Imperial Metals

Second Quarter Report 2019

Management's Discussion & Analysis

For the Three and Six Months Ended June 30, 2019 and 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for Imperial Metals Corporation ("Imperial", the "Company", "we", "us" or "our") should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2019 including the notes thereto ("the Interim Financial Statements"), as well as the audited Consolidated Financial Statements and Management's Discussion & Analysis for the year ended December 31, 2018. This MD&A contains statements that may be considered forward-looking information, and therefore investors are directed to review the "Forward-Looking Statements & Risks Notice" within this MD&A.

The Interim Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard 34, Interim Financial Reporting.

The reporting currency of the Company is the Canadian ("CDN") Dollar.

Imperial is a Canadian mining company active in the acquisition, exploration, development, mining and production of base and precious metals. The Company, through its subsidiaries, owns the Red Chris, Mount Polley and Huckleberry copper mines in British Columbia. Imperial also has interests in various other early stage exploration properties, however exploration is currently focused at existing mining operations. The Company also continues to evaluate potential acquisitions.

Imperial's principal business registered and records office address is Suite 200, 580 Hornby Street, Vancouver, British Columbia V6C 3B6 Canada. The Company was incorporated under the British Columbia *Company Act*, which was superseded by the British Columbia *Business Corporations Act*, on December 6, 2001 under the name IMI Imperial Metals Inc. Imperial changed its name to Imperial Metals Corporation on April 10, 2002.

The Company is listed on The Toronto Stock Exchange and its shares trade under symbol III. As at August 14, 2019, the Company had 128,490,174 common shares outstanding, and on a diluted basis 144,210,585 common shares outstanding.

Additional Company disclosure can be obtained from *imperialmetals.com* or *sedar.com*.

SIGNIFICANT EVENTS AND LIQUIDITY

The Company's Interim 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 realize its assets and discharge its liabilities in the normal course as they come due.

On January 17, 2019, the Company issued 3,542,814 common shares in payment of $4.3 million of interest due on the Convertible Debentures.

On February 15, 2019, the Company issued 2,785,080 common shares in payment of $3.8 million of interest due on September 30, 2018 and December 31, 2018 for the Junior Credit Facility.

In mid-February and early March the Company also extended the maturity dates on a number of its credit facilities to mature on March 15, 2019.

On March 10, 2019, the Company entered into an agreement to sell a 70% interest in the Red Chris mine to Newcrest Mining Limited ("Newcrest") for US$806.5 million in cash, while retaining a 30% interest in the mine (the "Newcrest Transaction"). The Company and Newcrest will form a joint venture for the operation of the Red Chris mine going forward, with Newcrest acting as operator. The consideration payable will be subject to customary adjustments for certain assumed equipment loans, working capital and non-financial debt at closing.

On March 14, 2019, the Company extended the maturity dates on a number of its credit facilities as follows:

- the Senior Credit Facility extended from March 15, 2019 to September 5, 2019
- the Second Lien Credit Facility extended from March 15, 2019 to September 9, 2019
- the Junior Credit Facility from March 15, 2019 to September 12, 2019
- the Bridge Loan extended from March 15, 2019 to September 11, 2019

On March 15, 2019, the Company refinanced US$98.4 million of its US$325.0 million Senior Unsecured Notes due March 15, 2019 (the "Senior Notes"). Edco Capital Corporation (Edco"), a company controlled by a significant shareholder of the Company, subscribed for US$98.4 million of additional Senior Notes on the same terms and conditions as the existing Senior Notes. Such funding enabled the Company to repay an equal dollar amount of the principal of the Senior Notes that were payable in full on March 15, 2019, being US$98.4 million. The remaining existing holders of Senior Notes in the principal amount of US$226.6 million agreed, as did Edco in respect to the additional Senior Notes, to extend the maturity date of the Senior Notes until September 15, 2019.

On May 30, 2019, Mount Polley mine was placed on care and maintenance status. The mine is expected to remain on care and maintenance until the economics of mining improve.

On July 9, 2019, the Company issued 1,379,695 common shares in payment of $3.4 million of interest due on the 2014 Convertible Debentures.

Executive Changes

Sophie Hsia resigned as General Counsel and Vice President Risk effective June 30, 2019.

ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The Company's significant accounting policies are presented in the audited consolidated financial statements for the year ended December 31, 2018.

In January 2016, the International Accounting Standards Board issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. All other leases within the scope of IFRS 16 are required to be brought on-balance sheet by lessees – recognizing a *right-of-use* asset and the related lease liability at commencement of the lease, with subsequent accounting generally similar to finance lease model under IAS 17.

The Company adopted IFRS 16 on January 1, 2019, using the modified retrospective approach, in accordance with the transitional provisions in IFRS 16. The Company identified and collected data relating to existing agreements that extended beyond January 1, 2019, that contained right-of-use assets. These include service contracts that may contain embedded leases for property, plant and equipment. Additionally, the Company has adopted the exemption for leases with a lease term of 12 months or less and for leases that are low value. Given that the Company's existing operating leases were trivial, no adjustment to equity has been recognized upon IFRS 16 adoption on January 1, 2019.

QUARTER HIGHLIGHTS

FINANCIAL

On March 10, 2019, the Company entered into an agreement to sell a 70% interest in the Red Chris mine to Newcrest. In accordance with IFRS, the Company has classified Red Chris mine as a *discontinued operation* effective January 1, 2019 and asset held for sale as at June 30, 2019, and the prior year comparative quarter consolidated statement of income (loss) has been restated accordingly. Unless otherwise stated this MD&A will report the total of continuing and discontinued operations as one total for ease of comparison with the prior comparative period.

Total revenue increased to $83.6 million in the June 2019 quarter compared to $80.1 million in the 2018 comparative quarter, an increase of $3.5 million or 4.4%.

Revenue from the Red Chris mine in the June 2019 quarter was $61.9 million compared to $57.3 million in the 2018 comparative quarter. This increase was attributable to a higher quantity of copper concentrate sold along with slightly higher gold prices partially offset by lower copper prices and a negative revenue revaluation noted below.

Revenue from the Mount Polley mine in the June 2019 quarter was $21.7 million compared to $22.8 million in the 2018 comparative quarter. The decrease was attributable to lower sales volumes and metal prices.

In the June 2019 quarter there were 3.1 concentrate shipments from the Red Chris mine (2018-2.6 concentrate shipments) and 0.7 concentrate shipments from the Mount Polley mine (2018-0.7 concentrate shipment). Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date.

The London Metals Exchange cash settlement copper price per pound averaged US$2.77 in the June 2019 quarter compared to US$3.12 in the 2018 comparative quarter. The London Metals Exchange cash settlement gold price per troy ounce averaged US$1,310 in the June 2019 quarter compared to US$1,306 in the 2018 comparative quarter. The average CDN/US Dollar exchange rate was 1.338 in the June 2019 quarter, 3.6% higher than the exchange rate of 1.291 in the June 2018 quarter. In CDN Dollar terms the average copper price in the June 2019 quarter was CDN$3.71 per pound compared to CDN$4.03 per pound in the 2018 comparative quarter, and the average gold price in the June 2019 quarter was CDN$1,752 per ounce compared to CDN$1,686 per ounce in the 2018 comparative quarter.

Revenue in the June 2019 quarter decreased by $4.8 million due to a negative revenue revaluation as compared to a $6.9 million negative revenue revaluation in the 2018 comparative quarter. Revenue revaluations are the result of the metal prices on the settlement date and/or the current period balance sheet date being higher or lower than when the revenue was initially recorded or the metal prices at the last balance sheet date and finalization of contained metal as a result of final assays.

Net loss from continuing operations for the June 2019 quarter was $9.7 million ($0.08 per share) compared to net loss of $22.4 million ($0.19 per share) in the 2018 comparative quarter. The decrease in net loss of $12.7 million was primarily due to the following factors:

- Loss from mine operations went from a loss of $1.2 million in June 2018 to a loss of $2.2 million in June 2019, an increase in loss of $1.0 million.
- Interest expense went from $18.3 million in June 2018 to $18.1 million in June 2019, a decrease in loss of $0.2 million.
- Foreign exchange gains/losses went from a loss of $9.2 million in June 2018 to a gain of $9.1 million in June 2019, a decrease in loss of $18.3 million. The average CDN/US Dollar exchange rate in the June 2019 quarter was 1.338 compared to an average of 1.291 in the 2018 comparative quarter.
- Tax recovery went from $10.7 million in June 2018 to $4.0 million in June 2019, an increase in loss of $6.7 million.

