

## 2014 SECOND QUARTER REPORT

### PRESIDENT'S MESSAGE

Imperial's comparative financial results for the three and six months ended June 30, 2014 and 2013 are summarized below and discussed in detail in the Management's Discussion and Analysis. The Company's financial results are prepared in accordance with International Financial Reporting Standards ("IFRS"). The reporting currency of the Company is the Canadian ("CDN") Dollar.

[expressed in thousands, except share amounts]	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Revenues	\$51,066	\$41,317	\$102,401	\$92,183
Income from mine operations	\$17,451	\$13,272	\$33,343	\$26,818
Equity (loss) income in Huckleberry	\$1,390	\$2,279	\$82	\$4,213
Net Income	\$15,213	\$7,541	\$21,070	\$18,162
Net Income Per Share	\$0.20	\$0.10	\$0.28	\$0.24
Adjusted Net Income <sup>(1)</sup>	\$8,899	\$5,968	\$15,798	\$16,185
Adjusted Net Income Per Share <sup>(1)</sup>	\$0.12	\$0.08	\$0.21	\$0.22
Adjusted EBITDA <sup>(1)</sup>	\$23,567	\$18,043	\$43,251	\$36,545
Cash Flow <sup>(1)</sup>	\$21,494	\$16,036	\$41,811	\$32,487
Cash Flow Per Share <sup>(1)</sup>	\$0.29	\$0.22	\$0.56	\$0.44

<sup>(1)</sup> Refer to heading Non-IFRS Measures for further details.

Revenues were \$51.1 million in the June 2014 quarter compared to \$41.3 million in the 2013 quarter. There were two shipments in the 2014 quarter compared to two shipments in the 2013 quarter.

The Company recorded net income of \$15.2 million in the June 2014 quarter compared to net income of \$7.5 million in the 2013 quarter. Adjusted net income in the June 2014 quarter was \$8.9 million or \$0.12 per share, versus \$6.0 million or \$0.08 per share in the 2013 quarter. Adjusted net income is calculated by removing the unrealized gains and losses, net of related income taxes, resulting from foreign exchange and from mark to market revaluation of copper, gold and foreign exchange derivative instruments. Adjusted net income is not a measure recognized under IFRS in Canada. It is intended to show the current period financial results excluding the effect of items not settling in the current period.

The Company recorded \$7.4 million unrealized net loss on copper, gold and foreign exchange derivatives in the June 2014 quarter compared to an unrealized net gain of \$1.1 million in the 2013 quarter. There was a small realized loss on gold derivatives in the June 2014 quarter and no realized gains or losses in the 2013 quarter.

Cash flow increased to \$21.5 million in the six months ended June 30, 2014 from \$16.0 million in the comparative 2013 quarter. The increase of \$5.5 million is primarily due to improved contributions from operations over the comparative quarter.

Capital expenditures increased to \$141.8 million from \$83.2 million in the comparative 2013 quarter. Expenditures were financed from cash flow from the Mount Polley mine, long term equipment financing in the June quarter and from the long term financing arrangements for the construction of the Red Chris project completed in the March 2014 quarter. At June 30, 2014 the Company had \$7.0 million in cash.

During the June 2014 quarter the Company did not purchase any common shares for cancellation.

## MOUNT POLLEY MINE

PRODUCTION	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Ore milled - tonnes	2,129,768	2,007,735	3,837,139	3,977,644
Ore milled per calendar day – tonnes	23,404	22,063	21,200	21,976
Grade % - copper	0.333	0.306	0.315	0.287
Grade g/t - gold	0.254	0.271	0.256	0.263
Recovery % - copper	76.65	74.06	75.73	72.54
Recovery % - gold	68.15	68.32	67.80	66.12
Copper - lbs	11,979,681	10,035,328	20,196,125	18,242,816
Gold - oz	11,867	11,932	21,398	22,244
Silver - oz	33,813	33,162	58,882	61,866

Mount Polley 2014 second quarter production totalled 12.0 million pounds copper, 11,867 ounces gold and 33,813 ounces silver, compared to 10.0 million pounds copper, 11,932 ounces gold and 33,162 ounces silver produced in the comparative 2013 quarter. The annual average mill throughput for the second quarter was 23,404 tonnes per day compared to 22,063 tonnes per day in the comparative 2013 quarter.

Open pit mining activity for the 2014 second quarter continued to focus on providing mill feed from the Springer Phase 3 pit, while stripping the Cariboo pit. Mining in both the Springer and Cariboo pits continued with the planned completion of Springer Phase 3 by the end of the year, and transition of mill feed to the Cariboo pit in the 2014 fourth quarter, however the tailings dam breach will result in the loss of mine production for an indeterminate period of time.

Mining productivity increased in the second quarter with a total of 9,396,162 tonnes, or 103,255 tonnes per day mined from the pits.

The underground mine achieved significant milestones in the second quarter, with the completion of the ventilation system and the underground blasting infrastructure. The first production blasts were shot in May in the Boundary zone “A” stopes. Production levels made steady increases through the quarter with approximately 16,000 tonnes mined in June. In June, mine activities shifted to focus primarily on hauling ore. Blasthole and definition drilling continued throughout the quarter, by both Boart Longyear and Mount Polley personnel.

## HUCKLEBERRY MINE

PRODUCTION*	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Ore milled – tonnes	1,384,384	1,538,687	2,281,449	3,019,356
Ore milled per calendar day – tonnes	15,213	16,909	12,605	16,682
Grade % – copper	0.334	0.343	0.324	0.335
Recovery % – copper	90.2	91.8	90.3	91.3
Copper – lbs	9,197,618	10,681,105	14,700,502	20,361,072
Gold - oz	744	791	1,197	1,501
Silver – oz	50,951	60,444	81,386	118,316

\*production stated 100% - Imperial's allocation is 50%

Throughput for the 2014 second quarter averaged 15,213 tonnes per calendar day, down from the 16,909 tonnes achieved in the comparative 2013 quarter due.

Huckleberry mill operations resumed April 5, 2014 and during the 2014 second quarter mill throughput returned to its original 700-800 tonnes per operating hour. To enable the SAG mill to be restarted, the damaged teeth on the bull gear were re-profiled to reduce their load, the north pinion gear was replaced with a spare, and the rotation of the mill motors was reversed. A replacement bull gear and two pinion gears for the SAG mill have been ordered and are expected to arrive on-site late this year. Until then, monthly inspections are being performed to monitor the status of the damaged teeth on the bull gear.

Forecast production for 2014 from Huckleberry was 42.0 million pounds copper and 200,000 ounces silver, but as a result of the milling time lost, the revised production estimate is approximately 36.0 million pounds copper and 175,000 ounces silver.

## RED CHRIS

The BC Hydro 287kv Northwest Transmission Line (NTL) was energized between the Skeena and Bob Quinn substations on July 15, 2014. Construction by the Company of the Iskut extension of the NTL from Bob Quinn to Tatogga continues to progress. At present, all foundations are installed and only 2 of the 263 total structures remain to be erected. Conductor stringing activities were delayed by the delivery of faulty implosion sleeves. These sleeves are used to splice the conductor and dead end assemblies at the towers. The redesigned implosion sleeves were delivered at the end of July. Stringing operations are now approximately 1/3 complete. The conductor stringing, sagging and clipping is planned through August and September.

The 16 kilometre 287kv power line from Tatogga to the mine site is complete. The 25kv site distribution power line is complete except for tie-ins to transformers. On-site construction at Red Chris is well advanced. Interior steel, mechanical installation, and the tailings and reclaim water systems are 93% complete. Piping and electrical work has progressed 70% and is expected to be completed on time for the commissioning and start-up of milling operations at Red Chris. Pre-commissioning activities for the crusher and conveyors will be commencing next week. Mining operations have commenced at Red Chris with the first excavation of ore grade material from the East zone. This material is being stockpiled for commencement of milling operations.

