Imperial Metals Corporation

2012 ANNUAL REPORT

discover
develop
operate


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2012 SNAPSHOT

Imperial Metals
- 2012 net income $32.6 million

Mount Polley Mine
- 33.8 million lbs copper and 52,200 oz gold produced
- Life of mine extended from 2016 to 2023

Huckleberry Mine
- 35.1 million lbs copper produced
- Life of mine extended from 2014 to 2021

Sterling Mine
- Commenced gold production

Red Chris
- Mines Act Permit received
- Resource increased by 103%
- Construction commences; plant site excavation complete and concrete placement begun

Ruddock Creek
- Indicated resource increased by 34%
- Inferred resource increased by 24%

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Cover: Harold Hewlett, Shovel Operator

President's Message

Imperial's 2012 net income was $32.6 million compared to net income of $48.7 million in 2011. Income from operations was $69.3 million in 2012, up from the $64.3 million generated by operations in 2011. Mount Polley provided income from operations of $56.9 million, over double the $26.2 million achieved in 2011 as a result of higher gold production and gold prices. Huckleberry, in period of transition between mine plans, sold less copper than in 2011 and thus generated less income from mine operations.

At Mount Polley, 2012 production totalled 33.8 million pounds copper and 52,236 ounces gold, both up substantially from the 26.5 million pounds copper and 42,514 ounces gold produced in 2011. The annual average mill throughput set a new record of 22,191 tonnes per day, up 5% from 2011. Mining at Mount Polley was focused on the lower benches of the phase 3 Springer pit, which have higher copper grades and lower levels of oxidation and as a result, copper and gold recovery were both higher in 2012 than in the prior year. Mount Polley planned production for 2013 is 38.5 million pounds copper and 43,000 ounces gold.

Mount Polley added a P&H 2300 shovel and two Caterpillar 793 haul trucks to its mining fleet in 2012. Two additional 793 haul trucks are scheduled for delivery in 2013. These additions to the mining fleet will provide the capacity needed to access ore deeper in the Springer pit.

Efforts to initiate underground mining in the Boundary zone continued with the excavation of ramps and other facilities required to test mine approximately 300,000 tonnes grading 1.26% copper, 0.85 g/t gold and 5.5 g/t silver.

Huckleberry copper production totalled 35.1 million pounds in 2012 compared to 42.8 million pounds in 2011. The lower grade was expected in the 2012 mine plan, as the Main Zone Extension pit was undergoing a pushback which prevented access to the higher grade lower benches of the pit. In 2013 Huckleberry's copper production is estimated to be 40 million pounds. The construction of the new tailings storage facility is expected to be completed and put into operation this summer.

Construction of a new leach pad and recovery plant was completed at the Sterling gold property in Nevada. The first gold pour from the new plant occurred in July, and at the 2012 year end, the Sterling mine had produced and shipped 2,852 ounces gold. Virtually all the ore stacked on the heap at the end of the year was from the development of the south limb of the 144 zone. The start of production mining was delayed as mineralization extended further to the west than anticipated, and time was taken to extend the 3292 level to access this mineralization prior to commencing stoping operations.

The Red Chris project received mine development permits in May 2012. Construction work was initiated shortly thereafter. By year end engineering was approximately 77% complete. Construction highlights are the completion of the excavation and the pouring of almost 5000 cubic metres of concrete at the process plant site, completion of a new eight kilometre access road, and construction of a road from the plant to the tailings storage facility. All the long lead items including the SAG mill, ball mill and primary crusher have been procured, and many of these key components have now been delivered.

The start of commissioning work at Red Chris is scheduled for May 2014. Key to starting the commissioning will be the completion of the 287kV Northwest Transmission Line (NTL) from Skeena substation to Bob Quinn, and a 93 kilometre extension from Bob Quinn to Tatogga (NTL Extension). Further to an agreement recently signed by the Company and BC Hydro, the NTL Extension will be constructed by a subsidiary of Imperial. Upon completion, the NTL Extension will be acquired by BC Hydro. That portion of the costs which exceed $52.0 million will be borne by Imperial as its contribution to the NTL Extension in order to make the 287kV service connection to the Red Chris Mine. The expected in service date for both the NTL Extension and the NTL is May 31, 2014. Construction of the NTL Extension will commence upon receipt of required permits.

The Red Chris project received mine development permits in May 2012. Construction work was initiated shortly thereafter. By year end engineering was approximately 77% complete. Construction highlights are the completion of the excavation and the pouring of almost 5000 cubic metres of concrete at the process plant site, completion of a new eight kilometre access road, and construction of a road from the plant to the tailings storage facility.

Cash on hand plus cash flow and credit lines funded the Company's extensive development programs in 2012. Additional financing will be required in 2013 to fund accelerating expenditures at Red Chris. Management plans to finance a large part of the Red Chris development costs, now estimated to be $500 million, through a debt facility to minimize equity dilution.

Strong gold prices and good operating performance at Mount Polley enabled Imperial to increase income from operations in 2012 in the face of lower copper prices. We are very excited to see the beginning of the Red Chris mine development - a mine that will be in operation for a long time - and will enable Imperial to triple annual copper production and double annual gold production.

Our operations and developments would not have been possible without the efforts and support of our many employees, suppliers and stakeholders. On behalf of Imperial's Board of Directors and management, I thank you for your contribution to our projects.

J. Brian Kynoch
President

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") for Imperial Metals Corporation (the "Company") should be read with the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2012.

The Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards.

The reporting currency of the Company is the CDN Dollar.

FORWARD-LOOKING STATEMENTS AND RISKS NOTICE

This MD&A is a review of the Company's operations and financial position as at and for the year ended December 31, 2012, and plans for the future based on facts and circumstances as of March 21, 2013. Except for statements of historical fact relating to the Company, including our 50% interest in Huckleberry, certain information contained herein constitutes forward-looking statements. When we discuss: mine plans; our costs and timing of current and proposed exploration; development; production and marketing; capital expenditures; the construction of the Northwest Transmission Line; cash flow; working capital requirements; and the requirement for additional capital; operations; revenue; margins and earnings; future prices of copper and gold; future foreign currency exchange rates; future accounting changes; future prices for marketable securities; future resolution of contingent liabilities; or other things that have not yet happened in this review we are making statements considered to be forward-looking information or forward-looking statements under Canadian and United States securities laws. We refer to them in this review as forward-looking information.

The forward-looking information in this review typically includes words and phrases about the future, such as: plan, expect, forecast, intend, anticipate, estimate, budget, scheduled, believe, may, could, would, might, will. We can give no assurance that the forward-looking information will prove to be accurate. It is based on a number of assumptions management believes to be reasonable, including but not limited to: the continued operation of the Company's mining operations, no material adverse change in the market price of commodities and exchange rates, that the mining operations will operate and the mining projects will be completed in accordance with their estimates and achieve stated production outcomes, volatility in the Company's share price and such other assumptions and factors as set out herein.

It is also subject to risks associated with our business, including but not limited to: risks inherent in the mining and metals business; commodity price fluctuations and hedging; competition for mining properties; sale of products and future market access; mineral reserves and recovery estimates; currency fluctuations; interest rate risk; financing risk; environmental risk; foreign activities; legal proceedings; and other risks that are set out in our annual information form and below.

If our assumptions prove to be incorrect or risks materialize, our actual results and events may vary materially from what we currently expect as set out in this review.

We recommend that you review our annual information form and this MD&A, which include a discussion of material risks that could cause actual results to differ materially from our current expectations. Forward-looking information is designed to help you understand management's current views of our near and longer term prospects, and it may not be appropriate for other purposes. We will not necessarily update this information unless we are required to by securities laws.

Overview

Revenues were $257.8 million in 2012 compared to $253.2 million in 2011. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rate, and period end revaluations of revenue attributed to concentrate shipments where copper price will settle at a future date. The increase in revenue in 2012 over 2011 is due to more shipments of copper and gold in concentrate from Mount Polley and higher gold prices which more than offset the lower copper prices and fewer shipments from Huckleberry in 2012 compared to 2011. There were thirteen concentrate shipments in 2012 consisting of seven from Mount Polley and six from Huckleberry, compared to fourteen shipments in 2011 consisting of six from Mount Polley and eight from Huckleberry.

The London Metals Exchange cash settlement copper price per pound averaged US$3.61 in 2012 compared to US$4.01 in 2011. The London Metals Exchange cash settlement gold price per troy ounce averaged US$1,669 in 2012 compared to US$1,568 in 2011. The US Dollar compared to the CDN Dollar averaged about 1.0% higher in 2012 than in 2011. In CDN Dollar terms the average copper price in 2012 was 9.3% lower than in 2011 and the average gold price in 2012 was 7.6% higher than in 2011.

Revenue in 2012 was decreased by a $1.2 million negative revenue revaluation compared to a negative revenue revaluation of $16.3 million in 2011. Negative revenue revaluations are the result of the copper price on the settlement date and/or the current period balance sheet date being lower than when the revenue was initially recorded or the copper price at the last balance sheet date. The copper price started the year at US$3.48 per pound and ended the year at US$3.59 per pound, and fluctuated through the year with a high of US$3.93 and a low of US$3.32. Compared to the prior period where the copper price started the year at US$4.33 per pound and ended the year US$3.43 per pound.

Income from mine operations increased to $69.3 million from $64.3 million in 2011 as result the reduced negative revenue revaluations.

Net income for the year ended December 31, 2012 was $32.6 million ($0.44 per share) compared to net income of $48.7 million ($0.66 per share) in 2011. In addition to variances in revenues and income from mine operations described above, variations in net income period over period are predominately attributable to movements in foreign exchange, realized and unrealized gains and losses on derivative instruments, share based compensation, bad debt recovery and taxes.

In 2012 net income was negatively impacted by foreign exchange losses of $1.0 million compared to foreign exchange gains of $1.7 million in 2011. During 2012 the US Dollar weakened against the CDN Dollar starting the year at CDN$1.009 and ending the year at CDN$0.995, compared to the prior year where the US Dollar strengthened against the CDN Dollar starting the year at CDN$0.999 and ending the year at CDN$1.017.

In 2012 net income was negatively impacted by net realized and unrealized losses on derivative instruments of $6.8 million compared to gains of $14.3 million in 2011. In 2011 the Company recorded a $14.1 million bad debt recovery related to derivative instruments held by Lehman Brothers.

Share based compensation was $2.9 million in the current period compared to $5.2 million in the comparative period.

Income and mining tax expense decreased by $15.1 million from 2011 to 2012 due to reduced income before tax and a lower effective tax rate at 38.8% in 2012 compared to 42.4% in 2011 as the Company recognized the benefit of certain tax assets.

Adjusted net income in 2012 was $36.8 million ($0.50 per share) compared to $31.3 million ($0.42 per share) in 2011. Adjusted net income is calculated by removing the gains or losses, net of related income taxes, resulting from mark to market revaluation of copper derivative instruments not related to the current period, net of taxes, as further detailed on the following table.

Calculation of Adjusted Net Income
[expressed in thousands of Canadian dollars, except share amounts]

	Years Ended December 31	
	2012	2011
Net income as reported	$ 32,626	$ 48,708
Unrealized (gain) loss on derivative instruments, net of tax (a)	4,181	(17,375)
Adjusted Net Income (b)	$ 36,807	$ 31,333
Adjusted Net Income Per Share (b)	$ 0.50	$ 0.42

(a) Derivative financial instruments are recorded at fair value on the Company's Statement of Financial Position, with changes in the fair value, net of taxes, flowing through net income. The amounts ultimately realized may be materially different than reflected in the financial statements due to changes in prices of the underlying copper and foreign exchange hedged.

(b) Adjusted net income and adjusted net income per share are not terms recognized under IFRS in Canada, however it does show the current year's financial results excluding the effect of items not settling in the current year. 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.

Cash flow decreased to $83.9 million in 2012 from $87.7 million in 2011. Cash flow, excluding the $14.1 million non recurring bad debt recovery realized in 2011, increased by $10.3 million in 2012. Cash flow is a measure used by the Company to evaluate its performance, however, it is not a term recognized under IFRS in Canada. Cash flow is defined as cash flow from operations before the net change in non-cash working capital balances. 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 inclusive of equipment financed via long term debt and capitalized interest, were $192.0 million, up from $71.5 million in 2011. Expenditures in both 2012 and 2011 were primarily financed by cash flow from the Mount Polley and Huckleberry mines and short term debt. At December 31, 2012 the Company had $37.4 million (2011-$62.0 million) in cash and short term investments, inclusive of the Company's share of cash and short term investments of Huckleberry of $34.6 million (2011-$55.9 million). The short term debt balance at December 31, 2012 was $118.1 million compared to $26.9 million at December 31, 2011.

Derivative Instruments

In the year ending December 31, 2012 the Company only had derivative instruments for copper. During 2012 the Company recorded losses of $6.8 million on derivative instruments compared to gains of $14.3 million in 2011. These gains and losses result from the mark to market valuation of the derivative instruments based on changes in the price of copper. These amounts include realized losses of $1.2 million in 2012 and $9.3 million in 2011. The Company does not use hedge accounting therefore accounting rules require that derivative instruments be recorded at fair value on each statement of financial position date, with the adjustment resulting from the revaluation being charged to the statement of income as a gain or loss.

The Company utilizes a variety of derivative instruments including the purchase of puts, forward sales 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 price compared to the copper price at the time when these contracts were entered into and the type and length of time to maturity of the contracts.

Derivative instruments for Mount Polley cover about 39% of the estimated copper settlements through March 2014 via min/max zero cost collars. Derivative instruments for Huckleberry include puts and min/max zero cost collars extending out to April 2014 covering about 33% of the estimated copper settlements in the period.

At December 31, 2012 the Company has unrealized losses on its derivative instruments. This represents a decrease in fair value of the derivative instruments from the dates of purchase to December 31, 2012.

The Company is required to provide security to certain derivative instrument counterparties to cover potential losses in excess of the credit facilities granted by the counterparties. At December 31, 2012 the Company had no security deposits to its counterparties. These security requirements only pertain to Huckleberry.

Selected Annual Financial Information		Years Ended December 31	
[expressed in thousands of Canadian dollars, except share amounts]	2012	2011	2010
Total Revenues	$ 257,783	$ 253,175	$ 246,271
Net Income	$ 32,626	$ 48,708	$ 38,375
Net Income per share	$ 0.44	$ 0.66	$ 0.53
Diluted Income per share	$ 0.43	$ 0.65	$ 0.52
Adjusted Net Income (2)	$ 36,807	$ 31,333	$ 45,695
Adjusted Net Income per share (2)	$ 0.50	$ 0.42	$ 0.63
Working Capital (deficiency) (3)	$ (28,858)	$ 76,499	$ 71,631
Total Assets	$ 659,732	$ 486,379	$ 442,020
Total Long Term Debt (including current portion)	$ 8,341	$ 1,612	$ 2,515
Cash dividends declared per common share	$ 0.00	$ 0.00	$ 0.00
Cash Flow (1)	$ 83,946	$ 87,715	$ 78,392
Cash Flow per share (1)	$ 1.13	$ 1.19	$ 1.08

(1) 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 and cash flow per share is the same measure divided by the weighted average number of common shares outstanding during the period.

(2) Refer to previous table under heading Calculation of Adjusted Net Income for details of the calculation of these amounts for 2012 and 2011.

(3) Defined as current assets less current liabilities.

The reporting currency of the Company is the Canadian Dollar.

Developments During 2012

General

The London Metals Exchange cash settlement copper price per pound averaged US$3.61 in 2012 compared to US$4.01 in 2011. The London Metals Exchange cash settlement gold price per troy ounce averaged US$1,669 in 2012 compared to US$1,568 in 2011. The US Dollar compared to the CDN Dollar averaged about 1.0% higher in 2012 than in 2011. In CDN Dollar terms the average copper price in 2012 was 9.3% lower than in 2011 and the average gold price in 2012 was 7.6% higher than in 2011.

Mount Polley Mine

Throughput was up 5% from 2011 with over 8.1 million tonnes milled in 2012 compared to 7.7 million tonnes in 2011. Increased throughput, improved recoveries and better grades resulted in increased copper and gold production of 27% and 22% respectively from the levels achieved in 2011. Mount Polley is expected to produce 38.5 million pounds copper and 43,000 ounces gold in 2013.

Annual Production

		Years Ended December 31	
	2012	2011	2010
Ore milled (tonnes)	8,121,878	7,716,856	7,894,596
Ore milled per calendar day (tonnes)	22,191	21,142	21,629
Grade % – Copper	0.280	0.265	0.322
Grade g/t – Gold	0.304	0.272	0.281
Recovery % – Copper	67.40	58.70	62.19
Recovery % – Gold	65.70	62.90	65.62
Copper (lbs)	33,789,600	26,450,426	34,842,611
Gold (oz)	52,236	42,514	46,771
Silver (oz)	116,101	95,786	206,812

During the 2012 exploration program 45 drill holes totalling 24,715 metres were drilled in the Springer pit. The results were successful and the data has increased the resource. The results of the drilling beneath the Springer pit enabled a further extension of the Springer open pit to be designed.

As of January 1, 2013 reserves for Mount Polley are 98.4 million tonnes grading 0.294% copper and 0.297 g/t gold. The reserve has increased approximately 15% from the 2012 update. Milling this reserve and the low grade stockpiles would extend Mount Polley's mine life to the end of 2025. To achieve the updated mine life extension, additional stripping will be necessary. Two additional 793 haul trucks have been purchased to provide the haulage capacity required to accomplish the required stripping.

Initial test stoping from the Boundary zone is expected to begin in the second half of 2013. Underground drilling is currently underway targeting the Zuke zone, and the Halo zone, both of which are adjacent to the Boundary zone.

Exploration, development and capital expenditures at Mount Polley were $29.5 million in 2012 compared to $25.3 million in 2011.

Huckleberry Mine

Recoveries continued to be excellent throughout 2012. Huckleberry's annual copper production of 35.1 million pounds exceeded the 2012 forecast by 6.4%. In 2013 copper production is estimated to be 40.0 million pounds.

Annual Production*

	Years Ended December 31		
	2012	2011	2010
Ore milled (tonnes)	5,876,900	5,929,700	5,684,300
Ore milled per calendar day (tonnes)	16,057	16,246	15,573
Grade % – Copper	0.301	0.365	0.396
Grade % – Molybdenum	0.007	0.007	0.007
Recovery % – Copper	90.0	89.9	91.7
Copper (lbs)	35,112,000	42,830,000	45,510,000
Gold (oz)	2,578	3,520	3,195
Silver (oz)	191,787	218,150	223,557
Molybdenum (lbs)	4,556	6,929	84,027

*50% allocable to Imperial

The financial results from Huckleberry continue to have a significant impact on Imperial's results. Imperial's share of Huckleberry's income from mine operations was $12.4 million in 2012 compared to $38.1 million in 2011. Huckleberry's income decreased due to a fewer number of shipments in the period (six in 2012 versus eight in 2011).