Cash flow from continuing operations was $0.2 million in the June 2019 quarter compared to $0.8 million in the 2018 comparative quarter. Cash flow is a measure used by the Company to evaluate its performance, however, it is not a term recognized under IFRS. The Company believes cash flow is useful to investors and it is one of the measures used by management to assess the financial performance of the Company.

Capital expenditures attributed to continuing operations was $0.6 million in the June 2019 quarter, down from $3.4 million in the 2018 comparative quarter. The reduction was due to placing Mount Polley on care and maintenance.

At June 30, 2019, the Company has not hedged any copper, gold or CDN/US Dollar exchange. Quarterly revenues will fluctuate depending on copper and gold prices, the CDN/US Dollar exchange rate, and the timing of concentrate sales, which is dependent on concentrate production and the availability and scheduling of transportation.

OPERATIONS

Red Chris Mine[1]

Red Chris second quarter metal production was 17.60 million pounds copper and 7,580 ounces gold. Copper production was up from the first quarter by 26%, while gold production was down by 10%. Gold production was down on lower grade as virtually all mill feed came from the Main zone, with less feed coming from the mid pit area where gold grades are higher. Metal recoveries were 76.20% copper and 42.56% gold, compared to 73.84% copper and 48.06% gold achieved in the first quarter.

[1] The Red Chris Mine was classified as a discontinued operation effective January 1, 2019 and the comparative period has been restated accordingly.

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Ore milled - *tonnes*	2,694,090	2,529,951	5,062,427	5,120,442
Ore milled per calendar day – *tonnes*	29,605	27,802	27,969	28,290
Grade % - copper	0.389	0.283	0.366	0.366
Grade g/t - gold	0.206	0.241	0.216	0.276
Recovery % - copper	76.20	72.96	75.18	75.59
Recovery % - gold	42.56	43.94	45.27	45.89
Copper – *000's pounds*	17,599	11,510	30,700	31,235
Gold – *ounces*	7,580	8,614	15,897	20,829
Silver – *ounces*	30,427	19,388	53,054	54,270

The Company is working to obtain the necessary approvals and consents for the previously announced sale of a 70% interest in the Red Chris project to Newcrest Mining Limited.

Several factors that contributed to a strong production improvement in the quarter include:

- Improved primary haul truck fleet availability that enabled pit production targets to be met and targeted copper and gold grades were delivered.
- Unscheduled downtime was reduced substantially and a 91.6% plant availability was achieved versus the 89.6% budgeted.
- During the quarter, tonnes per operating hour (TPOH) averaged 1,348, a 12.6% increase from the prior quarter's average of 1,197 TPOH.
- With the better availability and processing rate, 2.694 million tonnes were treated compared to 2.368 million tonnes in the previous quarter, a 14% increase.
- Copper recovery improved and averaged 76.2% versus the previous quarter's average of 73.8%.

During the third quarter Red Chris management plans to focus on:

- Maximizing throughput through optimization of the pebble crusher and other debottlenecking initiatives to increase throughput rates. These efforts are achieving the desired result; for the first 20 days in July the plant treated an average of 1,454 TPOH, and on July 19, 2019 set a new record for daily throughput of 38,823 tonnes.
- Completion of the tailings dam construction using both Red Chris equipment and personnel, and TNDC (a Tahltan construction company).
- Confirm that installation of additional column cell residence time would improve plant recoveries by completing a program of test work using a recently installed pilot sized cleaning cell in the circuit.

Subsequent to the quarter end, USW-Local 1937 was certified as bargaining agent for certain employees at the Red Chris mine. This certification follows the reconsideration of a previous decision by the Labour Relations Board. The company has filed a petition seeking judicial review of the Labour Relations Board's reconsideration decision.

Exploration, development and capital expenditures were $11.7 million in the June 2019 quarter compared to $12.1 million in the comparative 2018 quarter.

Mount Polley Mine

Mount Polley metal production for the two months prior to the suspension of operations in late May 2019 was 1.52 million pounds copper and 4,472 ounces gold. Mill throughput from the low grade stockpiles averaged 16,432 tonnes per calendar day for April and May, and metal recoveries were 28.92% copper and 46.60% gold as low grade, oxidized stockpiles were treated.

	Three Months Ended June 30		Six Months Ended June 30	
	2019*	2018	2019*	2018
Ore milled - *tonnes*	1,002,352	1,582,944	2,231,119	3,195,430
Ore milled per calendar day – *tonnes*	16,432	17,395	14,776	17,654
Grade % - copper	0.238	0.180	0.229	0.190
Grade g/t - gold	0.298	0.261	0.283	0.291
Recovery % - copper	28.92	60.80	33.96	68.69
Recovery % - gold	46.60	68.64	52.33	71.48
Copper – *000's pounds*	1,520	3,819	3,825	9,191
Gold – *ounces*	4,472	9,110	10,619	21,390
Silver – *ounces*	4,609	7,531	11,119	16,497

*production stated for period January 1-May 26, 2019

A care and maintenance team is in place to look after the site and complete the final work on rehabilitation of Hazeltine Creek during the suspension of operations. For the quarter ended June 30, 2019, Mount Polley incurred idle mine costs comprised of $0.8 million in operating costs and $0.5 million in depreciation expense.

Exploration, development and capital expenditures were $0.7 million in the June 2019 quarter compared to $3.4 million in the comparative 2018 quarter.

Huckleberry Mine

Huckleberry continues to be on care and maintenance. For the quarter ending June 30, 2019, Huckleberry incurred idle mine costs comprised of $1.2 million in operating costs and $0.2 million in depreciation expense.

EARNINGS AND CASH FLOW

During the first quarter of 2019, the Company entered into an agreement for the sale of a 70% interest in the Red Chris mine. The sale is expected to be completed in the third quarter of 2019. As a result, this operation has been classified as a discontinued operation effective January 1, 2019 and the comparative periods have been restated.

Select Quarter Financial Information

Expressed in thousands, except share and per share amounts	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Continuing operations:				
Total revenues	$21,673	$22,791	$35,476	$58,818
Net loss	$(9,677)	$(22,390)	$(12,014)	$(53,468)
Net loss per share	$(0.08)	$(0.19)	$(0.10)	$(0.46)
Diluted loss per share	$(0.08)	$(0.19)	$(0.10)	$(0.46)
Adjusted net loss (1)	$(18,651)	$(13,658)	$(30,040)	$(33,324)
Adjusted net loss per share (1)	$(0.15)	$(0.12)	$(0.23)	$(0.28)
Adjusted EBITDA(1)	$(16)	$1,287	$(3,573)	$6,367
Cash flow (1)(2)	$207	$843	$232	$5,520
Cash flow per share (1)(2)	$0.00	$0.01	$0.00	$0.04
Discontinued operations:				
Total revenues	$61,945	$57,275	$124,823	$139,160
Net income (loss)	$2,227	$(14,165)	$2,296	$747
Net income (loss per) share	$0.02	$(0.12)	$0.02	$0.01
Diluted income (loss) per share	$0.02	$(0.12)	$0.02	$0.01
Adjusted net income (loss) (1)	$1,968	$(14,165)	$1,743	$747
Adjusted net income (loss) per share (1)	$0.02	$(0.12)	$0.02	$0.00
Adjusted EBITDA(1)	$3,506	$(3,417)	$14,059	$27,845
Cash flow (1)(2)	$3,260	$(3,436)	$13,520	$27,845
Cash flow per share (1)(2)	$0.03	$(0.03)	$0.11	$0.24
Working capital deficiency (3)	$744,682	$791,538	$744,682	$791,538
Total assets	$1,591,256	$1,661,947	$1,591,256	$1,661,947
Total debt (including current portion)	$887,932	$856,802	$887,932	$856,802

(1) Refer to table under heading *Non-IFRS Financial Measures* for further details.

(2) *Cash flow* is defined as the cash flow from operations before the net change in non-cash working capital balances, income and mining taxes, and interest paid. *Cash flow per share* is defined as cash flow divided by the weighted average number of common shares outstanding during the year.

(3) Excludes assets and liabilities held for sale.