A geotechnical drilling program in June delineated an additional glacial till borrow in the Tailings Impoundment Area. This till and associated sand and gravel will be used to raise the North Starter Dam. An application has been submitted to the provincial Ministry of Environment to seek an amendment to the Red Chris Environmental Management Act Approval that will permit operational effluent discharges to the tailings impoundment.

The forecast net construction cost of the Red Chris mine is now estimated to be \$631.0 million versus the previous estimate of \$570.0 million. The majority of the cost increase can be attributed to power line construction winter work and delays due to faulty implosion sleeves. Due to delays associated with the faulty implosion sleeves, the completion of the Iskut extension is now anticipated to be in September 2014. Commissioning and startup of the Red Chris milling operations will follow the energization of the site.

## STERLING MINE

PRODUCTION	THREE MONTHS ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	2014	2013	2014	2013
Ore Stacked – tons	5,167	47,112	22,168	76,800
Gold Grade – oz/ton	0.159	0.081	0.144	0.078
Gold ounces – added to heap	820	3,826	3,193	5,964
Gold shipped – ounces	-	2,205	2,104	2,974

Mining in the 2014 second quarter focused on the north limb of the 144 zone. Stopping occurred on two levels; 3320, and 3275. A total of 125 feet of drifting was completed on the 3260 and 3180 level.

Mining operations were temporarily suspended on April 25, 2014 pending upgrade of Sterling's air emissions permit. The Class II Permit was issued on June 16 and underground operations commenced on June 17. Solution continued to be processed through the recovery plant. A total of 1,628 ounces were in-process at quarter end.

## RUDDOCK CREEK

Exploration and development expenditures at Ruddock Creek were minimal at \$0.2 million in the June 2014 quarter compared to \$0.1 million in the June 2013 quarter.

The Ruddock Creek Joint Venture initiated the 2014 program of additional metallurgical testing on a new sample which will be collected from the Upper E zone, additional geotechnical drilling and groundwater well installations, and ongoing baseline data collection for future permitting requirements. Surface exploration in the 2014 field season will include detailed geological and structural mapping in a number of areas.

## OUTLOOK

The tailings dam breach at the Mount Polley mine has resulted in the loss of production from the mine for an indeterminate period of time. In addition, the Company will incur costs for remediation and repair. While the precise costs of remediation and repair are presently unknown, the Company believes that the costs can be managed over time given the underlying value of the Company's assets and by the resources provided by the additional financing as detailed below together with insurance proceeds.

The Company is also projecting an additional \$25.0 million of costs to complete the Red Chris mine over the previous estimate, and a further \$36.0 million of costs to complete the Iskut extension of the Northwest Transmission Line from Bob Quinn to Tatogga. The redesigned implosion sleeves used to splice conductors on the Iskut extension arrived on-site in July 26, 2014 and approximately 1/3 of the conductor is strung on the Iskut extension. This line is now expected to be complete in September after which commission of the Red Chris mine can begin.

The Company has secured additional financing in the amount of \$100.0 million of additional unsecured debt which management estimates will provide sufficient liquidity to complete and commission the Red Chris mine and together with funds from operations and expected insurance proceeds, cover the costs to remediate the effects of the tailings dam breach at the Mount Polley mine.

I would like to give my thanks to all our people and other stakeholders who have helped us at Mount Polley. Their immediate response enabled us to quickly begin to stabilize the site.



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 unaudited Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2014 ("Interim Financial Statements"), as well as the audited Consolidated Financial Statements and MD&A for the year ended December 31, 2013.

The Interim Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The reporting currency of the Company is the Canadian ("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 period ended June 30, 2014, and plans for the future based on facts and circumstances as of August 14, 2014. 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 transmission lines; 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 return to operations of the Company's mining operations, the successful commissioning of the Red Chris mine, no material adverse change in the market price of commodities and exchange rates, and the Red Chris mine will be completed in accordance with its current estimate and achieve expected 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.

### SIGNIFICANT EVENTS AND LIQUIDITY

The Company's condensed consolidated interim financial statements have been prepared on a going concern basis which assumes the Company will continue operating in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course as they come due.

The tailings dam breach at the Mount Polley mine has resulted in the loss of production from the mine for an indeterminate period of time. In addition, the Company will incur costs for remediation and repair. While the precise costs of remediation and repair are presently unknown, the Company believes that the costs can be managed over time given the underlying value of the Company's assets and by the resources provided by the additional financing as detailed below together with insurance proceeds.

The Company is also projecting an additional \$25.0 million of costs to complete the Red Chris mine over the previous estimate, and a further \$36.0 million of costs to complete the Iskut extension of the Northwest Transmission Line from Bob Quinn to Tatogga.

The Company has secured additional financing in the amount of \$100.0 million of additional unsecured debt which management estimates will provide sufficient liquidity to complete and commission the Red Chris mine and to fund the estimated costs to remediate the effects of the tailings dam breach at the Mount Polley mine. However, there are inherent risks associated with the startup of a mine, and inherent uncertainties related to the scope of the remediation and repair.

## CHANGES IN ACCOUNTING STANDARDS

### *Accounting Standards Issued and Effective January 1, 2014*

The Company has adopted IFRIC 21 - *Levies* effective January 1, 2014. The adoption of this accounting standard had no significant impact on the condensed consolidated interim financial statements.

## OVERVIEW

Discussion and disclosure of the Company's 50% equity share of Huckleberry is confined to the headings *Huckleberry* and *Equity Income in Huckleberry*.

Revenues were \$51.1 million in the June 2014 quarter compared to \$41.3 million in the comparative 2013 quarter. 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 the June 2014 quarter over the comparative 2013 quarter is due to a larger quantity of copper shipped and slightly lower gold shipped, offset by lower copper and gold prices. The lower metal prices were offset by a weaker Canadian dollar. There were two concentrate shipments in the June 2014 quarter compared to two shipments in the comparative 2013 quarter.

The London Metals Exchange cash settlement copper price per pound averaged US\$3.08 in the June 2014 quarter compared to US\$3.24 in the June 2013 quarter. The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,289 in the June 2014 quarter compared to US\$1,413 in the June 2013 quarter. The CDN Dollar compared to the US Dollar averaged about 6.6% lower in the June 2014 quarter than in the June 2013 quarter. In CDN Dollar terms the average copper price in the June 2014 quarter was CDN\$3.36 per pound compared to CDN\$3.31 per pound in the June 2013 quarter and the average gold price in the June 2014 quarter was CDN\$1,406 per ounce compared to CDN\$1,428 per ounce in the June 2013 quarter.

Revenue in the June 2014 quarter was decreased by a \$0.7 million negative revenue revaluation compared to a negative revenue revaluation of \$5.2 million in the June 2013 quarter. 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 quarter at US\$3.01 per pound and ended the quarter at US\$3.08 per pound.

Income from mine operations increased to \$17.5 million from \$13.3 million in the June 2013 quarter as result improved contribution margins from mine operations.

Net income for the June 2014 quarter was \$15.2 million (\$0.20 per share) compared to net income of \$7.5 million (\$0.10 per share) in the comparative June 2013 quarter. 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 and realized and unrealized gains and losses on derivative instruments and taxes.

In the June 2014 quarter net income benefitted from net foreign exchange gains of \$13.2 million compared to foreign exchange losses of \$0.9 million in the comparative 2013 quarter. The current quarterly net foreign exchange gain is primarily attributable to US denominated long term debt reflecting the foreign currency movements in the quarter compared to the foreign exchange rate when the debt was entered incurred. The net impact of the \$13.2 million foreign exchange gain is comprised of a \$12.0 million gain on the senior notes, a \$1.6 million gain on long term equipment loans, and losses of \$0.4 million on operational items. The average CDN/US Dollar exchange rate in the June 2014 quarter was 1.091 compared to an average of 1.023 in the June 2013 quarter.

