareholders	Income (Loss) per Share Basic	Income (Loss) per Share Diluted
	\$	\$	\$	\$	\$	\$
December 31, 2012	27,304,167	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)
March 31, 2011	(3,873,052)	-	3,733,894	2,284,925	0.02	0.02

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 December 31, 2012, the Company had working capital of \$11.8 million compared with working capital of \$7.2 million at December 31, 2011.

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

<sup>9</sup> Non-current liabilities include decommissioning and restoration provision, interest rate swap liability and long-term debt.

<sup>10</sup> Net of treatment and refining charges and price adjustments

As at December 31, 2012 the Company had a total of \$8.2 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 December 31, 2012, the Company had the following consolidated contractual obligations:

	<b>Total</b>	<b>&lt; 1 year</b>	<b>2-3 years</b>	<b>4-5 years</b>	<b>Thereafter</b>
	\$	\$	\$	\$	\$
Long-term debt	339,730,627	18,310,963	25,603,985	54,901,969	240,913,710
Capital lease	22,012,640	6,833,005	13,873,978	1,305,657	-
Trade accounts payable	16,941,830	16,941,830	-	-	-

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 December 31, 2012.

### Capital Resources

As at December 31, 2012, the Company had \$24.3 million in cash and cash equivalents. *The Company does not anticipate requiring any additional funds other than cash on hand 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 year ended December 31, 2012 the Company sold copper concentrates to MMC with revenues totalling \$229,473,610, including pricing adjustments. (2011 – \$66,531,355)
- During the year ended December 31, 2012 the Company accrued interest on the subordinated loan with MMC totalling \$468,480 (2011 - \$350,720) and accrued a guarantee fee to MMC of \$315,184 (2011- \$320,000)
- During the year ended December 31, 2012, the Company paid \$144,241 (2011 – \$137,920) 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		Year ended	
	December 31,		December 31,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Salaries and short-term employee benefits	296,340	1,339,863	1,310,561	2,015,696
Share-based payments	380,416	683,929	1,712,173	1,833,062
	<b>676,756</b>	<b>2,023,792</b>	<b>3,022,734</b>	<b>3,848,758</b>

## 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 year 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

None

## New Accounting Standards Adopted

### IFRS 9 – Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. IFRS 9 is effective for periods beginning on or after January 1, 2015.

### 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**

IFRIC 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2, Inventories. The latter should be accounted for as an addition to or enhancement of an existing asset.

## **Financial Instruments and Other Instruments**

Please refer to note 3(d) of the audited financial statements for the year 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.

<b>Total Cash Cost of Sales Per Pound of Copper Sold</b>	<b>Three months ended</b>		<b>Year ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Cost of Sales</b>	<b>\$43,849,555</b>	<b>\$39,175,209</b>	<b>\$191,253,068</b>	<b>\$50,327,969</b>
Add: Treatment & refining charges	3,565,984	3,163,395	16,919,513	4,710,124
Less: non-cash items:				
Depreciation	(7,215,638)	(8,992,318)	(28,562,519)	(9,751,915)
<b>Cash costs of sales</b>	<b>40,199,901</b>	<b>33,346,286</b>	<b>179,610,062</b>	<b>45,286,178</b>
Average foreign exchange rate (CDN\$ to US\$)	1.0086	0.9776	1.0004	0.9891
<b>Cash costs of sales (US\$)</b>	<b>40,545,620</b>	<b>32,599,329</b>	<b>179,681,906</b>	<b>44,792,559</b>
Less: Precious metal credits (US\$):	(10,667,748)	(10,173,676)	(42,635,678)	(15,091,160)
<b>Net cash costs of sales (US\$)</b>	<b>29,877,872</b>	<b>22,425,653</b>	<b>137,046,228</b>	<b>29,701,399</b>
<b>Total pounds of copper sold</b>	<b>13,185,000</b>	<b>11,552,512</b>	<b>59,122,000</b>	<b>17,363,352</b>
Total ounces of gold sold	5,200	4,372	19,900	6,466
Total ounces of silver sold	71,600	86,431	402,000	131,080
<b>Cash Cost per pound of copper sold net of precious metal credits (US\$)</b>	<b>\$2.27</b>	<b>\$1.94</b>	<b>\$2.32</b>	<b>\$1.71</b>

Site Cash Cost Per Pound of Copper Produced	Three months ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Cash Cost of Sales	40,199,901	33,346,286	179,610,062	45,286,178
Net change in concentrate inventory	1,161,941	(1,673,806)	(1,470,255)	8,286,552
Less: Off-site related costs				
Treatment & refining charges	(3,565,984)	(3,163,395)	(16,919,513)	(4,710,124)
Transportation costs	(2,246,347)	(3,230,162)	(11,930,163)	(3,882,805)
Trucking charges	(727,490)	(744,719)	(2,940,124)	(1,312,122)
<b>Total Site Cash Costs of Production</b>	<b>34,822,021</b>	<b>24,534,204</b>	<b>146,350,007</b>	<b>43,667,679</b>
Average foreign exchange rate (CDN\$ to US\$)	1.0086	0.9776	1.0004	0.9891
<b>Total Site Cash Costs of Production (US\$)</b>	<b>35,121,490</b>	<b>23,984,638</b>	<b>146,408,547</b>	<b>43,191,701</b>
Less precious metal credits (US\$)	(10,667,748)	(10,173,676)	(42,635,678)	(15,091,160)
	<b>24,453,742</b>	<b>13,810,962</b>	<b>103,772,869</b>	<b>28,100,541</b>
<b>Total pounds of copper produced</b>	<b>13,780,000</b>	<b>12,396,968</b>	<b>56,600,000</b>	<b>22,127,640</b>
Total ounces of gold produced	5,800	3,834	18,900	7,799
Total ounces of silver produced	66,700	84,182	354,000	161,830
<b>Site cash costs per pound net precious metal credits (US\$)</b>	<b>\$1.77</b>	<b>\$1.11</b>	<b>\$1.83</b>	<b>\$1.26</b>