In 2012 Huckleberry completed 15 drill holes for a total of 5,141 metres of diamond drilling in the mine site area. Drilling was divided between deep and near-surface targets located adjacent to the Main Zone Optimization (MZO) pit. Near-surface drilling focused primarily on an abandoned non-acid generating (NAG) quarry which was also a target in 2011. This work has added a significant low grade resource to the deposit.

Deep drilling tested for the extension of ore grade material along the eastern portions of the Main zone ore body. Drilling of a coincident moderate chargeability/resistivity anomaly resulted in the discovery of the MZ Deep target, an extensive zone located between the Main zone and East zone ore bodies. The correlation between this type of anomaly and copper mineralization led to an expanded Titan-24 DC-IP/MT survey, comprising 10 line kilometres designed to build on survey data from 2011 and seek new targets.

Huckleberry plans to continue with a strategy of drilling both deep and shallow targets in the mine site area, using historical drilling and geophysical data as guides.

Huckleberry ore reserves at December 31, 2012 were 49,907,500 tonnes grading 0.334% copper and 0.009% molybdenum. The strip ratio is approximately 0.9 to 1.0 including the backfilled waste and tailings that must be removed from the Main zone pit.

Construction of a new tailings storage facility (TMF3) began in early 2012. The new starter dam was completed to the 924 metre level by the end of the construction season. The main diversion ditch and seepage collection systems related to this new facility were also completed in 2012. Approximately 1.2 million cubic metres of earthworks will be required to complete the TMF3 starter dam to the 945 metre level. This work is expected to begin in April 2013 and to be completed by July 2013. The TMF3 will then be used for storage of tailings and potentially acid generating (PAG) waste, generated by the operation.

Exploration, development and capital expenditures at Huckleberry were $44.2 million in 2012 compared to $6.8 million in 2011.

Imperial holds a 50% interest in Huckleberry Mines Ltd. The remaining 50% interest is held by a consortium consisting of Mitsubishi Materials Corporation, Marubeni Corporation, Dowa Mining Co. Ltd. and Furukawa Co.

Notes 20 and 23 to the audited Consolidated Financial Statements of the Company for the year ended December 31, 2012 discloses information on the impact of Huckleberry operations on the financial position and results of operations of Imperial.

Red Chris

Red Chris mine development is proceeding with approximately 81% of the engineering complete as of February 28, 2013. The development of the Red Chris mine is proceeding, with start of commissioning scheduled for May 2014. Key to meeting this schedule will be the completion of the 287kV Northwest Transmission Line (NTL) from Skeena substation to Bob Quinn, and a 93 kilometre extension from Bob Quinn to Tatogga (NTL Extension). Further to an agreement recently signed by the Company and BC Hydro, the NTL Extension will be constructed by a subsidiary of Imperial. Upon completion, the NTL Extension will be acquired by BC Hydro. That portion of the costs which exceeds $52.0 million will be borne by Imperial as its contribution to the NTL Extension in order to make the 287kV service connection to the Red Chris mine. The expected in service date for both the NTL Extension and the NTL is May 31, 2014. Construction of the NTL Extension will commence upon receipt of required permits.

On-site work began in May 2012. The process plant site was excavated to grade and 4,912 m3 of concrete had been poured by November 2012 when the concrete placement was suspended for winter. The status of site work as of January 2013 is:

- main access road along new alignment completed and opened
- concrete aggregate washed and stockpiled
- phase 1 tailings impoundment area, 220 hectares of 240 hectares cleared
- tailings and reclaim water pipeline right of ways are 85% cleared
- mass excavation of primary crusher and conveyor alignment begun
- stripping of top soils from till borrow area commenced
- installation of additional camp modules to reach a 480 room camp facility, with occupation available in March 2013
- installation of a 65' x 120' maintenance shop complex to be completed in March 2013

During 2012 Red Chris capital expenditures, including capitalized interest of $1.4 million, were $111.4 compared to $32.6 million 2011. Commitments have been made for a further $124.1 million in expenditures.

The cost of constructing the Red Chris mine is now estimated to be $500.0 million, a 12.7 % increase from the previous estimate of $443.6 million. The major areas of increase are noted below, the first a scope change, the second labour inflation, and the third impact of BC's new sales tax regime:

- Process building footprint was expanded to provide a more functional operational layout, to provide for the concentrate thickener to be installed within the building, and to provide increased concentrate storage capacity which resulted in increased concrete and steel volumes. In the case of concrete quantities for the process plant, the increase was 70% due to the increased building size and geotechnical requirements.
- Labour cost increased by 30% from initial budget.
- Impact of change from HST to PST on April 1, 2013.

Cost savings have been achieved in other areas including the maintenance and warehouse complex, and the pit equipment. In addition to the cost increase, the Company will fund $52.0 million in costs related to the construction of the 287kV NTL Extension. These costs will be recovered when the extension is completed and acquired by BC Hydro.

A total of five exploration drill holes totalling 5,415.42 metres were completed early in the year before exploration was suspended when construction activities commenced in May 2012. Exploration expenditures were $1.5 million in 2012 compared to $6.0 million in 2011.

Sterling Mine

Development in 2012 focused on the completion of the 3292 and 3260 levels. The start of production mining was delayed because the mineralization extended further to the west than had been anticipated, so time was taken to extend the 3292 level further to the west prior to starting the caving operation. The focus at Sterling in 2013 will be to get to its production goal of 600 tons of ore per day.

The construction of a 300,000 ton (3.7 acre) heap leach pad was completed in March 2012. Ore excavated from the development of the south limb was placed on the pad and leaching of the gold bearing material commenced on April 17, 2012. Processing of pregnant gold solution through the carbon adsorption plant commenced on April 24, 2012 followed by the first gold pour in July 2012.

Production, all from ore during the preproduction phase of the mine, for the year ended December 31, 2012 is provided in the following table:

Sterling Production

	Year Ended December 31
	2012
Ore Stacked – tons	77,944
Gold Grade – oz/ton	0.082
Gold ounces – in-heap	6,393
Gold ounces – in-process & poured	3,613
Gold shipped – ounces	2,852
Gold Recovery – project to date	56.5%

On-site core drilling at Sterling continued in 2012 with the purpose of further delineation of the 144 zone. Over the course of the year 21 holes were drilled for a total footage of 4,115 feet. The target zones of these holes ranged from testing mineralization along the dike and along the north limb, to further detailing areas where drill hole density was relatively low.

Exploration, development and capital expenditures at Sterling were $6.2 million in 2012 compared to $6.1 million in 2011.

Ruddock Creek

The Ruddock Creek property is owned 50% by Imperial, 30% by Mitsui Mining & Smelting Company Ltd. and 20% by Itochu Corporation ("Mitsui/Itochu"). The 2012 program and related studies were funded by Mitsui/Itochu under the terms of an option agreement. The joint venture is currently working on finalizing a program on the Ruddock Creek property for 2013.

During 2012 a total of 3,879 metres of diamond drilling was completed on the Creek zone and 6,185 metres of diamond drilling was completed on the V zone. Drilling on the V zone expanded the mineralization both laterally and at depth and has shown this zone to be a priority target for future exploration. Drilling on the Creek zone was also successful and increased the known resource. In addition the underground workings were dewatered to allow for a further 5,843 metres of underground diamond drilling, which continued to expand the Lower E zone. Underground development consisted of a 69 metre drift through a section of the mineralization to allow for geological and geotechnical studies and the collection of a ten tonne bulk sample for metallurgical testing.

With the additional 2012 diamond drill results, an updated resource calculation for the Ruddock Creek Property was completed in February 2013. The updated resource calculation is provided in the following table, along with the March 2012 resource summary for comparison.

2013 Ruddock Creek Total Mineral Resource

	INDICATED				INFERRED			
	Tonnes (000's)	% Zn	% Pb	% comb Pb+Zn	Tonnes (000's)	% Zn	% Pb	% comb Pb+Zn
3.0 % Cut-Off Grade Pb+Zn	7,083	6.07	1.25	7.32	8,048	5.74	1.08	6.81
4.0 % Cut-Off Grade Pb+Zn	**6,246**	**6.50**	**1.33**	**7.83**	**6,678**	**6.33**	**1.20**	**7.52**
5.0 % Cut-Off Grade Pb+Zn	5,131	7.10	1.45	8.55	5,350	6.99	1.31	8.30
6.0 % Cut-Off Grade Pb+Zn	4,121	7.73	1.57	9.30	4,258	7.62	1.43	9.04

2012 Ruddock Creek Total Mineral Resource

	INDICATED				INFERRED			
	Tonnes (000's)	% Zn	% Pb	% comb Pb+Zn	Tonnes (000's)	% Zn	% Pb	% comb Pb+Zn
3.0 % Cut-Off Grade Pb+Zn	5,450	6.20	1.28	7.48	6,253	6.17	1.21	7.38
4.0 % Cut-Off Grade Pb+Zn	**4,654**	**6.77**	**1.38**	**8.16**	**5,382**	**6.69**	**1.31**	**8.00**
5.0 % Cut-Off Grade Pb+Zn	3,773	7.48	1.53	9.01	4,562	7.22	1.41	8.64

As outlined in the above tables, at a 4% combined lead/zinc grade the indicated resource has increased by 34% and the inferred resource has increased by 24% since the 2012 resource estimation was calculated.

Exploration, development and capital expenditures on the property were $6.1 million compared to $9.9 million in 2011.

Critical Accounting Policies and Estimates

Mineral Properties

Mineral properties represent capitalized expenditures related to the development of mining properties, related plant and equipment and expenditures related to exploration arising from property acquisitions.

The costs associated with mineral properties are separately allocated to reserves, resources and exploration potential, and include acquired interests in production, development and exploration stage properties representing the fair value at the time they were acquired. The value associated with resources and exploration potential is the value beyond proven and probable reserves assigned through acquisition. The value allocated to reserves is depleted on a unit-of-production method over the estimated recoverable proven and probable reserves at the mine. The reserve value is noted as depletable mineral properties in Note 7 of the audited Consolidated Financial Statements.

The resource value represents the property interests that are contained in the measured and indicated resources that are not within the proven and probable reserves. Exploration potential is (i) mineralization included in inferred resources; (ii) areas of potential mineralization not included in any resource category.

Resource value and exploration potential value is noted as non-depletable mineral properties in Note 7 of the audited Consolidated Financial Statements. At least annually or when otherwise appropriate and subsequent to its review and evaluation for impairment, value from the non-depletable category is transferred to the depletable category if resources or exploration potential have been converted into reserves.

Capitalized costs are depleted and depreciated by property using the unit-of-production method over the estimated recoverable proven and probable reserves at the mines to which they relate.

Exploration and Evaluation and Pre-production Properties

The Company follows the method of accounting for these mineral properties whereby all costs related to the acquisition, exploration and development are capitalized by property. Capitalized costs include interest and financing costs for amounts borrowed to develop mining properties and construct facilities, and operating costs, net of revenues, incurred prior to the commencement of commercial production. On the commencement of commercial production, net costs are charged to operations using the unit-of-production method by property based upon estimated recoverable reserves. Management considers a number of factors related to the ability of a property to operate at its design capacity over a specified period of time in determining when a property has reached commercial production. These factors include ore production levels as intended by management, plant throughput quantities, recovery rates, and number of uninterrupted days of production.

Property, Plant and Equipment

Property, plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Capitalized costs include the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for placing it into use along with the future cost of dismantling and removing the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The costs of major overhauls of parts of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably.

The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in income or loss as incurred.

Mobile mine equipment and vehicles are depreciated over the estimated useful lives of the assets either on a unit-of-production basis or using the straight line method with useful lives of 4-12 years. Office, computer and communications equipment are depreciated using the straight line method with useful lives of 4-5 years. The estimated residual value and useful lives are reassessed at each year end and depreciation expense is adjusted on a prospective basis.

Stripping Costs

Costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations are included in the cost of the inventory produced in the period in which they are incurred, except when the charges represent a betterment to the mineral property. Charges represent a betterment to the mineral property when the stripping activity provides access to reserves that will be produced in future periods that would not have been accessible without the stripping activity. When charges are deferred in relation to a betterment, the charges are amortized over the reserve accessed by the stripping activity using the unit-of-production method as these reserves will directly benefit from the deferred stripping costs incurred.

Assessment of Impairment

Management reviews the carrying value of exploration and evaluation properties at the end of each reporting period for evidence of impairment. This review is generally made with reference to timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest.

Post-feasibility exploration properties, producing mining properties and plant and equipment are reviewed for impairment at the end of each reporting period for evidence of impairment. If any such indication exists, the entity shall estimate the recoverable amount of the asset to determine if it is greater than its carrying value.

When indicators of impairment exist, the recoverable amount of an asset is evaluated at the level of the cash generating unit ("CGU"), the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss or reversal thereof is recognized in income or loss to the extent that the carrying amount exceeds or is below the recoverable amount.

In calculating the recoverable amount, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value by quotes from an active market or a written offer to purchase/binding sales agreement. Discounted cash flow techniques are dependent on a number of factors, including future metal prices, the amount of reserves, resources and exploration potential, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and future site reclamation costs. Additionally, the reviews take into account factors such as political, social, legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts in assessing these factors.

Reserves

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. Reserves are used in the calculation of depreciation and depletion, impairment assessment, assessment of life of pit stripping ratios and for forecasting the timing of future site reclamation costs.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in changes to reserves.

Future Site Reclamation Costs

The Company's mining and exploration activities are subject to various statutory, contractual or legal obligations for protection of the environment. At the date the obligation is incurred, the Company records a liability, discounted to net present value, for the best estimate of future costs to retire an asset including costs for dismantling, remediation and ongoing treatment and monitoring of the site. The present value is determined using a pre-tax risk free interest rate. The liability is accreted over time to the estimated amount ultimately payable through periodic charges to income or loss. The estimated present value of the future site reclamation costs are reviewed for material changes at each reporting date and re-measured at least annually or when there are significant changes in the assumptions giving rise to the estimated cash flows.

Future site reclamation costs are capitalized as part of the carrying value of the related mineral property at its initial discounted value and amortized over the useful life of the mineral property using the unit-of-production method.

Share Based Payments

The Company has a stock option plan that provides all option holders the right to receive common shares in exchange for the options exercised which is described in Note 13(b) of the audited Consolidated Financial Statements. The fair value of each option award that will ultimately vest is estimated on the date of grant using the Black-Scholes option-pricing model. Compensation expense is determined when stock options are granted and recognized in operations over the vesting period of the option. Consideration received on the exercise of stock options is recorded as share capital and the related share-based amounts of share option reserve are credited to share capital.

Derivative Instruments

The Company uses derivative financial instruments to manage its exposure to metal prices and foreign exchange rates. Derivative financial instruments are measured at fair value and reflected on the statement of financial position. The Company does not apply hedge accounting to derivative financial instruments and therefore any gains or losses resulting from the changes in the fair value of the derivative financial instrument are included in income or loss at each date of financial position. Gains or losses resulting from changes in the fair value of derivative instruments are included in income or loss on the date the related hedged item is settled.

Revenue Recognition

Estimated mineral revenue, based upon prevailing metal prices, is recorded in the financial statements when title to the concentrate transfers to the customer which generally occurs on date of shipment. Revenue is recorded in the statement of comprehensive income net of treatment and refining costs paid to counterparties under terms of the off take arrangements. The estimated revenue is recorded based on metal prices and exchange rates on the date of shipment and is adjusted at each reporting date to the date of settlement metal prices. The actual amounts will be reflected in revenue upon final settlement, which is usually four to five months after the date of shipment. These adjustments reflect changes in metal prices and changes in quantities arising from final weight and assay calculations. The net realizable value of copper concentrate inventory is calculated on the basis described above.

Mineral revenues other than copper concentrate are recognized when title passes to the customer and price is reasonably determinable.

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and deferred income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of deferred income tax assets, including unused tax losses and tax credits, are recognized to the extent that it is probable that taxable profit will be available against the temporary difference and the tax loss and tax credit can be utilized. These deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

In a business combination, temporary differences arise as a result of differences in the fair values of identifiable assets and liabilities acquired and their respective tax bases. Deferred income tax assets and liabilities are recognized for the tax effects of the differences. Deferred income tax assets and liabilities are not recognized for temporary differences arising from goodwill or from the initial recognition of assets and liabilities acquired in a transaction other than a business combination which does not affect either accounting or taxable income or loss.

Government assistance, including investment tax credits, is credited against the expenditure generating the assistance when it is probable that the government assistance will be realized.

Financial Instruments

The Company's financial instruments consist of cash, short term investments, marketable securities, trade and other receivables, derivative instrument assets and margin deposits, future site reclamation deposits, trade and other payables, short term debt, derivative instrument liabilities and non-current debt.

Financial instruments are initially recorded at fair value including transaction costs except for those items recorded as fair value through profit or loss for which costs are expensed as incurred.

Cash, short term investments, derivative instrument assets and margin deposits, and future site reclamation deposits are classified as fair value through profit or loss and recorded at fair value.

Marketable securities are classified as fair value through profit or loss because the Company holds these securities for the purpose of trading. The fair value is based on bank statements or counterparty valuation reports. Trade and other receivables and margin deposits are classified as loans and receivables. The fair value of marketable securities is based on quoted market prices. Fair value through profit or loss financial assets are measured at fair value with mark-to-market gains and losses recorded in income or loss in the period they occur. Trade and other payables, short and non-current debt are classified as other financial liabilities and recorded at amortized costs.

Financial assets classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

The Company uses derivative financial instruments to mitigate the risk of revenue changes due to changes in copper price and the US/CDN Dollar exchange rate. These instruments do not meet the criteria for hedge accounting and consequently are measured at their fair values with changes in fair values recorded in income or loss in the period they occur. Fair values for these derivative instruments are determined by counterparties using standard valuation techniques for derivative instruments by reference to current and projected market conditions as of the reporting date.

Financial assets are assessed for indicators of impairment at each financial position reporting date except those measured at fair value through profit or loss. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant or prolonged decline in the fair value of securities below its cost; or
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Impairment losses are recognized in income or loss in the period they occur based on the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income or loss to the extent that the carrying amount of the financial instrument at the date the impairment is reversed does not exceed what the cost would have been had the impairment not been recognized.

Results of Operations for 2012 Compared to 2011

This review of the results of operations should be read in conjunction with the audited Consolidated Financial Statements of the Company for the year ended December 31, 2012 and the audited Consolidated Financial Statements of the Company for the year ended December 31, 2011.