In the June 2014 quarter the Company recorded losses on derivative instruments of \$7.4 million compared to gains of \$1.1 million in the June 2013 quarter. In the June 2014 quarter the Company recorded an unrealized loss of \$5.2 million on the foreign currency swap entered into during the March 2014 quarter due to a decrease in the CDN/US Dollar exchange rate compared to the price in the derivative contract. The decrease in the copper and gold price compared to the price in the derivative contracts resulted in a \$2.2 million loss for copper and gold derivative instruments in the June 2014 quarter compared to a \$1.1 million gain in the June 2013 quarter.

The Company recorded \$1.4 million as its equity share of Huckleberry's net income during the June 2014 quarter compared to \$2.3 million equity income in the June 2013 quarter. The lower net income was the result of the temporary shutdown of the Huckleberry milling facility for a part of the quarter as a result of the bull gear failure in March 2014.

Share based compensation was \$0.2 million in the June 2014 quarter compared to \$0.5 million in the comparative 2013 quarter.

Income and mining tax expense increased by \$1.6 million in 2014 from 2013 due to higher income before taxes excluding equity income from Huckleberry. The income and mining tax expense was higher during the June 2013 quarter due a \$2.3 million adjustment to deferred income taxes resulting from the British Columbia provincial income tax rate increasing from 10% to 11%.

Cash flow increased to \$21.5 million in the June 2014 quarter from \$16.0 million in the June 2013 quarter. 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, income and mining taxes, and interest paid. 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 capitalized interest, were \$141.8 million in the June 2014 quarter, up from \$83.2 million in the June 2013 quarter. The expenditures in the June 2014 quarter were financed by cash flow from the Mount Polley mine and from long term debt. At June 30, 2014 the Company had \$7.0 million in cash (December 31, 2013-\$3.1 million). The Company had no short term debt at June 30, 2014 (December 31, 2013-\$132.4 million) as this was all repaid from the long term financing arrangements for the Red Chris project. Refer to Note 10 of the June 30, 2014 condensed consolidated interim financial statements for details of the Company's long term financings.

#### SELECTED QUARTERLY FINANCIAL INFORMATION

[expressed in thousands, except share amounts]

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Total Revenues	\$51,066	\$41,317	\$102,401	\$92,183
Net Income	\$15,213	\$7,541	\$21,070	\$18,162
Net Income per share	\$0.20	\$0.10	\$0.28	\$0.24
Diluted Income per share	\$0.20	\$0.10	\$0.28	\$0.24
Adjusted Net Income <sup>(1)</sup>	\$8,899	\$5,968	\$15,798	\$16,185
Adjusted Net Income per share <sup>(1)</sup>	\$0.12	\$0.08	\$0.21	\$0.22
Adjusted EBITDA <sup>(1)</sup>	\$23,567	\$18,043	\$43,251	\$36,545
Working Capital Deficiency <sup>(2)</sup>	(\$32,386)	(\$154,191)	(\$32,386)	(\$154,191)
Total Assets	\$1,231,863	\$722,159	\$1,231,863	\$722,159
Total Long Term Debt (including current portion)	\$561,829	\$42,866	\$561,829	\$42,866
Cash dividends declared per common share	\$0.00	\$0.00	\$0.00	\$0.00
Cash Flow <sup>(1)</sup>	\$21,494	\$16,036	\$41,811	\$32,487
Cash Flow per share <sup>(1)</sup>	\$0.29	\$0.22	\$0.56	\$0.44

(1) Refer to heading Non-IFRS Measures below for further details.

(2) Defined as current assets less current liabilities. The working capital deficiency at June 30, 2014 includes \$54,628 of Red Chris capital expenditures which will be financed by long term debt and cash flow from operations.

## NON-IFRS MEASURES

The Company reports four non-IFRS financial measures: Adjusted net income, Adjusted EBITDA, cash flow and cash cost per pound of copper produced which are described in detail under the heading Non-IFRS measures in the MD&A for the year ended December 31, 2013. The Company believes these measures are useful to investors because they are included in the measures that are used by management in assessing the financial performance of the Company.

### Adjusted Net Income

Adjusted net income in the June 2014 quarter was \$8.9 million (\$0.12 per share) compared to \$6.0 million (\$0.08 per share) in the June 2013 quarter. Adjusted net income shows the financial results excluding the effect of items not settling in the current period. Adjusted net income is calculated by removing the gains or losses, net of related income taxes, resulting from mark to market revaluation of derivative instruments not related to the current period, net of taxes, and unrealized foreign exchange gains or losses on non-current debt, net of tax, as further detailed below.

### Calculation of Adjusted Net Income

[expressed in thousands, except share amounts]

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Net income as reported	\$15,213	\$7,541	\$21,070	\$18,162
Unrealized loss (gain) on derivative instruments, net of tax <sup>(a)</sup>	5,511	(1,573)	7,056	(1,977)
Unrealized foreign exchange gain on non-current debt, net of tax <sup>(b)</sup>	(11,825)	-	(12,328)	-
Adjusted Net Income	\$8,899	\$5,968	\$15,798	\$16,185
Adjusted Net Income Per Share	\$0.12	\$0.08	\$0.21	\$0.22

(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, including the Company's 50% share of derivative instruments of Huckleberry 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, gold and foreign currency hedged.

(b) Non-current debt is recorded on the Company's Statement of Financial Position at the foreign exchange rate in effect on that date, with changes in foreign exchange rates, net of taxes, flowing through net income. The amounts of non-current debt ultimately payable may be materially different than reflected in the financial statements due to foreign currency movements.

### Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before interest expense, taxes and depletion and depreciation and as adjusted for the other items described in the reconciliation table below.

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

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



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

**Adjusted EBITDA**

[expressed in thousands]

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Net Income <sup>(a)</sup>	\$15,213	\$7,541	\$21,070	\$18,162
Adjustments:				
Income and mining tax expense	7,601	6,044	11,815	8,912
Interest expense	-	18	-	29
Depletion and depreciation	6,126	4,076	12,623	8,435
Accretion of future site reclamation provisions	166	69	323	138
Unrealized losses (gains) on derivative instruments	7,413	(1,074)	9,514	(1,564)
Share based compensation	225	489	447	990
Foreign exchange (gains) losses	(13,167)	612	(12,629)	957
Revaluation on marketable securities	66	288	153	537
Gains on sale of mineral properties	(76)	(20)	(65)	(51)
Adjusted EBITDA <sup>(a)</sup>	\$23,567	\$18,043	\$43,251	\$36,545

(a) Net income and Adjusted EBITDA includes our 50% portion of the net income from Huckleberry to reflect our adoption of IFRS11. However, we are not able to control the timing and amount, if any, of cash distributions that Huckleberry may make to Imperial.

**Cash Flow and Cash Flow per Share**

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

**Cash Cost Per Pound of Copper Produced**

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

The method of calculating the cash cost per pound of copper produced are described in detail under the heading Non-IFRS measures in the MD&A for the year ended December 31, 2013.