## Cash Margin

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

	Three months ended December 31,		Year ended December 31,	
	2012	2011	2012	2011
Average realized copper price for the period (US\$ per pound)	\$3.59	\$3.38	\$3.61	\$3.55
<b>Less:</b>				
Total cash cost of sales net of precious metal credits(US\$ per pound sold)	\$2.27	\$1.94	\$2.32	\$1.71
<b>Cash margin (US\$ per pound)</b>	<b>\$1.32</b>	<b>\$1.44</b>	<b>\$1.29</b>	<b>\$1.84</b>

## 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 December 31,		Year ended December 31,	
	2012	2011	2012	2011
Net income (loss)	2,397,766	8,098,609	27,421,885	(14,679,471)
Add (Deduct):				
Finance income	(314,886)	(490,823)	(1,571,489)	(1,344,735)
Finance expense	2,316,055	5,496,901	8,388,716	6,167,288
Depreciation	7,215,638	7,802,227	28,562,519	8,561,824
Deferred income and resource tax recovery	(2,896,832)	-	(2,896,832)	-
Current resource tax expense	252,186	-	1,301,220	-
<b>EBITDA</b>	<b>8,969,927</b>	<b>20,906,914</b>	<b>61,206,019</b>	<b>(1,295,094)</b>
Add (Deduct):				
Pricing adjustments on concentrate and metal sales	1,878,416	335,286	1,641,593	5,658,400
Unrealized loss (gain) on interest rate swaps	394,705	(1,209,340)	3,654,594	9,351,657
Unrealized Foreign exchange loss (gain)	2,744,112	(9,088,280)	(4,785,462)	8,282,454
<b>Adjusted EBITDA</b>	<b>13,988,160</b>	<b>10,944,580</b>	<b>61,716,744</b>	<b>21,997,417</b>

## 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](http://www.sedar.com).

The following details the share capital structure as at March 18, 2013 the date of this MD&A.

	<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number</b>	<b>Number</b>
Common shares	-	-	-	98,570,927
Share purchase options	May 6, 2014	\$0.60	2,527,000	
	January 14 – August 12, 2015	\$2.26 - \$2.55	1,742,500	
	September 11, 2016 – April 5, 2017	\$4.52 - \$5.48	1,010,000	
	February 10 – May 1, 2016	\$7.01 – 7.22	395,000	
			<b>5,674,500</b>	
<b>Fully diluted shares outstanding</b>				<b>104,245,427</b>

## 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 Years Ended December 31, 2012 and 2011**



March 18, 2013

## **Independent Auditor's Report**

### **To the Shareholders of Copper Mountain Mining Corporation**

We have audited the accompanying consolidated financial statements of Copper Mountain Mining Corporation which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of income (loss), comprehensive income (loss), cash flows and changes in equity for the years ended December 31, 2012 and December 31, 2011, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

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

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

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Copper Mountain Mining Corporation as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

*signed "PricewaterhouseCoopers LLP"*

**Chartered Accountants**

# Copper Mountain Mining Corporation

## Consolidated Statement of Financial Position

Canadian dollars

	December 31, 2012 \$	December 31, 2011 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	24,300,790	39,094,343
Accounts receivable and prepaid expenses (note 4)	15,352,990	7,804,812
Inventory (note 5)	21,979,257	21,323,712
	61,633,037	68,222,867
<b>Restricted cash</b>	6,013,726	23,000
<b>Reclamation bonds</b> (note 9a)	8,200,500	4,700,500
<b>Deferred tax asset</b> (note 18b)	2,896,832	-
<b>Property, plant and equipment</b> (note 6)	510,382,493	520,051,062
<b>Low grade stockpile</b> (note 5)	26,887,360	5,540,890
	<b>616,013,948</b>	<b>598,538,319</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 7)	30,968,685	48,677,788
Current portion of long-term debt (note 8)	18,756,271	12,336,210
Current tax liability	126,851	-
	49,851,807	61,013,998
<b>Decommissioning and restoration provision</b> (note 9)	6,997,883	5,152,382
<b>Interest rate swap liability</b>	10,980,888	10,610,394
<b>Long-term debt</b> (note 8)	304,178,343	308,390,897
	372,008,921	385,167,671
<b>Equity</b>		
<b>Attributable to shareholders of the Company:</b>		
<b>Share capital</b> (note 10)	157,942,209	157,596,608
<b>Contributed surplus</b>	9,469,280	6,602,387
<b>Retained earnings (deficit)</b>	8,748,474	(11,027,878)
	176,159,963	153,171,117
<b>Non-controlling interest</b>	67,845,064	60,199,531
<b>Total equity</b>	244,005,027	213,370,648
	<b>616,013,948</b>	<b>598,538,319</b>

Approved on behalf of the Board of Directors

(signed) Jim O'Rourke \_\_\_\_\_ Director

(signed) Bruce Aunger \_\_\_\_\_ Director

# Copper Mountain Mining Corporation

Consolidated Statement of Income (Loss) and Comprehensive Income (Loss)