Financial Results

Overview

Revenues increased to $257.8 million for the year ended December 31, 2012 from $253.2 million in the year ended December 31, 2011. The increase in revenue in 2012 over 2011 is due to more shipments of copper and gold in concentrate from Mount Polley and higher gold prices more than offsetting lower copper prices and fewer shipments from Huckleberry in 2012 compared to 2011. There were thirteen concentrate shipments in 2012 consisting of seven from Mount Polley and six from Huckleberry, compared to fourteen shipments in 2011 consisting of six from Mount Polley and eight from Huckleberry.

In US Dollars, copper prices were 10% lower in 2012 than in 2011, averaging about US$3.61/lb compared to US$4.01/lb in 2011. In 2012 the copper price fluctuated during the year with a high of US$3.93 to a low of US$3.32 ending the year at US$3.59. The US Dollar weakened against the CDN Dollar during 2012 ending the year weaker. Factoring in the average exchange rate, the price of copper averaged CDN$3.59/lb in 2012 about 9.3% lower than the 2011 average of CDN$3.96/lb. The London Metals Exchange cash settlement gold price per troy ounce averaged US$1,669 in 2012 compared to US$1,568 in 2011. Factoring in the average exchange rate, the price of gold averaged CDN$1,667/oz in 2012 about 7.3% higher than the 2011 average of CDN$1,553/oz.

Revenue in 2012 was decreased by a $1.2 million negative revenue revaluation compared to a negative revenue revaluation of $16.3 million in 2011. Negative revenue revaluations are the result of the copper price on the settlement date and/or the current period balance sheet date being lower than when the revenue was initially recorded or the copper price at the last balance sheet date. The copper price started the year at US$3.48 per pound and ended the year at US$3.59 per pound, and fluctuated through the year with a high of US$3.93 and a low of US$3.32. Compared to the prior period where the copper price started the year at US$4.33 per pound and ended the year US$3.43 per pound.

Net income for the year ended December 31, 2012 was $32.6 million ($0.44 per share) compared to net income of $48.7 million ($0.66 per share) in 2011. In addition to variances in revenues described above, significant variations impacting net income period over period are predominately attributable to movements in foreign exchange, realized and unrealized gains and losses on derivative instruments, share based compensation, bad debt recovery and taxes.

In 2012 net income was negatively impacted by foreign exchange losses of $1.0 million compared to net foreign exchange gains of $1.7 million in 2011.

In 2012 net income was negatively impacted by net realized and unrealized losses on derivative instruments of $6.8 million compared to gains of $14.3 million in 2011. These derivative instruments were put in place to provide some protection to cash flow against declines in the price of copper. In 2011 the Company recorded a $14.1 million bad debt recovery related to derivative instruments held by Lehman Brothers.

Share based compensation was $2.9 million in 2012 compared to $5.2 million in 2011.

Income and mining tax expense decreased by $15.1 million from 2011 to 2012 due to reduced income before tax and a lower effective tax rate at 38.8% in 2012 compared to 42.4% in 2011 as the Company recognized the benefit of certain tax assets.

The financial results of the Company are closely tied to the profitability of the Mount Polley and Huckleberry mines. The Mount Polley mine contributed $56.9 million to Imperial's income from mine operations in 2012 compared to $26.2 million in 2011. Imperial's share of Huckleberry's income from mine operations was $12.4 million in 2012 compared to $38.1 million operating income in 2011.

Cost of Sales
[expressed in thousands of dollars]

	2012	2011
Operating expenses	$ 113,131	$ 111,887
Salaries, wages and benefits	53,753	53,228
Depletion and depreciation	21,394	23,353
Share based compensation	214	382
	$ 188,492	$ 188,850

Cost of sales in 2012 were $188.5 million comprised of $141.9 million from Mount Polley and $46.6 million representing the Company's 50% share of Huckleberry. This compares to $188.9 million in 2011, comprised of $139.3 million from Mount Polley and $49.6 million from Huckleberry.

General and Administration Costs
[expressed in thousands of dollars]

	2012	2011
Administration	$ 5,118	$ 5,275
Share based compensation	2,731	4,783
Depreciation	77	139
Foreign exchange loss (gain)	1,147	(985)
Mineral property holding costs	4	93
	$ 9,077	$ 9,305

General and administration costs were marginally lower at $9.1 million in 2012 from $9.3 million in 2011. A $2.0 million decrease in share based compensation was largely offset by a $2.1 million increase in foreign exchange loss.

The average CDN/US Dollar exchange rate of 1.00 in 2012 was very close to the average of 0.99 in 2011. During 2012 the US Dollar weakened against the CDN Dollar starting the year at 1.009 CDN/US and ending the year at 0.995 CDN/US compared to the prior period where the US Dollar strengthened against the CDN Dollar starting the year at 0.995 and ending the year at 1.017 resulting in a foreign exchange loss in 2012 of $1.2 million compared to a $1.0 million gain in 2011. These losses are attributable to holding US Dollar denominated cash, accounts receivable and accounts payable. These net US Dollar asset and liability balances are the result of the operations at Mount Polley and Huckleberry mines.

Finance (Costs) Income
[expressed in thousands of dollars]

	2012	2011
Derivatives	$ (6,790)	$ 14,319
Interest expense and finance costs	(904)	(1,041)
Foreign exchange on short term and non-current debt	183	715
Other	(103)	(14)
	$ (7,614)	$ 13,979

Finance costs were $7.6 million in 2012 compared to finance income of $14.0 million in 2011. The inclusion of gains and losses on derivative instruments results in large variances in finance costs depending on the gains and losses on derivative instruments.

During the year ended December 31, 2012 the Company entered into additional derivative instrument contracts for the sale of copper to provide some protection to the Company's cash flow against declines in the price of copper. None of the Company's contracts qualify for hedge accounting and therefore the Company marks to market the unrealized gains and losses on all its contracts. Changes in valuation of this derivative instrument position and the derivative instrument position carrying over from previous quarters, due to changes in copper price, resulted in a loss of $6.8 million during 2012 compared to a gain of $14.3 million in 2011.

The unrealized gains on the derivative instrument contracts outstanding at December 31, 2012 were $1.0 million compared to unrealized gains of $7.2 million for 2011. The ultimate gain or loss on these contracts will be determined by the copper prices in the periods when these contracts settle.

In 2012 the Company recorded net foreign exchange gains of $0.2 million on debt compared to gains of $0.7 million in 2011.

Income and Mining Taxes

Income and mining taxes expense was $20.7 million in 2012 compared $35.8 million in 2011. Current cash income taxes, excluding mineral taxes, in 2012 were $5.3 million compared to $8.6 million in 2011. A total of $1.4 million in cash tax expense was recorded for mineral tax payable to the Province of British Columbia in 2012 compared to $2.1 million in 2011. A deferred income tax expense of $14.0 million was recorded in 2012 compared to a deferred income tax expense of $25.1 million in 2011.

Income and mining tax expense decreased for the year ended December 31, 2012 due to lower income before taxes and a lower effective tax rate in 2012 as the Company recognized the benefit of certain tax assets.

For years after 2012 the Company's effective tax rate is expected to be closer to 39%, comprised of 26% federal and provincial income taxes and 13% BC Mineral taxes.

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 2011.

The capital structure of the Company consists of short term debt, credit facilities, including credit facilities with counterparties related to derivative instruments, non-current debt and equity attributable to common shareholders, comprised of share capital, share option reserve and retained earnings.

The Company is in compliance with the debt covenants related to its short term debt, credit facilities with counterparties, and non-current debt.

Liquidity & Capital Resources

Credit Risk

The Company's credit risk is limited to cash and cash equivalents, short term investments, accounts receivable, future site reclamation deposits and derivative instruments in the ordinary course of business. The credit risk of cash and cash equivalents, short term investments 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 smelters and 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.

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's credit risk has not changed significantly since December 31, 2011.

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 and short term investment balances there are sufficient committed credit facilities, including the advance payment facilities noted above, to provide the necessary cash to meet projected cash requirements. At December 31, 2012 the Company's primary sources of credit are short term debt secured by concentrate inventory and a $150.0 million line of credit with a financial institution.

The Company also holds derivative instruments, its investment in Huckleberry, mineral property holdings 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. The Company does not hold any Master Asset Vehicle Notes.

The Company's overall liquidity risk has increased from 2011 as the Company faces higher than normal capital expenditures in 2013 and 2014 related to the development of the Red Chris mine. The

Company is pursuing long term financing alternatives to fund the development of Red Chris and until that funding is completed it is utilizing its short term debt facilities. Liquidity risk is also impacted by credit risk should a counterparty default on its payments to the Company.

The amount of cash currently generated by the Company's operations may not be sufficient to fund projected levels of exploration and development activity and associated overhead costs. The Company may then be dependent upon debt and equity financing to carry out its exploration and development plans. There can be no assurance that such financing will be available on terms acceptable to the Company or at all.

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US dollar denominated cash and cash equivalents, short term investments, accounts receivable, derivative instrument assets and margin deposits, reclamation deposits, trade and other payables, derivative instrument liabilities, and debt. If the US Dollar had been 10% higher/lower and all other variables were held constant, net income and comprehensive income for the year ended December 31, 2012 would have been higher/lower by $1.0 million.

Cash Flow

The Company recorded net income of $32.6 million in 2012 compared to net income of $48.7 million in 2011. Cash flow was $83.9 million in 2012 compared to cash flow of $87.7 million in 2011. A bad debt recovery of $14.1 million related to the Company's claims against Lehman Brothers Commodity Services Inc., a subsidiary of Lehman Brothers Holdings Inc. was recorded in 2011.

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.

Working Capital

At the year ended December 31, 2012 the Company had working capital deficiency, defined as current assets less current liabilities of $28.9 million, a decrease of $105.4 million from working capital of $76.5 million at December 31, 2011. The December 31, 2012 working capital position reflects the increase in short term debt used to finance the acquisition of capital equipment and development of the Red Chris mine as well as an increase in current trade payables associated with increased operational and development activities. The Company plans to secure long term sources of financing for the Red Chris project in 2013 to return the working capital of the Company to a positive balance.

Acquisition and Development of Mineral Properties

Acquisition and development of mineral properties totalled $192.0 million in 2012 compared to $72.2 million in 2011. Acquisition and development expenditures in 2012 and 2011 were financed from cash flow from operations and short term debt except for $8.6 million of mobile equipment financed by long term debt in 2012 and $0.7 million of mobile equipment financed by long term debt in the 2011 period.

[expressed in thousands of dollars]	2012	2011
Capital and Development Expenditures		
Mount Polley	$ 19,815	$ 16,240
Huckleberry	44,154	6,442
Red Chris (including capitalized interest of $1,380 in 2012)	109,963	26,639
Sterling	3,057	1,391
Other	323	776
	177,312	51,488
Exploration Expenditures		
Mount Polley	9,717	9,010
Huckleberry	-	327
Red Chris	1,482	6,006
Sterling	3,145	4,717
Other	392	668
	14,736	20,728
	$ 192,048	$ 72,216

Capital and development expenditures at Mount Polley and Huckleberry included capital to maintain and extend productive capacity. Capital and development expenditures at Red Chris were primarily for earthworks, site preparation, road construction, engineering and progress payments on mill equipment. Capital and development expenditures at Sterling included development and construction of the leach pad, recovery plant and preproduction development costs, net of preproduction revenues.

Exploration expenditures of $9.7 million at Mount Polley consist of surface drilling and underground exploration and development expenditures at the Boundary zone. Red Chris exploration expenditures, primarily drilling, totalled $1.5 million in 2012.

During 2012 and 2011, exploration and development expenditures at Ruddock Creek were primarily funded by joint venture partners earning an interest in the project.

Debt And Other Obligations

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings and short term investments. Presently, the majority of the Company's outstanding borrowings are 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.

Select use of short term debt from purchasers of the Company's concentrate and short term advances from the line of credit facility provided working capital to meet day to day cash requirements.

In June 2011 the Company's $25.0 million credit facility to assist with working capital requirements was increased to $75.0 million and in October 2012 the facility was increased further to $150.0 million. The facility is due on demand, secured by accounts receivable, inventory, a floating charge on certain assets of the Company, shares of certain subsidiaries, and is subject to maintenance of certain covenants. A portion of the facility is guaranteed by a related party as described further in Note 21 to the audited Consolidated Financial Statements of the Company for the year ended December 31, 2012.

The Company had the following contractual obligations as of December 31, 2012:

[expressed in thousands of dollars]	2013	2014	2015	2016	2017	Total
Non-current debt	$ 1,908	$ 1,585	$ 1,701	$ 1,971	$ 1,176	$ 8,341
Short term debt	118,136	-	-	-	-	118,136
Operating leases	508	484	450	429	201	2,072
Capital expenditures and other	136,502	698	208	207	28	137,643
Reclamation bonding	-	9,000	3,000	2,500	-	14,500
Mineral properties (1)	400	452	642	722	946	3,162
Total	$ 257,454	$ 12,219	$ 6,001	$ 5,829	$ 2,351	$ 283,854

(1) Mineral property commitments are the estimated payments required to keep the Company's claims or option agreements in good standing. Total is to the year 2017 only.

Based on current plans and assumptions, the Company expects to have sufficient cash resources to support its normal operating requirements on an ongoing basis, exclusive of Red Chris project development costs. The Company expects to continue to utilize short term debt facilities to manage its day to day financing needs. The Company is looking at alternatives to secure debt financing that will be required to fund 2013 construction costs for the Red Chris project.

As at December 31, 2012 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 held for trading securities) is based on quoted market prices at the balance sheet 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. Management believes that the carrying value of short term and non-current debt approximates fair value. Although the interest rates and credit spreads have changed since the non-current debt was issued the fixed rate portion of the non-current debt is close to maturity, will not be refinanced and therefore the carrying value is not materially different from fair value.

IFRS 7 - *Financial Statements–Disclosures* was amended to require 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;

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 December 31, 2012 as follows:

[expressed in thousands of dollars]	Level 1	Level 2	Total
Financial Assets			
Cash	$ 12,364	$ -	$ 12,364
Short term investments	25,000	-	25,000
Marketable securities	1,557	-	1,557
Provisionally priced receivables	-	35,876	35,876
Derivative instruments assets and margin deposits	-	2,454	2,454
Future site reclamation deposits	13,230	-	13,230
	52,151	38,330	90,481
Financial Liabilities			
Derivative instrument liabilities	-	2,517	2,517
	$ 52,151	$ 35,813	$ 87,964

Selected Quarterly Financial Information

Unaudited [expressed in thousands of dollars, except share amounts, copper price and exchange rates]

	Three Months Ended			
	December 31 2012	September 30 2012	June 30 2012	March 31 2012
Total Revenues	$ 67,374	$ 49,163	$ 69,021	$ 72,225
Net Income	$ 11,718	$ 4,343	$ 11,966	$ 4,599
Income per share (1)	$ 0.16	$ 0.06	$ 0.16	$ 0.06
Diluted Income per share (1)	$ 0.16	$ 0.06	$ 0.16	$ 0.06
Adjusted Net Income (2)	$ 10,635	$ 7,432	$ 10,535	$ 8,205
Adjusted Net Income per share (1)(2)	$ 0.14	$ 0.10	$ 0.14	$ 0.11
Cash Flow (3)	$ 24,077	$ 17,172	$ 21,841	$ 20,856
Cash Flow per share (1)(3)	$ 0.32	$ 0.23	$ 0.29	$ 0.28
Average LME cash settlement copper price/lb in US$	$ 3.59	$ 3.50	$ 3.567	$ 3.768
Average LME cash settlement gold price/troy oz in US$	$ 1,719	$ 1,655	$ 1,611	$ 1,691
Average US/CDN$ exchange rate	$ 0.991	$ 0.995	$ 1.006	$ 1.001
Period end US/CDN$ exchange rate	$ 0.995	$ 0.984	$ 1.019	$ 0.999

	Three Months Ended			
	December 31 2011	September 30 2011	June 30 2011	March 31 2011
Total Revenues	$ 47,181	$ 69,409	$ 39,405	$ 97,180
Net Income	$ 3,303	$ 17,617	$ 8,035	$ 19,753
Income per share (1)	$ 0.05	$ 0.24	$ 0.11	$ 0.27
Diluted Income per share (1)	$ 0.04	$ 0.24	$ 0.11	$ 0.26
Adjusted Net Income (2)	$ 8,229	$ 4,755	$ 5,354	$ 12,995
Adjusted Net Income per share (1)(2)	$ 0.11	$ 0.06	$ 0.07	$ 0.18
Cash Flow (3)	$ 23,664	$ 17,441	$ 11,210	$ 35,400
Cash Flow per share (1)(3)	$ 0.32	$ 0.24	$ 0.15	$ 0.48
Average LME cash settlement copper price/lb in US$	$ 3.408	$ 4.079	$ 4.151	$ 4.378
Average LME cash settlement gold price/troy oz in US$	$ 1,684	$ 1,700	$ 1,504	$ 1,384
Average US/CDN$ exchange rate	$ 1.023	$ 0.980	$ 0.968	$ 0.986
Period end US/CDN$ exchange rate	$ 1.017	$ 1.039	$ 0.964	$ 0.972

(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) Adjusted Net Income is defined as net income adjusted for certain items of a non-operational nature that pertain to future periods as described in further detail under the heading Adjusted Net Income.

(3) 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 and are therefore unlikely to be comparable to similar measures used by other companies. Cash flow is defined as cash flow from operations before net change in working capital balances and cash flow per share is the same measure divided by the weighted average number of common shares outstanding during the period.

The Company believes these measures in (2) and (3) are useful to investors because they are included in the measures that are used by management in assessing the financial performance of the Company.

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

Fluctuations in revenue are due to the timing of shipping schedules and quantities loaded onto each ship, production volumes at the mines, changes in the price of copper, gold and the US/CDN Dollar exchange rate.

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 production cost inputs, changes in tax rates and valuation allowances related thereto.

Fourth Quarter Results

Mineral sales revenues in the fourth quarter of 2012 was $67.4 million, $20.2 million higher than in the same quarter of 2011. There were a total of three shipments in each of the fourth quarters of 2012 and 2011, two from Mount Polley and one from Huckleberry in 2012 and one from Mount Polley and two from Huckleberry in 2011. Sales revenue is recorded when title for concentrate is transferred on ship loading. Variations in quarterly revenue attributed to the timing of concentrate shipments can be expected in the normal course of business.

The increase in revenue in the 2012 quarter is largely due to higher sales volumes attributable to the Company.

The Company recorded net income of $11.7 million ($0.16 per share) in the fourth quarter of 2012 compared to net income of $3.3 million ($0.05 per share) in the prior year quarter.