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US Dollars:

**Estimated Cash Cost per Pound of Copper Produced**

[expressed in thousands]

	Three Months Ended June 30, 2014					
	Huckleberry 100%	Huckleberry 50%	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
		A	B			C=A+B
Cost of Sales	\$15,377	\$7,688	\$31,094	\$2,521	\$33,615	\$38,786
Less:						
Depletion and depreciation	(3,567)	(1,783)	(4,787)	(1,188)	(5,775)	(6,570)
Share based compensation	-	-	(17)	-	(17)	(17)
Management fees paid by Huckleberry to Imperial recorded as revenue by Imperial on the equity basis of accounting for Huckleberry	(24)	(12)	-	-	-	(12)
Cash costs before adjustment to production basis	11,786	5,893	26,290	1,333	27,823	32,183
Adjust for inventory change	6,553	3,277	1,001			4,278
Adjust transportation and offsite costs	941	470	(342)			128
Treatment and refining costs	3,538	1,769	2,949			4,718
By-product and other revenues	(2,152)	(1,076)	(16,786)			(17,862)
Cash cost of copper produced in CDN\$	20,666	10,333	13,113			23,446
<i>US\$ to CDN\$ exchange rate</i>	<i>1.0905</i>	<i>1.0905</i>	<i>1.0905</i>			<i>1.0905</i>
Cash cost of copper produced in US\$	\$18,951	\$9,475	\$12,024			\$21,500
<i>Copper produced - lbs</i>	<i>9,198</i>	<i>4,598</i>	<i>11,980</i>			<i>16,579</i>
Cash cost per lb copper produced in US\$	\$2.06	\$2.06	\$1.00			\$1.30

	Three Months Ended June 30, 2013					
	Huckleberry 100%	Huckleberry 50%	Mount Polley	Corporate	Total per Financial Statements	Composite
		A	B			C=A+B
Cost of Sales	\$30,999	\$15,499	\$27,937	108	\$28,045	\$43,436
Less:						
Depletion and depreciation	(6,327)	(3,164)	(3,941)	(108)	(4,049)	(7,105)
Share based compensation	-	-	(38)	-	(38)	(38)
Management fees paid by Huckleberry to Imperial recorded as revenue by Imperial on the equity basis of accounting for Huckleberry	(274)	(137)	-	-	-	(137)
Cash costs before adjustment to production basis	24,398	12,199	23,958	-	23,958	36,157
Adjust for inventory change	(2,786)	(1,393)	(1,071)			(2,464)
Adjust transportation and offsite costs	(297)	(149)	73			(75)
Treatment and refining costs	4,157	2,079	2,015			4,094
By-product and other revenues	(2,593)	(1,296)	(17,572)			(18,868)
Cash cost of copper produced in CDN\$	22,878	11,440	7,404			18,843
<i>US\$ to CDN\$ exchange rate</i>	<i>1.0233</i>	<i>1.0233</i>	<i>1.0233</i>			<i>1.0233</i>
Cash cost of copper produced in US\$	\$22,357	\$11,179	\$7,235			\$18,414
<i>Copper produced - lbs</i>	<i>10,681</i>	<i>5,341</i>	<i>10,037</i>			<i>15,378</i>
Cash cost per lb copper produced in US\$	\$2.09	\$2.09	\$0.72			\$1.20

**Estimated Cash Cost per Pound of Copper Produced**

[expressed in thousands]

	Six Months Ended June 30, 2014					
	Huckleberry 100%	Huckleberry 50%	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
		A	B			C=A+B
Cost of Sales	\$44,428	\$22,214	\$63,826	\$5,232	\$69,058	\$86,040
Less:						
Depletion and depreciation	(8,980)	(4,490)	(9,781)	(2,513)	(12,094)	(14,271)
Share based compensation	-	-	(34)	-	(34)	(34)
Management fees paid by Huckleberry to Imperial recorded as revenue by Imperial on the equity basis of accounting for Huckleberry	(298)	(149)	-	-	-	(149)
Cash costs before adjustment to production basis	35,150	17,575	54,011	2,719	53,930	71,586
Adjust for inventory change	(380)	(190)	(2,138)			(2,328)
Adjust transportation and offsite costs	(85)	(43)	(614)			(657)
Treatment and refining costs	5,712	2,856	5,073			7,929
By-product and other revenues	(3,486)	(1,743)	(30,398)			(32,141)
Cash cost of copper produced in CDN\$	36,911	18,455	25,935			44,390
US\$ to CDN\$ exchange rate	1.0970	1.0970	1.0970			1.0970
Cash cost of copper produced in US\$	\$33,647	\$16,823	\$23,641			\$40,465
<i>Copper produced - lbs</i>	14,701	7,351	20,196			27,547
Cash cost per lb copper produced in US\$	\$2.29	\$2.29	\$1.17			\$1.47

	Six Months Ended June 30, 2013					
	Huckleberry 100%	Huckleberry 50%	Mount Polley	Corporate	Total per Financial Statements	Composite
		A	B			C=A+B
Cost of Sales	\$63,507	\$31,574	\$65,152	\$213	\$65,365	\$96,906
Less:						
Depletion and depreciation	(12,009)	(6,005)	(8,165)	(213)	(8,378)	(14,170)
Share based compensation	-	-	(75)	-	(75)	(75)
Management fees paid by Huckleberry to Imperial recorded as revenue by Imperial on the equity basis of accounting for Huckleberry	(548)	(274)	-	-	-	(274)
Cash costs before adjustment to production basis	50,950	25,475	56,912	-	56,912	82,387
Adjust for inventory change	(7,189)	(3,595)	(7,156)			(10,751)
Adjust transportation and offsite costs	(729)	(365)	(400)			(764)
Treatment and refining costs	7,910	3,955	3,620			7,575
By-product and other revenues	(5,518)	(2,759)	(34,670)			(37,429)
Cash cost of copper produced in CDN\$	45,424	22,712	18,307			41,019
US\$ to CDN\$ exchange rate	1.0161	1.0161	1.0161			1.0161
Cash cost of copper produced in US\$	\$44,704	\$22,352	\$18,017			\$40,369
<i>Copper produced - lbs</i>	20,361	10,181	18,244			28,425
Cash cost per lb copper produced in US\$	\$2.20	\$2.20	\$0.99			\$1.42

## DERIVATIVE INSTRUMENTS

In the three month period ending June 30, 2014 the Company recorded losses of \$7.4 million on derivative instruments, comprised of a \$5.3 million loss related to the CDN/US currency swap and a \$2.1 million loss on copper and gold derivatives. This compared to gains of \$1.1 million in the June 2013 quarter only for copper derivatives. These gains and losses result from the mark to market valuation of the derivative instruments based on changes in the price of copper and gold and movements in the CDN/US exchange rate. These amounts include realized gains of under \$0.1 million in the June 2014 quarter and no realized gains or losses in the June 2013 quarter. The Company has not applied hedge accounting for its derivative instruments and therefore records changes in the unrealized gains or losses on these contracts 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 and gold prices and CDN/US exchange rate compared to the copper and gold prices and CDN/US exchange rate at the time when these contracts were entered into and the type and length of time to maturity of the contracts.

Unrealized derivative instruments for Mount Polley cover about 33% of the estimated copper settlements via min/max zero cost collars and 50% of the estimated gold settlements via min/max zero cost collars through December 2014. The estimated settlements reflect production to August 4, 2014. In addition Mount Polley has hedged 36,000 ounces of gold for 2015 which can be allocated to the production expected from the Red Chris mine.

In the March 2014 quarter the Company entered into a cross currency swap to lock in the foreign exchange rate on US\$110.0 million of the US\$325.0 million senior unsecured notes (the "Notes") principal amount and related interest over the five year term of the Notes. The foreign exchange rate was fixed at 1.1113 CDN for each US Dollar. Based on the June 30, 2014 CDN/US Dollar exchange rate the Company had an unrealized loss of \$8.1 million on the derivative instruments related to the swap. This loss was offset by an unrealized foreign exchange gain of \$12.0 million on the revaluation of the US\$325.0 million principal amount of the Notes.