For the Years Ended December 31,

Canadian dollars

	2012 \$	2011 \$
<b>Revenue</b> (note 12)	229,473,610	66,531,355
<b>Cost of sales</b> (note 13)	(191,253,068)	(50,327,969)
<b>Gross profit (loss)</b>	38,220,542	16,203,386
<b>Other income and expenses</b>		
General and administration (note 13)	(4,252,973)	(4,616,051)
Share based compensation (note 11)	(2,454,937)	(3,810,142)
<b>Operating income (loss)</b>	31,512,632	7,777,193
Finance income	1,571,489	1,344,735
Finance expense (note 14)	(8,388,716)	(6,167,288)
Unrealized (loss) on interest rate swap	(3,654,594)	(9,351,657)
Foreign exchange (loss) gain	4,785,462	(8,282,454)
<b>Income (loss) before tax</b>	25,826,273	(14,679,471)
Current resource tax expense	(1,301,220)	-
Deferred income and resource tax recovery	2,896,832	-
<b>Net income (loss) and comprehensive income (loss)</b>	<b>27,421,885</b>	<b>(14,679,471)</b>
<b>Net income (loss) and comprehensive income (loss) attributable to:</b>		
Shareholders of the Company	19,776,352	(12,698,124)
Non-controlling interest	7,645,533	(1,981,347)
	<b>27,421,885</b>	<b>(14,679,471)</b>
<b>Earnings per share:</b>		
Basic	\$0.20	\$(0.13)
Diluted	\$0.20	\$(0.13)
<b>Weighted average shares outstanding, basic</b>	98,519,596	97,347,637
<b>Shares outstanding at end of the year</b>	98,570,927	98,466,877

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

# Copper Mountain Mining Corporation

Consolidated Statements of Cash Flows

For the Years Ended December 31,

Canadian dollars

	2012 \$	2011 \$
<b>Cash flows from operating activities</b>		
Net income (loss) for the year	27,421,885	(14,679,471)
Adjustments for:		
Depreciation	28,562,519	8,561,824
Unrealized foreign exchange loss (gain)	(6,691,583)	7,528,594
Unrealized loss on interest rate swap	3,654,594	9,351,657
Deferred income and resource tax recovery	(2,896,832)	-
Finance expense	8,388,716	6,066,967
Share based compensation	2,454,937	3,810,142
	<u>60,894,236</u>	<u>20,639,713</u>
Net changes in working capital items (note 16)	(20,294,612)	(8,014,814)
<b>Net cash from (used in) operating activities</b>	<u>40,599,624</u>	<u>12,624,899</u>
<b>Cash flows from investing activities</b>		
Reclamation bonding	(3,500,000)	(692,500)
Restricted cash	(5,990,726)	1,000,000
Development of property, plant and equipment	(19,306,415)	(174,143,282)
<b>Net cash (used) in investing activities</b>	<u>(28,797,141)</u>	<u>(173,835,782)</u>
<b>Cash flows from financing activities</b>		
Issue of common shares - net of issue costs	227,230	40,731,068
Term loan proceeds	-	8,693,387
Contributions from non-controlling interest	-	12,513,247
Term loan principal (paid)	(12,205,560)	(5,816,286)
Interest paid	(9,364,907)	(7,862,209)
Finance lease payments	(5,242,097)	(328,671)
<b>Net cash (used in) from financing activities</b>	<u>(26,585,334)</u>	<u>47,930,536</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	(10,702)	(703,838)
<b>Decrease in cash</b>	(14,793,553)	(113,984,185)
<b>Cash and cash equivalents - Beginning of year</b>	39,094,343	153,078,528
<b>Cash and cash equivalents - End of year</b>	<u>24,300,790</u>	<u>39,094,343</u>
<b>Supplementary cash flow disclosures (note 16)</b>		

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

# Copper Mountain Mining Corporation

## Consolidated Statements of Changes in Equity

Canadian dollars

### Attributable to equity owners of the company

	Number of Share	Amount \$	Contributed surplus \$	Retained earnings (deficit) \$	Total \$	Non-controlling interest \$	Total equity \$
Balance January 1, 2011	90,508,645	116,286,786	3,800,668	1,670,246	121,757,700	49,667,631	171,425,331
Shares issued for cash	5,680,000	40,044,000	-	-	40,044,000	-	40,044,000
Share issue costs	-	(2,266,927)	-	-	(2,266,927)	-	(2,266,927)
Options exercised	646,750	701,150	-	-	701,150	-	701,150
Fair value of options exercised	-	349,252	(349,252)	-	-	-	-
Contributions made by Non-controlling interest	-	-	-	-	-	12,513,247	12,513,247
Brokers warrants exercised	1,631,482	2,252,845	-	-	2,252,845	-	2,252,845
Fair value of warrants exercised	-	229,502	(229,502)	-	-	-	-
Share based compensation	-	-	3,380,473	-	3,380,473	-	3,380,473
(Loss) for the year	-	-	-	(12,698,124)	(12,698,124)	(1,981,347)	(14,679,471)
<b>Balance – December 31, 2011</b>	<b>98,466,877</b>	<b>157,596,608</b>	<b>6,602,387</b>	<b>(11,027,878)</b>	<b>153,171,117</b>	<b>60,199,531</b>	<b>213,370,648</b>
Options exercised	104,050	227,230	-	-	227,230	-	227,230
Fair value of options exercised	-	118,371	(118,371)	-	-	-	-
Contributions made by Non-controlling interest	-	-	-	-	-	-	-
Share based compensation	-	-	2,985,264	-	2,985,264	-	2,985,264
Income for the year	-	-	-	19,776,352	19,776,352	7,645,533	27,421,885
<b>Balance December 31, 2012</b>	<b>98,570,927</b>	<b>157,942,209</b>	<b>9,469,280</b>	<b>8,748,474</b>	<b>176,159,963</b>	<b>67,845,064</b>	<b>244,005,027</b>

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

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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### 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 March 14, 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.

c. Use of judgement

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year.