Expenditures for exploration and ongoing capital projects at Mount Polley, Huckleberry, Red Chris and Sterling totalled $64.1 million during the three months ended December 31, 2012 compared to $19.6 million in the 2011 comparative quarter. The increase of $44.5 million in 2011 was primarily due to higher development expenditures at Red Chris and Huckleberry.

Related Party Transactions

Corporate

Details on related party transactions can be found in Note 21 to the audited Consolidated Financial Statements for the year ended December 31, 2012.

Other

As of March 21, 2012 the Company had 74,371,850 common shares outstanding, and on a diluted basis 77,334,718 common shares outstanding. Additional information about the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

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 management's discussion and analysis, 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 management's discussion and analysis, 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 evaluated the design and operational effectiveness of its internal control and procedures over financial reporting as defined under National Instrument 52-109. Management has limited the scope of the design of the Company's disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of Huckleberry Mines Ltd. ("Huckleberry"), in which the Company holds a 50% interest and is proportionally consolidated in the Company's consolidated financial statements. The Company's management does not have the ability to dictate or modify controls at this entity and does not have the ability to assess, in practice, the controls at the entity. Huckleberry constitutes 23% of net assets, 18% of total assets, 23% of revenues, 18% of income from mine operations and $5.5 million of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2012.

The evaluation of effectiveness of internal controls over financial reporting was completed using the framework and criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission. Based on this evaluation, management has concluded that, as of December 31, 2012 the Company's internal control over financial reporting was effective.

There has been no change in the Company's design of these internal controls and procedures over financial reporting that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting during the period covered by this Management's Discussion and Analysis.

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, these matters will not have a material effect on the Company's consolidated financial position or financial performance.

Risk Factors

The reader is cautioned that the following description of risks and uncertainties is not all-inclusive as it pertains only to conditions currently known to management. There can be no guarantee or assurance other factors will or will not adversely affect the Company.

Risks Inherent in the Mining and Metals Business

The business of exploring for minerals is inherently risky. Few properties that are explored are ultimately developed into producing mines. Mineral properties are often non productive for reasons that cannot be anticipated in advance. Title claims can impact the exploration, development, operation and sale of any natural resource project. Availability of skilled people, equipment and infrastructure (including roads, ports, power supply) can constrain the timely development of a mineral deposit. Even after the commencement of mining operations, such operations may be subject to risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties and production facilities, personal injuries, environmental damage, delays or interruption of production, increases in production costs, monetary losses, legal liability and adverse governmental action. The Company's property, business interruption and liability insurance may not provide sufficient coverage for losses related to these or other hazards. Insurance against certain risks, including certain liabilities for environmental pollution, may not be available to the Company or to other companies within the industry. In addition, insurance coverage may not continue to be available at economically feasible premiums, or at all. Any such event could have a material adverse effect on the Company.

Commodity Price Fluctuations and Hedging

The results of the Company's operations are significantly affected by the market price of base metals and gold which are cyclical and subject to substantial price fluctuations. Market prices can be affected by numerous factors beyond the Company's control, including levels of supply and demand for a broad range of industrial products, expectations with respect to the rate of inflation, the relative strength of the US Dollar and of certain other currencies, interest rates, global or regional political or economic crises and sales of gold and base metals by holders in response to such factors. If prices should decline below the Company's cash costs of production and remain at such levels for any sustained period, the Company could determine that it is not economically feasible to continue commercial production at any or all of its mines.

The objectives of any hedging programs that are in place are to reduce the risk of a decrease in a commodity's market price while optimizing upside participation, to maintain adequate cash flows and profitability to contribute to the long-term viability of the Company's business. There are, however, risks associated with hedging programs including (among other things), an increase in the world price of the commodity, an increase in gold lease rates (in the case of gold hedging), an increase in interest rates, rising operating costs, counterparty risks, liquidity issues with funding margin calls to cover mark to market losses and production interruption events. The Company's results of operations are also affected by fluctuations in the price of labour, electricity, fuel, steel, chemicals, blasting materials, transportation and shipping and other cost components.

Competition for Mining Properties

Because the life of a mine is limited by its ore reserves, the Company is continually seeking to replace and expand its reserves through the exploration of its existing properties as well as through acquisitions of new properties or of interests in companies which own such properties. The Company encounters strong competition from other mining companies in connection with the acquisition of properties.

Sale of Products and Future Market Access

The Company is primarily a producer of concentrates. These must be processed into metal by independent smelters under concentrate sales agreement in order for the Company to be paid for its products. There can be no assurance or guarantee that the Company will be able to enter into concentrate sale agreements on terms that are favorable to the Company or at all. Access to the Company's markets is subject to ongoing interruptions and trade barriers due to policies and tariffs of individual countries, and the actions of certain interest groups to restrict the import of certain commodities. Although there are currently no significant trade barriers existing or impending of which the Company is aware that do, or could, materially affect the Company's access to certain markets, there can be no assurance that the Company's access to these markets will not be restricted in the future.

Mineral Reserves and Recovery Estimates

Disclosed reserve estimates should not be interpreted as assurances of mine life or of the profitability of current or future operations. The Company estimates its mineral reserves in accordance with the requirements of applicable Canadian securities regulatory authorities and established mining standards. Mineral resources are concentrations or occurrences of minerals that are judged to have reasonable prospects for economic extraction, but for which the economics of extraction cannot be assessed, whether because of insufficiency of geological information or lack of feasibility analysis, or for which economic extraction cannot be justified at the time of reporting. Consequently, mineral resources are of a higher risk and are less likely to be accurately estimated or recovered than mineral reserves. The Company's reserves and resources are estimated by persons who are employees of the respective operating Company for each of our operations under the supervision of employees of the Company. These individuals are not "independent" for purposes of applicable securities legislation. The Company does not use outside sources to verify reserves or resources. The mineral reserve and resource figures are estimates based on the interpretation of limited sampling and subjective judgments regarding the grade and existence of mineralization, as well as the application of economic assumptions, including assumptions as to operating costs, foreign exchange rates and future metal prices. The sampling, interpretations or assumptions underlying any reserve or resource figure may be incorrect, and the impact on mineral reserves or resources may be material. In addition, short term operating factors relating to mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different ores, may cause mineral reserve estimates to be modified or operations to be unprofitable in any particular fiscal period. There can be no assurance that the indicated amount of minerals will be recovered or that they will be recovered at the prices assumed for purposes of estimating reserves.

Currency Fluctuations

The Company's operating results and cash flow are affected by changes in the CDN Dollar exchange rate relative to the currencies of other countries, especially the US Dollar. Exchange rate movements can have a significant impact on operating results as a significant portion of the Company's operating costs are incurred in CDN Dollars and most revenues are earned in US Dollars. To reduce the exposure to currency fluctuations the Company may enter into foreign exchange contracts from time to time, but such hedges do not eliminate the potential that such fluctuations may have an adverse effect on the Company. In addition, foreign exchange contracts expose the Company to the risk of default by the counterparties to such contracts, which could have a material adverse effect on the Company.

Interest Rate Risk

The Company's exposure to changes in interest rates results from investing and borrowing activities undertaken to manage liquidity and capital requirements. The Company has incurred indebtedness that bears interest at fixed and floating rates, and may enter into interest rate swap agreements to manage interest rate risk associated with that debt. There can be no assurance that the Company will not be materially adversely affected by interest rate changes in the future, notwithstanding its possible use of interest rate swaps. In addition, the Company's possible use of interest rate swaps exposes it to the risk of default by the counterparties to such arrangements. Any such default could have a material adverse effect on the Company.

Financing

The amount of cash currently generated by the Company's operations may not be sufficient to fund projected levels of exploration and development activity and associated overhead costs. The Company may then be dependent upon debt and equity financing to carry out its exploration and development plans. There can be no assurance that such financing will be available on terms acceptable to the Company or at all.

Regulatory and Permitting

Regulatory and permitting requirements have a significant impact on the Company's mining operations and can have a material and adverse effect on future cash flow, results of operations and financial condition. In order to conduct mineral exploration and mining activities the Company must obtain or renew exploration or mining permits and licenses in accordance with the relevant mining laws and regulations required by governmental authorities having jurisdiction over the mineral projects. There is no guarantee that the Company will be granted the necessary permits and licenses, that they will be renewed, or that the Company will be in a position to comply with all the conditions that are imposed. Mining is subject to potential risks and liabilities associated with pollution and the disposal of waste from mineral exploration and mine operations. Costs related to discovery, evaluation, planning, designing, developing, constructing, operating, closing and remediating mines and other facilities in compliance with these laws and regulations are significant. In addition to environmental protection applicable laws and regulations govern employee health and safety. Not complying with these laws and regulations can result in enforcement actions that may include corrective measures requiring capital expenditures, installation of additional equipment, remedial action and changes to operating procedures resulting in additional costs and temporary or permanent shutdown of operations. The Company may also be required to compensate those parties suffering loss or damage and may face civil or criminal fines or penalties for violating certain laws or regulations. Changes to these laws and regulations in the future could have an adverse effect on the Company's cash flow, results of operations and financial condition.

Environment

Environmental legislation affects nearly all aspects of the Company's operations. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties, clean up costs arising out of contaminated properties, damages and the loss of important permits. Exposure to these liabilities arises not only from existing operations, but from operations that have been closed or sold to third parties. The Company's historical operations have generated chemical and metals depositions in the form of tailing ponds, rock waste dumps, and heap leach pads. There can be no assurances that the Company will at all times be in compliance with all environmental regulations or that steps to achieve compliance would not materially adversely affect the Company. Environmental laws and regulations are evolving in all jurisdictions where the Company has activities. The Company is not able to determine the specific impact that future changes in environmental laws and regulations may have on the Company's operations and activities, and its resulting financial position; however, the Company anticipates that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent environment regulation. Further changes in environmental laws, new information on existing environmental conditions or other events, including legal proceedings based upon such conditions or an inability to obtain necessary permits could require increased financial reserves or compliance expenditures or otherwise have a material adverse effect on the Company. Changes in environmental legislation could also have a material adverse effect on product demand, product quality and methods of production and distribution.

Joint Venture Partners

Mining projects are often conducted through unincorporated joint ventures or through incorporated joint venture company. Joint ventures often require unanimous approval of the parties or their representatives for certain key decisions such as changes in share capital, merger, amalgamation, dissolution of the joint venture, dividends or earning distributions, capital expenditure and operating budgets, exploration budgets, financing and pledge of joint venture assets, suspension or cessation of operations, utilization of derivative instruments, related party transactions, changes in operator or the projects of the joint venture, and hiring of key personnel. Parties to the joint venture may have the right to veto any of these decisions and this could therefore lead to a deadlock.

Foreign Activities

The Company operates in the United States and from time to time in other foreign countries where there are added risks and uncertainties due to the different legal, economic, cultural and political environments. Some of these risks include nationalization and expropriation, social unrest and political instability, uncertainties in perfecting mineral titles, trade barriers and exchange controls and material changes in taxation. Further, developing country status or unfavorable political climate may make it difficult for the Company to obtain financing for projects in some countries.

Legal Proceedings

The nature of the Company's business may subject it to numerous regulatory investigations, claims, lawsuits and other proceedings. The results of these legal proceedings cannot be predicted with certainty. There can be no assurances that these matters will not have a material adverse effect on the Company.

Outlook

This section contains forward-looking information. See the "Forward-Looking Statements and Risks Notice".

Operations, Earnings and Cash Flow

Base and precious metals production allocable to Imperial in 2013 from the Mount Polley, Huckleberry and Sterling mines is anticipated to be 58.5 million pounds copper, 54,600 ounces gold and 195,000 ounces silver. Cash flow from the Company's operations and the corporate line of credit funded the exploration and development programs of 2012. Additional financing will be required in 2013 to fund accelerating expenditures at Red Chris. Management plans to finance a large part of the Red Chris development costs through a debt facility to minimize equity dilution.

Cash flow protection for 2013 is supported by derivative instruments that will see the Company receive certain minimum average copper prices and exchange rates as disclosed under the heading Derivative Instruments. However, the quarterly revenues will fluctuate depending on copper and gold prices, the US Dollar/CDN Dollar exchange rate, and the timing of concentrate sales which is dependent on concentrate production and the availability and scheduling of transportation.

Exploration

Exploration in 2013 will be limited in scope and focus on exploration at our existing mining operations: Mount Polley, Huckleberry and Sterling.

Ongoing exploration at Mount Polley will continue to focus on defining underground higher grade mineralization at the Boundary zone, and further testing of the mineralized zones in the vicinity of the Springer pit.

Ruddock Creek exploration will be funded by Imperial and the joint venture partners.

Underground development and drilling at Sterling will continue in the 144 zone.

The Company continues to evaluate exploration opportunities both on currently owned properties and new prospects.

Development

At Mount Polley the focus will be on increasing mining productivity to ensure the stripping required to access the deeper Springer ore is completed in a timely and cost effective manner. The first underground stoping operations in the Boundary zone are expected to begin this year. Mount Polley is expected to produce 38.5 million pounds copper, 43,000 ounces gold and 100,000 ounces silver in 2013.

At Huckleberry the focus will be the completion and commissioning of the new tailings storage facility (TMF3). Huckleberry is expected to produce 40.0 million pounds copper, 3,200 ounces gold and 190,000 ounces silver in 2013.

Engineering at Red Chris was 81% complete as of February 28, 2013. In 2013 the focus on-site will be the erection of the mill building and to have the structure enclosed by October 2013. This will enable the installation of equipment inside the building to proceed during the winter of 2013-2014 and start commissioning in May 2014. Key to meeting this schedule will be the completion of the 287kV Northwest Transmission Line (NTL) from Skeena substation to Bob Quinn, and a 93 kilometre extension from Bob Quinn to Tatogga (NTL Extension). Further to an agreement recently signed by the Company and BC Hydro, the NTL Extension will be constructed by a subsidiary of Imperial. Upon completion, the NTL Extension will be acquired by BC Hydro. That portion of the costs which exceeds $52.0 million will be borne by Imperial as its contribution to the NTL Extension in order to make the 287kV service connection to the Red Chris mine. The expected in service date for both the NTL Extension and the NTL is May 31, 2014. Construction of the NTL Extension will commence upon receipt of required permits.

At Sterling the focus will be on mining the sub-level cave which was started in January 2013, about three months behind schedule. Pulling ore from this caving operation will be key to achieving the 2013 production target of 10,000 ounces gold.

The Company will need to secure further financing in 2013 to fund construction costs at Red Chris. Completion of this funding is expected by the summer of 2013.

Financing

Based on current plans and assumptions, the Company expects to have sufficient cash resources to support its normal operating requirements on an ongoing basis. The Company expects to continue to utilize short term debt facilities to manage its day to day financing needs. The Company will need to secure further debt financing in 2013 to fund construction costs for the Red Chris project.

Acquisitions

Management continues to evaluate potential acquisitions.

Management's Responsibility

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. These consolidated financial statements have been prepared by management in accordance with the accounting policies described in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards appropriate in the circumstances. The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records are properly maintained to provide reliable information for preparation of financial statements. Deloitte LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent Annual General Meeting, to audit the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee, which is comprised of a majority of non-management Directors, meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

J. Brian Kynoch
President

Andre Deepwell
Chief Financial Officer

March 21, 2013

Independent Auditor's Report

To the Shareholders of Imperial Metals Corporation

We have audited the accompanying consolidated financial statements of Imperial Metals Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Imperial Metals Corporation as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
Vancouver, British Columbia
March 21, 2013

Consolidated Statements of Financial Position

[expressed in thousands of Canadian dollars]

	Notes	December 31 2012	December 31 2011
ASSETS			
Current Assets			
Cash	20	$ 12,364	$ 34,475
Short term investments	20	25,000	27,500
Marketable securities		1,557	703
Trade and other receivables	4	63,209	26,756
Inventory	5	38,044	38,905
Derivative instrument assets and margin deposits	12	1,558	6,144
Prepaid expenses and deposits		2,325	1,709
		144,057	136,192
Derivative Instrument Assets and Margin Deposits	12	896	2,362
Mineral Properties	7	498,487	326,989
Deferred Income Taxes	17	1,693	4,859
Other Assets	6	14,599	15,977
		$ 659,732	$ 486,379
LIABILITIES			
Current Liabilities			
Trade and other payables	8	$ 46,292	$ 27,873
Taxes payable		5,050	2,441
Short term debt	9	118,136	26,940
Derivative instrument liabilities	12	857	513
Current portion of non-current debt	10	1,908	1,081
Current portion of future site reclamation provisions	11	672	845
		172,915	59,693
Derivative Instrument Liabilities	12	636	266
Non-Current Debt	10	6,433	531
Future Site Reclamation Provisions	11	34,354	29,858
Deferred Income Taxes	17	74,445	61,545
		288,783	151,893
EQUITY			
Share Capital	13	116,892	114,563
Share Option Reserve	13	14,547	12,474
Currency Translation Adjustment		(837)	(272)
Retained Earnings		240,347	207,721
		370,949	334,486
		$ 659,732	$ 486,379
Commitments and Pledges	7, 24		
Contingent Liabilities	25		
Subsequent Events	27		

See accompanying notes to these consolidated financial statements.