Future changes in the CDN/US Dollar exchange rate could have a material impact on the derivative instruments related to the swap however a significant portion of this gain or loss will be offset by the foreign exchange gain or loss on the Notes.

## DEVELOPMENTS DURING THE JUNE 2014 QUARTER

### GENERAL

The London Metals Exchange copper price per pound averaged US\$3.08 in the June 2014 quarter compared to US\$3.24 in the comparative 2013 quarter. The London Metals Exchange gold price per troy ounce averaged US\$1,289 in the June 2014 quarter compared to US\$1,413 in the comparative 2013 quarter. The average CDN/US Dollar exchange rate of 1.091 in the June 2014 quarter was higher compared to the average CDN/US Dollar exchange of 1.023 in the comparative quarter. In CDN Dollar terms the average copper price in the June 2014 quarter was 7% lower than in the comparative 2013 quarter, and the average gold price in the June 2014 quarter was 2% lower than in the comparative 2013 quarter.

### MOUNT POLLEY

Exploration, development and capital expenditures at Mount Polley were \$25.5 million in the June 2014 quarter compared to \$23.7 million in the comparative 2013 quarter.

Mount Polley 2014 second quarter production totaled 12.0 million pounds copper, 11,867 ounces gold and 33,813 ounces silver, compared to 10.0 million pounds copper, 11,932 ounces gold and 33,162 ounces silver produced in the comparative 2013 quarter. The annual average mill throughput for the second quarter was 23,404 tonnes per day compared to 22,063 tonnes per day in the comparative 2013 quarter.

Open pit mining activity for the 2014 second quarter continued to focus on providing mill feed from the Springer Phase 3 pit, while stripping the Cariboo pit. Mining in both the Springer and Cariboo pits continued with the planned completion of Springer Phase 3 by the end of the year, and transition of mill feed to the Cariboo pit in the 2014 fourth quarter, however the tailings dam breach will result in the loss of mine production for an indeterminate period of time.

Mining productivity increased in the second quarter with a total of 9,396,162 tonnes, or 103,255 tonnes per day mined from the pits.

The underground mine achieved significant milestones in the second quarter, with the completion of the ventilation system and the underground blasting infrastructure. The first production blasts were shot in May in the Boundary zone "A" stopes. Production levels made steady increases through the quarter with approximately 16,000 tonnes mined in June. In June, mine activities shifted to focus primarily on hauling ore. Blasthole and definition drilling continued throughout the quarter, by both Boart Longyear and Mount Polley personnel.

### HUCKLEBERRY

Exploration, development and capital expenditures at Huckleberry were \$7.2 million in the June 2014 quarter compared to \$26.4 million in the comparative 2013 quarter.

Huckleberry revenues in the June 2014 quarter were \$19.8 million compared to \$32.9 million in the comparative 2013 quarter primarily due to lower sales volumes as a result of the temporary shutdown due to the bull gear failure. In the June 2014 quarter revenue was increased by \$1.9 million positive revaluation compared to a \$4.6 million negative revaluation in 2013.

Throughput for the 2014 second quarter averaged 15,213 tonnes per calendar day, down from the 16,909 tonnes achieved in the comparative 2013 quarter due.

Huckleberry mill operations resumed April 5, 2014 and during the 2014 second quarter, mill throughput returned to its original 700-800 tonnes per operating hour. To enable the SAG mill to be restarted, the damaged teeth on the bull gear were re-profiled to reduce their load, the north pinion gear was replaced with a spare, and the rotation of the mill motors was reversed. A replacement bull gear and two pinion gears for the SAG mill have been ordered and are expected to arrive on-site late this year. Until then, monthly inspections are being performed to monitor the status of the damaged teeth on the bull gear.

### RED CHRIS

Total development expenditures at Red Chris were \$116.1 million in the June 2014 quarter, including capitalized interest of \$8.9 million, compared to \$59.5 million in the June 2013 quarter which included capitalized interest of \$1.3 million.

A geotechnical drilling program in June delineated an additional glacial till borrow in the Tailings Impoundment Area. This till and associated sand and gravel will be used to raise the North Starter Dam. An application has been submitted to the provincial Ministry of Environment to seek an amendment to the Red Chris Environmental Management Act Approval that will permit operational effluent discharges to the tailings impoundment.

The forecast net construction cost of the Red Chris mine is now estimated to be \$631.0 million versus the previous estimate of \$570.0 million. The majority of the cost increase can be attributed to power line construction winter work and delays due to faulty implosion sleeves. Due to delays associated with the faulty implosion sleeves, the completion of the Iskut extension is now anticipated to be in September 2014. Commissioning and startup of the Red Chris milling operations will follow the energization of the site.

#### **STERLING**

Exploration and development expenditures at Sterling were under \$0.1 million in the June 2014 quarter compared to a recovery of \$0.8 million in the June 2013 quarter. The June 2013 quarter included preproduction revenues which more than offset expenditures in that period.

Mining in the 2014 second quarter focused on the north limb of the 144 zone. Stopping occurred on two levels; 3320, and 3275. A total of 125 feet of drifting was completed on the 3260 and 3180 level.

Mining operations were temporarily suspended on April 25, 2014 pending upgrade of Sterling's air emissions permit. The Class II Permit was issued on June 16 and underground operations commenced on June 17. Solution continued to be processed through the recovery plant. A total of 1,628 ounces were in-process at quarter end.

#### **RUDDOCK CREEK**

Exploration and development expenditures at Ruddock Creek were minimal at \$0.2 million in the June 2014 quarter compared to \$0.1 million in the June 2013 quarter.

The Ruddock Creek Joint Venture initiated the 2014 program of additional metallurgical testing on a new sample which will be collected from the Upper E zone, additional geotechnical drilling and groundwater well installations, and ongoing baseline data collection for future permitting requirements. Surface exploration in the 2014 field season will include detailed geological and structural mapping in a number of areas.

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2014 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2013

This review of the results of operations should be read in conjunction with the Interim Financial Statements of the Company for the three months ended June 30, 2014 and the audited consolidated financial statements of the Company for the year ended December 31, 2013.

### FINANCIAL RESULTS

#### Overview

Revenues were \$51.1 million in the June 2014 quarter compared to \$41.3 million in the comparative 2013 quarter. 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.

Income from mine operations increased to \$17.5 million from \$13.3 million in the comparative 2013 quarter primarily due to improved contributions from operations. Metal quantity shipped in the 2014 quarter was higher than the comparative 2013 quarter. This, along with lower waste rock removal costs allocated to production, increased income from operations in the 2014 quarter compared to the 2013 quarter.

Net income for the quarter ended June 30, 2014 was \$15.2 million (\$0.20 per share) compared to net income of \$7.5 million (\$0.10 per share) in the comparative 2013 quarter. In addition to variances in revenues and income from mine operations described above, variations in net income period over period are predominately attributable to the movement in realized and unrealized gains and losses on derivative instruments and foreign exchange.

#### Revenue

[expressed in thousands of dollars, except quantity amounts]

	Three Months Ended June 30	
	2014	2013
<i>Copper 000's pounds sold</i>	11,022	9,646
<i>Gold ounces sold</i>	11,085	11,779
Revenue before revaluation	\$51,790	\$46,473
Revenue revaluation	(724)	(5,156)
	<u>\$51,066</u>	<u>\$41,317</u>

The increase in revenue in the June 2014 quarter over the 2013 quarter is due primarily to lower negative revaluations in 2014 compared to 2013. There were two concentrate shipments in the June 2014 quarter compared to two shipments in the 2013 quarter from the Mount Polley mine. The increase in shipment volumes was partially offset by lower copper and gold prices in the 2014 quarter compared to the 2013 quarter.