Accounting for restoration provisions requires management to make estimates of the future costs the Company will incur to complete the restoration and remediation work required to comply with existing laws and regulations. Actual costs incurred may differ from those amounts estimated. In addition, future changes to environmental laws and regulations could increase the extent of restoration work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for restoration. The provision represents management’s best estimate of the present value of the future restoration and remediation costs.

Judgment is required in determining whether deferred tax assets are recognized on the balance sheet. Deferred tax assets, including those arising from unutilized tax losses require management to assess the probability that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction.

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 *Standards for Disclosure of Mineral Projects* (NI 43-101). Reserves are used in the calculation of depreciation, impairment assessment and for forecasting the timing of payment of mine closure,

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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reclamation and rehabilitation costs. There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

### 3 Significant accounting policies

a. Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the derivative financial liability, which is stated at fair value. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

b. Consolidation

The financial statements of the company consolidate the accounts of Copper Mountain Mining Corporation and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries are those entities (including special purpose entities) which the Company controls by having the power to govern the financial and operating policies. The Company's shareholder agreements with MMC and the existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are de-consolidated from the date that control ceases. For partially owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest.

c. Non-controlling interest

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

d. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, reclamation bonds, accounts payable and accrued liabilities, debt and interest rate swap liabilities.

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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### *Cash and cash equivalents*

Cash and cash equivalents comprise of cash at banks and on hand and other short-term investments with initial maturities of less than 90 days. Cash subject to restrictions is excluded. Cash and cash equivalents, restricted cash and reclamation bonds have been classified as loans and receivables and are recorded at amortized cost.

### *Accounts receivable*

Trade accounts receivable are classified as loans and receivables and accordingly are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest rate method. Included in accounts receivable are provisionally priced receivables recorded at fair value through profit and loss.

### *Derivatives*

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

### *Accounts payable and accrued liabilities and debt*

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

### e. Inventory

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. Ore stockpiles not expected to be processed in the next twelve months, are included in 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 are included in the cost of inventories as incurred.

When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. If the circumstances that caused the 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.

# Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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f. Property, plant and equipment

*Exploration and evaluation*

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation and classified as a component of property, plant and equipment. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

*Development*

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in progress and classified as a component of property, plant and equipment. Costs associated with the commissioning of new assets incurred in the period before they are operating in the manner intended by management, are capitalized.

The Company determines the date for commencement of production based on consideration of sustained operating levels and production of saleable concentrate.

The costs of removing overburden to access ore are capitalized as pre-production stripping costs and classified as a component of property, plant and equipment.

*Property, plant and equipment*

Plant and equipment are recorded at cost less accumulated amortization. Costs for facilities under construction include all expenditures incurred directly in connection with project development.

Mobile mining equipment is recorded at cost and amortized over its estimated useful economic life based on hours operating. Repairs and maintenance costs are expensed during the period in which they are incurred. Other equipment and buildings are recorded at cost and amortized over their estimated useful lives on a straight-line basis between 5 to 17 years. Mobile mining equipment was depreciated upon the commencement of pre-production mining activities, while the mill was depreciated upon the start of milling operations. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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The following table outline the methods used to amortized property, plant and equipment:

Assets	Depreciation Method
Buildings	Straight line
Mobile equipment	Hours of operation
Light duty vehicles	Straight line
Plant and equipment	Units of production
Resource property	Units of production

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of income in the period in which they are incurred.

### *Impairment of tangible assets*

The carrying amounts of tangible assets are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong. Cash generating units are individual operating mines or exploration and development projects. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying value, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss exists and is recorded as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### *Leases*

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

g. **Decommissioning and restoration provisions**

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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on estimated future cash flows discounted at a risk free rate. The restoration provision is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free discount rate.

The restoration provision is also accreted to full value over time through periodic charges to income. The amount of the restoration provision initially recognized is capitalized as part of the related asset's carrying value and amortized to earnings. The method of amortization follows that of the underlying asset. The costs related to a restoration provision are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit. A revision in estimates or a new disturbance will result in an adjustment to the liability with an offsetting adjustment to the related asset.

### h. Provisions

Provisions for restructuring costs and legal claims, where applicable, are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

### i. Revenue recognition

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 the accounts receivable 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 adjustments to revenues.

### j. Current and deferred income and resource taxes

Income tax expense comprises current and deferred income and resource tax. Income tax expense is recognized in the statement of income (loss) except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The tax rate used is the rate that is enacted or substantively enacted.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### k. Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital. Charges for options that are forfeited before vesting are reversed.

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

### l. Share capital

The Company records proceeds from share issuances net of issue costs. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares was concluded.

### m. Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding in the period.

Diluted earnings per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In periods of loss basic and diluted earnings per share are the same as dilutive instruments have an anti-dilutive effect.

### n. New Accounting Pronouncements

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 9, *Financial Instruments*, IFRS 10, *Consolidated Financial Statements* (IFRS 10), IFRS 11, *Joint Arrangements* (IFRS 11), IFRS 12, *Disclosure of Interests in Other Entities* (IFRS 12), IAS 27, *Separate Financial Statements* (IAS 27), IFRS 13, *Fair Value Measurement* (IFRS 13), IFRIC 20, *Stripping Costs and the Production Phase of a Surface Mine* (IFRIC 20) and amended IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). Each of the new standards is effective for annual periods beginning on or

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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after January 1, 2013 unless otherwise noted, with early adoption permitted. The Company is in the process of assessing the impact that the new and amended standards on its financial statements.