Select Items Affecting Net Loss (presented on an after-tax basis)

expressed in thousands	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Net income (loss) before undernoted items from continuing operations	$(7,330)	$4,582	$(14,722)	$2,592
Interest expense	(13,184)	(18,281)	(26,607)	(36,094)
Recovery of BC Mineral taxes including interest	1,863	-	11,288	-
Gain on sale of Sterling	-	175	-	175
Foreign exchange gain (loss) on debt	8,974	(8,866)	18,026	(20,141)
Net loss from continuing operations	$(9,677)	$(22,390)	$(12,014)	$(53,468)

NON-IFRS FINANCIAL MEASURES

The Company reports four non-IFRS financial measures: adjusted net income, adjusted EBITDA, cash flow and cash cost per pound of copper produced which are described in detail below. The Company believes these measures are useful to investors because they are included in the measures that are used by management in assessing the financial performance of the Company.

Adjusted net income, adjusted EBITDA, and cash flow are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) and cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, these measures may not be directly comparable to similarly titled measures used by other companies. Reconciliations are provided below.

Adjusted Net Loss and Adjusted Net Loss per Share

Adjusted net loss from continuing operations in the June 2019 quarter was $16.7 million ($0.13 per share) compared to an adjusted net loss of $13.7 million ($0.12 per share) in the 2018 comparative quarter. Adjusted net loss reflects the financial results excluding the effect of items not settling in the current period and non-recurring items. Adjusted net loss is calculated by removing the gains or losses, resulting from mark to market revaluation of derivative instruments, net of tax, unrealized foreign exchange gains or losses on non-current debt, net of tax and other adjustments as further detailed in the following table.

Calculation of Adjusted Net Loss

expressed in thousands, except share and per share amounts	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Net loss reported from continuing operations	$9,677)	$(22,390)	$(12,014)	$(53,468)
Unrealized foreign exchange (gain) loss on debt, net of tax [(1)]	(8,974)	8,907	(18,026)	20,319
Gain on sale of Sterling	-	(175)	-	(175)
Adjusted net loss from continuing operations	(18,651)	(13,658)	(30,040)	(33,324)
Adjusted net income (loss) from discontinued operations	1,968	(14,165)	1,743	747
Total adjusted net loss reported	$(16,683)	$(27,823)	$(26,797)	$(32,577)
Basic weighted average number of common shares outstanding	127,110,479	117,648,245	126,104,879	117,203,671
Adjusted net loss per share from continuing operations	$(0.15)	$(0.12)	$(0.23)	$(0.28)
Adjusted net loss per share from discontinued operations	$0.02	$(0.12)	$0.02	$ 0.00
Total adjusted net loss per share	$(0.13)	$(0.24)	$(0.21)	$(0.28)

(1) Non-current debt is recorded on the Company's Statement of Financial Position at the foreign exchange rate in effect on that date, with changes in foreign exchange rates, net of taxes, flowing through net income. The amounts of non-current debt ultimately payable may be materially different than reflected in the financial statements due to foreign currency movements. Tax recoveries on unrealized capital losses are recorded only to the extent that they are expected to be realized by offset against available capital gains.

Adjusted EBITDA

Adjusted EBITDA from continuing operations in the June 2019 quarter was a loss of $nil compared to a loss of $1.2 million in the 2018 comparative quarter. We define Adjusted EBITDA as net income (loss) before interest expense, taxes, depletion and depreciation, and as adjusted for certain other items described in the following reconciliation table.

Adjusted EBITDA is not necessarily comparable to similarly titled measures used by other companies. We believe that the presentation of Adjusted EBITDA is appropriate to provide additional information to investors about certain non-cash or unusual items that we do not expect to continue at the same level in the future, or other items that we do not believe to be reflective of our ongoing operating performance. We further believe that our presentation of this non-IFRS financial measure provides information that is useful to investors because it is an important indicator of our operations and the performance of our core business.

Adjusted EBITDA is not a measurement of operating performance or liquidity under IFRS and should not be considered as a substitute for earnings from operations, net income or cash generated by operating activities computed in accordance with IFRS. Adjusted EBITDA has limitations as an analytical tool and therefore Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business.

A reconciliation of net income (loss) to Adjusted EBITDA is as follows:

expressed in thousands	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Net loss from continuing operations	$(9,677)	$(22,390)	(12,014)	$(53,468)
Adjustments:				
Income and mining tax recovery	(3,999)	(10,672)	(18,074)	(11,913)
Interest expense	18,091	18,281	36,488	36,094
Depletion and depreciation	4,256	5,584	7,100	13,381
Accretion of future site reclamation provisions	638	689	1,295	1,375
Share based compensation	84	184	193	366
Foreign exchange (gain) loss	(9,447)	9,553	(18,727)	21,344
Revaluation (gain) loss on marketable securities	44	215	202	(624)
Gain on sale of Sterling	-	(175)	-	(175)
Other	(6)	18	(36)	(13)
Adjusted EBITDA from continuing operations	(16)	1,287	(3,573)	6,367
Adjusted EBITDA from discontinued operations	3,506	(3,417)	14,059	27,845
Total adjusted EBITDA	$3,490	$(2,130)	$10,486	$34,212

Cash Flow and Cash Flow Per Share

Cash flow in the June 2019 quarter from continuing operations was $0.2 million compared to $1.0 million in the 2018 comparative quarter. Cash flow per share was $0.00 in the June 2019 quarter compared to $0.01 in the 2018 comparative quarter.

Cash flow and cash flow per share are measures used by the Company to evaluate its performance however they are not terms recognized under IFRS. Cash flow is defined as cash flow from operations before the net change in non-cash working capital balances, income and mining taxes, and interest paid and cash flow per share is the same measure divided by the weighted average number of common shares outstanding during the year.

expressed in thousands, except per share and per share amounts	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Loss before taxes from continuing operations	$(13,676)	$(33,062)	(30,088)	$(65,381)
Items not affecting cash flows:				
Depletion and depreciation	4,256	5,584	7,100	13,381
Share based compensation	70	184	179	366
Accretion of future site reclamation provisions	638	689	1,295	1,375
Fair value adjustment for debt settled in common shares	-	-	3,356	-
Unrealized foreign exchange (gain) loss	(9,167)	9,140	(18,179)	20,497
Interest expense	18,091	18,281	36,488	36,094
Gain on sale of Sterling	-	(175)	-	(175)
Other	(5)	202	81	(637)
Cash flow from continuing operations	207	843	232	5,520
Cash flow from discontinued operations	3,260	(3,436)	13,520	27,845
Total cash flow	$3,467	$(2,593)	$13,752	$33,365
Basic weighted average number of common shares outstanding	127,110,479	117,648,245	126,104,879	117,203,671
Cash flow per share from continuing operations	$0.00	$0.01	$0.00	$0.04
Cash flow per share from discontinued operations	$0.03	$(0.03)	$0.11	$0.24
Total cash flow per share	$0.03	$(0.02)	$0.11	$0.28

Cash Cost Per Pound of Copper Produced

The cash cost per pound of copper produced is a non-IFRS financial measure that does not have a standardized meaning under IFRS, and as a result may not be comparable to similar measures presented by other companies. Management uses this non-IFRS financial measure to monitor operating costs and profitability. The Company is primarily a copper producer and therefore calculates this non-IFRS financial measure individually for its three copper mines, Red Chris, Mount Polley and Huckleberry, and on a composite basis for these mines.

The cash cost per pound of copper produced is derived from the sum of cash production costs, transportation and offsite costs, treatment and refining costs, royalties, net of by-product and other revenues, divided by the number of pounds of copper produced during the period.

Cash costs of production include direct labour, operating materials and supplies, equipment and mill costs, and applicable overhead. Off-site costs include transportation, warehousing, marketing, related insurance and treatment and refining costs for smelting and refining concentrate.

Treatment and refining costs applicable to the concentrate produced during the period are calculated in accordance with the contracts the Company has with its customers.

By-product and other revenues represent (i) revenue calculated based on average metal prices for by-products produced during the period based on contained metal in the concentrate; and (ii) other revenues as recorded during the period.

Cost of sales, as reported on the consolidated statement of comprehensive income, includes depletion and depreciation and share based compensation, non-cash items. The resulting cash costs are different than the cost of production because of changes in inventory levels and therefore inventory and related transportation and offsite costs are adjusted from a cost of sales basis to a production basis. The cash costs for copper produced are converted to US$ using the average US$ to CDN$ exchange rate for the period divided by the pounds of copper produced to obtain the cash cost per pound of copper produced in US$.