In US Dollars, copper prices were about 5% lower in the June 2014 quarter than in the comparative 2013 quarter, averaging about US\$3.08 per pound compared to US\$3.24 per pound. The US Dollar strengthened against the CDN Dollar during the 2014 quarter. Factoring in the average exchange rate, the price of copper averaged CDN\$3.36 per pound in the June 2014 quarter about 2% higher than the June 2013 quarter average of CDN\$3.31 per pound.

The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,289 in the June 2014 quarter compared to US\$1,413 in the comparative 2013 quarter. Factoring in the average exchange rate, the price of gold averaged CDN\$1,406 per ounce in the June 2014 quarter about 3% lower than the comparative 2013 quarter average of CDN\$1,445 per ounce.

#### Cost of Sales

[expressed in thousands of dollars]

	Three Months Ended June 30	
	2014	2013
Operating expenses	\$19,452	\$15,884
Salaries, wages and benefits	8,171	8,074
Depletion and depreciation	5,975	4,049
Share based compensation	17	38
	<u>\$33,615</u>	<u>\$28,045</u>

Cost of sales increased primarily due to higher operating expenses.

### General and Administration Costs

[expressed in thousands of dollars]

	Three Months Ended June 30	
	2014	2013
Administration	\$1,339	\$1,404
Share based compensation	208	451
Depreciation	151	27
Foreign exchange loss	425	(240)
	<u>\$2,123</u>	<u>\$1,642</u>

General and administration costs increased in the June 2014 quarter compared to the comparative 2013 quarter primarily as a result of higher foreign exchange losses than in the comparative 2013 quarter. Share based compensation expense declined from 2013 as there were no new option grants.

The average CDN/US Dollar exchange rate for the June 2014 quarter was 1.091 compared to 1.023 in the comparative 2013 quarter. Gains and losses are attributable to holding US Dollar denominated cash, accounts receivable, accounts payable and non-current debt. These net US Dollar asset and liability balances are the result of the operations at Mount Polley and financing arrangements for Mount Polley and Red Chris.

### Finance Income (Costs)

[expressed in thousands of dollars]

	Three Months Ended June 30	
	2014	2013
(Losses) gains on derivatives instruments	\$(7,414)	\$1,074
Interest expense, net of \$8,950 (June 30, 2013-\$1,340), capitalized to construction in progress	-	(18)
Financing fees	-	(375)
Foreign exchange gain (loss) on debt	13,592	(852)
Other	(217)	(172)
	<u>\$5,961</u>	<u>\$(343)</u>

The inclusion of gains and losses on derivative instruments results in large variances in finance costs. The Company has not applied hedge accounting for its derivative instruments and therefore records changes in the unrealized gains or losses on these contracts at fair value on each statement of financial position date. Changes in valuation of this derivative instrument position and the derivative instrument position carrying over from previous quarters, due to changes in copper and gold price and foreign exchange rate, resulted in a loss of \$7.4 million during the three months ending June 30, 2014 compared to a gain of \$1.1 million in the comparative June 2013 quarter. The ultimate gain or loss on these contracts will be determined by the copper and gold prices and foreign exchange rate in the periods when these contracts settle.

Interest expense of \$9.0 million was capitalized to construction in progress during the June 2014 quarter as a result of the construction at the Red Chris mine. In the comparative 2013 quarter \$1.3 million was capitalized.

The Company increased its US Dollar denominated debt in the June 2014 quarter. Overall foreign exchange attributable to US denominated short and long term debt reflecting the foreign currency movements in the quarter compared to the exchange rate when the debt was incurred and resulted in a \$12.0 million gain on the senior notes, and a \$1.6 million gain on long term equipment loans. Foreign exchange movements during the 2014 quarter and including the foreign exchange rate at quarter end resulted in total foreign exchange gains of \$13.2 million compared to a \$0.9 million loss in the comparative 2013 quarter.



### Equity Income in Huckleberry

The Company's 50% share of equity earnings from Huckleberry was \$1.4 million in the June 2014 quarter compared to \$2.3 million income on the comparative 2013 quarter. The decline was primarily due to lower shipment volumes resulting from the suspension of operations and idle mine costs during the suspension period.

[stated 100% - Imperial's equity share is 50%]

[expressed in thousands of dollars, except quantity amounts]

	Three Months Ended June 30	
	2014	2013
<i>Copper 000's pounds sold</i>	5,668	11,873
Revenue before revaluations	\$21,732	\$37,490
Revenue revaluation	(1,925)	(4,612)
	19,807	32,878
Cost of sales	(15,777)	(30,999)
Income from mine operations	4,430	1,879
Other	(918)	2,622
Idle mine costs	189	-
Income (loss) before taxes	3,701	4,501
Income and mining taxes	(919)	57
Net Income	\$2,782	\$4,558

### Income and Mining Taxes

[expressed in thousands of dollars, except quantity amounts]

	Three Months Ended June 30	
	2014	2013
Current Taxes		
Income taxes	(\$52)	\$68
BC Mineral taxes	357	(2,057)
	305	(1,989)
Deferred Taxes		
Income taxes	4,676	582
BC Mineral Taxes	2,620	7,451
	7,296	8,033
	\$7,601	\$6,044

The Company's effective tax rate, including BC Mineral taxes and excluding equity income from Huckleberry, was 35.5% of pre-tax income, in line with the expected 35.6% tax rate.

## LIQUIDITY & CAPITAL RESOURCES

### CASH FLOW

The Company recorded net income of \$15.2 million in June 2014 quarter compared to net income of \$7.5 million in the June 2013 quarter. Cash flow was \$21.3 million in 2014 compared to cash flow of \$16.0 million in 2013.

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

### ACQUISITION AND DEVELOPMENT OF MINERAL PROPERTIES

Acquisition and development of mineral properties totaled \$141.8 million in the June 2014 quarter compared to \$83.2 million in the June 2013 quarter. Acquisition and development expenditures in 2014 were financed from cash flow from operations and non current term debt.

[expressed in thousands of dollars]

	Three Months Ended June 30	
	2014	2013
Capital and Development Expenditures		
Mount Polley	\$24,187	\$21,911
Red Chris (including capitalized interest of \$8,950 (2013-\$1,340))	115,838	59,906
Sterling	5	215
Other	(42)	12
	<u>139,988</u>	<u>82,044</u>
Exploration Expenditures		
Mount Polley	1,316	1,812
Red Chris	257	213
Sterling, net of pre-production revenues	9	(987)
Other	251	157
	<u>1,833</u>	<u>1,195</u>
	<u>\$141,821</u>	<u>\$83,239</u>

Exploration expenditures of \$1.3 million at Mount Polley consist of underground expenditures at the Boundary zone. The Company's 50% share of exploration and development expenditures at Ruddock Creek in the June 2014 quarter was \$0.2 million.

Capital and development expenditures were \$140.0 million including capitalized interest of \$8.9 million was up from \$82.0 million in the June 2013 quarter. Expenditures in the June 2014 quarter were financed by cash flow from the Mount Polley mine long term equipment financed in the June quarter and from the long term financing arrangements completed in the March 2014 quarter. At June 30, 2014 the Company had \$7.0 million in cash (December, 2013-\$3.1 million). The short term debt balance at December 31, 2013 of \$132.4 million was repaid in the March 2014 quarter with completion of the long term financing arrangements.

## RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2014 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2013

This review of the results of operations should be read in conjunction with the Interim Financial Statements of the Company for the six months ended June 30, 2014 and the audited consolidated financial statements of the Company for the year ended December 31, 2013.

### FINANCIAL RESULTS

#### Overview

Revenues were \$102.4 million in the June 2014 period compared to \$92.2 million in the comparative 2013 period. 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.

