



Second Quarter Report 2020

Condensed Consolidated Interim Financial Statements (unaudited)

For the Three and Six Months Ended June 30, 2020 and 2019

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at June 30, 2020 and December 31, 2019

expressed in thousands of Canadian dollars

	Notes	June 30 2020	December 31 2019
ASSETS			
Current Assets			
Cash		\$67,547	\$89,953
Marketable securities		40	39
Trade and other receivables		10,332	5,759
Inventory	5	12,091	13,080
Prepaid expenses and deposits		2,602	2,968
		92,612	111,799
Mineral Properties	6	925,849	890,334
Other Assets	7	46,478	47,254
Deferred Income Tax Assets		8,074	9,115
		<u>\$1,073,013</u>	<u>\$1,058,502</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		\$51,569	\$49,300
Taxes payable		875	868
Provision for rehabilitation costs		1,358	1,146
Current portion of debt	10	1,099	1,300
Current portion of other obligations		1,787	3,933
		56,688	56,547
Provision for Rehabilitation Costs		469	938
Non-Current Debt	10	2,098	2,516
Deferred Trade Payables	8	-	4,686
Future Site Reclamation Provisions	11	122,046	99,503
Deferred Income Tax Liabilities		161,637	159,244
		<u>342,938</u>	<u>323,434</u>
EQUITY			
Share Capital	12	319,216	319,216
Contributed Surplus		40,487	40,302
Currency Translation Adjustment		8,087	7,762
Retained Earnings		362,285	367,788
		<u>730,075</u>	<u>735,068</u>
		<u>\$1,073,013</u>	<u>\$1,058,502</u>
Commitments and Pledges	20		
Contingent Liabilities	21		

See accompanying notes to these condensed consolidated financial statements.

Approved by the Board and authorized for issue on August 12, 2020.

/s/ Larry G. Moeller

Director

/s/ J. Brian Kynoch

Director

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the Three and Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2020	2019	2020	2019
Revenue		\$45,056	\$21,673	\$73,021	\$35,476
Cost of Sales	13	(33,248)	(23,828)	(61,522)	(40,158)
Income (loss) from Mine Operations		11,808	(2,155)	11,499	(4,682)
General and Administration		(566)	(1,552)	(1,596)	(2,787)
Idle Mine Costs		(5,845)	(2,829)	(11,169)	(4,207)
Interest Expense	14	(366)	(18,091)	(763)	(36,488)
Other Finance Income (Loss)	15	(1,376)	10,902	322	17,955
Other Income		6	49	6	121
Income (Loss) before Taxes		3,661	(13,676)	(1,701)	(30,088)
Income and Mining Tax (Expense) Recovery		(2,954)	3,999	(3,802)	18,074
Net Income (loss) from continuing operations		707	(9,677)	(5,503)	(12,014)
Net Income from discontinued operations		-	2,227	-	2,296
Net Income (Loss)		707	(7,450)	(5,503)	(9,718)
Other Comprehensive Income (Loss)					
Items that may be subsequently reclassified to profit or loss					
Currency translation adjustment		(284)	(140)	325	(282)
Total Comprehensive Income (Loss)		\$423	\$(7,590)	\$(5,178)	\$(10,000)
Income (Loss) from Continuing Operations Per Share					
Basic		\$0.01	\$(0.08)	\$(0.04)	\$(0.10)
Diluted		\$0.01	\$(0.08)	\$(0.04)	\$(0.10)
Income from Discontinued Operations Per Share					
Basic		\$ -	\$0.02	\$ -	\$0.02
Diluted		\$ -	\$0.02	\$ -	\$0.02
Income (Loss) Per Share					
Basic		\$0.01	\$(0.06)	\$(0.04)	\$(0.08)
Diluted		\$0.01	\$(0.06)	\$(0.04)	\$(0.08)
Weighted Average Number of Common Shares Outstanding					
Basic		128,490,174	127,110,479	128,490,174	126,104,879
Diluted		128,490,174	127,110,479	128,490,174	126,104,879

See accompanying notes to these consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

	Share Capital		Contributed Surplus	Currency Translation Adjustment	Retained Earnings	Total
	Number of Shares	Amount				
Balance December 31, 2018	120,782,585	\$304,364	\$45,411	\$8,094	\$45,363	\$403,232
Issued for payment of interest on debt	6,327,894	11,458	-	-	-	11,458
Share based compensation expense	-	-	121	-	-	121
Total comprehensive loss	-	-	-	(282)	(9,718)	(10,000)
Balance June 30, 2019	<u>127,110,479</u>	<u>\$315,822</u>	<u>\$45,532</u>	<u>\$7,812</u>	<u>\$35,645</u>	<u>\$404,811</u>
Balance December 31, 2019	128,490,174	\$319,216	\$40,302	\$7,762	\$367,788	\$735,068
Share based compensation expense	-	-	185	-	-	185
Total comprehensive income (loss)	-	-	-	325	(5,503)	(5,178)
Balance June 30, 2020	<u>128,490,174</u>	<u>\$319,216</u>	<u>\$40,487</u>	<u>\$8,087</u>	<u>\$362,285</u>	<u>\$730,075</u>