Approved by the Board and authorized for issue on March 21, 2013

Larry G. Moeller
Director

J. Brian Kynoch
Director

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31, 2012 and 2011
[expressed in thousands of Canadian dollars, except share and per share amounts]

	Notes	2012	2011
Revenues		$ 257,783	$ 253,175
Cost of Sales	14	(188,492)	(188,850)
Income from Mine Operations		69,291	64,325
General and Administration	15	(9,077)	(9,305)
Finance (Costs) Income	16	(7,614)	13,979
Other Income		736	1,439
Bad Debt Recovery	12(c)	-	14,112
Income before Taxes		53,336	84,550
Income and Mining Taxes	17	(20,710)	(35,842)
Net Income		$ 32,626	$ 48,708
Other Comprehensive (Loss) Income– currency translation adjustment		(565)	470
Total Comprehensive Income		$ 32,061	$ 49,178
Income Per Share			
Basic	18	$ 0.44	$ 0.66
Diluted	18	$ 0.43	$ 0.65
Weighted Average Number of Common Shares Outstanding			
Basic	18	74,267,136	73,862,442
Diluted	18	75,447,723	74,836,266

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Changes in Equity

Years Ended December 31, 2012 and 2011
[expressed in thousands of Canadian dollars, except share amounts]

	Share Capital					
	Number of Shares	Amount	Share Option Reserve	Currency Translation Adjustment	Retained Earnings	Total
Balance December 31, 2010	73,766,716	$111,778	$ 8,869	$ (742)	$184,142	$ 304,047
Issued on exercise of options	317,434	2,785	(1,560)	-	-	1,225
Purchase price, including transaction costs, in excess of book value of non-controlling interest in American Bullion Minerals Ltd. (Note 3)	-	-	-	-	(25,129)	(25,129)
Share based compensation expense	-	-	5,165	-	-	5,165
Total comprehensive income	-	-	-	470	48,708	49,178
Balance December 31, 2011	74,084,150	114,563	12,474	(272)	207,721	334,486
Issued on exercise of options	235,600	2,329	(872)	-	-	1,457
Share based compensation expense	-	-	2,945	-	-	2,945
Total comprehensive income	-	-	-	(565)	32,626	32,061
Balance December 31, 2012	74,319,750	$116,892	$ 14,547	$ (837)	$240,347	$ 370,949

See accompanying notes to these consolidated financial statements

Consolidated Statements Of Cash Flows

Years Ended December 31, 2012 and 2011
[expressed in thousands of Canadian dollars, except share amounts]

	Notes	2012	2011
OPERATING ACTIVITIES			
Income before taxes		$ 53,336	$ 84,550
Items not affecting cash flows			
Depletion and depreciation		21,471	23,492
Share based compensation		2,945	5,165
Accretion of future site reclamation provisions		1,098	766
Unrealized foreign exchange losses (gains)		69	(553)
Unrealized losses (gains) on derivative instruments		5,575	(23,639)
Other		(548)	(2,066)
		83,946	87,715
Net change in non-cash operating working capital balances	19	(40,015)	44,922
Income and mining taxes paid		(2,465)	(14,173)
Income and mining taxes received		3,015	-
Interest paid		(2,075)	(1,053)
Cash provided by operating activities		42,406	117,411
FINANCING ACTIVITIES			
Proceeds of short term debt		385,973	275,983
Repayment of short term debt		(294,818)	(258,763)
Repayment of non-current debt		(1,667)	(1,605)
Issue of share capital		1,457	1,225
Cash provided by financing activities		90,945	16,840
INVESTING ACTIVITIES			
Purchase of short term investments		-	(26,000)
Sale of short term investments		2,500	-
Acquisition and development of mineral properties		(182,048)	(71,518)
Net change in non-cash investing working capital balances		21,884	-
Purchase of non-controlling interest in American Bullion Minerals Ltd. including transaction costs of $1,149	3	-	(25,129)
Increase in future site reclamation deposits		(938)	(4,362)
Proceeds on sale of mineral properties		1,256	2,072
Other		2,179	(3,503)
Cash used in investing activities		(155,167)	(128,440)
EFFECT OF FOREIGN EXCHANGE ON CASH		(295)	(154)
(DECREASE) INCREASE IN CASH		(22,111)	5,657
CASH, BEGINNING OF YEAR		34,475	28,818
CASH, END OF YEAR		$ 12,364	$ 34,475

See accompanying notes to these consolidated financial statements.

Notes to the Consolidated Financial Statements

December 31, 2012 and 2011
[expressed in thousands of Canadian dollars, except 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 200 – 580 Hornby Street, Vancouver, BC, Canada V6C 3B6. The Company's shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "III".

The Company's key properties are:

- open pit copper/gold producing Mount Polley mine in central British Columbia;
- open pit copper/molybdenum producing Huckleberry mine in northern British Columbia;
- development stage Red Chris copper/gold property in northwest British Columbia;

2. Significant Accounting Policies

Statement of Compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Basis of Presentation

The Company's consolidated financial statements and those of all of its controlled subsidiaries are presented in Canadian dollars as this is the presentation and functional currency for all its operations except for the Company's US subsidiary, Sterling Gold Mining Corporation, which has US dollars as its functional currency.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value and the Huckleberry Mine property which is stated at deemed cost. In addition these consolidated financial statements have been prepared using the accrual basis of accounting.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and those entities which are controlled by the Company through voting equity interests, referred to as subsidiaries. Entities which are jointly controlled, referred to as joint ventures, are proportionately consolidated. All inter-company balances, transactions, revenues and expenses have been eliminated upon consolidation.

Short Term Investments

Short term investments include money market instruments that are readily convertible to cash and have maturities at the date of purchase of between ninety days and less than one year.

Marketable Securities

Marketable securities are classified as fair value through profit or loss because the Company intends to liquidate the marketable securities when market conditions are conducive to a sale of these securities. Unrealized holding gains and losses related to fair value through profit or loss securities are included in the statement of income and comprehensive income in each period. Transaction costs incurred to acquire marketable securities are expensed when incurred.

The Company records the fair value of marketable securities at the reporting date using quoted market prices.

Inventory

Copper concentrates, inclusive of contained gold and silver, and costs associated with ore under leach and gold bullion are valued on a first in first out basis at the lower of production cost to produce saleable metal and net realizable value. Net realizable value is calculated as described under "Revenue Recognition". Production costs include direct labour, operating materials and supplies, transportation costs and applicable overhead, and depletion and depreciation.

Stores and supplies inventories are valued at the lower of cost and net realizable value. Cost includes acquisition cost and any directly related costs, including freight.

Mineral Properties

Mineral properties represent capitalized expenditures related to the development of mining properties, related plant and equipment and expenditures related to exploration arising from property acquisitions.

The costs associated with mineral properties are separately allocated to reserves, resources and exploration potential, and include acquired interests in production, development and exploration stage properties representing the fair value at the time they were acquired. The value associated with resources and exploration potential is the value beyond proven and probable reserves assigned through acquisition. The value allocated to reserves is depleted on a unit-of-production method over the estimated recoverable proven and probable reserves at the mine. The reserve value is noted as depletable mineral properties in Note 7.

The resource value represents the property interests that are contained in the measured and indicated resources that are not within the proven and probable reserves. Exploration potential is (i) mineralization included in inferred resources; (ii) areas of potential mineralization not included in any resource category.

Resource value and exploration potential value is noted as non-depletable mineral properties in Note 7. At least annually or when otherwise appropriate and subsequent to its review and evaluation for impairment, value from the non-depletable category is transferred to the depletable category if resources or exploration potential have been converted into reserves.

Capitalized costs are depleted and depreciated by property using the unit-of-production method over the estimated recoverable proven and probable reserves at the mines to which they relate.

Exploration and Evaluation and Pre-production Properties

The Company follows the method of accounting for these mineral properties whereby all costs related to the acquisition, exploration and development are capitalized by property. Capitalized costs include interest and financing costs for amounts borrowed to develop mining properties and construct facilities, and operating costs, net of revenues, incurred prior to the commencement of commercial production. On the commencement of commercial production, net costs are charged to operations using the unit-of-production method by property based upon estimated recoverable reserves. Management considers a number of factors related to the ability of a property to operate at its design capacity over a specified period of time in determining when a property has reached commercial production. These factors include ore production levels as intended by management, plant throughput quantities, recovery rates, and number of uninterrupted days of production.

Property, Plant and Equipment

Property, plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Capitalized costs include the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for placing it into use along with the future cost of dismantling and removing the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The costs of major overhauls of parts of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in income or loss as incurred.

Mobile mine equipment and vehicles are depreciated over the estimated useful lives of the assets either on a unit-of-production basis or using the straight line method with useful lives of 4-12 years. Office, computer and communications equipment are depreciated using the straight line method with useful lives of 4-5 years. The estimated residual value and useful lives are reassessed at each year end and depreciation expense is adjusted on a prospective basis.

Stripping Costs

Costs associated with the removal of overburden and other mine waste materials that are incurred in the production phase of mining operations are included in the cost of the inventory produced in the period in which they are incurred, except when the charges represent a betterment to the mineral property. Charges represent a betterment to the mineral property when the stripping activity provides access to reserves that will be produced in future periods that would not have been accessible without the stripping activity. When charges are deferred in relation to a betterment, the charges are amortized over the reserve accessed by the stripping activity using the unit-of-production method as these reserves will directly benefit from the deferred stripping costs incurred.

Assessment of Impairment

Management reviews the carrying value of exploration and evaluation properties at the end of each reporting period for evidence of impairment. This review is generally made with reference to timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest.

Post-feasibility exploration properties, producing mining properties and plant and equipment are reviewed for impairment at the end of each reporting period for evidence of impairment. If any such indication exists, the entity shall estimate the recoverable amount of the asset to determine if it is greater than its carrying value.

When indicators of impairment exist, the recoverable amount of an asset is evaluated at the level of the cash generating unit ("CGU"), the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss or reversal thereof is recognized in income or loss to the extent that the carrying amount exceeds or is below the recoverable amount.

In calculating the recoverable amount, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value by quotes from an active market or a written offer to purchase/binding sales agreement. Discounted cash flow techniques are dependent on a number of factors, including future metal prices, the amount of reserves, resources and exploration potential, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and future site reclamation costs. Additionally, the reviews take into account factors such as political, social, legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts in assessing these factors.

Future Site Reclamation Costs

The Company's mining and exploration activities are subject to various statutory, contractual or legal obligations for protection of the environment. At the date the obligation is incurred, the Company records a liability, discounted to net present value, for the best estimate of future costs to retire an asset including costs for dismantling, remediation and ongoing treatment and monitoring of the site. The present value is determined using a pre-tax risk free interest rate. The liability is accreted over time to the estimated amount ultimately payable through periodic charges to income or loss. The estimated present value of the future site reclamation costs are reviewed for material changes at each reporting date and re-measured at least annually or when there are significant changes in the assumptions giving rise to the estimated cash flows.

Future site reclamation costs are capitalized as part of the carrying value of the related mineral property at its initial discounted value and amortized over the useful life of the mineral property using the unit-of-production method.

Income Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred income tax assets and deferred income tax liabilities are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of deferred income tax assets, including unused tax losses and tax credits, are recognized to the extent that it is probable that taxable profit will be available against the deductible temporary difference and the tax loss and tax credits can be utilized. These deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

In a business combination, temporary differences arise as a result of differences in the fair values of identifiable assets and liabilities acquired and their respective tax bases. Deferred income tax assets and liabilities are recognized for the tax effects of these differences. Deferred income tax assets and liabilities are not recognized for temporary differences arising from goodwill or from the initial recognition of assets and liabilities acquired in a transaction other than a business combination which does not affect either accounting or taxable income or loss.

Government assistance, including investment tax credits, is credited against the expenditure generating the assistance when it is probable that the government assistance will be realized.

Revenue Recognition

Estimated mineral revenue, based upon prevailing metal prices, is recorded in the financial statements when title to the concentrate transfers to the customer which generally occurs on date of shipment. Revenue is recorded in the statement of income and comprehensive income net of treatment and refining costs paid to counterparties under terms of the off take arrangements. The estimated revenue is recorded based on metal prices and exchange rates on the date of shipment and is adjusted at each reporting date to the date of settlement metal prices. The actual amounts will be reflected in revenue upon final settlement, which is usually four to five months after the date of shipment. These adjustments reflect changes in metal prices and changes in quantities arising from final weight and assay calculations. The net realizable value of copper concentrate inventory is calculated on the basis described above.

Mineral revenues other than copper concentrate are recognized when title passes to the customer and price is reasonably determinable.

Financial Derivatives

The Company uses derivative financial instruments to manage its exposure to metal prices and foreign exchange rates. Derivative financial instruments are measured at fair value and reflected on the statement of financial position. The Company does not apply hedge accounting to derivative financial instruments and therefore any gains or losses resulting from the changes in the fair value of the derivative financial instrument are included in income or loss at each date of financial position.

Financial Instruments

The Company's financial instruments consist of cash, short term investments, marketable securities, trade and other receivables, derivative instrument assets and margin deposits, future site reclamation deposits, trade and other payables, short term debt, derivative instrument liabilities and non-current debt.

Financial instruments are initially recorded at fair value including transaction costs except for those items recorded as fair value through profit or loss for which costs are expensed as incurred.

Cash, short term investments, marketable securities, derivative instrument assets and margin deposits, and future site reclamation deposits are classified as fair value through profit or loss and recorded at fair value. Marketable securities are classified as fair value through profit or loss because the Company holds these securities for the purpose of trading. The fair value is based on bank statements or counterparty valuation reports. The fair value of marketable securities is based on quoted market prices. Trade and other receivables are classified as loans and receivables. Fair value through profit or loss financial assets are measured at fair value with mark-to-market gains and losses recorded in income or loss in the period they occur. Trade and other payables, short and non-current debt are classified as other financial liabilities and recorded at amortized cost.

Financial assets classified as loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method of amortization.

The Company uses derivative financial instruments to mitigate the risk of revenue changes due to changes in copper price and the US/CDN Dollar exchange rate. These instruments do not meet the criteria for hedge accounting and consequently are measured at their fair values with changes in fair values recorded in income or loss in the period they occur. Fair values for these derivative instruments are determined by counterparties using standard valuation techniques for derivative instruments by reference to current and projected market conditions as of the reporting date.

Financial assets are assessed for indicators of impairment at each financial position reporting date except those measured at fair value through profit and loss. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant or prolonged decline in the fair value of securities below its cost; or
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

Impairment losses are recognized in income or loss in the period they occur based on the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through income or loss to the extent that the carrying amount of the financial instrument at the date the impairment is reversed does not exceed what the cost would have been had the impairment not been recognized. At December 31, 2012 and 2011 the Company had no allowance for doubtful accounts as in management's assessment there were no accounts requiring an allowance.

Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the actual rate prevailing at the date of transaction. Each reporting period foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of the entity are recognized in the statement of income and comprehensive income.

Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period end rates of exchange, and the results of their operations are translated at the actual rate prevailing at the date of transaction. Equity is translated at historical cost. The resulting translation adjustments are included in cumulative translation adjustment in other comprehensive income. Additionally, foreign exchange gains and losses related to the settlement of certain intercompany loans are also included in equity as the settlement of these loans is neither planned nor likely to occur in the foreseeable future.

Foreign exchange gains and losses that relate to debt are presented in the statement of income and comprehensive income within "Finance Costs". All other foreign exchange gains and losses are presented in the statement of comprehensive income within "General and Administration".

Joint Ventures

Joint ventures are entities over which the Company has joint control (Note 20). The Company accounts for its joint venture interests in Huckleberry Mines Ltd., the Ruddock Creek Joint Venture and the Porcher Island Joint Venture using the proportionate method of consolidation, whereby the Company includes its share of assets, liabilities and results of operations of these entities in these consolidated financial statements.

Reportable Segmented Information

The Company's operations are primarily directed towards the exploration, development and production from its mineral properties in Canada. The Company has four reportable operating segments, Mount Polley, including related exploration and development activities, Red Chris, including related exploration and development activities, Huckleberry, including related exploration and development activities and Corporate, including all other properties and related exploration and development activities. Transactions between reportable operating segments are recorded at fair value.

Share Based Payments

The Company has a share option plan that provides all option holders the right to receive common shares in exchange for the options exercised which is described in Note 13(b). The fair value of each option award that will ultimately vest is estimated on the date of grant using the Black-Scholes option-pricing model. Compensation expense is determined when stock options are granted and recognized in operations over the vesting period of the option. Consideration received on the exercise of stock options is recorded as share capital and the related share-based amounts of share option reserve are credited to share capital.

Borrowing Costs

The Company expenses borrowing costs when they are incurred, unless they are directly attributable to the acquisition of mineral properties or construction of property, plant and equipment extending over a period of more than twelve months.

Income Per Common Share

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed in accordance with the treasury stock method and "if converted" method, as applicable, which uses the weighted average number of common shares outstanding during the period and also includes the dilutive effect of potentially issuable common shares from outstanding stock options.

Significant Accounting Judgments and Estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Ore Reserve Estimates

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. There are numerous uncertainties inherent in estimating ore reserves and mineral resources, including many factors beyond the Company's control. Assumptions used in estimating ore reserves and mineral resources include the forecast prices of commodities, exchange rates, production and capital costs, recovery rates and judgments used in engineering and geological interpretation of available data. Assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Estimated ore reserves are used in the calculation of depreciation and depletion, impairment assessment, assessment of life of pit stripping ratios and for forecasting the timing of future site reclamation costs. Therefore, changes in the estimates and assumptions used to determine ore reserves could have a material effect in the future on the Company's financial position and results of operations.

Depletion and Depreciation of Mineral Properties

Depletion and depreciation of mineral properties is based on the estimated mineral reserves for each mineral property subject to depletion and estimated useful lives and depreciation rates for property, plant and equipment. Should asset life, depletion rates or depreciation rates differ from the initial estimate then this would impact the carrying value of the assets resulting in the adjustment being recognized in the consolidated statement of income.

Commencement of Commercial Production

Prior to reaching commercial production, costs, net of revenues, are capitalized to mineral properties. Management considers a number of factors related to the ability of a property to operate at its design capacity over a specified period of time in determining when a property has reached commercial production. These factors include ore production levels as intended by management, plant throughput quantities, recovery rates, and number of uninterrupted days of production.

If any of these factors change then there may be an impact on whether revenue and costs are recorded in the income statement or applied to mineral properties as a cost recovery.

Stripping Costs

The determination of costs associated with the removal of overburden and other mine waste materials involve estimates related to the whether or not these costs represent a betterment to the mineral property. Management uses several factors to determine whether to capitalize stripping costs including quantity and grade of materials being accessed, estimated future commodity prices, operating costs and life of mine plan. If any of these factors change then the determination of which materials are included in stripping costs may change resulting in higher mine operating costs in future periods.

Future Site Reclamation Provisions

Future site reclamation provisions represent management's estimate of the present value of future cash outflows required to settle estimated reclamation obligations at the end of a mine's life. The provision incorporates estimated future costs, inflation, and risks associated with the future cash outflows, discounted at the risk free rate for the future cash outflows. Changes in any of these factors can result in a change to future site reclamation provisions and the related accretion of future site reclamation provisions. Changes to future site reclamation provisions are charged or credited to mineral properties and may result in changes to future depletion expense.

Impairment of Mineral Properties

Both internal and external information is reviewed and considered by management in their assessment of whether mineral properties are impaired. In determining the recoverable amounts of producing mineral properties management estimates the discounted future pre-tax cash flows expected to be derived from the Company's producing mineral properties. Reductions in commodities prices, increases in estimated future production and capital costs, reductions in mineral reserves and exploration potential and adverse economic events can result in impairment charges. In determining the economic recoverability and probability of future economic benefit of non-producing mineral properties management also considers geological information, likelihood of conversion of resources to reserves, scoping and feasibility studies, permitting, infrastructure, development costs, and life of mine plans.

Income Taxes

In determining tax assets and liabilities and related tax assets and liabilities and tax expense management makes estimates of future taxable income, tax rates, expected timing of reversals of existing temporary differences and the likelihood that tax returns as filed by the Company will be assessed by taxation authorities as filed. Recoveries of deferred tax assets require management to assess the likelihood that the Company will generate sufficient taxable income in future periods to recognize the deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets could be impacted.