Income from mine operations increased to \$33.3 million from \$26.8 million in the comparative 2013 period primarily due to improved contributions from operations. Metal quantity shipped in the 2014 period was slightly higher than the comparative 2013 period. This, along with lower waste removal costs allocated to production, increased income from operations in the 2014 period compared to the 2013 period.

Net income for the six months ended June 30, 2014 was \$21.1 million (\$0.28 per share) compared to net income of \$18.2 million (\$0.24 per share) in the comparative 2013 period. In addition to variances in revenues and income from mine operations described above, variations in net income period over period are predominately attributable to the movement in realized and unrealized gains and losses on derivative instruments and foreign exchange.

#### Revenue

[expressed in thousands of dollars, except quantity amounts]

	Six Months Ended June 30	
	2014	2013
<i>Copper 000's pounds sold</i>	21,757	19,621
<i>Gold ounces sold</i>	25,399	24,407
Revenue before revaluation	\$104,266	\$100,530
Revenue revaluation	(1,865)	(8,347)
	<u>\$102,401</u>	<u>\$92,183</u>

The increase in revenue in the June 2014 period over the 2013 period is due primarily lower negative revaluations in 2014 compared to 2013. There were four concentrate shipments in the June 2014 period compared to four shipments in the 2013 period from the Mount Polley mine. The increase in shipment volumes was partially offset by lower copper and gold prices in the 2014 period compared to the 2013 period.

In US Dollars, copper prices were about 8.2% lower in the June 2014 period than in the comparative 2013 period, averaging about US\$3.14 per pound compared to US\$3.42 per pound. The US Dollar strengthened against the CDN Dollar during the 2014 period. Factoring in the average exchange rate, the price of copper averaged CDN\$3.36 per pound in the June 2014 period about 1% lower than the June 2013 period average of CDN\$3.32 per pound.

The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,291 in the June 2014 period compared to US\$1,522 in the comparative 2013 period. Factoring in the average exchange rate, the price of gold averaged CDN\$1,405 per ounce in the June 2014 period about 2.8% lower than the comparative 2013 period average of CDN\$1,446 per ounce.

#### Cost of Sales

[expressed in thousands of dollars]

	Six Months Ended June 30	
	2014	2013
Operating expenses	\$35,588	\$38,491
Salaries, wages and benefits	18,142	18,421
Depletion and depreciation	12,294	8,378
Share based compensation	34	75
	<u>\$69,058</u>	<u>\$65,365</u>

Cost of sales increased primarily due higher depletion and depreciation charges.

### General and Administration Costs

[expressed in thousands of dollars]

	Six Months Ended June 30	
	2014	2013
Administration	\$2,594	\$2,789
Share based compensation	413	915
Depreciation	329	57
Foreign exchange loss	1,270	(132)
	<u>\$4,606</u>	<u>\$3,629</u>

General and administration costs increased slightly in the June 2014 period compared to the comparative 2013 period as a result of higher foreign exchange losses over the prior quarter. Share based compensation expense declined from 2013 as there were no new option grants.

The average CDN/US Dollar exchange rate for the June 2014 period was 1.097 compared to 1.016 in the comparative 2013 period. Gains and losses are attributable to holding US Dollar denominated cash, accounts receivable, accounts payable and non-current debt. These net US Dollar asset and liability balances are the result of the operations at Mount Polley and financing arrangements for Mount Polley and Red Chris.

### Finance (Costs) Income

[expressed in thousands of dollars]

	Six Months Ended June 30	
	2014	2013
(Losses) gains on derivatives instruments	\$(9,501)	\$1,564
Interest expense, net of \$15,413 (June 30, 2013-\$2,390), capitalized to construction in progress	-	(29)
Financing fees	-	(375)
Foreign exchange gain (loss) on debt	13,899	(1,089)
Other	(456)	(449)
	<u>\$3,942</u>	<u>\$(378)</u>

The inclusion of gains and losses on derivative instruments results in large variances in finance costs. The Company has not applied hedge accounting for its derivative instruments and therefore records changes in the unrealized gains or losses on these contracts at fair value on each statement of financial position date. Changes in valuation of this derivative instrument position and the derivative instrument position carrying over from previous quarters, due to changes in copper and gold price and foreign exchange rate, resulted in a loss of \$9.5 million during the six months ending June 30, 2014 compared to a gain of \$1.6 million in the comparative June 2013 period. The ultimate gain or loss on these contracts will be determined by the copper and gold prices and foreign exchange rate in the periods when these contracts settle.

Interest expense of \$15.4 million was capitalized to construction in progress during the June 2014 period as a result of the construction at the Red Chris mine. In the comparative 2013 period \$2.4 million was capitalized.

The Company increased its US Dollar denominated debt in the March 2014 quarter. Overall foreign exchange attributable to US denominated short and long term debt reflecting the foreign currency movements in the period compared to the exchange rate when the debt was incurred and resulted in a \$0.3 million loss on short term debt, \$0.3 million loss on long term equipment loans and a \$14.5 million gain on senior notes. Foreign exchange movements during the 2014 period, including the foreign exchange rate at period end resulted in total foreign exchange gains of \$12.6 million compared to a \$1.1 million loss in the comparative 2013 period.

### Equity Income in Huckleberry

The Company's 50% share of equity earnings from Huckleberry was \$0.1 million in the June 2014 period compared to a \$4.2 million income on the comparative 2013 period. The decline was primarily due to lower shipment volumes resulting from the suspension of operations and idle mine costs during the suspension period.

[stated 100% - Imperial's equity share is 50%]

[expressed in thousands of dollars, except quantity amounts]

	Six Months Ended June 30	
	2014	2013
<i>Copper 000's pounds sold</i>	5,668	23,471
Revenue before revaluations	\$50,117	\$78,798
Revenue revaluation	(2,716)	(6,138)
	47,401	72,660
Cost of sales	(44,428)	(63,507)
Income from mine operations	2,973	9,153
Other	(313)	2,596
Idle mine costs	(3,327)	-
Income (loss) before taxes	(667)	11,749
Income and mining taxes	832	(3,323)
Net Income	\$165	\$8,426

### Income and Mining Taxes

[expressed in thousands of dollars, except quantity amounts]

	Six Months Ended June 30	
	2014	2013
Current Taxes		
Income taxes	\$(23)	\$347
BC Mineral taxes	694	1,577
	671	1,924
Deferred Taxes		
Income taxes	7,843	2
BC Mineral Taxes	3,301	6,986
	11,144	6,988
	\$11,815	\$8,912

The Company's effective tax rate, including BC Mineral taxes and excluding equity income from Huckleberry, was 36.0% of pre-tax income marginally higher than the expected 35.6% tax rate.

### CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

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

## LIQUIDITY & CAPITAL RESOURCES

### CREDIT RISK

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

The Company sells to a limited number of 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. The credit risks associated with these counterparties is considered to be minimal because of their strong capital base, diversity and multinational operations. In addition, to reduce risk related to derivative instruments the Company utilizes multiple counterparties.

### LIQUIDITY RISK

The Company has in place a rigorous planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its planned capital expenditures. The Company ensures that in addition to cash balances there are sufficient committed credit facilities, including the advance payment facilities noted above, to provide the necessary cash to meet projected cash requirements. At June 30, 2014 the Company's primary sources of credit are the long term financing arrangements for the Red Chris project and for general working capital purposes. These are comprised of a \$200.0 million syndicated secured revolving credit facility, US\$325.0 million senior unsecured notes issue and a \$75.0 million unsecured junior credit facility plus \$50.0 million equipment loans. The tailings dam breach at the Mount Polley mine has resulted in the loss of production from the mine for an indeterminate period of time. In addition, the Company will incur costs for remediation and repair. While the precise costs of remediation and repair are presently unknown, the Company believes that the costs can be managed over time given the underlying value of the Company's assets and by the resources provided by the additional financing as detailed below together with insurance proceeds.

