

Çayeli

	three months ended June 30			six months ended June 30			objective 2010	
	2010	2009	change	2010	2009	change		
Tonnes of ore milled (000's)	295	296	-	584	561	+4%	1,200	
Tonnes of ore milled per day	3,200	3,300	-	3,200	3,100	+4%	3,300	
Grades (percent)	copper	3.2	3.2	-	3.2	3.3	-3%	3.3
	zinc	7.0	5.9	+19%	6.3	6.0	+5%	6.1
Mill recoveries (percent)	copper	76	80	-5%	77	79	-3%	78
	zinc	73	68	+7%	72	70	+3%	70
Production (tonnes)	copper	7,100	7,500	-5%	14,200	14,600	-3%	30,500
	zinc	15,000	11,800	+27%	26,500	23,600	+12%	51,700
Cost per tonne of ore milled (C\$)	\$72	\$67	+7%	\$74	\$72	+3%	\$72	

Production results on target

Production at Çayeli was strong this quarter, and in line with its annual 1.2 million tonne objective. Çayeli set several new records for milling this quarter including: best monthly feed rate (153 dry tonnes per hour), best daily tonnage processed (3,789 tonnes), and highest daily concentrate tonnes produced (1,042 tonnes).

Copper production was lower for the quarter and year to date compared to 2009 mainly due to lower recoveries because of variation in ore types. Zinc production was significantly higher than 2009 because grades and recoveries were higher.

There were four falls of ground during the quarter, and we continue to focus on ground support and rehabilitation. Additionally, we have significantly reduced the underground backfill void.

2010 outlook for production

Production levels should remain at 1.2 million tonnes in 2010, and we expect copper and zinc grades should be at 3.3 percent for copper and 6.1 percent for zinc.

Financial review

Higher earnings for the year because copper and zinc prices were higher

<i>(millions of Canadian dollars unless otherwise stated)</i>	three months ended June 30		six months ended June 30		<i>revised objective</i>
	2010	2009	2010	2009	2010
Sales analysis					
Copper sales (tonnes)	5,600	6,800	12,100	13,300	30,500
Zinc sales (tonnes)	16,600	12,700	28,900	27,500	51,700
Gross copper sales	\$35	\$36	\$85	\$73	\$214
Gross zinc sales	30	23	59	44	101
Other metal sales	3	5	6	7	14
Gross sales	68	64	150	124	329
Smelter processing charges and freight	(18)	(19)	(38)	(38)	(77)
Net sales	\$50	\$45	\$112	\$86	\$252
Cost analysis					
Tonnes of ore milled (thousands)	295	296	584	561	1,200
Direct production costs (\$ per tonne)	\$72	\$67	\$74	\$72	\$72
Direct production costs	\$21	\$20	\$43	\$40	\$86
Change in inventory	-	(1)	(1)	-	-
Depreciation and other non-cash costs	5	4	8	9	18
Operating costs	\$26	\$23	\$50	\$49	\$104
Operating earnings	\$24	\$22	\$62	\$37	\$148
Operating cash flow	\$24	\$24	\$53	\$15	\$128

The objective for 2010 uses the assumptions listed on page 13.

The table below shows what contributed to the change in operating earnings and operating cash flow between 2010 and 2009.

<i>(millions)</i>	three months ended June 30	six months ended June 30
Higher metal prices, denominated in Canadian dollars	\$4	\$31
Lower sales volumes	(2)	(4)
(Higher) lower smelter processing charges	2	(1)
Higher operating costs	(1)	(3)
Other	(1)	2
Higher operating earnings, compared to 2009	\$2	\$25
Change in tax expense because of change in taxable income	(3)	(5)
Changes in working capital (see note 2 on page 44)	-	19
Other	1	(1)
Higher operating cash flow, compared to 2009	\$-	\$38

Capital spending expected to be lower due to timing

	three months ended June 30			six months ended June 30			<i>revised objective</i>
	2010	2009	change	2010	2009	change	2010
Capital spending	\$3,100	\$3,000	+3%	\$4,900	\$6,600	-26%	\$19,000

2010 outlook for capital spending

We expect to spend \$19 million in 2010 on mobile equipment, site water control, stope stability, additional mill upgrades and development. The second phase of the headframe realignment project is underway and should be completed in the third quarter. This will bring the headframe back to its design configuration. We have established a monitoring and correction program to ensure the facility remains stable for the remaining life of the mine. At the same time, we will implement several geotechnical recommendations to curtail surface instability.