Variations from period to period in the cash cost per pound of copper produced are the result of many factors including: grade, metal recoveries, amount of stripping charged to operations, mine and mill operating conditions, labour and other cost inputs, transportation and warehousing costs, treatment and refining costs, the amount of by-product and other revenues, the US$ to CDN$ exchange rate and the amount of copper produced. Idle mine costs during the periods when the Huckleberry and Mount Polley mines were not in operation have been excluded from the cash cost per pound of copper produced.

The following tables reconcile cost of sales, as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US$ for the three months ended June 30, 2019 and 2018.

Cash Cost Per Pound of Copper Produced

expressed in thousands, except cash cost per pound of copper produced

	Three Months Ended June 30, 2019			
	Red Chris*	Mount Polley**	Total per Financial Statements**	Composite
	A	B		C=A+B
Cost of sales	$58,887	$23,828	$82,715	$82,715
Less:				
Depletion and depreciation	(132)	(3,521)	(3,653)	(3,653)
Share based compensation	(16)	25	9	9
Cash costs before adjustment to production basis	58,739	20,332	$79,071	79,071
Adjust for inventory change	2,610	(8,599)		(5,989)
Adjust transportation and offsite costs	3,611	(808)		2,803
Treatment, refining and royalty costs	7,263	623		7,886
By-product and other revenues	(12,735)	(7,959)		(20,694)
Cash cost of copper produced in CDN$	$59,488	$3,589		$63,077
US$ to CDN$ exchange rate	*1.3287*	*1.3418*		*1.3353*
Cash cost of copper produced in US$	$44,772	$2,675		$47,238
Copper produced – pounds	*17,599*	*1,520*		*19,119*
Cash cost per lb copper produced in US$	$2.54	$1.76		$2.47

	Three Months Ended June 30, 2018			
	Red Chris*	Mount Polley**	Total per Financial Statements**	Composite
	A	B		C=A+B
Cost of sales	$71,535	$23,963	$95,498	$95,498
Less:				
Depletion and depreciation	(11,182)	(5,251)	(16,433)	(16,433)
Share based compensation	(14)	(29)	(43)	(43)
Cash costs before adjustment to production basis	60,339	18,683	$79,022	79,022
Adjust for inventory change	(3,053)	1,717		(1,336)
Adjust transportation and offsite costs	(470)	(244)		(714)
Treatment, refining and royalty costs	3,611	1,114		4,725
By-product and other revenues	(13,797)	(15,121)		(28,918)
Cash cost of copper produced in CDN$	$46,630	$6,149		$52,779
US$ to CDN$ exchange rate	*1.2910*	*1.2910*		*1.2910*
Cash cost of copper produced in US$	$36,119	$4,763		$40,882
Copper produced – pounds	*11,510*	*3,819*		*15,329*
Cash cost per lb copper produced in US$	$3.14	$1.25		$2.67

* The Red Chris Mine was classified as a discontinued operation effective January 1, 2019 and prior periods have been restated.

** The Mount Polley Mine is a continuing operation. The mine was placed on care and maintenance on May 26, 2019.

The following tables reconcile cost of sales, as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US$ for the six months ended June 30, 2019 and 2018.

Cash Cost Per Pound of Copper Produced

expressed in thousands, except cash cost per pound of copper produced

	Six Months Ended June 30, 2019			
	Red Chris*	Mount Polley**	Total per Financial Statements**	Composite
	A	B		C=A+B
Cost of sales	$120,656	$40,158	$160,814	$160,814
Less:	(9,222)	(6,144)	(15,366)	(15,366)
Depletion and depreciation	57	9	66	66
Share based compensation				
Cash costs before adjustment to production basis	111,491	34,023	$145,514	145,514
Adjust for inventory change	5,050	-		5,050
Adjust transportation and offsite costs	3,432	(569)		2,863
Treatment, refining and royalty costs	12,902	1,598		14,500
By-product and other revenues	(26,287)	(18,469)		(44,756)
Cash cost of copper produced in CDN$	$106,588	$16,583		$123,171
US$ to CDN$ exchange rate	*1.3333*	*1.3342*		*1.3337*
Cash cost of copper produced in US$	$79,942	$12,429		$92,352
Copper produced – pounds	*30,700*	*3,825*		*34,525*
Cash cost per lb copper produced in US$	$2.60	$3.25		$2.67

	Six Months Ended June 30, 2018			
	Red Chris*	Mount Polley**	Total per Financial Statements**	Composite
	A	B		C=A+B
Cost of sales	$136,063	$59,777	$195,840	$195,840
Less:				
Depletion and depreciation	(25,042)	(12,657)	(37,699)	(37,699)
Share based compensation	(36)	(57)	(93)	(93)
Cash costs before adjustment to production basis	110,985	47,063	$158,048	158,048
Adjust for inventory change	2,779	1,370		4,149
Adjust transportation and offsite costs	(379)	(169)		(548)
Treatment, refining and royalty costs	9,706	2,575		12,281
By-product and other revenues	(33,100)	(35,249)		(68,349)
Cash cost of copper produced in CDN$	$89,991	$15,589		$105,581
US$ to CDN$ exchange rate	*1.2780*	*1.2780*		*1.2780*
Cash cost of copper produced in US$	$70,415	$12,198		$82,614
Copper produced – pounds	*31,235*	*9,191*		*40,426*
Cash cost per lb copper produced in US$	$2.25	$1.33		$2.04

* The Red Chris Mine was classified as a discontinued operation effective January 1, 2019 and prior periods have been restated.

** The Mount Polley Mine is a continuing operation. The mine was placed on care and maintenance on May 26, 2019.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2019 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2018 FROM CONTINUING OPERATIONS

Overview

Revenues decreased to $21.7 million in the June 2019 quarter compared to $22.8 million in the 2018 comparative quarter. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date. The Company recorded a loss from mine operations of $2.2 million in the June 2019 quarter compared to a loss of $1.2 million in the 2018 comparative quarter.

Net loss for the June 2019 quarter was $9.7 million ($0.08 per share) compared to a net loss of $22.4 million ($0.19 per share) in the 2018 comparative quarter.

Revenue

expressed in thousands of dollars, except quantity amounts

	Three Months Ended June 30	
	2019	2018
Revenue before revaluation from:		
Continuing operations	$23,592	$26,120
Discontinued operations	64,806	60,878
Revenue revaluation from:		
Continuing operations	(1,919)	(3,330)
Discontinued operations	(2,861)	(3,602)
	$83,618	$80,066

expressed in thousands of dollars, except quantity amounts

	Three Months Ended June 30, 2019		
	Red Chris Mine*	Mount Polley Mine	Total
Sales			
Copper – *000's pounds*	*16,876*	*3,071*	*19,947*
Gold – *ounces*	*6,932*	*8,192*	*15,124*
Silver – *ounces*	*27,256*	*9,007*	*36,263*
Revenue			
Copper	$50,115	$8,135	$58,250
Gold	12,066	13,401	25,467
Silver	(236)	137	(99)
	61,945	21,673	83,618
Corporate	-	-	-
Total Revenue	$61,945	$21,673	$83,618

expressed in thousands of dollars, except quantity amounts

	Three Months Ended June 30, 2018		
	Red Chris Mine*	Mount Polley Mine	Total
Sales			
Copper – *000's pounds*	*12,842*	*3,359*	*16,201*
Gold – *ounces*	*9,522*	*8,214*	*17,736*
Silver – *ounces*	*20,969*	*7,030*	*27,999*
Revenue			
Copper	$42,682	$11,018	$53,700
Gold	14,744	11,610	26,354
Silver	(151)	162	11
	57,275	22,790	80,065
Corporate	-	-	1
Total Revenue	$57,275	$22,790	$80,066

* The Red Chris Mine was classified as a discontinued operation effective January 1, 2019 and prior periods have been restated.

During the June 2019 quarter the Company sold 19.9 million pounds copper and 15,124 ounces gold compared to 16.2 million pounds copper and 17,736 ounces gold in the 2018 comparative quarter.

During the June 2019 quarter there were 3.1 concentrate shipments from Red Chris mine (2018–2.6 concentrate shipments) and 0.7 concentrate shipments from Mount Polley mine (2018-0.7 concentrate shipment).