See accompanying notes to these condensed consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three and Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2020	2019	2020	2019
OPERATING ACTIVITIES					
Income (loss) before taxes		\$3,661	\$(13,676)	\$(1,701)	\$(30,088)
Items not affecting cash flows					
Depletion and depreciation		10,544	4,256	19,303	7,100
Share based compensation		136	70	185	179
Accretion of future site reclamation provisions		644	638	1,308	1,295
Unrealized foreign exchange losses (gains)		1,082	(9,167)	(957)	(18,179)
Fair value adjustment for debt settled in common shares		-	-	-	3,356
Interest expense		366	18,091	763	36,488
Other		(16)	(5)	(7)	81
		<u>16,417</u>	<u>207</u>	<u>18,894</u>	<u>232</u>
Net change in non-cash operating working capital balances	16	(9,354)	6,319	(7,909)	(3,660)
Income and mining taxes refunded (paid), net		-	8,112	(301)	8,126
Interest paid		(410)	(6,203)	(764)	(25,484)
Operating cash flows provided by (used in) continuing operations		<u>6,653</u>	<u>8,435</u>	<u>9,920</u>	<u>(20,786)</u>
Operating cash flows provided by discontinued operations		-	8,920	-	8,353
Cash provided by (used in) operating activities		<u>6,653</u>	<u>17,615</u>	<u>9,920</u>	<u>(12,173)</u>
FINANCING ACTIVITIES					
Proceeds of short term debt		-	7,888	-	46,140
Repayment of short term debt		-	(1,673)	-	(9,264)
Proceeds of non-current debt, net of deferred financing costs		-	(19)	-	130,704
Repayment of non-current debt		(199)	(548)	(310)	(132,538)
Lease payments		(272)	(14)	(535)	(26)
Cash (used in) provided by financing activities in continuing operations		<u>(471)</u>	<u>5,634</u>	<u>(845)</u>	<u>35,016</u>
Cash used in financing activities in discontinued operations		-	(2,298)	-	(4,255)
Cash (used in) provided by financing activities		<u>(471)</u>	<u>3,336</u>	<u>(845)</u>	<u>30,761</u>

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three and Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

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	Three Months Ended June 30		Six Months Ended June 30		
Notes	2020	2019	2020	2019	
INVESTING ACTIVITIES					
Acquisition and development of mineral properties	6	(19,272)	(822)	(30,872)	(1,556)
Payments of other obligations		(1,072)	-	(2,145)	-
Proceeds on sale of mineral properties		432	6	432	36
Proceeds on sale of marketable securities		-	601	-	601
Other investing items		(9)	511	(6)	302
Investing cash flows (used in) provided by continuing operations		(19,921)	296	(32,591)	(617)
Investing cash flows used in discontinued operations	3	-	(9,681)	-	(18,927)
Cash used in investing activities		(19,921)	(9,385)	(32,591)	(19,544)
EFFECT OF FOREIGN EXCHANGE ON CASH		(1,209)	(67)	1,110	(107)
(DECREASE) INCREASE IN CASH		(14,948)	11,499	(22,406)	(1,063)
CASH, BEGINNING OF PERIOD		82,495	6,012	89,953	18,574
CASH, END OF PERIOD		\$67,547	\$17,511	\$67,547	\$17,511

See accompanying notes to these consolidated financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

1. NATURE OF OPERATIONS

Imperial Metals Corporation (the “Company”) is incorporated under the laws of the Province of British Columbia, Canada, and its principal business activity is the exploration, development and production of base and precious metals from its mineral properties. The head office, principal address and registered and records office of the Company are located at 580 Hornby Street, Suite 200, Vancouver, British Columbia, Canada V6C 3B6. The Company’s shares are listed as symbol “IIM” on the Toronto Stock Exchange.

The Company’s key projects are:

- 30% interest in the Red Chris copper-gold mine in northwest British Columbia;
- Mount Polley copper-gold mine in central British Columbia; and
- Huckleberry copper mine in west central British Columbia.

These condensed consolidated financial statements have been prepared on a going concern basis which assumes the Company will continue operating in the foreseeable future and will be able to service its debt obligations, realize its assets and discharge its liabilities in the normal course as they come due. The Company has in place a planning, budgeting and forecasting process to determine the funds required to support the Company’s operations and expansionary plans.

COVID-19

COVID-19 (the coronavirus) has threatened a slowdown in the global economy as well as caused volatility in the global markets. While the full impact of COVID-19 on the global economy is uncertain, the wide spread of COVID-19 may have an adverse effect on the Company’s operating and financing capabilities. The extent to which COVID-19 may impact the Company’s business will depend on future developments such as the geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing, business closures or business disruptions, and the effectiveness of actions taken in Canada, the United States and other countries to contain and treat the disease. Although it is not possible to reliably estimate these developments, should the length or severity of the pandemic be prolonged for an extended period, this could have a significant adverse impact on the Company’s financial position and results of operations for future periods.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (IAS 34).

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019.

New Standards, Interpretations and Amendments

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of new standards effective as of January 1, 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Definition of a Business

In October 2018, the IASB issued amendments in Definition of a Business (Amendments to IFRS 3) which:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

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- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Management determined that these amendments do not have an impact on the condensed consolidated financial statements of the Company.

3. DISCONTINUED OPERATIONS

On February 20, 2019, the Company initiated a process for the sale of the Red Chris mine. On March 10, 2019, the Company entered into a binding agreement to sell a 70% interest in the Red Chris mine to Newcrest, while retaining a 30% beneficial interest in the mine. The disposal was completed on August 15, 2019, on which date control passed to Newcrest.