The following is a brief summary of the new standards:

### *IFRS 9 – Financial Instruments*

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. IFRS 9 is effective for periods beginning on or after January 1, 2015.

### *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

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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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*

IFRIC 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. Stripping activity may create two types of benefit: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2, Inventories. The latter should be accounted for as an addition to or enhancement of an existing asset.

## 4 Accounts receivable and prepaid expenses

	<b>2012</b>	<b>2011</b>
	\$	\$
Amounts due from concentrate sales	9,092,647	7,279,262
Pricing adjustments	1,033,310	(5,658,400)
Other receivables	4,041,426	5,077,114
Prepaid expenses	1,185,607	1,106,836
	<b>15,352,990</b>	<b>7,804,812</b>

## 5 Inventory

	<b>2012</b>	<b>2011</b>
	\$	\$
Supplies	11,306,189	7,548,733
Ore stockpile	2,595,766	3,891,923
Crushed ore stockpile	1,463,183	829,252
Copper Concentrate	6,614,119	9,053,804
	<b>21,979,257</b>	<b>21,323,712</b>
Low grade stockpile <sup>1</sup>	<b>26,887,360</b>	<b>5,540,890</b>

Inventory expensed during the period ended December 31, 2012 totaled \$150,760,386 (December 2011 – 37,883,340).

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<sup>1</sup> Stockpile of inventory that is not expected to be processed until towards the end of the mine life

# Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

## 6 Property, plant and equipment

Cost	Plant and equipment \$	Capital work in progress \$	Exploration and evaluation asset \$	Mineral properties and mine development costs \$	Total \$
As at January 1, 2011	43,518,117	262,694,956	1,742,385	40,159,703	348,115,161
Additions	-	131,034,788	844,637	49,425,097	181,304,522
Transfer between categories	393,729,744	(393,729,744)	-	-	-
Restoration provision	-	-	-	1,311,442	1,311,442
Capitalized interest	3,935,649	-	-	-	3,935,649
As at December 31, 2011	441,183,510	-	2,587,022	90,896,242	534,666,774
Additions	15,818,467	-	3,288,503	199,447	19,306,417
Restoration provision	-	-	-	1,805,547	1,805,547
<b>As at December 31, 2012</b>	<b>457,001,977</b>	<b>-</b>	<b>5,875,525</b>	<b>92,901,236</b>	<b>555,778,738</b>
<b>Accumulated depreciation</b>	<b>Plant and equipment</b>	<b>Capital work in progress</b>	<b>Exploration and evaluation asset</b>	<b>Mineral properties and mine development costs</b>	<b>Total</b>
		\$	\$	\$	\$
As at January 1, 2011	(2,027,731)	-	-	-	(2,027,731)
Depreciation charge	(10,933,904)	-	-	(1,654,077)	(12,587,981)
As at December 31, 2011	(12,961,635)	-	-	(1,654,077)	(14,615,712)
Depreciation charge	(25,407,275)	-	-	(5,373,258)	(30,780,533)
<b>As at December 31, 2012</b>	<b>(38,368,910)</b>	<b>-</b>	<b>-</b>	<b>(7,027,335)</b>	<b>(45,396,245)</b>
<b>Net book value</b>					
As at December 31, 2011	428,221,875	-	2,587,022	89,242,165	520,051,062
<b>As at December 31, 2012</b>	<b>418,633,067</b>	<b>-</b>	<b>5,875,525</b>	<b>85,873,901</b>	<b>510,382,493</b>

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

### 7 Accounts payable and accrued liabilities

	2012	2011
	\$	\$
Trade accounts payable	16,941,830	30,987,200
Accrued liabilities	11,910,290	15,848,586
Amount due to related party	659,521	-
Current portion of interest rate swap liability	1,155,883	1,010,514
Deferred Share Units liability	301,161	831,488
	<b>30,968,685</b>	<b>48,677,788</b>

### 8 Long-term debt

	2012	2011
	\$	\$
Subordinated loan (a)	10,127,870	9,556,544
Senior credit facility (b)	139,945,485	153,436,222
Term loan (c)	152,697,133	157,238,066
Total long term debt	302,770,488	320,230,832
Leases (d)	20,142,864	-
Other	21,262	496,275
Total	20,164,126	496,275
Less: current portion	(18,756,271)	(12,336,210)
	<b>304,178,343</b>	<b>308,390,897</b>

#### 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 \$10,127,870 is net of issue and transaction costs of \$725,250 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

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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15, 2011 the Company commenced instalment payments on the loans. As at December 31, 2012 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 December 31, 2012 the Company held a balance of \$5,979,226 (2011 – Nil) classified as restricted cash.

As at December 31, 2012 the SCF has a principal amount outstanding of \$145,056,420 (US\$145,800,000). The outstanding amount of \$139,945,485 is net of issue costs of \$5,110,935 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:

	<u>US\$</u>
2013	9,720,000
2014	5,670,000
2015	1,620,000
2016 – 2023	<u>128,790,000</u>
	<u><b>145,800,000</b></u>

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 December 31, 2012 the swap had an unrealized fair value loss of \$12,136,771 (2011 - \$11,620,908). The current portion of \$1,155,883 is included in accounts payable and accrued liabilities.