During the June 2019 quarter the Company's revenue was derived primarily from the sale of copper and gold in concentrate from the Red Chris and Mount Polley mines. The Red Chris mine accounted for 74.1% and Mount Polley mine accounted for 25.9% of the Company's revenue in the June 2019 quarter. Copper accounted for 69.7% and gold accounted for 30.5% of the Company's revenue in the June 2019 quarter.

The following information only contains financial results from continuing operations. Prior year comparatives have been restated accordingly.

Cost of Sales

expressed in thousands of dollars	Three Months Ended June 30	
	2019	2018
Operating expenses	$12,451	$14,473
Salaries, wages and benefits	7,881	4,210
Depletion and depreciation	3,521	5,251
Share based compensation	(25)	29
	$23,838	$23,963

Cost of sales for the June 2019 quarter were $23.8 million compared to $30.0 million for the comparative quarter in 2018, due to the following major factors:

- operating expenses and salaries, wages and benefits for 2019 were $20.3 million compared to $18.7 million in the comparative 2018 quarter;
- Depletion and depreciation for 2019 was $3.5 million compared to $5.3 million in the comparative 2018 quarter.

General and Administration Costs

expressed in thousands of dollars	Three Months Ended June 30	
	2019	2018
Administration	$1,616	$1,173
Share based compensation - corporate	95	155
Depreciation – corporate assets	8	32
Foreign exchange (income) loss	(167)	270
	$1,552	$1,630

General and administration costs were $1.6 million in the June 2019 quarter compared to $1.6 million in the 2018 comparative quarter. Administration costs increased due to transaction costs relating to the Newcrest transaction and share based compensation costs decreased due to a lower number of options outstanding which still had vesting remaining.

The average CDN/US Dollar exchange rate for the June 2019 quarter was 1.338 compared to 1.291 in the 2018 comparative quarter. Foreign exchange gains are attributable to holding US Dollar denominated cash, accounts receivable, and accounts payable. These net US Dollar asset and liability balances are primarily the result of the activities at the Mount Polley mine.

Interest Expense

expressed in thousands of dollars

	Three Months Ended June 30	
	2019	2018
Interest on non-current debt	$14,853	$17,348
Other interest	3,238	933
	$18,091	$18,281

Interest expense decreased to $18.1 million in the June 2019 quarter from $18.3 million in the 2018 comparative quarter.

Other Finance Income (Loss)

expressed in thousands of dollars

	Three Months Ended June 30	
	2019	2018
Accretion of future site reclamation provisions	$(638)	$(689)
Foreign exchange gain (loss) on debt	8,975	(8,905)
Fair value adjustment to marketable securities	(44)	(215)
	8,293	(9,809)
Interest income	2,609	45
Other finance income (loss)	$10,902	$(9,764)

Other finance income totaled $10.9 million in the June 2019 quarter compared to an expense of $9.8 million in the 2018 comparative quarter. The income resulted primarily from items discussed below.

At June 30, 2019, the Company had US Dollar denominated debt of US$334.0 million compared to US$335.0 million at December 31, 2018. Foreign exchange gains and losses attributable to US denominated short and non-current debt reflect the foreign currency movement during the three months ended June 30, 2019 and resulted in an $8.9 million gain on the senior notes compared to a $8.9 million loss in the 2018 comparative quarter. The Company also recorded $2.6 million in interest income related to a BC mineral tax refund.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2019 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2018 FROM CONTINUING OPERATIONS

Overview

Revenues decreased to $35.5 million in the June 2019 period compared to $58.8 million in the 2018 comparative period. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date. The Company recorded a loss from mine operations of $4.7 million in the June 2019 period compared to a loss of $1.0 million in the 2018 comparative period.

Net loss for the June 2019 period was $12.0 million ($0.10 per share) compared to a net loss of $53.5 million ($0.46 per share) in the 2018 comparative period.

Revenue

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30	
	2019	2018
Revenue before revaluation from:		
Continuing operations	$36,990	$64,354
Discontinued operations	125,596	146,140
Revenue revaluation from:		
Continuing operations	(1,533)	(5,535)
Discontinued operations	(773)	(6,981)
	$160,280	$197,978

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30, 2019		
	Red Chris Mine*	Mount Polley Mine	Total
Sales			
Copper – *000's pounds*	*30,816*	*4,573*	*35,389*
Gold – *ounces*	*16,080*	*12,565*	*28,645*
Silver – *ounces*	*51,262*	*13,678*	*64,940*
Revenue			
Copper	$97,704	$16,071	$113,775
Gold	27,102	19,127	46,229
Silver	17	259	276
	124,823	35,458	160,280
Corporate	-	-	-
Total Revenue	$124,823	$35,458	160,280

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30, 2018		
	Red Chris Mine*	Mount Polley Mine	Total
Sales			
Copper – *000's pounds*	*31,992*	*8,569*	*40,561*
Gold – *ounces*	*20,999*	*19,986*	*40,985*
Silver – *ounces*	*55,645*	*15,582*	*71,227*
Revenue			
Copper	$106,156	$27,697	$133,853
Gold	32,964	30,952	63,916
Silver	39	169	208
	139,159	58,818	197,977
Corporate	-	-	1
Total Revenue	$139,159	$58,818	$197,978

* The Red Chris Mine was classified as a discontinued operation effective January 1, 2019 and prior periods have been restated.

During the June 2019 period the Company sold 35.4 million pounds copper and 28,645 ounces gold compared to 40.6 million pounds copper and 40,985 ounces gold in the 2018 comparative period.

During the June 2019 period the Company's revenue was derived primarily from the sale of copper and gold in concentrate from the Red Chris and Mount Polley mines. The Red Chris mine accounted for 77.9% and Mount Polley mine accounted for 22.1% of the Company's revenue in the June 2019 period. Copper accounted for 71.0% and gold accounted for 28.8% of the Company's revenue in the June 2019 period.

The following information only contains financial results from continuing operations. Prior year comparatives have been restated accordingly.

Cost of Sales

expressed in thousands of dollars	Six Months Ended June 30	
	2019	2018
Operating expenses	$20,940	$33,539
Salaries, wages and benefits	13,083	13,524
Depletion and depreciation	6,144	12,657
Share based compensation	(9)	57
	$40,158	$59,777

Cost of sales for the June 2019 period were $40.2 million compared to $59.8 million for the comparative period in 2018, due to the following major factors:

- operating expenses and salaries, wages and benefits for 2019 were $34.0 million compared to $47.1 million in the comparative 2018 period;
- Depletion and depreciation for 2019 was $6.1 million compared to $12.7 million in the comparative 2018 period;
- Included in cost of sales for 2019 are inventory impairment charges of $3.1 million compared to $0.5 million in the comparative 2018 period.

General and Administration Costs

expressed in thousands of dollars	Six Months Ended June 30	
	2019	2018
Administration	$2,569	$2,209
Share based compensation - corporate	188	309
Depreciation – corporate assets	15	64
Foreign exchange loss	15	619
	$2,787	$3,201

General and administration costs were $2.8 million in the June 2019 period compared to $3.2 million in the 2018 comparative period. Administration costs increased due to costs in relation to the Newcrest transaction and share based compensation costs decreased due to a lower number of options outstanding which still had vesting remaining.

The average CDN/US Dollar exchange rate for the June 2019 period was 1.334 compared to 1.278 in the 2018 comparative period. Foreign exchange gains are attributable to holding US Dollar denominated cash, accounts receivable, and accounts payable. These net US Dollar asset and liability balances are primarily the result of the activities at the Mount Polley mine.

Interest Expense

expressed in thousands of dollars

	Six Months Ended June 30	
	2019	2018
Interest on non-current debt	$29,928	$34,390
Other interest	6,560	1,704
	$36,488	$36,094

Interest expense increased to $36.5 million in the June 2019 period from $36.1 million in the 2018 comparative period. The interest expense increased primarily as a result of the higher foreign exchange rates on US denominated debt.

Other Finance Income (Loss)

expressed in thousands of dollars

	Three Months Ended June 30	
	2019	2018
Accretion of future site reclamation provisions	$(1,295)	$(1,375)
Foreign exchange gain (loss) on debt	18,027	(20,317)
Fair value adjustment for debt settled in common shares	(3,356)	-
Fair value adjustment to marketable securities	(202)	624
	13,174	(21,068)
Interest income	4,781	110
Other finance income (loss)	$17,955	$(20,958)

Other finance income totaled $18.0 million in the June 2019 period compared to an expense of $21.0 million in the 2018 comparative period. The income resulted primarily from items discussed below.