For the period January 1 to August 14, 2019, the net income (loss) from the Red Chris mine is reported as income (loss) from discontinued operations. From August 15, 2019 onwards, the results from the Red Chris mine are reported in the financial statements in the appropriate line items according to their nature and the Company's proportionate interest in the asset, liabilities, revenues and expenditures of the Red Chris mine.

4. RED CHRIS MINE JOINT OPERATIONS

On August 15, 2019 the Company and Newcrest entered into an unincorporated arrangement for the operation of the Red Chris mine with Newcrest acting as operator. The beneficial interests in the Red Chris mine are owned 70% by Newcrest and 30% by the Company. Under the Joint Venture Agreement ("JVA"), the Company has rights to its share of assets and liabilities of the arrangement rather than a right to a net return. The Company has recognized its interests in assets and liabilities, revenue of its share of the output by the unincorporated arrangement, and associated expenses. All such amounts have been measured in proportion to the Company's 30% interest in the arrangement. These amounts have been recorded in the Company's condensed consolidated financial statements and are classified according to their nature.

In accordance with IFRS the acquisition of the 30% interest in the Red Chris Joint Venture is accounted for as a business combination.

a) Provisional fair values

The Company has provisionally estimated the acquisition date fair values of the acquired assets and liabilities for its 30% share of the Red Chris Joint Venture. These provisional amounts are subject to adjustments during the measurement period to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date. The acquisition date fair values are described as provisional due to further valuation work needed on the fair value of mineral properties, future site reclamation costs, deferred income tax liabilities and goodwill.

Summarized provisional fair values are disclosed in the table below. The balances are subject to a debt, working capital and future site reclamation adjustment which is expected to be completed in the quarter ended September 30, 2020 as the Company continues to assess the allocation of the purchase price to the assets and liabilities acquired. As a result there have been no adjustments to these provisional values in the six months ending June 30, 2020 from the balances presented at December 31, 2019.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

	August 15 2019
Assets and Liabilities acquired	
Inventory	\$ 8,868
Prepaid expenses and deposits	422
Mineral properties	514,411
Other assets	8,811
Total Assets	<u>532,512</u>
Trade and other payables	(17,171)
Lease obligations	(4,000)
Other obligations	(16,144)
Future site reclamation costs	(5,293)
Deferred Income Tax Liabilities	<u>(50,132)</u>
Total Liabilities	<u>(92,740)</u>
Total identifiable net assets at fair value	<u>\$439,772</u>

b) Operational Performance

Statement of Financial Position

The following table summarizes the Company's 30% share of the Red Chris Joint Venture, including the provisional fair values of identified assets acquired and liabilities assumed at the acquisition date.

	June 30 2020	December 31 2019
ASSETS		
Current Assets		
Cash	\$17,360	\$17,193
Trade and other receivables	4,593	2,266
Inventory	10,673	11,526
Prepaid expenses and deposits	1,261	1,392
	<u>33,887</u>	<u>32,377</u>
Mineral Properties	533,967	516,703
Other Assets	9,637	9,968
	<u>\$577,491</u>	<u>\$559,048</u>
LIABILITIES		
Current liabilities		
Trade and other payables	\$23,459	\$14,073
Current portion of debt	968	953
Current portion of other obligations	1,787	3,933
	<u>26,214</u>	<u>18,959</u>
Future Site Reclamation Costs	7,510	4,743
Non-Current debt	2,098	2,469
Deferred Income Tax Liabilities	50,132	50,132
	<u>85,954</u>	<u>76,303</u>
Equity in Red Chris Joint Venture	482,884	484,874
Accumulated Operating income (loss)	8,653	(2,129)
	<u>491,537</u>	<u>482,745</u>
	<u>\$577,491</u>	<u>\$559,048</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

Statement of Operations

The following table summarizes the Company's 30% share of the Red Chris Joint Venture Statement of Operations. Taxes are accounted for separately by each joint venturer and therefore are not included in the Statement of Operations for the Red Chris Joint Venture.

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Revenue	\$44,686	\$ -	\$72,329	\$ -
Cost of Sales	(33,201)	-	(61,501)	-
Income from Mine Operations	11,485	-	10,828	-
Interest Expense	(67)	-	(150)	-
Other Finance (Loss) Income	(87)	-	104	-
Net Income from operations before taxes	\$11,331	\$ -	\$10,782	\$ -

The following table summarizes the Company's 30% share of the Red Chris Joint Venture Statement of Cash Flows.

Statement of Cash Flows

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
OPERATING ACTIVITIES				
Income before taxes	\$11,331	\$ -	\$10,782	\$ -
Items not affecting cash flows				
Depletion and depreciation	9,016	-	16,204	-
Accretion of future site reclamation provisions	37	-	69	-
Interest expense	67	-	150	-
Unrealized foreign exchange gain	(207)	-	68	-
	20,244	-	27,273	-
Net change in non-cash operating working capital balances	615	-	6,403	-
Interest paid	(34)	-	(82)	-
Cash flows provided by operating activities	20,825	-	33,594	-
FINANCING ACTIVITIES				
Distributions to Joint Venture Partners	(38,386)	-	(70,638)	-
Contributions from Joint Venture Partners	40,139	-	69,459	-
Payment of long-term debt	(31)	-	(70)	-
Lease payments	(260)	-	(509)	-
Cash flows provided by (used in) financing activities	1,462	-	(1,758)	-
INVESTING ACTIVITIES				
Acquisition and development of mineral properties	(18,305)	-	(29,613)	-
Payment of other obligations	(1,072)	-	(2,145)	-
Cash flows used in investing activities	(19,377)	-	(31,758)	-
EFFECT OF FOREIGN EXCHANGE ON CASH	79	-	89	-
INCREASE IN CASH	2,910	-	78	-
CASH, BEGINNING OF PERIOD	14,371	-	17,193	-
CASH, END OF PERIOD	\$17,360	\$ -	\$17,360	\$ -