The Company is subject to certain debt covenants on the SCF. As at December 31, 2012 the Company is in compliance with all covenants.

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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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 December 31, 2012 the term loan has a principal amount outstanding of \$157,592,160 (US\$158,400,000). The outstanding amount of \$152,697,133 is net of issue costs of \$4,897,438 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 December 31, 2012 the Company cumulatively paid two instalments of US \$1,600,000 in accordance with the loan agreement.

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

	<u>US\$</u>
2013	3,200,000
2014	3,200,000
2015	4,800,000
2016 - 2022	147,200,000
	<u><b>158,400,000</b></u>

The Company is subject to certain debt covenants. As at December 31, 2012 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.

<b>Gross finance lease liability and minimum lease payments</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Within one year	6,833,005	-
Between two and four years	15,179,635	-
	22,012,640	-
Future interest	(1,869,776)	-
Present value of finance lease liability	<u><b>20,142,864</b></u>	-

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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

<b>Finance lease liability and minimum lease payments, net of interest</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Within one year	5,902,163	-
Between two and four years	14,240,701	-
Total over one year	<b>20,142,864</b>	-

## 9 Decommissioning and restoration provision

### a. Reclamation bonds

The Company has on deposit \$8,200,500 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 December 31, 2012 the Company deposited an additional \$600,000 with the government of British Columbia in support of reclamation liability at the Copper Mountain mine site.

### 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:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Opening balance	5,152,382	3,802,222
Changes in estimated costs and timing	1,805,547	1,311,442
Unwinding of discount on restoration provision	39,954	38,718
End of year	<b>6,997,883</b>	<b>5,152,382</b>

The provision also increased due to a decrease in the discount rate. The Company used an inflation rate of 1.20% ( 2011 – 1.90%) and a discount rate of 2.28% ( 2011 – 2.79%) 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.

# Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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## 10 Share capital

Authorized - Unlimited number of common shares without par value.

## 11 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 December 31, 2012 the Company had 5,674,500 options outstanding as follows:

	Number of shares	Weighted average exercised price \$
Opening balance	4,997,050	1.99
Granted in the year	850,000	4.52
Expired	(68,500)	5.85
Exercised	(104,050)	2.18
December 31, 2012	<b>5,674,500</b>	<b>2.32</b>

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	2,527,000	\$ 0.60	May 6, 2014
Jan. 14 to Aug. 12, 2010	1,742,500	\$ 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
	<b>5,674,500</b>		

As at December 31, 2012, 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 2012, share based compensation expense included \$(530,327) related to stock options.

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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 as at December 31, 2012 and 2011:

<b>Units</b>	<b>DSU-D (1)</b>	<b>DSU-E (2)</b>
December 31, 2011	<b>34,684</b>	<b>329,646</b>
Granted in the year	22,655	-
December 31, 2012	<b>57,339</b>	<b>329,646</b>
	<b>DSU-D</b>	<b>DSU-E</b>
<b>Liability</b>	<b>\$</b>	<b>\$</b>
December 31, 2011	<b>195,271</b>	<b>636,217</b>
Share based compensation expense (recovery)	30,071	(560,398)
December 31, 2012	<b>225,342</b>	<b>75,819</b>

(1) As at December 31, 2012, all DSU-Ds had vested.

(2) As at December 31, 2012, all DSU-Es had vested.

As at December 31, 2012, the following deferred share units were outstanding:

<b>Date of grant</b>	<b>Number of units</b>	<b>Exercise price</b>	<b>Expiry date</b>
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
	<b>386,985</b>		

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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### 12 Revenue

	2012	2011
	\$	\$
Copper concentrate	205,336,980	61,012,090
Gold metal sales	31,458,818	11,649,557
Silver metal sales	11,238,918	4,238,232
Treatment and refining charges	(16,919,513)	(4,710,124)
Pricing adjustments on unsettled concentrate and metal sales	1,033,310	(5,658,400)
Concentrate and metal sales settled in the year	(2,674,903)	-
	<b>229,473,610</b>	<b>66,531,355</b>

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.

### 13 Expenses by nature

	2012	2011
	\$	\$
Direct mining and milling costs	112,454,706	22,311,739
Employee compensation and benefits	38,305,680	15,571,601
Depreciation	28,562,519	8,561,824
Transportation costs	11,930,163	3,882,805
<b>Cost of sales</b>	<b>191,253,068</b>	<b>50,327,969</b>
General and administration:		
Corporate employee compensation and benefits	2,003,576	2,284,778
Corporate administrative and office expenses	2,249,397	2,331,273
	4,252,973	4,616,051
	<b>195,506,041</b>	<b>54,944,020</b>

Cost of sales consists of direct mining and milling costs (which include 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.

# Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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## 14 Finance expense

	2012	2011
	\$	\$
Interest on loans	6,969,687	4,874,196
Amortization of financing fees	1,063,891	934,374
Loan guarantee fee	315,184	320,000
Unwinding of discount on restoration provision	39,954	38,718
	<b>8,388,716</b>	<b>6,167,288</b>

## 15 Related party transactions

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

- a. During the year ended December 31, 2012 the Company sold copper concentrates to MMC with revenues totalling \$229,473,610, including pricing adjustments. (2011 – \$66,531,355)
- b. During the year ended December 31, 2012 the Company accrued interest on the subordinated loan with MMC totalling \$468,480 (2011 - \$350,720) and accrued a guarantee fee to MMC of \$315,184 (2011- \$320,000)
- c. During the year ended December 31, 2012, the Company paid \$144,241 (2011 - \$137,920) in office rent to Kobex Minerals Inc., a company related to the Company by a common director. No outstanding payables to Kobex at December 31, 2012.
- d. Compensation of key management:

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

	2012	2011
	\$	\$
Salaries and short-term employee benefits	1,310,561	2,015,696
Share based compensation	1,712,173	1,833,062
	<b>3,022,734</b>	<b>3,848,758</b>

As at December 31, 2012, there was \$72,322 outstanding payables to officers and directors which was paid in January 2013.