At June 30, 2019, the Company had US Dollar denominated debt of US$334.0 million compared to US$335.0 million at December 31, 2018. Foreign exchange gains and losses attributable to US denominated short and non-current debt reflect the foreign currency movement during the six months ended June 30, 2019 and resulted in a $18.0 million gain on the senior notes. The Company also recorded $4.4 million in interest income related to a BC mineral tax refund.

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 Company's overall strategy remains unchanged from 2018. The capital structure of the Company consists of current and non-current debt and equity comprised of share capital, share option reserve, equity component of convertible debentures, warrant reserve, currency translation adjustment and retained earnings.

The Company is in compliance with the debt covenants related to its non-current debt as at June 30, 2019.

LIQUIDITY & CAPITAL RESOURCES AND FINANCING

At June 30, 2019, the Company had cash of $17.5 million and a working capital deficiency of $744.7 million, excluding assets and liabilities held for sale, which includes $736.6 million of current debt.

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 sells to a limited number of traders. These customers are large, well-capitalized and diversified multinationals, and credit risk is considered to be minimal. The balance of trade receivables owed to the Company in the ordinary course of business is significant and the Company often utilizes short term debt facilities with customers to reduce the net credit exposure.

From time to time the Company enters into derivative instruments with a number of counterparties to limit the amount of credit risk associated with any one counterparty. The Company did not enter into any derivative instruments during the quarter ended June 30, 2019.

Liquidity Risk

The Company has in place a rigorous planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. The Company ensures that in addition to cash balances, there are sufficient committed credit facilities, including the advance payment facilities with its customers, to provide cash necessary to meet projected cash requirements.

At June 30, 2019, the Company's primary sources of credit are comprised of a $200.0 million Senior Credit Facility, a $50.0 million Second Lien Credit Facility, US$325.0 million Senior Notes, $145.0 million face value of unsecured convertible debentures, a $75.0 million unsecured Junior Credit Facility, a $26.0 million Bridge loan facility, $10.0 million line of credit and $17.0 million in secured equipment loans and leases.

The Company's $200.0 million Senior Credit Facility and the $50.0 million second lien revolving loan credit facility are due on September 5, 2019 and September 9, 2019, respectively. At June 30, 2019, the Company had drawn in cash $152.8 million ($0.2 million net of deferred financing costs) of the Senior Credit Facility and utilized $47.2 million of the facility for letters of credit to secure reclamation bonds and other obligations for a total usage of $200.0 million.

Cash balances on hand, the projected cash flow from the Red Chris mine, as well as the available credit facilities are expected to be sufficient to fund the working capital deficiency and the Company's obligations as they come due assuming the successful completion of the transaction with Newcrest and continuing support of the Company's creditors until such time as the Newcrest transaction closes. In addition, there are inherent risks related to the operation of the Company's mines which could require additional sources of financing. There can be no assurance that the Company will be able to successfully complete the transaction with Newcrest and this creates a material uncertainty that could have an adverse impact on the Company's financial condition and results of operations and may cast significant doubt on the Company's ability to continue as a going concern.

The Company holds mineral properties and marketable securities. While these may be convertible to cash, they are not considered when assessing the Company's liquidity as they are part of the risk management program of the Company, long-term strategic holdings, or are only convertible to cash over a longer time horizon if realizable values exceed management's assessment of fair value, respectively. Therefore, as part of the Company's planning, budgeting and liquidity analysis process, these items are not relied upon to provide operational liquidity.

Liquidity risk is also impacted by credit risk should a counterparty default on its payments to the Company although the Company considers this risk low as described in the *Credit Risk* section previously.

The Company had the following contractual obligations with respect to financial instruments as of June 30, 2019:

expressed in thousands of dollars	Within 1 Year	2 Years	3 Years	4 Years	5 years	Total
Trade and other payables*	$99,975	$ -	$ -	$ -	$ -	$99,975
Other obligations*	47,497	10,418	-	-	-	57,915
Short-term debt	158,751	-	-	-	-	158,751
Current portion of non-current debt*	583,291	-	-	-	-	583,291
Non-current debt*	-	118,321	33,232	3,217	273	155,043
	889,514	128,739	33,232	3,217	273	1,054,975
Less future accretion and unamortized finance cost	(263)	(6,301)	(2,589)	-	-	(9,153)
Total	$889,251	$122,438	$30,643	$3,217	$273	$1,045,822

*Balances include liabilities held for sale.

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US$ denominated cash, accounts receivable, derivative instrument assets, reclamation deposits, trade and other payables and debt. If the US$ had been 10% higher/lower and all other variables were held constant, net income and comprehensive income for the quarter ended June 30, 2019 would have been higher/lower by $20.3 million.

Cash Flow

Cash flow was $0.2 million in the June 2019 quarter compared to $1.0 million in the comparative 2018 quarter.

Cash flow is a measure used by the Company to evaluate its performance, however, it is not a term recognized under IFRS and may not be comparable to similar measures used by other companies. Cash flow is defined as cash flow from operations before the net change in working capital balances, income and mining taxes, and interest paid. Refer to *Cash Flow and Cash Flow per share* under *Non-IFRS financial measures* for further details.

Working Capital

At June 30, 2019, the Company had cash of $17.5 million and a working capital deficiency of $744.7 million, excluding assets and liabilities held for sale, which includes $736.6 million of current debt.

Acquisition and Development of Mineral Properties

Acquisition and development of mineral properties on continuing and discontinued operations totaled $12.5 million in the June 2019 quarter compared to $15.8 million in the comparative 2018 quarter.

expressed in thousands of dollars	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Capital and Development Expenditures				
Red Chris*	$11,697	$12,076	$20,967	$16,926
Mount Polley	577	3,372	1,255	7,564
Other	4	5	4	5
	12,278	15,453	22,226	24,495
Exploration Expenditures				
Red Chris*	12	141	31	145
Mount Polley	12	131	12	166
Other	229	99	285	153
	253	371	328	464
	$12,531	$15,824	$22,554	$24,959

*The Red Chris Mine was classified as a discontinued operation effective January 1, 2019 and prior periods have been restated.

Contingent Liabilities

The Company is from time to time involved in various claims and legal proceedings arising in the conduct of its business. In the opinion of management, none of these matters will have a material effect on the Company's condensed consolidated interim financial position or financial performance.

At June 30, 2019, the Company had a provision of $2.7 million for future rehabilitation activities related to the August 4, 2014 tailings dam breach at the Mount Polley mine ("Mount Polley Breach"). The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required and is subject to revision in the future as further information becomes available to the Company.

During the third quarter of 2014, a securities class action lawsuit was filed against the Company and certain of its directors, officers and others in the Ontario Superior Court of Justice in Toronto (the "Claim"). The Company has engaged independent legal counsel to advise it on this matter. At this time, the Company cannot predict the outcome of the Claim or determine the amount of any potential losses and accordingly no provision has been made as of June 30, 2019. However, the Company is of the view that the allegations contained in the Claim are without merit and intends to vigorously defend its position.

DERIVATIVE INSTRUMENTS

In the past, the Company has utilized a variety of derivative instruments including the purchase of puts, forward sales, currency swaps and the use of min/max zero cost collars. The Company's income or loss from derivative instruments may be very volatile from period to period as a result of changes in the copper and gold prices and CDN/US exchange rates compared to the copper and gold prices and CDN/US exchange rate at the time when these contracts were entered into; or the latest balance sheet date and the type and length of time to maturity of the contracts.

The Company had no derivative instruments for copper, gold or foreign exchange at June 30, 2019 or at the date of this document.

DEBT AND OTHER OBLIGATIONS

At June 30, 2019 the Company's current debt, net of unamortized deferred financing costs and accretion was comprised of the following:

- Senior Notes - $425.1 million (US$325.0 million)
- a Senior Credit Facility of $200.0 million
- a Second Lien Credit Facility of $49.9 million
- Bridge Loan - $26.0 million
- Unsecured Junior Credit Facility of $75.0 million
- Unsecured Line of credit - $6.0 million
- Equipment loans and leases denominated in both CDN$/US$ with a balance of $7.0 million

Non-Current Debt

At June 30, 2019, the Company's non-current debt, net of unamortized deferred financing costs and accretion was comprised of the following:

- convertible debentures with a face value of $145.0 million - $134.5 million (book value)
- Equipment loans and leases denominated in both CDN$/US$ with a balance of $10.0 million

Detailed disclosure on the Company's non-current debt including amounts owed, interest rates and security can be found in Note 12 of the Interim Financial Statements.