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

5. INVENTORY

	June 30 2020	December 31 2019
Stockpile ore	\$11,122	\$12,041
Concentrate	1,340	2,968
Supplies	31,719	30,931
Total inventories	44,181	45,940
Less non-current inventories included in other assets (Note 7)	(32,090)	(32,860)
Total current inventories	\$12,091	\$13,080

During the six month period ended June 30, 2020, inventory of \$57,286 was recognized in cost of sales (June 30, 2019-\$38,575) and an impairment charge of \$359 (June 30, 2019-\$3,089) on stockpile ore, concentrate and supplies inventory was included in cost of sales.

As at June 30, 2020, the Company had \$23,871 (December 31, 2019-\$24,446) of inventory pledged as security for credit facility.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

6. MINERAL PROPERTIES

<i>Cost</i>	Mineral Properties not being Depleted				Total
	Mineral Properties being Depleted	Projects not in Production	Exploration & Evaluation Assets	Plant & Equipment	
Balance December 31, 2018	\$473,917	\$43,667	\$103,464	\$1,442,334	\$2,063,382
Additions from continuing operations	10,312	2,568	1,484	13,751	28,115
Additions from discontinued operations	3,163	53	-	29,371	32,587
Reclassification	407	77	-	(484)	-
Write down	-	-	-	(53)	(53)
Foreign exchange movement	-	-	(332)	(42)	(374)
Disposition of assets held for sale	(107,330)	(43,797)	-	(1,128,139)	(1,279,266)
Acquisition of 30% of beneficial interest in Red Chris	163,616	29,571	50,132	271,092	514,411
Balance December 31, 2019	544,085	32,139	154,748	627,830	1,358,802
Additions	31,299	7,224	258	15,577	54,358
Disposals	-	-	-	(1,255)	(1,255)
Foreign exchange movement	-	-	325	41	366
Balance June 30, 2020	\$575,384	\$39,363	\$155,331	\$642,193	\$1,412,271

<i>Accumulated depletion & depreciation & impairment losses</i>	Mineral Properties not being Depleted				Total
	Mineral Properties being Depleted	Projects not in Production	Exploration & Evaluation Assets	Plant & Equipment	
Balance December 31, 2018	\$281,978	\$ -	\$1,645	\$346,976	\$630,599
Depletion and depreciation from continuing operations	3,670	-	-	16,596	20,266
Depletion and depreciation from discontinued operations	742	-	-	6,021	6,763
Write down	-	-	-	(47)	(47)
Foreign exchange movement	-	-	-	(42)	(42)
Disposition of assets held for sale	(25,830)	-	-	(163,241)	(189,071)
Balance December 31, 2019	260,560	-	1,645	206,263	468,468
Depletion and depreciation from continuing operations	5,121	-	-	13,621	18,742
Disposals	-	-	-	(829)	(829)
Foreign exchange movement	-	-	-	41	41
Balance June 30, 2020	\$265,681	\$ -	\$1,645	\$219,096	\$486,422
<i>Carrying Amount</i>					
Balance December 31, 2018	\$191,939	\$43,667	\$101,819	\$1,095,358	\$1,432,783
Balance December 31, 2019	\$283,525	\$32,139	\$153,103	\$421,567	\$890,334
Balance June 30, 2020	\$309,703	\$39,363	\$153,686	\$423,097	\$925,849

Additions to Mineral Properties being Depleted for the six months ended June 30, 2020 include an increase of \$21,235, which represents a net change in estimates of future site reclamation provisions (twelve months ended December 31, 2019-increase of \$11,307).

At June 30, 2020, the net carrying value of the deferred stripping costs was \$11,840 (December 31, 2019-\$2,187) and is included in mineral properties.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

expressed in thousands of Canadian dollars, except share and per share amounts

At June 30, 2020, leased mobile equipment at cost of \$4,953 (December 31, 2019-\$4,953) and accumulated depreciation of \$1,233 (December 31, 2019-\$850) was included with plant and equipment.

At June 30, 2020, the Company had provided \$28,370 (December 31, 2019-\$28,370) of security for reclamation bonding obligations by securing certain plant and equipment.

Red Chris Mine

Red Chris Development Company Ltd, a subsidiary of the Company, owns a 30% beneficial interest in the Red Chris copper/gold mine in northwest British Columbia. The Company and Newcrest formed a joint venture for the operation of Red Chris, with Newcrest Red Chris Mining Limited acting as operator. The property is comprised of the Red Chris Main claim group and the Red Chris South group, consisting of 77 mineral tenures (23,142 hectares). Five of these tenures are mining leases (5,141 hectares). Net smelter royalties between 1.0% to 2.0% are payable on production from the Red Chris mine.

Mount Polley Mine

The Mount Polley copper/gold mine in south-central British Columbia is owned by Mount Polley Mining Corporation, a subsidiary of the Company. The property encompasses 23,369 hectares (including claims under option) consisting of seven mining leases (2,007 hectares) and 50 mineral claims (21,362 hectares). A production royalty is payable on ore mined from Mining Lease 933970 but no production occurred on this tenure in 2019 or 2020. In October 2019, Mount Polley Mining Corporation optioned seven adjacent mineral tenures (3,331 hectares). Upon the exercising of the option on or before December 31, 2022, these claims will be subject to a production royalty payable on ore mined from the claims and milled in the Mount Polley processing plant.

