

Çayeli

		three months ended March 31			objective
		2009	2008	change	2009
Tonnes of ore milled (000's)		264	278	-5%	1,200
Tonnes of ore milled per day		2,900	3,100	-5%	3,300
Grades (percent)	copper	3.4	3.6	-6%	3.8
	zinc	6.2	6.5	-5%	6.5
Mill recoveries (percent)	copper	78	81	-4%	80
	zinc	72	70	+3%	72
Production (tonnes)	copper	7,000	8,100	-14%	36,800
	zinc	11,800	12,700	-7%	56,400
Cost per tonne of ore milled (C\$)		\$77	\$84	-8%	\$81

Production targets remain consistent

Çayeli achieved a mill throughput rate of 143 tonnes per hour during the quarter – which keeps it on target to achieve its objective of a 1.2 million tonne annualized rate.

Interruptions in stope sequencing, however, meant lower mine production and mill throughput, as well as lower ore grades than last year's first quarter and our 2009 plan. Copper and zinc production were therefore lower this quarter than in the first quarter of 2008. We expect grades to increase in the second quarter.

Operating costs for the quarter were lower than last year, mainly because of the drop in the value of the Turkish lira, which reduced labour costs, and the cost of key commodities, such as copper sulphate and electricity. Programs designed to achieve additional savings also made an impact, saving about \$0.5 million in operating costs and 700 man shift hours in labour throughout the quarter. Royalty charges were \$2 million less than the first quarter of last year because earnings were lower.

2009 outlook for production and costs

We expect copper grades in 2009 to increase to 3.8 percent and zinc grades to rise to 6.5 percent. Although we have not adjusted our objective for cost per tonne of ore milled yet, we expect savings during the year from cost savings programs, lower commodity prices and lower labour costs.

The current three-year labour agreement will expire in May 2009 and negotiations with the union are expected to begin in May. Pay increases historically have exceeded inflation levels. We will make a strong effort to manage labour cost escalations to maintain our competitiveness.

Royalties also have a significant effect on costs and are variable depending on earnings. Cost per tonne of ore milled includes \$7 per tonne in royalties in the first quarter. We have estimated that royalties will be \$3 per tonne out of our total 2009 objective of \$81 per tonne of ore milled, depending on metal prices.

Financial review

Lower earnings this quarter because of a significant decline in copper and zinc prices

<i>(millions of Canadian dollars unless otherwise stated)</i>	three months ended March 31		objective
	2009	2008	2009
Sales analysis			
Copper sales (tonnes)	6,500	6,700	36,800
Zinc sales (tonnes)	14,800	13,900	56,400
Gross copper sales	\$37	\$64	\$152
Gross zinc sales	21	34	78
Other metal sales	2	3	23
Gross sales	60	101	253
Smelter processing charges and freight	(19)	(22)	(99)
Net sales	\$41	\$79	\$154
Cost analysis			
Tonnes of ore milled (thousands)	264	278	1,200
Direct production costs (\$ per tonne)	\$77	\$84	\$81
Direct production costs	\$20	\$23	\$97
Change in inventory	2	(2)	-
Depreciation and other non-cash costs	4	4	18
Operating costs	\$26	\$25	\$115
Operating earnings	\$15	\$54	\$39
Operating cash flow	(\$9)	\$15	\$51

The objective for 2009 uses the assumptions laid out on page 13.

The table below shows what contributed to the change in operating earnings and operating cash flow between 2009 and 2008.

<i>(millions)</i>	three months ended March 31
Lower metal prices, denominated in Canadian dollars	\$(39)
Lower smelter processing charges	1
Lower royalty	2
Higher depreciation	(1)
Other	(2)
Lower operating earnings, compared to 2008	(39)
Lower tax expense because earnings were lower	11
Changes in working capital	5
Other	(1)
Lower operating cash flow, compared to 2008	\$(24)

Spending in 2009 will be limited to sustaining capital

	three months ended March 31			objective
	2009	2008	change	2009
Capital spending	\$3,600	\$5,700	-37%	\$22,000

Capital spending in the quarter was for mine equipment replacements.

2009 outlook for capital spending

Çayeli expects to spend \$22 million in 2009 on mine equipment replacements, mill upgrades and mine development.