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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### 16 Supplementary cash flow disclosures

- a. As at December 31, 2012, cash and cash equivalents consists of guaranteed investment certificates of \$7,500,000 (2011 –\$32,817,000) and \$16,800,790 in cash (2011 - \$6,277,342) held in bank accounts.
- b. A reconciliation of net changes in working capital items is as follows:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Change in accounts receivable and prepaid expenses	(7,548,178)	(4,389,671)
Change in inventory	(19,784,004)	(23,822,588)
Change in mineral tax liability	126,852	-
Change in accounts payable and accrued liabilities	6,910,718	20,197,445
	<b>(20,294,612)</b>	<b>(8,014,814)</b>

### 17 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. As at December 31, 2012 the Company has accrued \$330,574 representing penalty on the minimum annual shipping tonnage shortfall.

### 18 Income tax

- a. The Company and its subsidiaries are subject to Canadian federal and provincial tax for the estimated assessable profit for the years ended December 31, 2012 and 2011 at a rate of 25.00% and 26.50% respectively.

Income tax expense comprises current and deferred income and resource tax. BC mineral taxes meet the definition of an income tax. Income tax expense is recognized in the statement of income (loss) except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity, respectively.

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

The tax recovery for the Company can be reconciled to the loss for the year per the consolidated statement of income (loss) and comprehensive income (loss) as follows:

	2012	2011
	\$	\$
Earnings (loss) before income taxes	25,826,273	(14,679,471)
Statutory tax rate	25.00%	26.50%
Income tax expense (recovery)	6,456,568	(3,890,060)
Increase (decrease) due to:		
Non-deductible items	637,899	908,377
Non-taxable items	(856,684)	1,065,229
Losses for which no tax benefit has been recorded	880,437	1,807,298
Change in enacted tax rates	-	109,156
Recognition of previously unrecognized income tax assets	(8,713,978)	-
Income tax expense (recovery)	<b>(1,595,758)</b>	-

- b. Deferred income tax assets reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The significant components of the Company's recognized deferred income tax assets at December 31, 2012 and 2011 are as follows:

	2012	2011
	\$	\$
Capital leases	7,183,706	-
Derivative instruments	3,034,193	-
Decommissioning and restoration provision	2,431,764	-
Other	1,387,971	-
Property, plant and equipment expenditures	(7,281,034)	-
Debt issue costs	(1,269,344)	-
Inventory	(1,456,407)	-
Unrealized foreign exchange gain	(1,134,017)	-
	<b>2,896,832</b>	-

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

The significant components of the Company's unrecognized deferred income tax assets at December 31, 2012 and 2011 are as follows:

	2012 \$	2011 \$
Deferred income tax assets		
Non-capital loss carry-forward	3,500,380	4,254,143
Share issue costs	692,593	1,184,587
Property, plant and equipment expenditures	1,371,707	4,306,014
Derivative instruments	-	2,905,227
Decommissioning and restoration provision	-	1,288,096
Other	16,271	404,549
Debt issue costs	-	(892,226)
Inventory	-	(493,272)
Unrealized foreign exchange gain (loss)	-	(297,332)
	<b>5,580,951</b>	<b>12,659,786</b>

- c. As at December 31, 2012 the Company has investment tax credits available for carry forward which may be applied to reduce future years income taxes. These investment tax credits will expire as follows:

	2012 \$	2011 \$
2028	608,450	608,450
2029	1,747,909	1,747,909
2030	5,525,227	5,525,227
2031	812,644	-
	<b>8,694,230</b>	<b>7,881,586</b>

As at December 31, 2012, the Company has non-capital losses available for carry forward which may be applied to reduce future years taxable income. These losses, if not utilized will expire as follows:

Expiry date	2012 \$	2011 \$
December 31, 2016	-	98,000
December 31, 2025	-	67,000
December 31, 2026	81,876	1,471,000
December 31, 2027	1,148,365	989,000
December 31, 2028	1,635,278	1,630,000
December 31, 2029	2,191,347	2,369,000
December 31, 2030	2,406,689	5,080,000
December 31, 2031	4,153,361	3,424,126
December 31, 2032	2,384,604	-
	<b>14,001,520</b>	<b>15,128,126</b>

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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### 19 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 December 31, 2012 and 2011.