Mount Polley mine operations were suspended in May 2019, and the mine is on care and maintenance until the economics of mining improve.

Huckleberry Mine

The Huckleberry copper mine in west-central British Columbia is owned by Huckleberry Mines Ltd., a subsidiary of the Company. The property encompasses 23,241 hectares, consisting of two mining leases (2,422 hectares) and 44 mineral claims (20,819 hectares).

Huckleberry mine operations were suspended in August 2016, and the mine remains on care and maintenance status until the economics of mining improve.

Other Exploration Properties

The Company has interests in several early stage exploration properties located in Canada. These properties were primarily acquired by acquisition or amalgamation, and the cost of maintaining ownership is not significant.

Impairment Analysis of Mineral Properties

In accordance with its accounting policies and processes, each asset or cash-generating unit ("CGU") is evaluated to determine whether there are any indications of impairment. If any such indications of impairment exist, a formal estimate of the recoverable amount is performed. The triggers for the impairment test are primarily due to changes to the mine plan and a decline in the copper price.

During the six months ended June 30, 2020 the Company reassessed the estimates of the residual values and the useful life of its mineral properties, plant and equipment given the current economic conditions due to COVID-19. Management considered if there are any significant changes in the economic performance of its mines, which might require adjustment to the cost, long-term commodity price for copper and gold forecast, USD/CAD foreign exchange rates.

Based on the analysis performed, management concluded there are no indications of impairment of its mineral properties, plant and equipment as at June 30, 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2020 and 2019

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7. OTHER ASSETS

	June 30 2020	December 31 2019
Future site reclamation deposits	\$14,325	\$14,319
Non-current inventory – ore stockpile	11,122	11,042
Non-current inventory – supplies, including critical spare parts	20,968	21,818
Other	63	75
	<u>\$46,478</u>	<u>\$47,254</u>

8. DEFERRED PAYABLES

Deferred trade payables consist of amounts invoiced for electricity billings by British Columbia Hydro and Power Authority that have been deferred pursuant to a tariff supplement. The tariff supplement allows for deferral of up to 75% of the monthly electricity billing (the "Payment Plan") depending on the average London Metals Exchange settlement copper price converted to CDN dollars at the Bank of Canada's daily average closing exchange rate. The period for calculating the copper price in CDN dollars is the 30 day period prior to the billing date on the 15th of each month. Payment of any remaining balance under the Payment Plan is due at the end of March 2021.

As of June 30, 2020, the balance of \$5,612 related to the Huckleberry mine and \$120 related to Mount Polley mine, are due within one year and therefore included as current liabilities in trade and other payables. Interest on the deferred amounts is charged and added to the deferred trade payables balance at 11.38% and 7.45% accordingly.

9. CREDIT FACILITY

A credit facility aggregating \$50,000 (December 31, 2019-\$50,000) is due October 2, 2020. The facility is secured by shares of all material subsidiaries and a floating charge on certain assets of the Company. A total of \$38,416 (December 31, 2019-\$38,583) has been utilized for letters of credit pledged for settlement of future site reclamation provisions and for other liabilities.

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10. NON-CURRENT DEBT

Amounts due for non-current debt are:

	June 30 2020	December 31 2019
Equipment loans	(a) \$206	\$515
Equipment leases	(b) 2,991	3,301
	3,197	3,816
Less portion due within one year	(1,099)	(1,300)
	<u>\$2,098</u>	<u>\$2,516</u>

The Company has the following debt facilities:

(a) Equipment Loans

The outstanding amount of equipment loans is \$206 (December 31, 2019-\$515) at a weighted average interest rate of 5.31% with monthly payments of \$39. All equipment loans are secured by the financed equipment.

(b) Equipment Leases

	Interest Rate	Monthly payment	June 30 2020	December 31 2019
Equipment Lease	6.25%	\$4	\$26	\$51
Equipment Lease	4.30%	\$86	\$2,965	\$3,250

Contractual Lease Payments

	June 30 2020	December 31 2019
Due in less than one year	\$1,054	\$1,032
Due in one to three years	2,141	2,530
Total undiscounted lease liabilities, end of period	<u>\$3,195</u>	<u>\$3,562</u>

11. FUTURE SITE RECLAMATION PROVISIONS

The Company has recognized provisions for future site reclamation at its Red Chris, Mount Polley, Huckleberry, Ruddock Creek and Catface properties. Although the ultimate amounts of the future site reclamation provisions are uncertain, the provision of these obligations is based on information currently available, including closure plans and applicable regulations. The future site reclamation provision at Red Chris is provisional due to further valuation work needed on the fair values. Significant closure activities include land rehabilitation, water treatment, demolition of facilities, monitoring and other costs.

The total undiscounted amount of estimated future cash flows required to settle the obligations is \$160,529 (December 31, 2019-\$158,771). The estimated future cash flows were then adjusted using a 2.0% (December 31, 2019 - 2.0%) rate of inflation. The estimated future cash flows have been discounted using a rate of 2.02% (December 31, 2019 - 2.67%) except for obligations related to Mount Polley and Huckleberry beyond 2048 that are discounted using a rate of 3.02% (December 31, 2019 - 3.67%). Obligations in amount of \$76,527 are expected to be settled in the years 2020 through 2048.