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings. At June 30, 2019, about 23% of the Company's outstanding borrowings were at floating interest rates compared to December 31, 2018 when about 22% of the Company's outstanding borrowings were at floating interest rates. The Company monitors its exposure to interest rates and is comfortable with its current exposure. The Company has not entered into any derivative contracts to manage this risk.

Off-Balance Sheet Arrangements

At June 30, 2019, the Company did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

Other Price Risks

The Company is exposed to equity price risk arising from marketable securities. Marketable securities are classified as held for trading because the Company intends to liquidate the marketable securities when market conditions are conducive to a sale of these securities.

Fair Value Estimation

The fair value of financial instruments traded in active markets (such as marketable securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Company is the current bid price. The fair value of derivative instrument assets and liabilities are determined by the counterparties using standard valuation techniques for these derivative instruments.

The carrying value less impairment provision, if necessary, of trade and other receivables and trade and other payables are assumed to approximate their fair values. Except for the Senior Notes, management believes that the carrying value of remaining non-current and short term debt approximates fair value. As the notes have not been traded since March 2019, the dealer that provides the quotes is unable to provide the fair value at June 30 (December 31, 2018-$297.1 million).

IFRS 13 *Fair Value Measurement* requires disclosures about the inputs to fair value measurement, including their classifications within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities; and
Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – inputs that are not based on observable market data.

The fair value of the Company’s financial instruments has been classified within the fair value hierarchy as at June 30, 2019 as follows for continuing operations:

expressed in thousands of dollars	Level 1	Level 2	Total
Financial assets			
Cash	$17,511	$ -	$17,511
Marketable securities	608	-	608
Provisionally priced receivables	-	2,469	2,469
Future site reclamation deposits	14,324	-	14,324
	32,443	2,469	34,912
Financial liabilities			
Amounts owing on provisionally priced receivables	-	(3,147)	(3,147)
	$32,443	$(678)	$31,765

SELECT QUARTERLY FINANCIAL INFORMATION FROM TOTAL OPERATIONS (INCLUDING RED CHRIS MINE)

Unaudited - expressed in thousands of dollars, except per share amounts, prices and exchange rates

	Three Months Ended			
	June 30 2019	March 31 2019	December 31 2018	September 30 2018
Total revenues	$83,618	$76,681	$91,714	$70,481
Net loss	$(7,450)	$(2,268)	$(44,265)	$(28,609)
Basic loss per share (1)	$(0.06)	$(0.02)	$(0.37)	$(0.24)
Diluted loss per share (1)	$(0.06)	$(0.02)	$(0.37)	$(0.24)
Adjusted net loss (2)	$(16,683)	$(11,614)	$(15,087)	$(37,099)
Adjusted net loss per share(1) (2)	$(0.13)	$(0.09)	$(0.13)	$(0.30)
Adjusted EBITDA (2)	$3,490	$6,996	$12,341	$(13,287)
Cash flow (2)	$3,467	$10,285	$121,850	$(11,766)
Cash flow per share (1)(2)	$0.03	$0.08	$1.03	$(0.10)
Average LME copper price/lb in US$	$2.77	$2.82	$2.80	$2.77
Average LME gold price/troy oz in US$	$1,310	$1,304	$1,228	$1,213
Average CDN/US$ exchange rate	$1.338	$1.329	$1.321	$1.307
Period end CDN/US$ exchange rate	$1.329	$1.337	$1.364	$1.295

	June 30 2018	March 31 2018	December 31 2017	September 30 2017
Total revenues	$80,066	$117,912	$140,466	$90,157
Net loss	$(36,555)	$(16,166)	$(2,107)	$(1,572)
Basic income loss per share (1)	$(0.31)	$(0.14)	$(0.02)	$(0.02)
Diluted income loss per share (1)	$(0.31)	$(0.14)	$(0.02)	$(0.02)
Adjusted net loss (2)	$(27,823)	$(4,754)	$(492)	$(18,058)
Adjusted net income (loss) per share(1) (2)	$(0.24)	$(0.04)	$0.01	$(0.19)
Adjusted EBITDA (2)	$(2,130)	$36,394	$42,514	$17,903
Cash flow (2)	$(2,593)	$35,958	$43,009	$17,966
Cash flow per share (1) (2)	$(0.02)	$0.30	$0.46	$0.19
Average LME copper price/lb in US$	$3.12	$3.16	$3.09	$2.88
Average LME gold price/troy oz in US$	$1,306	$1,329	$1,275	$1,278
Average CDN/US$ exchange rate	$1.291	$1.265	$1.271	$1.253
Period end CDN/US$ exchange rate	$1.278	$1.289	$1.255	$1.248

(1) The sum of the quarterly net income per share, adjusted net income per share and cash flow per share may not equal the annual total due to timing of share issuances during the year.

(2) Refer to tables under heading *Non-IFRS Financial Measures* for details of the calculation of these amounts.

The financial information for each of the most recently completed eight quarters has been prepared in accordance with IFRS other than in respect of the non-IFRS financial measures described in more detail under the heading *Non-IFRS Financial Measures*.

Variations in the quarterly results are impacted by two primary factors:

(a) Fluctuations in revenue are due to the timing of shipping schedules and quantities of copper and gold sold on each ship, production volumes at the mines, changes in the price of copper, gold and the CDN$/US$ exchange rate.

(b) Fluctuations in net income are due to the revenue changes described above and realized and unrealized gains/losses on derivative instruments based on movements in the reference item hedged, changes in foreign exchange rates on US$ denominated debt, changes in production cost inputs and changes in tax rates and in 2017 the gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry.

In addition to the variations in quarterly results caused by the primary factors discussed above the following periods had non-recurring transactions that further impacted net income:

(a) The primary reason for loss in the September 2017 quarter compared to the June 2017 quarter was that there was a $109.8 million gain on bargain purchase that was recognized in the second quarter of 2017. However, that was slightly off set by a foreign exchange gain relating to the Company's US denominated debt in the September 2017 quarter compared to the June 2017 quarter.

(b) The primary reasons for the increase in net income in the December 2017 quarter compared to the September 2017 quarter was due to higher production at both Red Chris and Mount Polley which led to higher revenues of approximately $50.3 million.

(c) The primary reasons for the loss in the June 2018 quarter compared to income in the June 2017 quarter was largely due to the $109.8 million gain on bargain purchase that was recognized by the Company on the acquisition of the remaining 50% share of Huckleberry in 2017. Revenues were lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore compared to the March 2018 quarter which led to a decrease in overall metal production.

(d) The primary reasons for the increase in net loss in the September 2018 quarter compared to the September 2017 quarter was largely due to revenues being lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore. However, compared to the June 2018 quarter, net loss in the September 2018 quarter was lower due to a foreign exchange gain of $7.3 million relating to the Company's US denominated debt compared to foreign exchange loss of $9.2 million in the June 2018 quarter.

(e) The primary reasons for the increase in net loss in the December 2018 quarter compared to the September 2018 quarter was largely due to an impairment charge of $109.2 million on the Mount Polley mine, higher foreign exchange losses on debt of $23.8 million, partially offset by a $108.0 million settlement that was received in relation to the Mount Polley Breach.

(f) The primary reasons for the decrease in net loss in the March 2019 quarter compared to March 2018 quarter was due to a $20.8 million reduction in foreign exchange losses on long term debt and an $8.1 million non-recurring recovery of BC mineral taxes. These factors were partially offset by lower revenues due to the mining and treatment of lower grade ore from stockpiles at Mount Polley and shortage of available free water at Red Chris due to freezing conditions that reduced production.

(g) The primary reasons for the decrease in net loss in June 2019 quarter compared to June 2018 quarter was due to a foreign exchange gain of $9.3 million relating to the Company's US denominated debt compared to a foreign exchange loss of $8.9 million in the June 2018 quarter. However, compared to the March 2019 quarter, net loss increased in the June 2019 quarter due to a lower tax recovery.