Share Based Compensation

The Company used the Black-Scholes Option Pricing Model for valuation of share based compensation. This pricing model requires the input of subjective assumptions including expected price volatility, interest rate and estimated forfeiture rate. Changes in these assumptions can materially affect the fair value estimate of share based compensation and the related equity accounts of the Company.

Functional Currency

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. The Canadian dollar is the functional currency for all operations of the Company except for the Company's US subsidiary which uses the US dollar as its functional currency. Determination of the functional currency involves certain judgments to determine the primary economic environment of each entity. If events and conditions in this environment change then the Company may need to reconsider the functional currency of these entities.

Changes in Accounting Standards

Accounting Standards Issued and Effective January 1, 2012

The Company has adopted these accounting standards effective January 1, 2012. The adoption of these accounting standards had no significant impact on the consolidated financial statements.

IAS 12 - *Income Taxes (Amended) ("IAS 12"),* introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7 – *Financial instruments: Disclosures (Amended)* require additional disclosures on transferred financial assets.

Accounting Standards Issued and Effective January 1, 2013

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value. Subsequent to December 31, 2012 the effective date was amended to January 1, 2015.

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities*.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

The Company is still assessing the impact of IFRS 11 with regard to the Company's accounting for joint arrangements. There would be a significant impact on the financial statements of the Company if it was determined that a change to equity accounting would be required for the Company's investment in Huckleberry Mines Ltd. or the Ruddock Creek Joint Venture.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 *Leases*; measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

IAS 1 *Presentation of Financial Statements* amendment issued by the IASB in June 2011 provides improved consistency and clarity of the presentation of items of other comprehensive income. The main change was a requirement to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. This amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

IAS 19 *Employee Benefits* introduced changes to the accounting for defined benefit plans and other employee benefits which include the modification of the accounting for termination benefits and classification of other employee benefits.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

IFRIC 20 *Stripping Costs in the Production Phase of a Mine* clarifies the requirements for accounting for the costs of stripping activity in the production phase when stripping improves access to further quantities of material that will be mined in future periods.

3. Acquisition of Non-Controlling Interest in American Bullion Minerals Ltd.

At December 31, 2010 the Company owned a 52.3% interest in American Bullion Minerals Ltd. ("ABML") which owns an interest in the Red Chris copper/gold mine in British Columbia. On June 13, 2011 the Company purchased all of the shares of ABML held by the minority shareholders at a cost of $23,980 ($2.45 per common shares) to hold 100% of ABML. Costs to complete this transaction totalled $1,149, excluding court approved legal fees.

Since May 22, 2008 the consolidated financial statements of the Company have included the assets, liabilities and operating results of ABML as they have been consolidated with the accounts of the Company.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. As a result, the acquisition of the non-controlling interest in ABML for $23,980 has been charged to retained earnings, this being the difference between the amount paid and the non-controlling interest recorded on the Consolidated Statement of Financial Position.

Transaction costs for an equity transaction are accounted for as a deduction from equity. As a result, transaction costs of $1,149 for the acquisition of the non-controlling interest in ABML have been charged to retained earnings.

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

4. Trade And Other Receivables

	December 31 2012	December 31 2011
Trade receivables	$ 60,336	$ 22,264
Taxes receivable	2,873	4,492
	$ 63,209	$ 26,756

5. Inventory

	December 31 2012	December 31 2011
Stockpile ore	$ 3,849	$ 2,793
Stockpiles and ore under leach	-	471
Concentrate	20,349	22,441
Supplies	13,846	13,200
	$ 38,044	$ 38,905

	December 31 2012	December 31 2011
Inventory recognized as expense during the year	$ 152,315	$ 150,263

As at December 31, 2012 the Company had $28,026 (2011 - $28,310) inventory pledged as security for short term debt.

6. Other Assets

	December 31 2012	December 31 2011
Future site reclamation deposits (Note 11)	$ 13,230	$ 12,352
Other	1,369	3,625
	$ 14,599	$ 15,977

7. Mineral Properties

	Mineral Properties being depleted	Mineral Properties not being depleted	Plant and Equipment	Construction in Progress	Total
Cost					
Balance as at December 31, 2010	$ 126,795	$ 168,954	$ 300,596	$ -	$ 596,345
Additions	22,495	9,113	38,768	5,464	75,840
Disposals	-	(173)	(3,033)	-	(3,206)
Foreign exchange movement	106	418	34	-	558
Balance as at December 31, 2011	149,396	178,312	336,365	5,464	669,537
Additions	2,689	13,325	48,983	131,496	196,493
Reclassifications	10,043	(10,043)	-	-	-
Disposals	-	(10)	(6,420)	-	(6,430)
Foreign exchange movement	(141)	(448)	(76)	-	(665)
Balance as at December 31, 2012	$ 161,987	$ 181,136	$ 378,852	$ 136,960	$ 858,935

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

	Mineral Properties being depleted	Mineral Properties not being depleted	Plant and Equipment	Construction in Progress	Total
Accumulated depletion & depreciation					
Balance as at December 31, 2010	$ 88,309	$ 1,719	$ 232,635	$ -	$ 322,663
Depletion & depreciation	9,014	-	13,005	-	22,019
Disposals	-	-	(2,278)	-	(2,278)
Foreign exchange movement	106	-	38	-	144
Balance as at December 31, 2011	97,429	1,719	243,400	-	342,548
Depletion & depreciation	6,238	-	17,073	-	23,311
Disposals	-	(4)	(5,259)	-	(5,263)
Foreign exchange movement	(114)	-	(34)	-	(148)
Balance as at December 31, 2012	$ 103,553	$ 1,715	$ 255,180	$ -	$ 360,448
Carrying Amount					
Balance as at December 31, 2011	$ 51,967	$ 176,593	$ 92,965	$ 5,464	$ 326,989
Balance as at December 31, 2012	$ 58,434	$ 179,421	$ 123,672	$ 136,960	$ 498,487

At December 31, 2012 the Company had contractual commitments totalling $136,754 (2011-$18,436) for the acquisition of property, plant and equipment (Note 24(e)). At December 31, 2012 mineral property assets with a carrying value of $6,822 (2011-$nil) are legally restricted for the purposes of settling future site reclamation provisions (Note 24(c)).

During the year ended December 31, 2012 the Company capitalized borrowing costs of $1,380 (2011-$nil) related to the Red Chris project into construction in progress at a weighted average borrowing rate of 3.67% (2011-nil).

Mount Polley

The Company owns 100% of the Mount Polley open pit copper/gold mine located 56 kilometres northeast of Williams Lake in central British Columbia. The Mount Polley property covers 18,321 hectares, which consists of seven mining leases totalling 2,007 hectares, and 41 mineral claims encompassing 16,315 hectares.

Huckleberry

The Company owns 50% (Note 20) of the Huckleberry open pit copper/molybdenum mine located 88 kilometres south-southwest of Houston in west central British Columbia. The Huckleberry property consists of a mining lease covering 1,912 hectares and 38 mineral claims encompassing approximately 16,594 hectares.

Red Chris

The Company owns 100% of the Red Chris copper/gold deposit situated 18 kilometres southeast of the village of Iskut in northwest British Columbia.

The Red Chris property covers a total area of 17,028 hectares and is comprised of five 30 year mining leases covering 5,141 hectares and 44 mineral claims encompassing 11,887 hectares. In May 2012 the Province of British Columbia issued a Mines Act permit for the Red Chris project. The development of the Red Chris project into a mine will coincide with the construction of a power line to service the northwest portion of British Columbia, now underway. A net smelter royalty of 1.8% is payable on production however this can be reduced to 1% by payment of $1,000 prior to production.

Sterling

The Company owns 100% of the Sterling gold mine near Beatty, Nevada. The Sterling mine operated as both an underground and open pit mine from 1980 to suspension of mining operations in 1997. Certain parts of the Sterling property have been reclaimed. The main Sterling property consists of 272 lode mining claims plus one water well site. Net smelter royalties of 2.25% are payable on production with minimum advance royalties on a small portion of these claims.

Ruddock Creek

The Company owns 50% (December 31, 2011-65%) of the Ruddock Creek zinc/lead deposit located approximately 155 kilometres northeast of Kamloops in south central British Columbia. The Ruddock Creek property consists of 23 mineral claims totalling 11,047 hectares. A net smelter royalty of 1% is payable on production.

During 2012 Itochu Corporation and Mitsui Mining and Smelting Co. Ltd. (“Itochu/Mitsui”) completed the earn-in on the property pursuant to a Memorandum of Understanding signed in July 2010 whereby they had the option to earn a 50% interest in the property by providing $20,000 in exploration and development funding on or before September 30, 2013. The Ruddock Creek property and certain related assets and liabilities form the Ruddock Creek Joint Venture owned by the Company, Itochu and Mitsui (Note 20).

Other Exploration Properties

The Company has interests in various other early stage exploration properties located primarily in Canada. These properties have been acquired primarily by staking and the cost to maintain ownership of these properties is not significant.

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

8. Trade And Other Payables

	December 31 2012	December 31 2011
Trade payables	$ 26,944	$ 11,635
Accrued liabilities	19,348	16,238
	$ 46,292	$ 27,873

9. Short Term Debt

Amounts due for short term debt facilities are:

	December 31 2012	December 31 2011
(a) Bank loan facilities aggregating $150,000 (2011-$75,000) secured by trade and other receivables, inventory, shares of certain subsidiaries and a floating charge on certain assets of the Company. The loan amount in excess of $75,000 is guaranteed by a related party (Note 21). The facility is due on demand (Note 26). A portion of the facility has been utilized for letters of credit pledged for settlement of future site reclamation provisions (Note 24(c)).		
i. Bankers Acceptances with a maturity value of $75,000 (December 31, 2011-$27,000)	$ 74,846	$ 26,940
ii. Bank loan	11,519	-
iii. Cheques issued in excess of funds on deposit to be funded from the loan facility	6,038	-
(b) Concentrate advance of US$25,864 (December 31, 2011-US$nil) from a purchaser of concentrate from the Mount Polley mine repayable from the sale of concentrate with interest at three month Libor plus 2% and secured by a first charge on concentrate from the Mount Polley mine.	25,733	-
	$ 118,136	$ 26,940

The movement of the amounts due for short term debt are:

	December 31 2012	December 31 2011
Balance, beginning of year	$ 26,940	$ 10,439
Amounts advanced	385,973	275,983
Amounts repaid	(294,818)	(258,763)
Foreign exchange losses (gains)	41	(719)
Balance end of year	$ 118,136	$ 26,940

10. Non-Current Debt

Amounts due for non-current debt are:

	December 31 2012	December 31 2011
Mount Polley Finance Contract Note (a)	$ 7,810	$ -
Mount Polley Finance Contract Note (b)	32	327
Mount Polley Finance Contract Note (c)	175	454
Mount Polley Finance Contract Note (d)	324	552
Mount Polley Finance Contract Note (e)	-	279
	8,341	1,612
Less portion due within one year	(1,908)	(1,081)
	$ 6,433	$ 531

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

(a) Finance contract for US$7,850 (December 31, 2011-US$nil) repayable in monthly installments of US$140 for 31 months and US$171 for the remaining 24 months including interest at a fixed rate of 2.89% and secured by mobile mining equipment at the Mount Polley mine.

(b) Finance contract for $32 (December 31, 2011-$327) repayable in monthly installments of $25 until January 2013 including interest at Bank Prime Rate plus 2% (2011-2%) and secured by mobile mining equipment at the Mount Polley mine. Monthly repayments are subject to adjustment for interest rate movements.

(c) Finance contract for $175 (December 31, 2011-$454) repayable in monthly installments of $25 until July 2013 including interest at Bank Prime Rate plus 2% (2011-2%) and secured by mobile mining equipment at the Mount Polley mine. Monthly repayments are subject to adjustment for interest rate movements.

(d) Finance contract for $324 (December 31, 2011-$552) repayable in monthly installments of $21 until April 2014 including interest at a fixed rate of 5.25% (December 31, 2011-5.25%) and secured by mobile equipment at the Mount Polley mine.

(e) Finance contract for US$nil (December 31, 2011-US$274) repayable in monthly installments of US$31 until August 2012 including interest at 4.85% (2011-4.85%) and secured by certain mobile mining equipment at the Mount Polley mine.

The movement of the amounts due for non-current debt are:

	December 31 2012	December 31 2011
Balance, beginning of year	$ 1,612	$ 2,515
Amounts advanced	8,620	698
Foreign exchange (gain) loss	(224)	4
Amounts repaid	(1,667)	(1,605)
Balance, end of year	8,341	1,612
Less portion due within one year	(1,908)	(1,081)
	$ 6,433	$ 531

11. Future Site Reclamation Provisions

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

Changes to the future site reclamation provisions are as follows:

	December 31 2012	December 31 2011
Balance, beginning of year	$ 30,703	$ 21,801
Accretion (Note 16)	1,098	766
Costs incurred during the year	(312)	(623)
Change in estimates of future costs and effect of translation of foreign currencies	3,537	8,759
Balance, end of year	35,026	30,703
Less portion due within one year	(672)	(845)
	$ 34,354	$ 29,858

The total undiscounted amount of estimated future cash flows required to settle the obligations is $78,985 (2011-$71,940). The estimated future cash flows were then adjusted using a 2% rate of inflation. The estimated future cash flows have been discounted using a pre-tax risk free interest rate of 2.37% (2011–3.29%) except for Huckleberry which uses a pre-tax risk free interest rate of 3.98% (2011-3.75%).

The obligations are expected to be settled primarily in the years 2013 through 2041 with the obligations of Huckleberry extending to the year 2158.

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. Refer to Notes 24(c) and (d) for assets pledged and legally restricted for the purposes of settling future site reclamation provisions.

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

12. Derivative Instruments

	December 31 2012	December 31 2011
Assets		
Current		
Copper contracts	$ 1,558	$ 6,144
	$ 1,558	$ 6,144
Non-current		
Security deposits with counterparties	$ -	$ 509
Copper contracts	896	1,853
	$ 896	$ 2,362
Liabilities		
Current		
Copper contracts	$ 857	$ 513
	$ 857	$ 513
Non-Current		
Copper contracts	$ 636	$ 266

From time to time, the Company purchases put options, sells call options, and enters into forward sales contracts to manage its exposure to changes in copper prices.

All of the Company's derivative instrument contracts are settled on a financial basis. No physical sale or transfer of copper will take place pursuant to the contracts.

Huckleberry is required to pay security deposits to counterparties for derivative instruments based on calculation of the fair value of the derivative instrument on each trading date, net of the credit facility provided by the counterparties. No security deposits are payable by the Company to its counterparties other than the security deposits required to be paid by Huckleberry.

At December 31, 2012 the Company had entered into various contracts to protect the cash flow from Mount Polley and Huckleberry against a decline in the price of copper. These contracts do not qualify for hedge accounting and therefore the Company accounts for these contracts as derivative instruments and records changes in the unrealized gains or losses on these contracts through profit and loss each period and records the fair value of these derivative instruments as an asset or liability at each reporting date. The fair value of these financial instruments has been recorded as either an asset or a liability as of December 31, 2012 depending on the attributes of the contracts.

During the year ended December 31, 2012 the Company recorded losses of $6,790 (2011-gains of $14,319) on derivative instruments in the Consolidated Statement of Income and Comprehensive Income.

(a) Balances at December 31, 2012

Option contracts outstanding at December 31, 2012 for copper are as follows:

	Weighted Average			
	Minimum Price	Maximum Price	Put Options Purchased	Call Options Sold (Bought)
	US$/lb	US$/lb	lbs of copper	lbs of copper
Contract Period				
2013	$ 3.15	$ 4.39	23,441,000	22,531,000
2014	$ 3.08	$ 4.28	5,236,000	5,236,000

The Company will receive/pay the counterparty the difference between the monthly average cash settlement price of copper on the London Metals Exchange and the copper price specified in the put/call option contract.

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

(b) Transactions Subsequent to December 31, 2012

From January 1 to March 21, 2013 the Company purchased put and call options, sold call options and entered into forward sales contracts to manage its exposure to changes in copper prices.

	Weighted Average			
	Minimum Price	Maximum Price	Put Options Purchased	Call Options Sold (Purchased)
	US$/lb	US$/lb	lbs of copper	lbs of copper
Contract Period				
2013	$ 3.40	$ 3.93	303,000	1,212,000
2013	$ n/a	$ 5.08	–	(606,000)

The Company will receive/pay the counterparty the difference between the monthly average cash settlement price of copper on the London Metals Exchange and the copper price specified in the put/call option contract.

(c) Bad Debt Recovery

During the year ended December 31, 2008 a portion of the Company's derivative instruments were with Lehman Brothers Commodity Services Inc. ("LBCS"), a subsidiary of Lehman Brothers Holdings Inc. ("Lehman"). Both LBCS and Lehman filed for bankruptcy protection and as a result the Company made a provision for the full amount of the LBCS derivatives in 2008.

In December 2011 the Company sold its claims against LBCS and Lehman for $14,112 (US$13,883) recording a bad debt recovery equal to the proceeds as the carrying amount of the claims had been previously written down to nil.

13. Share Capital

(a) Share Capital

Authorized

50,000,000 First Preferred shares without par value with special rights and restrictions to be determined by the directors (outstanding – nil)

50,000,000 Second Preferred shares without par value with rights and restrictions to be determined by the directors (outstanding – nil)

Unlimited number of Common Shares without par value

The Company's directors approved a share split of its issued and outstanding common shares on a two-for-one basis effective December 5, 2011. All common share and per common share amounts have been restated to retroactively reflect the share split.

(b) Share Option Plans

Under the Share Option Plans, the Company may grant options to its directors, officers and employees not to exceed 10% of the issued common shares of the Company. At December 31, 2012 a total of 4,417,007 common share options remain available for grant under the plans. Under the plans, the exercise price of each option equals 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.