The amounts and timing of closure plans for the mineral properties will vary depending on a number of factors including exploration success and alternative mining plans.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. SHARE CAPITAL

(i) Share Capital

Authorized

- 50,000,000 First Preferred shares without par value with special rights and restrictions to be determined by the directors, of which 3,100,000 have been designated as "Series A First Preferred shares" (issued and outstanding – nil)
- 50,000,000 Second Preferred shares without par value with rights and restrictions to be determined by the directors (issued and outstanding – nil)

An unlimited number of Common Shares without par value

(ii) Share Option Plans

Under the Share Option Plans, options not exceeding 10% of the issued common shares of the Company, may be granted to its directors, officers and employees. At June 30, 2020, a total of 9,548,017 common share options had remained available for grant under the plans. Under the plans, the exercise price of each option cannot be greater than the market price of the Company's shares on the date of grant and an option's maximum term is 10 years. Options are granted from time to time by the Board of Directors and vest over a three or five year period.

On May 26, 2020, the Company granted 1,305,000 stock options at an exercise price of \$2.00. The Black-Scholes option pricing model was used for weighted average assumptions: risk-free interest rate - 0.4%; expected dividend yield - \$Nil; expected stock price volatility - 71.8%; expected option life - 5 years; and, estimated forfeiture rate - 5%.

Movements in Share Options

The changes in share options were as follows:

	Six Months Ended June 30, 2020		Year Ended December 31, 2019	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,996,000	\$9.62	2,594,000	\$9.16
Granted	1,305,000	\$2.00	-	\$ -
Forfeited	-	\$ -	(86,000)	\$8.00
Expired	-	\$ -	(512,000)	\$5.74
Outstanding at end of period	3,301,000	\$6.61	1,996,000	\$9.62
Options exercisable at end of period	1,762,000	\$9.88	1,762,000	\$9.88

The following table summarizes information about the Company's share options outstanding at June 30, 2020:

Exercise Prices	Options Outstanding		Options Exercisable	
	Options Outstanding	Remaining Contractual Life in Years	Options Outstanding & Exercisable	Remaining Contractual Life in Years
\$2.00	1,305,000	4.8	-	-
\$5.75	65,000	7.5	26,000	7.5
\$8.00	981,000	5.4	786,000	5.4
\$11.55	950,000	0.3	950,000	0.3
	3,301,000	3.8	1,762,000	2.7

No share options were exercised during the six months ended June 30, 2020.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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13. COST OF SALES

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Operating expenses	\$17,672	\$12,451	\$33,584	\$20,940
Salaries, wages and benefits	6,355	7,881	11,350	13,083
Depletion and depreciation	9,221	3,521	16,588	6,144
Share based compensation	-	(25)	-	(9)
	<u>\$33,248</u>	<u>\$23,828</u>	<u>\$61,522</u>	<u>\$40,158</u>

Included in cost of sales for the six months ended June 30, 2019 is \$359 (June 30, 2019-\$3,089) of impairment charges in relation to concentrate and supplies inventory.

14. INTEREST EXPENSE

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Interest on non-current debt	\$40	\$14,853	\$82	\$29,928
Other interest	326	3,238	681	6,560
	<u>\$366</u>	<u>\$18,091</u>	<u>\$763</u>	<u>\$36,488</u>

15. OTHER FINANCE INCOME (LOSS)

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Accretion of future site reclamation provisions	\$(644)	\$(638)	\$(1,308)	\$(1,295)
Foreign exchange gain (loss) on non-current debt	128	8,975	(156)	18,027
Other foreign exchange gain (loss)	(1,017)	-	1,249	-
Fair value adjustment on debt settled in common shares	-	-	-	(3,356)
Fair value adjustment to marketable securities	10	(44)	1	(202)
	<u>(1,523)</u>	<u>8,293</u>	<u>(214)</u>	<u>13,174</u>
Interest income	147	2,609	536	4,781
Other finance income (loss)	<u>\$(1,376)</u>	<u>\$10,902</u>	<u>\$322</u>	<u>\$17,955</u>

16. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash operating working capital balances:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Trade and other receivables	\$(10,062)	\$5,970	\$(4,636)	\$4,694
Inventory	2,147	6,740	1,203	2,878
Prepaid expenses and deposits	406	104	367	(177)
Trade and other payables	(2,078)	(6,061)	(4,990)	(8,913)
Deferred trade payables	404	-	404	(1,479)
Provision for rehabilitation costs	(171)	(434)	(257)	(663)
	<u>\$(9,354)</u>	<u>\$6,319</u>	<u>\$(7,909)</u>	<u>\$(3,660)</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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17. RELATED PARTY TRANSACTIONS AND COMPENSATION TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

(a) Related Party Transactions

Related party transactions and balances with a significant shareholder, a company controlled by a significant shareholder, companies in which directors are owners, and with directors and officers are as follows:

Statement of Income (Loss)

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Loan guarantee fee for guarantee of second lien credit facility	\$ -	\$281	\$ -	\$558
Loan guarantee fee for guarantee of senior credit facility	\$ -	\$1,121	\$ -	\$2,231
Line of credit arrangement fee	\$ -	\$100	\$ -	\$100
Interest expense	\$ -	\$6,686	\$ -	\$11,347

The Company incurred the above transactions and balances in the normal course of operations.