RELATED PARTY TRANSACTIONS

Corporate

The Company incurred the transactions and balances noted below in the normal course of operations. Expenses have been measured at the fair value which is determined on a cost recovery basis. Related party transactions and balances with N. Murray Edwards, a significant shareholder, companies controlled by N. Murray Edwards including Edco, companies in which directors are owners, and with directors and officers are as follows:

Statement of Income

expressed in thousands of dollars		Three Months Ended June 30		Six Months Ended June 30	
		2019	2018	2019	2018
Loan guarantee fee for guarantee of Senior Credit Facility and Second Lien Secured Credit Facility	(a)	$1,402	$483	$2,789	$961
Interest expense and line of credit arrangement fee	(f)(h)	$6,786	$4,216	$11,447	$8,354

Statement of Financial Position

expressed in thousands of dollars		June 30 2019	December 31 2018
Accrued interest on Senior Notes and convertible debentures, Junior Credit Facility and Bridge Loan	(e)	$8,964	$7,010
Junior Credit Facility	(b)	$75,000	$75,000
Senior unsecured notes	(c)	$198,615	$72,739
Convertible Debentures	(d)(f)	$59,000	$59,000
Bridge Loan	(g)	$13,000	$13,000
Line of credit	(h)	$6,000	$ -

(a) The loan guarantee fee is related to the guarantee by Edco on the second lien credit facility which provided additional liquidity in 2015 for the commissioning of the Red Chris mine and the new extended senior credit facility on September 14, 2018 to guarantee the facility to maturity on September 5, 2019.

(b) The $75.0 million junior credit facility from N. Murray Edwards was used to fund any cost overruns at the Red Chris mine and for general working capital purposes.

(c) At June 30, 2019, N. Murray Edwards, directors and officers hold US$151.7 million of the US$325.0 million senior unsecured notes offering which closed in March 2014 and provided part of the long term financing for the Red Chris mine.

(d) N. Murray Edwards holds $40.0 million of the $115.0 million 2014 convertible debentures which provided funding for completing and commissioning the Red Chris mine, remediating the effects of the Mount Polley Breach, and for ongoing operations.

(e) Interest expense is related to the senior unsecured notes, the junior credit facility, convertible debentures and on factored accounts receivables and related financing transactions.

(f) N. Murray Edwards and directors hold $19.0 million of the $30.0 million 2015 convertible debenture which closed on August 24, 2015.

(g) Bridge Loan of $13.0 million held by a company controlled by N. Murray Edwards.

(h) Line of credit of $6.0 million held by a company controlled by N. Murray Edwards.

The Company incurred the above transactions and balances in the normal course of operations. Expenses have been measured at the fair value which is determined on a cost recovery basis. Additional details on related party transactions can be found in Note 23 to the Interim Financial Statements for the six months ended June 30, 2019.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this MD&A, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

Based on that evaluation, management has concluded that, as of the end of the period covered by this MD&A, the disclosure controls were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Internal Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures. The Company's 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 in accordance with IFRS. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of the assets of the Company;
- 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
- 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 Company's consolidated financial statements.

There have been no changes in the Company's internal controls over financial reporting and disclosure controls and procedures during the June 30, 2019 quarter ended that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting and disclosure.

Limitations

The Company's management believes that any disclosure controls and procedures or internal controls over financial reporting, no matter how well designed and operated, can only provide reasonable and not absolute assurance that the objectives of the control system are met. Therefore, even those systems determined effective cannot provide absolute assurance that all control issues and instances of fraud within the Company, if any, have been prevented or detected.

RISK FACTORS

The Company's business involves a high degree of risk. You should carefully consider the risks described in this MD&A and the audited Consolidated Financial Statements of the Company. The risks and uncertainties described therein are not the only risks and uncertainties that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of those risks actually occurs, our business, financial condition, results of operations and cash flow would suffer.

FORWARD-LOOKING STATEMENTS & RISKS NOTICE

This MD&A is a review of the Company's operations and financial position as at and for the quarter ended June 30, 2019, and plans for the future based on facts and circumstances as of August 14, 2019. Except for statements of historical fact relating to the Company, certain information contained herein constitutes forward-looking information which are prospective in nature and reflect the current views and/or expectations of Imperial. Often, but not always, forward-looking information can be identified by the use of statements such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "forecasts", "projects", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such information in this MD&A includes, without limitation, statements regarding: expectations that the agreement to sell a 70% interest in the Company's Red Chris mine to Newcrest will successfully close, resulting in the joint venture between the parties for the operation of the Red Chris asset going forward, with Newcrest acting as operator, and the timing thereof; expectations regarding the care and maintenance activities at Mount Polley; expectations regarding debottlenecking initiatives, tailing dam construction and test work programs at Red Chris; production and marketing; capital expenditures; adequacy of funds for projects and liabilities; the receipt of necessary regulatory permits, approvals or other consents; outcome and impact of litigation; cash flow; working capital requirements; the requirement for additional capital; results of operations, production, revenue, margins and earnings; future prices of copper and gold; future foreign currency exchange rates and impact; future accounting changes; and future prices for marketable securities.

Forward-looking information is not based on historical facts, but rather on then current expectations, beliefs, assumptions, estimates and forecasts about the business and the industry and markets in which the Company operates, including, but not limited to, assumptions that: the agreement to sell a 70% interest in the Company's Red Chris mine to Newcrest will successfully close within necessary time frames, enabling the Company to satisfy its debt obligations and repay its credit facilities as they become due; the Company will have access to capital as required and will be able to fulfill its funding obligations as the Red Chris minority joint venture partner; the Company will be able to advance and complete remaining planned rehabilitation activities within expected timeframes; there will be no significant delay or other material impact on the expected timeframes or costs for completion of rehabilitation of the Mount Polley mine and implementation of Mount Polley's long term water management plan; the Company's initial rehabilitation activities at Mount Polley will be successful in the long term; all required permits, approvals and arrangements to proceed with planned rehabilitation and Mount Polley's long term water management plan will be obtained in a timely manner; there will be no material operational delays at the Red Chris mine; equipment will operate as expected; there will not be significant power outages; there will be no material adverse change in the market price of commodities and exchange rates; the Red Chris mine will achieve expected production outcomes (including with respect to mined grades and mill recoveries and access to water as needed). Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. We can give no assurance that the forward-looking information will prove to be accurate.

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause Imperial's actual results, revenues, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the statements constituting forward-looking information.

Important risks that could cause Imperial's actual results, revenues, performance or achievements to differ materially from Imperial's expectations include, among other things: the risk that the agreement to sell a 70% interest in the Company's Red Chris mine to Newcrest will not successfully close within necessary time frames, jeopardizing the Company's ability to satisfy its debt obligations and repay its credit facilities as they become due, and undermining the Company's ability to continue as a going concern; the risk that the Company's ownership of the Red Chris mine may be diluted over time should it not have access to capital as required and will not be able to meet its funding obligations as the Red Chris minority joint venture partner; that additional financing that may be required may not be available to Imperial on terms acceptable to Imperial or at all; uncertainty regarding the outcome of sample testing and analysis being conducted on the area affected by the Mount Polley Breach; risks relating to the timely receipt of necessary approvals and consents to proceed with the rehabilitation plan and Mount Polley's long term water management plan; risks relating to the remaining costs and liabilities and any unforeseen longer-term environmental consequences arising from the Mount Polley Breach; uncertainty as to actual timing of completion of rehabilitation activities and the implementation of Mount Polley's long term water management plan; risks relating to the impact of the Mount Polley Breach on Imperial's reputation; the quantum of claims, fines and penalties that may become payable by Imperial and the risk that current sources of funds are insufficient to fund liabilities; risks that Imperial will be unsuccessful in defending against any legal claims or potential litigation; risks of protesting activity and other civil disobedience restricting access to the Company's properties; failure of plant, equipment or processes to operate in accordance with specifications or expectations; cost escalation, unavailability of materials and equipment, labour unrest, power outages, and natural phenomena such as weather conditions and water shortages negatively impacting the operation of the Red Chris mine; changes in commodity and power prices; changes in market demand for our concentrate; inaccurate geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources); and other hazards and risks disclosed within this MD&A for the six months ended June 30, 2019 and other public filings which are available on Imperial's profile at *sedar.com*. For the reasons set forth above, investors should not place undue reliance on forward-looking information. Imperial does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

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