Movements in Share Options

The changes in share options during the years ended December 31, 2012 and 2011 were as follows:

	2012		2011	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,354,234	$ 8.11	3,733,668	$ 7.77
Exercised	(235,600)	$ 6.18	(317,434)	$ 3.86
Forfeited	(66,000)	$ 8.95	(42,000)	$ 8.46
Expired	(37,666)	$ 17.10	(20,000)	$ 12.00
Outstanding at end of year	3,014,968	$ 8.13	3,354,234	$ 8.11
Options exercisable at end of year	1,700,968	$ 7.17	1,322,234	$ 6.94

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

The following table summarizes information about the Company's share options outstanding at December 31, 2012:

	Options Outstanding			Options Exercisable		
Exercise Prices	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Options Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
$3.30-$3.86	16,668	$ 3.30	0.74	16,668	$ 3.30	0.74
$3.87-$5.17	1,077,500	$ 4.41	6.00	815,500	$ 4.41	6.00
$5.18-$8.59	431,800	$ 6.26	5.17	271,800	$ 6.46	4.10
$8.60-$10.79	129,000	$ 10.03	8.00	65,000	$ 10.03	8.00
$10.80-$11.55	1,360,000	$ 11.55	7.79	532,000	$ 11.55	7.79
	3,014,968	$ 8.13	6.74	1,700,968	$ 7.17	6.28

(c) Normal Course Issuer Bid ("NCIB")

During the year ended December 31, 2012 the Company had two NCIB's. The first NCIB, the 2011/2012 bid, covered the period September 28, 2011 to September 27, 2012. Pursuant to the 2011/2012 NCIB, the Company was authorized by the TSX to purchase up to 2,954,336 common shares of the Company with daily purchases not to exceed 19,202 common shares, subject to certain prescribed exceptions.

On October 10, 2012 the TSX accepted for filing the Company's Notice for its 2012/2013 NCIB to be transacted through the facilities of the TSX.

Pursuant to the 2012/2013 NCIB, the Company may purchase up to 2,006,120 common shares, which represents approximately 2.7% of the total 74,300,750 common shares of the Company issued and outstanding as of October 4, 2012. Purchases will be made, at the discretion of the Company at prevailing market prices, commencing October 12, 2012 and ending no later than October 11, 2013. Pursuant to TSX policies, daily purchases made by the Company will not exceed 14,560 common shares or 25% of the Company's average daily trading volume of 58,241 common shares on the TSX, subject to certain prescribed exceptions. The shares acquired under the 2012/2013 NCIB will either be cancelled or used to satisfy the Company's obligations under its Non-Management Directors' Plan. The funding for any purchase pursuant to the 2012/2013 NCIB will be financed out of the working capital of the Company.

In the year ended December 31, 2012 the Company repurchased 9,000 common shares at an average price of $12.57 per share pursuant to the NCIB's at a cost of $113. A total of 9,000 common shares have been allocated to the Company's obligation under the Non-Management Directors Plan.

14. Cost of Sales

	2012	2011
Operating expenses	$ 113,131	$ 111,887
Salaries, wages and benefits	53,753	53,228
Depletion and depreciation	21,394	23,353
Share based compensation	214	382
	$ 188,492	$ 188,850

15. General and Administration

	2012	2011
Administration	$ 5,118	$ 5,275
Share based compensation	2,731	4,783
Depreciation	77	139
Foreign exchange loss (gain)	1,147	(985)
Mineral property holding costs	4	93
	$ 9,077	$ 9,305

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

16. Finance (Costs) Income

	2012	2011
Accretion of future site reclamation provisions (Note 11)	$ (1,098)	$ (766)
Interest on non-current debt	(165)	(111)
Other interest expense	(541)	(930)
Finance fees	(198)	-
Foreign exchange (loss) gain on current debt	(41)	719
Foreign exchange gain (loss) on non-current debt	224	(4)
Fair value adjustment to marketable securities	209	4
Realized losses on derivative instruments	(1,215)	(9,320)
Unrealized (losses) gains on derivative instruments	(5,575)	23,639
	(8,400)	13,231
Interest income	786	748
Finance (costs) income	$ (7,614)	$ 13,979

17. Income And Mining Taxes

Effective January 1, 2012 the Canadian federal corporate tax rate decreased from 16.5% to 15.0% and the British Columbia provincial tax rate remained at 10%, unchanged from 2011.

The reported income tax provision differs from the amounts computed by applying the Canadian federal and provincial statutory rates to the income before income taxes due to the following reasons:

	2012		2011	
	Amount	%	Amount	%
Income before taxes	$ 53,336		$ 84,550	100.0
Income tax expense thereon at statutory rates	$ 13,334	25.0	$ 22,406	26.5
Increase (decrease) resulting from:				
Deferred income tax assets (recognized) not recognized	(1,441)	(2.7)	1,689	2.0
Impact of differences in rates	-	0.0	(317)	(0.4)
Non-deductible share based compensation	736	1.4	1,369	1.6
B.C. mineral taxes	9,301	17.4	11,788	13.9
Other	(1,220)	(2.3)	(1,093)	(1.2)
Income and mining taxes	$ 20,710	38.8	$ 35,842	42.4
Current income and mining taxes (1)	$ 6,663		$ 10,696	
Deferred income and mining taxes	14,047		25,146	
	$ 20,710		$ 35,842	

(1) including recoveries of $1,068 (2011-$548) in respect of prior years taxes

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

There are no tax charges or credits against other comprehensive income or directly to equity. In the year ended December 31, 2012, $2,019 (December 31, 2011-$2,627) of investment tax credits were recorded that do not affect deferred income and mining tax expense.

Deferred income and mining tax assets and liabilities are as follows:

	December 31 2012	December 31 2011
Deferred income and mining tax assets		
Mineral properties	$ 640	$ 1,346
Mineral properties – mineral taxes	-	303
Net operating tax losses carried forward	132	62
Other	921	3,148
	1,693	4,859
Deferred income and mining tax liabilities		
Mineral properties	58,121	50,407
Mineral properties – mineral taxes	7,627	-
Timing of partnership items	6,533	7,613
Derivative instruments	113	1,507
Other	2,051	2,018
	74,445	61,545
Net deferred income and mining tax liabilities	$ (72,752)	$ (56,686)

As at December 31, 2012 the Company had net operating tax loss carry forwards in Canada of approximately $1,328 which can be applied to reduce future Canadian taxable income and will expire between 2014 and 2032. In addition, the Company had net operating tax loss carry forwards in the United States of approximately US$29,592 which can be applied to reduce future US taxable income and will expire in 2018 to 2032.

The Company had the following temporary differences, unused tax losses and unused tax credits at December 31, 2012 in respect of which no deferred tax asset has been recognized:

	Mineral Properties	Tax Credits	Tax Losses	Total
Expiry 2014-2018	$ -	$ 268	$ -	$ 268
Expiry 2019 and beyond	-	7,983	215	8,198
No expiry date	11,510	2,011	-	13,521
	$ 11,510	$ 10,262	$ 215	$ 21,987

18. Income Per Share

The following table sets out the computation of basic and diluted net income per common share:

	2012	2011
Numerator:		
Net Income	$ 32,626	$ 48,708
Denominator:		
Basic weighted-average number of common shares outstanding	74,267,136	73,862,442
Effect of dilutive securities:		
Stock options	1,180,587	973,824
Diluted potential common shares	1,180,587	973,824
Diluted weighted-average number of common shares outstanding	75,447,723	74,836,266
Basic net income per common share	$ 0.44	$ 0.66
Diluted net income per common share	$ 0.43	$ 0.65

Excluded from the calculation of diluted net income per common share for the year ended December 31, 2012 were nil shares (2011–1,467,666 shares) related to stock options.

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

19. Supplemental Cash Flow Information

(a) Net change in non-cash operating working capital balances:

	2012	2011
Trade and other receivables	$ (38,070)	$ 31,328
Inventory	961	1,524
Derivative instrument assets and margin deposits	1,835	4,465
Prepaid expenses and deposits	(617)	908
Trade and other payables	(3,478)	3,563
Derivative instrument liabilities	(646)	3,134
	$ (40,015)	$ 44,922

(b) Supplemental information on non-cash financing and investing activities:

During the year ended December 31, 2012

(i) the Company purchased mobile mining equipment at a cost of $8,620 which was financed by long term debt (Note 10(a)).
(ii) the Company received marketable securities with a fair value of $645 as sales proceeds and option payments on mineral properties.

During the year ended December 31, 2011

(i) the Company purchased mobile mining equipment at a cost of $698 which was financed by long term debt (Note 10(d)).
(ii) the Company received marketable securities with a fair value of $293 as sales proceeds and option payments on mineral properties.

20. Joint Ventures

Included in the consolidated financial statements are the following amounts representing the Company's interests in joint ventures consisting primarily of a 50% joint venture interest in Huckleberry assets, liabilities and results of operations and a 50% interest (2011-65%) in the Ruddock Creek Joint Venture (Notes 7 and 23):

	December 31 2012 (1)(2)	December 31 2011 (1)(2)
Statements of Financial Position		
Current Assets		
Cash	$ 9,609	$ 28,403
Short term investments	25,000	27,500
Derivative instrument assets	857	3,478
Other current assets	19,248	15,586
	54,714	74,967
Mineral properties	67,898	31,499
Other non-current assets	6,952	12,503
	129,564	118,969
Current Liabilities		
Trade and other payables	(9,031)	(7,068)
Non-current future site reclamation provisions	(22,656)	(21,792)
Other non-current liabilities	(2,434)	(265)
	$ 95,443	$ 89,844

The cash and short term investments disclosed above are all held by Huckleberry and the Ruddock Creek Joint Venture and are restricted for use by these entities.

(1) Effective May 31, 2007 the Company holds a 35% interest in the Porcher Island Joint Venture whose only asset is the Porcher Island mineral property $533 (December 31, 2011 - $533). There have been no operations since the inception of the Porcher Island Joint Venture as the joint venture is currently in the exploration stage. The balances related to the Porcher Island Joint Venture are included in the disclosure above and below.

(2) The Company's interest in the Ruddock Creek mineral property was reduced to 50% during the year ended December 31, 2012 from 65% in the year ended December 31, 2011 upon formation of the Ruddock Creek Joint Venture (Note 7). There have been no operations since inception of the Ruddock Creek Joint Venture as the joint venture is currently in the exploration stage. The balances related to the Ruddock Creek Joint Venture, principally mineral properties of $11,284 (December 31, 2011-$11,480) are included in the disclosure above and below.

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

	2012	2011
Statements of Income and Comprehensive Income		
Revenues	$ 58,958	$ 87,694
Cost of Sales	(46,577)	(49,621)
Income from Mine Operations	12,381	38,073
General and Administration	(509)	469
Finance (Costs) Income	(4,185)	7,968
Income and Mining Taxes	(2,170)	(18,793)
Net Income and Total Comprehensive Income	$ 5,517	$ 27,717
Statements of Cash Flows		
Cash provided by operating activities	$ 15,629	$ 38,914
Cash used in investing activities	(34,536)	(39,216)
Effect of foreign exchange on cash	113	(41)
Decrease in cash	$ (18,794)	$ (343)

21. Related Party Transactions

The consolidated financial statements include the financial statements of Imperial Metals Corporation and its subsidiaries and joint ventures listed in the following tables:

	Country of Incorporation	% equity interest as at 2012	2011
Subsidiaries			
416898 BC Ltd.	Canada	100%	100%
American Bullion Minerals Ltd.	Canada	100%	100%
Bethlehem Resources Corporation	Canada	100%	100%
Catface Copper Mines Limited	Canada	100%	100%
CAT-Gold Corporation	Canada	100%	100%
Edziza Power Corporation	Canada	100%	*
Goldstream Mining Corporation	Canada	100%	100%
HML Mining Inc.	Canada	100%	100%
High G Minerals Corporation	Canada	100%	100%
Highway 37 Power Corp.	Canada	100%	*
Mount Polley Mining Corporation	Canada	100%	100%
Princeton Exploration Ltd.	Canada	100%	100%
Red Chris Development Company Ltd.	Canada	100%	100%
Ruddock Creek Mining Corporation	Canada	100%	100%
Selkirk Metals Corp.	Canada	100%	100%
Sterling Gold Mining Corporation	USA	100%	100%
Joint Ventures			
Huckleberry Mines Ltd.	Canada	50%	50%
Ruddock Creek Joint Venture	Canada	50%	65%
Porcher Island Joint Venture	Canada	35%	35%

* Not Applicable

The Company has joint control of the assets, liabilities, revenues and expenses of these joint ventures and records them in these financial statements using the proportionate method of consolidation.

Related party transactions and balances with a company controlled by a significant shareholder, a company in which a director is an owner are as follows:

	December 31 2012	December 31 2011
Trade and other payables (1)	$ -	$ 1,789

(1) Trade and other payables are unsecured, non-interest bearing and due on terms noted on the invoices.

	2012	2011
Cost of sales	$ 6	$ 8
Mineral exploration costs	$ -	$ 3,031
Loan guarantee fee included in interest expense (Note 9(a))	$ 72	$ -

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.

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

22. Compensation of Directors and other Key Management Personnel

The remuneration of the Company's directors and other key management personnel during the year ended December 31, 2012 and 2011 are as follows:

	2012	2011
Short term benefits (1)	$ 1,754	$ 1,644

(1) Short term employee benefits include salaries, bonuses payable within six months of the Statement of Financial Position date and other annual employee benefits. Directors and other key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2012 and 2011.

23. Reportable Operating Segmented Information

The Company operates primarily in Canada. Except for assets totalling $30,818 as at December 31, 2012 (December 31, 2011-$24,896) located in the United States, all of its assets are located in Canada. The Company's reportable operating segments reflect the internal reporting used by the Company's management to report to the chief operating decision maker.

At December 31, 2012 the Company has four reportable operating segments each including related exploration and development activities; Mount Polley, Huckleberry, Red Chris and Corporate. Transactions between reportable operating segments are recorded at fair value.

As at December 31, 2012 the Mount Polley and Huckleberry segments were in commercial production and are earning revenue through the sale of copper and molybdenum concentrate and other minerals and services to external customers. As at December 31, 2012 the Red Chris segment has yet to achieve commercial production. As at December 31, 2012 the Corporate segment does not include any properties that have achieved commercial production, and earns minimal revenue as finance income.

The Company's reportable operating segments are summarized in the following table:

2012	Mount Polley	Huckleberry	Red Chris	Corporate	Total
Reportable segmented revenues	$ 197,859	$ 58,958	$ -	$ 3,003	$ 259,820
Less inter-segment revenues	(918)	-	-	(1,119)	(2,037)
Revenues from external sources	$ 196,941	$ 58,958	$ -	$ 1,884	$ 257,783
Depletion and Depreciation	$ 15,112	$ 5,871	$ -	$ 488	$ 21,471
Finance Income (Costs)	$ (13,229)	$ (4,207)	$ (1)	$ 9,823	$ (7,614)
Income and mining taxes	$ 16,177	$ 2,170	$ 448	$ 1,915	$ 20,710
Net Income	$ 25,740	$ 5,517	$ 403	$ 966	$ 32,626
Capital Expenditures	$ 29,531	$ 44,154	$ 111,444	$ 6,919	$ 192,048
Total Assets	$ 215,348	$ 117,451	$ 271,307	$ 55,626	$ 659,732
Total Liabilities	$ 177,987	$ 33,652	$ 22,950	$ 54,194	$ 288,783

2011	Mount Polley	Huckleberry	Red Chris	Corporate	Total
Reportable segmented revenues	$ 163,820	$ 87,694	$ -	$ 2,607	$ 254,121
Less inter-segment revenues	(620)	-	-	(326)	(946)
Revenues from external sources	$ 163,200	$ 87,694	$ -	$ 2,281	$ 253,175
Depletion and Depreciation	$ 19,464	$ 3,382	$ -	$ 646	$ 23,492
Finance Income (Costs)	$ (62)	$ 7,968	$ 3	$ 6,070	$ 13,979
Income and mining taxes	$ 12,039	$ 18,793	$ 50	$ 4,960	$ 35,842
Net Income (Loss)	$ 28,037	$ 27,717	$ (120)	$ (6,926)	$ 48,708
Capital Expenditures	$ 25,250	$ 6,769	$ 32,645	$ 7,552	$ 72,216
Total Assets	$ 177,392	$ 106,907	$ 176,427	$ 25,653	$ 486,379
Total Liabilities	$ 70,643	$ 28,625	$ 4,627	$ 47,998	$ 151,893

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

There were no impairment losses recognized during the year ended December 31, 2012 or the year ended December 31, 2011.

	2012	2011
Revenue by geographic area		
Japan (1)	$ 168,255	$ 165,392
United States	87,457	26,666
Europe	(284)	54,671
Canada	2,355	6,446
	$ 257,783	$ 253,175

(1) including $58,958 (2011-$87,694) related to Huckleberry

Revenues are attributed to geographic area based on country of customer.

In the year ended December 31, 2012, the Company had four principal customers (2011–five principal customers) with each customer accounting for 34%, 22%, 21% and 15% of revenues (2011–22%, 22%, 20%, 11% and 11% of revenues). The Company is not reliant on any one customer to remain as a going concern.

The Company's principal product is copper concentrate, containing copper, gold and silver, which is sold at prices quoted on the London Metals Exchange.

Huckleberry sells its copper concentrate to smelters owned by the Company's joint venture partners in Huckleberry. All other concentrate is sold to third party smelters and traders.

The Company's revenue from operations by major product and service are as follows:

	2012	2011
Copper	$ 166,135	$ 172,439
Gold	83,971	66,866
Silver	5,323	7,382
Other	2,354	6,488
	$ 257,783	$ 253,175

24. Commitments And Pledges

(a) At December 31, 2012 the Company is committed to future minimum operating lease payments, including $190 related to Huckleberry, as follows:

2013	$ 508
2014	484
2015	450
2016	429
2017	201
	$ 2,072

(b) As at December 31, 2012 Huckleberry had outstanding copper derivative instruments with two counterparties. Depending on the fair value of its outstanding derivative instruments at period end, Huckleberry is obligated to provide security deposits to its counterparties. The value of the outstanding derivative instruments at December 31, 2012 did not require Huckleberry to provide any initial or mark to market security deposits to the counterparties at that date. Should Huckleberry acquire additional derivative instruments then Huckleberry may be required to increase the initial security margin deposits the amount of which is dependent upon the quantity, type and maturity date of the derivative instruments and the counterparty. The mark to market security deposit required is calculated as the net fair value liability of the outstanding copper derivative instruments with the counterparty less the borrowing limit granted by the counterparty. As at December 31, 2012 Huckleberry's derivative instruments not yet settled was a net fair value asset of US$1,590 (December 31, 2011 net fair value asset of US$9,148).

(c) As at December 31, 2012 the Company has pledged the following assets for settlement of future site reclamation provisions:

	Other than Huckleberry	Huckleberry (50% share)	Total
Cash deposits shown as reclamation bonds	$ 7,147	$ 6,083	$ 13,230
Mining equipment pledged or net book value	1,370	5,452	6,822
Letters of credit (Note 9(a))	4,582	-	4,582
	$ 13,099	$ 11,535	$ 24,634

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

(d) The Company is obligated to increase its reclamation bond funding as follows:

	Other than Huckleberry	Huckleberry (50% share)	Total
2013	$ -	$ -	$ -
2014	-	9,000	9,000
2015	-	3,000	3,000
2016	-	2,500	2,500
	$ -	$ 14,500	$ 14,500

(e) At December 31, 2012 the Company had commitments to purchase plant and equipment at a cost of $136,754 primarily for the Red Chris project, including $12,649 related to Huckleberry.