(b) Compensation of Directors and Key Management Personnel

The remuneration of the Company's directors and other key management personnel \$848 and \$1,213 for the three and six months ended June 30, 2020, respectively (three and six months ended June 30, 2019-\$433 and \$808).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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18. REPORTABLE SEGMENTED INFORMATION

The Company operates primarily in Canada. All of the Company's assets are located in Canada, except for assets comprised primarily of the Sterling totalling \$6,926 as at June 30, 2020 (December 31, 2019-\$6,609), which are located in the USA. The Company's reportable segments reflect the internal reporting used by the Company's management to report to the chief operating decision maker.

Reportable Segments

	Three Months Ended June 30, 2020				
	Red Chris	Mount Polley	Huckleberry	Corporate and Others	Total
Reportable segmented revenues	\$44,685	\$ -	\$389	\$143	\$45,217
Less inter-segment revenues	-	-	(117)	(44)	(161)
Revenues from external sources	\$44,685	\$ -	\$272	\$99	\$45,056
Depletion and depreciation	\$9,016	\$1,227	\$293	\$8	\$10,544
Interest (expense) and other finance (expense) income	\$107	\$(382)	\$(436)	\$(1,031)	\$(1,742)
Net income (loss)	\$8,639	\$(3,498)	\$(2,999)	\$(1,435)	\$707
Capital expenditures	\$18,944	\$238	\$23	\$67	\$19,272
Total assets	\$584,732	\$154,290	\$244,170	\$89,821	\$1,073,013
Total liabilities	\$182,266	\$69,943	\$87,485	\$3,244	\$342,938

Reportable Segments

	Three Months Ended June 30, 2019				
	Red Chris	Mount Polley	Huckleberry	Corporate and Others	Total
Continuing operations:					
Reportable segmented revenues	\$ -	\$22,397	\$350	\$58	\$22,805
Less inter-segment revenues	-	(741)	(350)	(41)	(1,132)
Revenues from external sources	\$ -	\$21,656	\$ -	\$17	\$21,673
Depletion and depreciation	\$ -	\$4,034	\$214	\$8	\$4,256
Interest (expense) and other finance income (expense)	\$(5,560)	\$(3,694)	\$2,115	\$(50)	\$(7,189)
Net income (loss) from continuing operations	\$(1,629)	\$(4,586)	\$(1,538)	\$(1,924)	\$(9,677)
Net income from discontinued operations	\$2,227	\$ -	\$ -	\$ -	\$2,227
Net income (loss)	\$598	\$(4,586)	\$(1,538)	\$(1,924)	\$(7,450)
Capital expenditures (continuing and discontinued operations)	\$11,709	\$589	\$1	\$232	\$12,531
Assets from continuing operations	\$ -	\$167,286	\$230,958	\$50,793	\$449,037
Assets held for sale	1,142,219	-	-	-	1,142,219
Total assets	\$1,142,219	\$167,286	\$230,958	\$50,793	\$1,591,256
Liabilities from continuing operations	\$765,852	\$209,953	\$67,656	\$4,565	\$1,048,026
Liabilities held for sale	138,419	-	-	-	138,419
Total liabilities	\$904,271	\$209,953	\$67,656	\$4,565	\$1,186,445

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Reportable Segments

	Six Months Ended June 30, 2020				
	Red Chris	Mount Polley	Huckleberry	Corporate and Others	Total
Reportable segmented revenues	\$72,076	\$264	\$797	\$298	\$73,435
Less inter-segment revenues	-	(79)	(239)	(96)	(414)
Revenues from external sources	\$72,076	\$185	\$558	\$202	\$73,021
Depletion and depreciation	\$16,204	\$2,494	\$591	\$14	\$19,303
Interest (expense) and other finance (expense) income	\$(573)	\$(777)	\$(870)	\$1,779	\$(441)
Net income (loss)	\$7,275	\$(6,505)	\$(5,880)	\$(393)	\$(5,503)
Capital expenditures	\$30,252	\$364	\$44	\$212	\$30,872
Total assets	\$584,732	\$154,290	\$244,170	\$89,821	\$1,073,013
Total liabilities	\$182,266	\$69,943	\$87,485	\$3,244	\$342,938

Reportable Segments

	Six Months Ended June 30, 2019				
	Red Chris	Mount Polley	Huckleberry	Corporate and Others	Total
Continuing operations:					
Reportable segmented revenues	\$ -	\$36,949	\$732	\$67	\$37,748
Less inter-segment revenues	-	(1,491)	(732)	(49)	(2,272)
Revenues from external sources	\$ -	\$35,458	\$ -	\$18	\$35,476
Depletion and depreciation	\$ -	\$6,656	\$429	\$15	\$7,100
Interest (expense) and other finance income (expense)	\$(11,033)	\$(7,495)	\$3,562	\$(3,567)	\$(18,533)
Net income (loss) from continuing operations	\$(3,181)	\$(9,310)	\$6,796	\$(6,319)	\$(12,014)
Net income from discontinued operations	\$2,296	\$ -	\$ -	\$ -	\$2,296
Net income (loss)	\$(885)	\$(9,310)	\$6,796	\$(6,319)	\$(9,718)
Capital expenditures (continuing and discontinued operations)	\$20,998	\$1,267	\$3	\$286	\$22,554
Assets from continuing operations	\$ -	\$167,286	\$230,958	\$50,793	\$449,037
Assets held for sale	1,142,219	-	-	-	1,142,219
Total assets	\$1,142,219	\$167,286	\$230,958	\$50,793	\$1,591,256
Liabilities from continuing operations	\$765,852	\$209,953	\$67,656	\$4,565	\$1,048,026
Liabilities held for sale	138,419	-	-	-	138,419
Total liabilities	\$904,271	\$209,953	\$67,656	\$4,565	\$1,186,445

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Revenue by Geographic Area

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Switzerland	\$20,004	\$21,656	\$44,034	\$35,458
China	13,593	-	13,593	-
Australia	7,360	-	7,360	-
Singapore	3,728	-	7,089	-
Canada	371	17	945	18
	<u>\$45,056</u>	<u>\$21,673</u>	<u>\$73,021</u>	<u>\$35,476</u>

Revenues are attributed to geographic area based on country of customer. In the period ended June 30, 2020, the Company had 5 principal customers individually accounting for more than 10% each of total 80% of revenues (June 30, 2019—one principal customer accounting for 100%).

