

Çayeli

	three months ended			year ended			objective	
	2009	2008	change	2009	2008	change		
Tonnes of ore milled (000's)	300	292	+3%	1,151	1,109	+4%	1,200	
Tonnes of ore milled per day	3,300	3,200	+3%	3,150	3,040	+4%	3,300	
Grades (percent)	copper	3.7	-5%	3.3	3.7	-11%	3.3	
	zinc	6.5	6.2	+5%	6.3	6.1	+3%	6.1
Mill recoveries (percent)	copper	79	77	+3%	77	80	-4%	78
	zinc	71	70	+1%	71	71	-	70
Production (tonnes)	copper	8,200	8,400	-2%	29,200	32,700	-11%	30,500
	zinc	13,800	12,800	+8%	50,900	47,600	+7%	51,700
Cost per tonne of ore milled (C\$)	\$78	\$72	+8%	\$72	\$81	-11%	\$72	

Production results surpass 2008 achievement to set a new record

Çayeli's production increased to a record 1.15 million tonnes this year, including 300,000 tonnes in the fourth quarter, and set several new records for milling, including best daily tonnage of 3,700 tonnes, and best monthly tonnage of 107,000 tonnes. The mine also placed record amounts of paste and waste fill into the underground.

Copper grades this quarter and for the year were lower than last year due to adjustments in the mining sequence. Dilution was also higher because we mined more secondary and tertiary stopes than planned. Copper recoveries for the year were also below prior year because the ore type changed as we moved deeper into the ore body. Copper production for the quarter and year compared to 2008, was therefore lower.

Zinc grades were higher this quarter and for the year compared to last year because of the sequence of stopes resulting in higher zinc production.

Recent reductions in the work force and improvements in productivity have helped to manage labour costs and maintain our competitiveness. In December 2009, Çayeli finalized a three-year labour agreement, effective May 2009, that includes an inflation adjustment as well as some first year adjustments. We expect the agreement to increase annual operating costs by about US \$0.02 per pound. Operating costs this quarter were higher than 2008 mainly due to higher royalties because of higher income and the cumulative effect of the labour agreement during 2009 (effective May 2009) that was recorded when the agreement was signed.

2010 outlook for production and costs

In 2010, production levels should remain at 1.2 million tonnes, and copper and zinc grades should remain essentially unchanged at 3.3 percent for copper and 6.1 percent for zinc.

The existing five year, deep sea tailings deposition permit expired in January 2010. The regulator has granted an extension while it incorporates recent changes in legislation into the renewal.

Financial review

Higher earnings this quarter because of significantly higher copper and zinc prices

<i>(millions of Canadian dollars unless otherwise stated)</i>	three months ended		year ended		<i>objective 2010</i>
	2009	December 31 2008	2009	December 31 2008	
Sales analysis					
Copper sales (tonnes)	8,900	9,100	29,000	32,500	30,500
Zinc sales (tonnes)	15,000	7,200	52,400	48,800	51,700
Gross copper sales	\$69	\$14	\$185	\$194	\$212
Gross zinc sales	39	11	102	99	120
Other metal sales	6	2	18	12	18
Gross sales	114	27	305	305	350
Smelter processing charges and freight	(27)	(13)	(82)	(78)	(97)
Net sales	\$87	\$14	\$223	\$227	\$253
Cost analysis					
Tonnes of ore milled (thousands)	300	292	1,151	1,109	1,200
Direct production costs (\$ per tonne)	\$78	\$72	\$72	\$81	\$72
Direct production costs	\$24	\$21	\$83	\$90	\$86
Change in inventory	1	(2)	-	-	-
Depreciation and other non-cash costs	4	3	16	14	18
Operating costs	\$29	\$22	\$99	\$104	\$104
Operating earnings (loss)	\$58	\$(8)	\$124	\$123	\$149
Operating cash flow	\$51	\$(7)	\$96	\$82	\$132

The objective for 2010 uses the assumptions listed on page 15.

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 December 31	year ended December 31
Higher metal prices, denominated in Canadian dollars	\$74	\$13
Higher (lower) sales volumes	1	(15)
Higher smelter processing charges	(6)	(2)
Higher royalty	(4)	-
(Higher) lower operating costs (labour)	(1)	7
(Higher) lower depreciation and other	2	(2)
Higher operating earnings, compared to 2008	66	1
Change in tax expense because of change in taxable income	(17)	2
Changes in working capital	1	(1)
Add back higher depreciation and other	8	12
Higher operating cash flow, compared to 2008	\$58	\$14

Spending in 2009 limited to sustaining capital

	three months ended			year ended		
	2009	2008	change	2009	2008	change
Capital spending	\$4,200	\$3,600	+17%	\$14,900	\$20,300	-27%
						objective 2010
						\$21,000

Capital spending in the quarter and for the year was for mine equipment replacements, some mill upgrades and mine development.

2010 outlook for capital spending

We expect to spend \$21 million on capital in 2010 for mobile equipment, site water control, slope stability, additional mill upgrades and development. We will complete a second head frame realignment phase in 2010, which will bring the head frame back to its design configuration, and establish a monitoring and correction program to ensure the facility remains viable for the life of the mine. At the same time, we will implement several geotechnical recommendations to curtail surface instability.