25. 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 these matters will not have a material effect on the Company's consolidated financial position or financial performance.

26. Financial Instruments, Interest Rate and Credit Risk

At December 31, 2012 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 Company's overall strategy remains unchanged from 2011.

The capital structure of the Company consists of short term debt, credit facilities, including credit facilities with counterparties related to derivative instruments, non-current debt, and equity comprised of share capital, share option reserve, currency translation adjustment and retained earnings.

As at December 31, 2012 and December 31, 2011 the Company is in compliance with the debt covenants related to its short term debt, credit facilities with counterparties, and non-current debt.

Credit Risk

The Company's credit risk is limited to cash, short term investments, trade and other receivables, future site reclamation deposits and derivative instruments in the ordinary course of business. The credit risk of cash, short term investments 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 smelters and 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.

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's maximum exposure to credit risk at December 31, 2012 is as follows:

	2012	2011
Cash	$ 12,364	$ 34,475
Short term investments	25,000	27,500
Marketable securities	1,557	703
Trade and other receivables	63,209	26,756
Derivative instrument assets and margin deposits	2,454	8,506
Future site reclamation deposits	13,230	12,352
	$ 117,814	$ 110,292

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

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 and short term investment balances there are sufficient committed credit facilities, including the advance payment facilities noted above, to provide the necessary cash to meet projected cash requirements. At December 31, 2012 the Company's primary sources of credit are short term debt secured by concentrate inventory and a $150,000 line of credit with a financial institution.

The Company also holds derivative instruments, its investment in Huckleberry, mineral property holdings 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. The Company does not hold any Master Asset Vehicle Notes.

The Company's overall liquidity risk has increased from 2011 as the Company faces higher than normal capital expenditures in 2013 and 2014 related to the development of the Red Chris mine. The Company is pursuing long term financing alternatives to fund the development of Red Chris and until that funding is completed it is utilizing its short term debt facilities. Liquidity risk is also impacted by credit risk should a counterparty default on its payments to the Company.

The amount of cash currently generated by the Company's operations may not be sufficient to fund projected levels of exploration and development activity and associated overhead costs. The Company may then be dependent upon debt and equity financing to carry out its exploration and development plans. There can be no assurance that such financing will be available on terms acceptable to the Company or at all.

The Company had the following contractual obligations with respect to financial instruments as of December 31:

					2012	2011
	Within 1 Year	2 to 3 Years	4 to 5 Years	Over 5 Years	Total	Total
Trade and other payables	$ 46,292	$ -	$ -	$ -	$ 46,292	$ 27,873
Derivative instrument liabilities	857	636	-	-	1,493	779
Short term debt	118,136	-	-	-	118,136	26,940
Non-current debt	1,908	3,286	3,147	-	8,341	1,612
	$ 167,193	$ 3,922	$ 3,147	$ -	$ 174,262	$ 57,204

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US dollar denominated cash, short term investments, trade and other receivables, derivative instrument assets and margin deposits, reclamation deposits, trade and other payables, derivative instrument liabilities, and short term debt. If the US Dollar had been 10% higher/lower and all other variables were held constant, net income for these financial instruments for the year ended December 31, 2012 would have been higher/lower by $1,001.

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings and short term investments. Presently, the majority of the Company's outstanding borrowings are 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. The weighted average interest rate paid by the Company in the year ended December 31, 2012 on its outstanding borrowings was 3.1%.

If interest rates had been 100 basis points higher/lower on the Company's floating rate debt and all other variables were held constant, the amount of interest expense in the year ended December 31, 2012 would have increased/decreased by $560.

Other Price Risk

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.

The following sensitivity analyses have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher or lower:

(a) net income for the year ended December 31, 2012 would have decreased/increased by $68 as a result of the change in the equity prices of marketable securities. Changes in the fair value of the marketable securities have been reflected in net income for the year; and

(b) other comprehensive income would not have changed as a result of changes in the fair value of marketable securities.

December 31, 2012 and 2011 [expressed in thousands of Canadian dollars, except share amounts]

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. Management believes that the carrying value of short term and non-current debt approximates fair value. Although the interest rates and credit spreads have changed since the non-current debt was issued the fixed rate portion of the non-current debt is close to maturity, will not be refinanced and therefore the carrying value is not materially different from fair value.

IFRS 7 - *Financial Statements–Disclosures* was amended to require 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 December 31, 2012 as follows:

	Level 1	Level 2	Total
Financial Assets			
Cash	$ 12,364	$ -	$ 12,364
Short term investments	25,000	-	25,000
Marketable securities	1,557	-	1,557
Provisionally priced receivables	-	35,876	35,876
Derivative instruments assets and margin deposits	-	2,454	2,454
Future site reclamation deposits	13,230	-	13,230
	52,151	38,330	90,481
Financial Liabilities			
Derivative instrument liabilities	-	2,517	2,517
	$ 52,151	$ 35,813	$ 87,964

27. Subsequent Event

Subsequent to December 31, 2012 the Company entered into a Transmission Development Agreement with BC Hydro for the construction of a transmission line (NTL Extension) that will extend the 287kV Northwest Transmission Line (NTL) in northwest British Columbia from Bob Quinn to Tatogga to provide power to residents of Iskut and to the Red Chris Mine.

Upon completion of construction by a subsidiary of the Company the NTL Extension will be acquired by BC Hydro. That portion of the costs which exceeds $52,000 will be borne by the Company as its contribution to the NTL Extension in order to make the 287kV service connection to the Red Chris Mine. In addition, the Company will contribute to the cost of building the NTL through a special tariff approved by the BC Utilities Commission.

Our Commitments

For over three decades, Imperial has consistently focused on social and environmental responsibility. We are proud to be British Columbia's mining company – providing work for local people and contributing to the economy of British Columbia.

People

Our employees and contractors are fundamental to our success, and are at the forefront of our social and environmental programs. Imperial, its partners, and subsidiary companies, employ and contract over 700 people within the Province of British Columbia. This will increase to over1000 people during construction of the Red Chris mine in northwest British Columbia.

Imperial is proud to invest in our employees and their communities in various forms, from employment and regional support of social programs to support of education programs from elementary through to university. We undertake a continuing program to present industry and career information to Earth Sciences students at universities throughout Canada and the United States, imparting our advice to help prepare the next generation of geologists, geoscientists and engineers for successful careers in our industry.

Mount Polley, in concert with the Cariboo-Chilcotin School District and Thompson Rivers University (TRU), is co-sponsor of YES2IT (1), a program which exposes high school students to the trades. Continuing support through all levels of education, Mount Polley worked with School District 27, the Labour Market Shortage Task Group and the Ministry of Mines to create a program for 16-18 year old students in which they can earn accredited hours towards apprenticeships by working with certified tradesmen on site. Mount Polley supports the British Columbia Aboriginal Mine Training Association in providing readiness to work for Aboriginal Communities. Participants in these programs have gone on to careers at Mount Polley and with other employers in Williams Lake.

Huckleberry provides support to the Northwest Community College School of Exploration & Mining which provides practical, hands on experience to students (of which approximately 70% are Aboriginal). Huckleberry is working with the college to develop new programs to increase job opportunities for residents of local communities.

Imperial is also working with Northwest Community College to develop new and enhance existing programs, particularly for aboriginal students. Imperial staff are active members of the College's advisory council for its School of Exploration & Mining.

Safety

Safety is a priority in our company. Imperial is committed to occupational health and safety management practices which are in the best interests of our employees, business partners and the communities in which we operate.

The safety culture at Mount Polley is grounded in teaching and practical elements implemented by participation in the SAFEmap Competency Based Safety Program. In 2012, a Field Level Risk Assessment program was introduced on site. The program and its

Mine Rescue and First Aid Competition Team at Mount Polley Mine

People photos left to right: Walter Zus, Welder, Amber Marko, Exploration Geologist, Ted Moses, Haul Truck Driver, Tracy Baird, Surveyor, Chad Cameron, Mine Operations Planner, and Allison MacDonald, Truck Operator

components, developed jointly by an internal group of management and worker representatives, have proven to be successful complements to the overall safety program.

The Mount Polley Mine and Huckleberry Mine Rescue Teams are an invaluable part of Emergency Response Planning, and we rank among the best in British Columbia. The Mount Polley Mine Rescue Team is comprised of 44 trained and certified members, 20 of which have dual tickets for both surface and underground emergency response. In 2012, the Mount Polley Mine Rescue and First Aid Teams competed at the Provincial Competitions in Revelstoke. The three-person First Aid Team placed first overall in the BC South Central Zone competition, and the Surface Mine Rescue Team placed first overall for the second consecutive year, also taking first place in both the Written and Bench competitions in the BC South Central Zone.

Working with Our Communities

Imperial supports communities where we work, focusing on education, health and youth. At the community level, we support over thirty local groups and organizations across British Columbia.

Mount Polley is entering its 5th year of fundraising with United Way, and was presented with the Quantum Leap award in 2012, recognizing the greatest increase in fundraising for the Thompson-Nicola-Cariboo region between 2010 and 2011.

Imperial is a supporter of BC Children's Hospital through the mining industry's annual Mining for Miracles campaign (2). Children's Hospital is the primary health facility for children from all over British Columbia.

We have a five year commitment to MineralsEd (3) a teacher-industry partnership program, not-for profit educational organization providing earth science, mineral resources and mining education to schools throughout the Province.

We also provided financial support to the new Earth Systems Science Building at the University of British Columbia, which houses the Department of Earth & Ocean Sciences (EOS). The EOS has the potential to become a "world-calibre earth science research group, and offer the best education to thousands of future geoscientists and industry leaders." (4)

Imperial and its employees are active in a range of organizations across the province including the BC Chamber of Commerce, BC Business Council, Association for Mineral Exploration of BC, the Mining Association of BC, the Mining Association of Canada, Initiatives Prince George and Northwest Community College School of Exploration and Mining. We are a supporter of local government associations such as Union of BC Municipalities, North Central Local Government Association, and the Chamber of Commerce branches in Terrace and Houston.

First Nation Community

Imperial is a leader in First Nations mining sector relations in British Columbia.

Imperial remains actively engaged in building relations with the First Nation communities with traditional lands that encompass our properties. We continue to honour existing agreements with the Office of the Wet'suwet'en, Tahltan, Simpcw and T'exelcemc peoples. Further agreements and partnerships are being explored with other First Nations across the province where Imperial and its member companies operate.

Mount Polley signed a five-year Participation Agreement with the Xat'sull First Nation in June 2012. Mount Polley signed a similar five-year agreement with the T'exelcemc First Nation in 2011. Each agreement is unique and includes provisions for First Nations education and training, employment and contracting opportunities, capacity support and provisions for communication and interaction on issues such as environmental responsibility.

Red Chris is currently in negotiations with the Tahltan Central Council for a comprehensive benefits agreement which would ensure the partnership of the Tahltan people and Red Chris over the life of the Red Chris project. We continue to strengthen relations with the Tahltan people through a range of sponsorship and community support activities.

In 2012 Imperial sponsored an Elder's Historic Study through the Ahousaht Educational Authority. This study was conducted by members of the local community and the resulting video and written record of the history of the Ahousaht will be used in the local school system and be available to the greater community.

In the traditional Wet'suwet'en territory, Huckleberry mine provided support for a totem pole raising at the new Community Hall and Health Centre by Decker Lake.

Environment

Imperial is committed to applying current research to protect the environment and develop tools and technologies to mitigate our impact on the land.

Our ongoing reclamation in inactive areas during the mining phase reflects Imperial's commitment to environmentally responsible development of its properties. At Mount Polley, progressive reclamation of completed rock storage areas is designed to mimic surrounding natural features and incorporates native species in planting. Research is being conducted on the use of biosolids (the end product of municipal wastewater treatment) from Metro Vancouver as a soil amendment, as well as on re-vegetation methods that imitate natural succession. Mount Polley has signed on to a second three-year partnership with the University of British Columbia and Genome BC [5] to continue development of the site's pilot-scale passive treatment system for the remediation of mine affected water. This research hopes to lead to improved remediation methods for mine wastewater.

Through research and site monitoring, Imperial strives for improvement of both its own practices and the practices of the mining community. At Mount Polley, in addition to the required surface and groundwater quality monitoring, supplemental programs including dustfall and biological monitoring have been implemented beyond permit requirements to ensure protection of the environment.

Operations at Mount Polley and Red Chris use recycled and refurbished equipment where possible. In particular, the Red Chris SAG mill and primary electric shovel have been acquired via this policy. The progressive approach to equipment not only reduces the environmental impact of mining but also lowers costs.

Mount Polley mine reclamation: tree planting in the Northeast zone area

1. www.itabc.ca 2. www.miningformiracles.org/ 3. www.mineralsed.ca
4. www.science.ubc.ca/support/giving/essb 5. www.genomebc.ca

Corporate Information

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Annual & Special Meeting of Shareholders

Wednesday, May 29, 2013

2:00pm, Terminal City Club
Vancouver

Directors

Pierre Lebel
Chairman

Brian Kynoch

Larry Moeller

Ted Muraro

Ed Yurkowski

Executive Officers

Brian Kynoch
President

Andre Deepwell
Chief Financial Officer
& Corporate Secretary

Don Parsons
Chief Operating Officer

Kelly Findlay
Vice President Finance

Byng Giraud
Vice President
Corporate Affairs

Gordon Keevil
Vice President
Corporate Development

Patrick McAndless
Vice President Exploration

Auditors
Deloitte LLP

Bankers
Bank of Montreal

Legal Counsel
Fasken Martineau DuMoulin LLP

Transfer Agent
Computershare Investor Services Inc.

exploration

Mount Polley Cu/Au
- surface and underground exploration

Huckleberry[1] Cu/Mo
- surface daimond drilling

Ruddock Creek[1] Zn/Pb
- joint venture, advanced stage exploration

Sterling Au
- underground development and drilling

Red Chris Cu/Au
- exploration suspended during construction phase

development

Red Chris Cu/Au
- 2012 – began construction of 30,000 tpd open pit copper/gold mine
- 2014 – operations to commence
- proven/probable reserves 301.5 MT grading 0.359% Cu; 0.274 g/t Au
- 28 year mine life

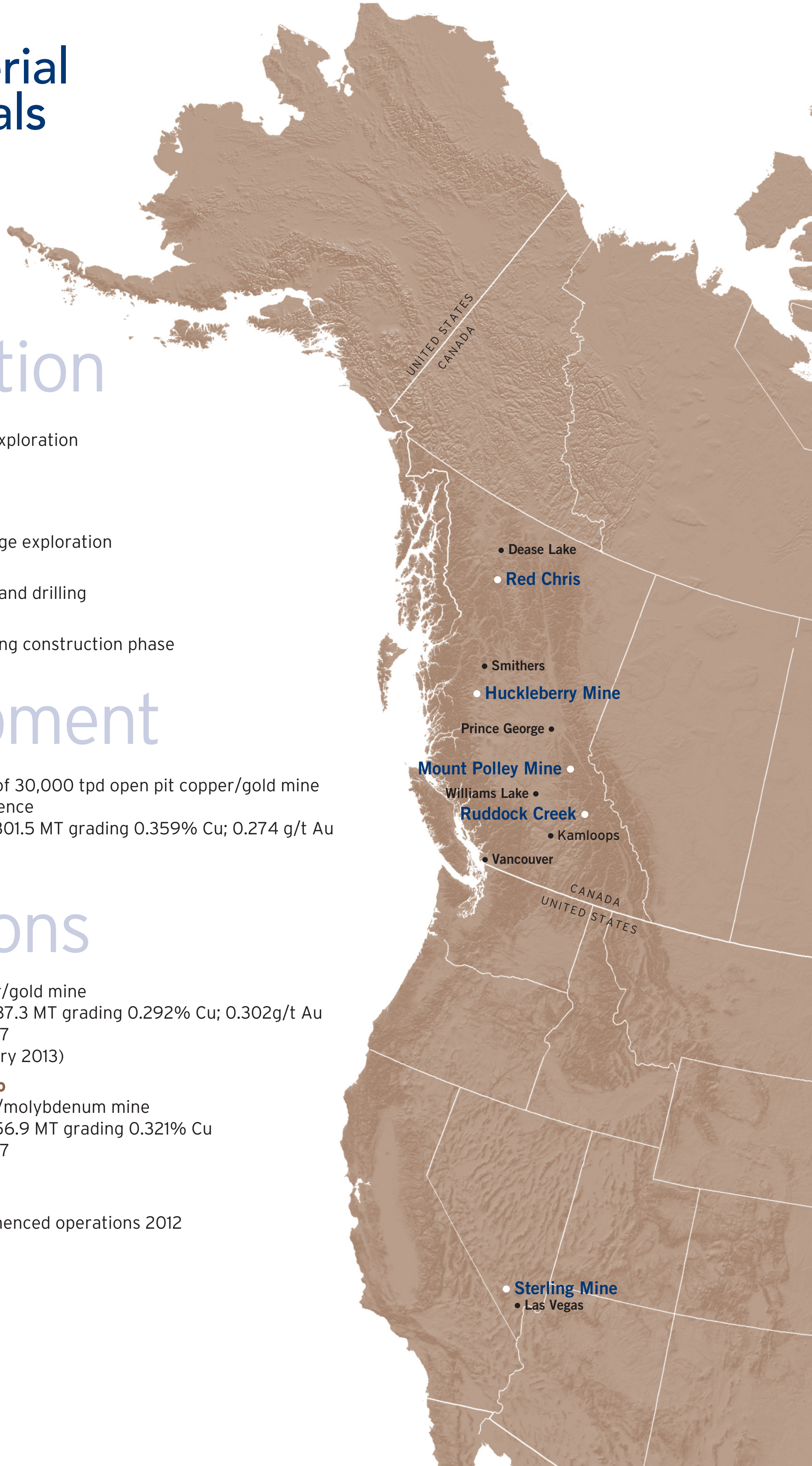
operations

Mount Polley Mine Cu/Au
- 20,000 tpd open pit copper/gold mine
- proven/probable reserves 87.3 MT grading 0.292% Cu; 0.302g/t Au
- commenced operations 1997
- mine life to 2025 (as January 2013)

Huckleberry Mine[1] Cu/Mo
- 16,500 tpd open pit copper/molybdenum mine
- proven/probable reserves 56.9 MT grading 0.321% Cu
- commenced operations 1997
- mine life to 2021

Sterling Mine Au
- heap leach gold mine commenced operations 2012

(1) 50% working interest



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