The Company's principal product is copper concentrate (contains copper, gold and silver) which is sold at prices quoted on the London Metals Exchange and LBMA. The Company sells all of its concentrate and gold production to third party traders.

Revenue by Major Product and Service

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Copper	\$28,593	\$8,119	\$45,096	\$16,072
Gold	15,875	13,401	26,608	19,127
Silver	217	136	372	259
Other	371	17	945	18
	<u>\$45,056</u>	<u>\$21,673</u>	<u>\$73,021</u>	<u>\$35,476</u>

19. FINANCIAL INSTRUMENTS, INTEREST RATE AND CREDIT RISK

During the year the Company examined the various financial instrument risks to which it is exposed and assessed the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity comprised of share capital, contributed surplus, currency translation adjustment and retained earnings.

Credit Risk

The Company's credit risk is limited to cash, trade and other receivables, and future site reclamation deposits in the ordinary course of business. The credit risk of cash and future site reclamation deposits is mitigated by placing funds in financial institutions with high credit quality.

The Company's maximum exposure to credit risk is as follows:

	June 30	December 31
	2020	2019
Cash	\$67,547	\$89,953
Marketable securities	40	39
Trade receivables	10,332	5,759
Future site reclamation deposits	14,325	14,319
	<u>\$92,244</u>	<u>\$110,070</u>

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Liquidity Risk

Cash balances on hand, the projected cash flow from the Red Chris mine are expected to be sufficient to fund the Company's obligations as they come. However, there are inherent risks related to the operation of the Company's mines which could require additional sources of financing. Liquidity risk is also impacted by credit risk, although the Company considers this risk low.

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US dollar denominated cash, trade and other accounts receivable, reclamation deposits, trade and other payables and debt. If the US Dollar had been 10% higher/lower and all other variables were held constant, net (loss) income and comprehensive (loss) income for the six months ended June 30, 2020 would have been higher/lower by \$3,422.

Interest Rate Risk

The Company does not have any significant exposure to interest rate risk.

Provisionally Priced Revenues

As a result of the provisional pricing terms in its sales contracts, the Company is exposed to commodity price risk until final pricing is determined. Therefore, revenues in subsequent periods will be adjusted for any changes to provisionally priced accounts receivables outstanding at period end. Final pricing is usually four to five months after the date of shipment and therefore changes in metal prices may have a material impact on the final revenue.

Provisionally priced revenues is comprised of the following:

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019	
	Provisional lb/oz	Provisional Price per lb/oz	Provisional lb/oz	Provisional Price per lb/oz
	<i>000's</i>	<i>US\$</i>	<i>000's</i>	<i>US\$</i>
Copper	7,008.2	\$2.72	2,927.9	\$2.71
Gold	4.7	\$1,796	8.0	\$1,410

The following tables summarize the realized and unrealized gains (losses) on provisionally priced sales:

	Six Months Ended June 30, 2020			Six Months Ended June 30, 2019		
	Copper	Gold & Silver	Total	Copper	Gold & Silver	Total
Realized	\$(847)	\$638	\$(209)	\$(1,586)	\$560	\$(1,026)
Unrealized	430	614	1,044	188	1,438	1,626
Total	\$(417)	\$1,252	\$835	\$(1,398)	\$1,998	\$600

Fair Value Estimation

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at June 30, 2020 as follows:

	Level 1	Level 2	Total
Financial Assets			
Cash	\$67,547	\$ -	\$67,547
Marketable securities	40	-	40
Provisionally priced accounts receivables	-	7,767	7,767
Future site reclamation deposits	14,325	-	14,325
	81,912	7,767	89,679
Financial Liability			
Provisionally priced accounts payable	-	(5)	(5)
	\$81,912	\$7,762	\$89,674

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20. COMMITMENTS AND PLEDGES

At June 30, 2020, the Company has pledged the following assets for settlement of future site reclamation provisions:

Future site reclamation deposits included with other assets (Note 7)	\$ 14,325
Mineral property, plant and equipment	28,370
Letters of credit (Note 9)	<u>38,416</u>
	<u>\$81,111</u>

21. CONTINGENT LIABILITIES

The Company is from time to time involved in various claims and legal proceedings arising in the conduct of its business as more specifically described in Note 30 to the audited financial statements of the Company for the year ended December 31, 2019.

In the opinion of management, none of these matters will have a material effect on the Company's condensed consolidated financial position or financial performance.

During the June 2020 period, a claim from a contractor in the amount of \$11,100 was filed against the Company and will likely be submitted to arbitration. The claim is based on a contractor's self assessment of additional compensation owed for work previously carried out. The Company has denied that any further amounts are owed and has engaged independent legal counsel to advise on this matter.



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