	2012 \$	2011 \$
<b>Financial assets</b>		
<i>Loans and receivables</i>		
Cash and cash equivalents	24,300,790	39,094,343
Restricted cash	6,013,726	23,000
Reclamation bonds	8,200,500	4,700,500
Amounts due from concentrate sales (note 4)	9,092,647	7,279,262
 <i>Fair value through profit and loss</i>		
Pricing adjustments (notes 4 and 12)	1,033,310	(5,658,400)
 <b>Financial liabilities</b>		
<i>Amortized cost</i>		
Accounts payable (note 7)	17,461,923	30,987,200
Long-term debt	304,178,343	308,390,897
 <i>Fair value through profit and loss</i>		
Interest rate swap liability	12,136,771	11,620,908

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

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

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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 December 31, 2012:

	Level 1	Level 2	Level 3	Total fair value
	\$	\$	\$	\$
<b>Financial assets</b>				
Pricing adjustments (note 4 and 12)	-	(1,033,310)	-	(1,033,310)
<b>Financial liabilities</b>				
Interest rate swap liability (note 8b)	-	12,136,771	-	12,136,771

### Financial risks factors

The company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and commodity price risk), credit risk and liquidity risk. Risk management is carried out by management under policies approved by the board of directors. Management identifies and evaluates the financial risks in co-operation with the company's operating units. The board provides written principles

# Copper Mountain Mining Corporation

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for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The company's overall risk management program seeks to minimize potential adverse effects on the company's financial performance.

a. Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash of cash equivalents, reclamation bonds and accounts receivable. The Company deposits cash and cash equivalents with high credit quality financial institutions. The Company's credit risk associated with trade accounts receivable is managed through establishing long-term contractual relationships using industry-standard contract terms. Other accounts receivable consist of amounts owing from government authorities in relation to the refund of value-added taxes applying to inputs for the production process and property, plant and equipment expenditures. The carrying value of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

b. Market risks

*Commodity price risk*

The Company is subject to commodity price risk from fluctuations in the market prices of copper, gold and silver. The Company is also exposed to commodity price risk on diesel fuel required for its mining operations.

As at December 31, 2012 and December 31, 2011, the Company had not entered into any diesel derivative contracts and no commodity hedging in respect of copper, gold or silver production had been undertaken.

The Company's commodity price risk related to accounts receivable concerns changes in fair value of embedded derivatives in accounts receivable reflecting copper concentrate sales provisionally priced based on the forward price curve at the end of each quarter.

The following table shows the impact on net earnings from changes in the fair values of financial instruments of a 10% change in the copper, gold and silver commodity prices, based on December 31, 2012 prices. There is no impact of these changes on other comprehensive income.

The impact of a 10% movement in commodity prices as of December 31, 2012 is as follows:

	Impact of price change on net earnings	
	10% increase	10% decrease
	\$	\$
<hr/>		
<b>Accounts receivable</b>		
Amounts due from concentrate sales	8,821,139	(8,821,139)

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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As at December 31, 2012 the Company had approximately 20,900,000 pounds of copper, 7,400 ounces of gold and 124,000 ounces of silver that was provisionally priced at US\$3.59 per pound, US\$1,715 per ounce and US\$32.31 per ounce respectively to be settled at a future date.

### *Interest rate risk*

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

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

The floating-to-fixed interest rate swaps as at December 31, 2012 covered 33.55% of the Company's floating rate debt at a rate of 4.81% per annum. The final maturity of the swaps is on December 15, 2020.

At December 31, 2012 the impact on a full year net earnings of a 1% change in interest rate would be as follows:

	<b>Impact of interest rate change on net earnings</b>	
	<b>1% increase</b>	<b>1% decrease</b>
	<b>\$</b>	<b>\$</b>
Cash & cash equivalents	243,008	(243,008)
Interest rate swap liabilities	(7,896,521)	7,896,521
Long-term debt	(30,277,049)	30,277,049

### *Currency risk*

The Company incurs expenditures in Canadian and US dollars. The measurement and reporting currency of the parent company is Canadian dollars. Foreign exchange risk arises because the amount of the US dollar cash and cash equivalents, receivable, payables and debt will vary in Canadian dollar terms due to changes in exchange rates. The Company has not hedged its exposure to currency fluctuations. The net impact of a 10% increase or decrease in the US dollar to the Canadian dollar exchange rate at December 31, 2012 would result in a \$33,689,485 (2011 -\$31,108,028) decrease or increase in net income.

### *Liquidity risk*

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

# Copper Mountain Mining Corporation

## Notes to Consolidated Financial Statements

For the Years Ended December 31, 2012 and 2011

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The company had the following balances and facilities available to them:

	2012 \$	2011 \$
Cash and cash equivalents	24,300,790	39,094,343
Working capital balance	11,781,230	7,231,861
Undrawn debt facilities	-	-

Maturity analysis of financial liabilities as at December 31, 2012 is as follows:

	Total \$	< 1 year \$	2-3 years \$	4-5 years \$	Thereafter \$
Long-term debt	339,730,627	18,310,963	25,603,985	54,901,969	240,913,710
Capital lease	22,012,640	6,833,005	13,873,978	1,305,657	-
Trade accounts payable	16,941,830	16,941,830	-	-	-

## 20 Capital management

The Company's objectives when managing capital are to safe guard its ability to continue as a going concern, to provide an adequate return on investment to shareholders and, to the extent possible, maintain a flexible capital structure that optimizes the cost of capital at acceptable risk. There were no changes to the Company's approach to capital management during the year ended December 31, 2012. In the management of capital, the Company includes the components of equity, net of cash and cash equivalents.

## 21 Segmented information

The Company operates as a single reportable operating segment which consists of the Copper Mountain mine and other corporate function entities which are both located in Canada. The corporate entities are responsible for the evaluation and acquisition of new mineral properties, regulatory reporting, treasury, finance and corporate administration.

The Company sells all of its copper concentrates produced to MMC smelters in Japan based on quoted market prices in a period. During the period ended December 31, 2012 revenues attributed to the sale of copper concentrate to MMC totaled \$229,473,610 (2011 - \$66,531,355).

As at December 31, 2012 the Company holds property, plant and equipment totalling \$510,382,493 (2011 - \$520,051,062) and non-current inventory of \$26,887,360 (2011 - \$5,540,890) which is all located in Canada.