The Company is also projecting an additional \$25.0 million of costs to complete the Red Chris mine over the previous estimate, and a further \$36.0 million of costs to complete the Iskut extension of the Northwest Transmission Line from Bob Quinn to Tatogga.

The Company has secured additional financing in the amount of \$100.0 million of additional unsecured debt which management estimates will provide sufficient liquidity to complete and commission the Red Chris mine and to fund the estimated costs to remediate the effects of the tailings dam breach at the Mount Polley mine. However, there are inherent risks associated with the startup of a mine, and inherent uncertainties related to the scope of the remediation and repair.

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 during 2013 and into 2014 as the Company faces much higher than normal capital expenditures in 2014 related to the development of the Red Chris mine. Liquidity risk is also impacted by credit risk should a counterparty default on its payments to the Company.

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

[expressed in thousands of dollars]

	Within 1 Year	2 to 3 Years	4 to 5 Years	Over 5 Years	Total
Trade and other payables	\$94,462	\$ -	\$ -	\$ -	\$94,462
Derivative instrument liabilities	88	-	8,021	-	8,109
Non-current debt	11,077	198,176	351,920	656	561,829
	\$105,627	\$198,176	\$359,941	\$ 656	\$664,400

## CURRENCY RISK

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US dollar denominated cash, 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 six months ended June 30, 2014 would have been lower/higher by \$3.8 million. This is a significant change from prior to 2014 as a result of the issuance of the US Dollar denominated senior notes in the March 2014 quarter. The foreign currency swap for a substantial portion of the senior notes, which is not included in the \$3.8 million, would offset some of this gain/loss.

## CASH FLOW

The Company recorded net income of \$21.1 million in 2014 compared to net income of \$18.2 million in 2013. Cash flow was \$41.6 million in 2014 compared to cash flow of \$32.5 million in 2013.

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

## WORKING CAPITAL

At June 30, 2014, the Company had a working capital deficiency, defined as current assets less current liabilities of \$32.4 million, a decrease of \$130.4 million from a working capital deficiency of \$162.8 million at December 31, 2013. The June 30, 2014 working capital position reflects the repayment of short term debt from the long term financing arrangements for the Company in March 2014. Trade and other payables for the Red Chris project total \$54.6 million at June 30, 2014. Excluding the trade and other payables related to the Red Chris project that will be financed from non-current debt facilities the Company has working capital of \$30.3 million at June 30, 2014.

## ACQUISITION AND DEVELOPMENT OF MINERAL PROPERTIES

Acquisition and development of mineral properties totaled \$238.5 million in the June 2014 period compared to \$142.6 million in the June 2013 quarter. Acquisition and development expenditures in 2014 were financed from cash flow from operations and long term debt.

[expressed in thousands of dollars]

	Six Months Ended June 30	
	2014	2013
Capital and Development Expenditures		
Mount Polley	\$38,368	\$36,560
Red Chris (including capitalized interest of \$15,413 (2013-\$2,390))	196,030	101,777
Sterling	70	530
Other	5	21
	234,473	138,888
Exploration Expenditures		
Mount Polley	3,540	4,091
Red Chris	274	233
Sterling, net of pre-production revenues	(21)	(896)
Other	401	268
	4,194	3,696
	\$238,667	\$142,584

Exploration expenditures of \$3.5 million at Mount Polley consist of underground expenditures at the Boundary zone. The Company's 50% share of exploration and development expenditures at Ruddock Creek in the June 2014 quarter was \$0.2 million.

Capital and development expenditures were \$238.7 million including capitalized interest of \$15.4 million was up from \$138.9 million in the June 2013 quarter. Expenditures in the June 2014 quarter were financed by cash flow from the Mount Polley mine, long term equipment financing in the June quarter and from the long term financing arrangements completed in the March 2014 quarter. At June 30, 2014 the Company had \$7.0 million in cash (December, 2013-\$3.1 million). The short term debt balance at December 31, 2013 of \$132.4 million was repaid in the March 2014 quarter with completion of the long term financing arrangements.

## DEBT AND OTHER OBLIGATIONS

### INTEREST RATE RISK

The Company is exposed to interest rate risk on its outstanding borrowings. At June 30, 2014 the majority of the Company's outstanding borrowings were at fixed interest rates compared to June 30, 2013 when the majority of the Company's outstanding borrowings were at floating interest rates. The Company monitors its exposure to interest rates and is comfortable with its current exposure. The Company has not entered into any derivative contracts to manage this risk.

In addition to the senior unsecured notes issued in the June 2014 quarter to repay short term debt and non-current debt the Company utilized short term debt from purchasers of the Company's concentrate and advances from the revolving senior credit facility provide working capital to meet day to day cash requirements.

The Company had the following contractual obligations as of June 30, 2014:

[expressed in thousands of dollars]	2014	2015	2016	2017	2018	2019 and beyond	Total
Non-current debt	\$5,474	\$11,648	\$185,745	\$11,946	\$7,173	\$339,843	\$561,829
Operating leases	195	388	391	198	-	-	1,172
Capital expenditures and other <sup>(1)</sup>	13,793	208	208	28	28	28	14,293
Reclamation bonding	1,200	4,500	6,000	5,500	4,000	3,800	25,000
Mineral properties <sup>(2)</sup>	216	466	589	742	967	1,099	4,079
	\$20,878	\$17,210	\$192,933	\$18,414	\$12,168	\$344,770	\$606,373

<sup>(1)</sup> Total is to year 2018 only.

<sup>(2)</sup> 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 2018 only.

At June 30, 2014 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 non-current debt approximates fair value. Interest rates and credit spreads have not changed significantly since the non-current debt was issued 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 June 30, 2014 as follows:

[expressed in thousands of dollars]

	Level 1	Level 2	Total
<b>Financial Assets</b>			
Cash	\$6,967	\$ -	\$6,967
Marketable securities	910	-	910
Provisionally priced receivables	-	32,874	32,874
Derivative instruments assets	-	297	297
Future site reclamation deposits	3,019	-	3,019
	10,896	33,171	44,067
<b>Financial Liabilities</b>			
Derivative instrument liabilities	-	8,109	8,109
	\$10,896	\$25,062	\$52,176

### SELECT QUARTERLY FINANCIAL INFORMATION

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

	Three Months Ended			
	June 30 2014	March 31 2014	December 31 2013	September 30 2013
<b>Total sales including 50% equity share of Huckleberry</b>				
<i>Copper 000's lbs sold</i>	13,857	15,556	16,169	12,432
<i>Gold ounces sold</i>	12,045	13,889	13,790	14,161
<i>Silver ounces sold</i>	42,725	56,419	69,957	45,249
<b>Total sales excluding Huckleberry</b>				
<i>Copper 000's lbs sold</i>	11,022	10,735	9,696	9,719
<i>Gold ounces sold</i>	11,085	13,594	13,407	13,994
<i>Silver ounces sold</i>	30,972	32,479	34,568	29,572
<b>Total Revenues</b>	\$51,066	\$51,335	\$43,954	\$51,668
<b>Equity Income (loss) in Huckleberry</b>	\$1,390	\$(1,308)	\$4,465	\$(345)
<b>Net Income</b>	\$15,213	\$5,857	\$8,071	\$14,721
<b>Income per share <sup>(1)</sup></b>	\$0.20	\$0.08	\$0.11	\$0.20
<b>Diluted Income per share <sup>(1)</sup></b>	\$0.20	\$0.08	\$0.11	\$0.20
<b>Adjusted Net Income <sup>(2)</sup></b>	\$8,899	\$6,899	\$7,225	\$16,641
<b>Adjusted Net Income per share <sup>(1)(2)</sup></b>	\$0.12	\$0.09	\$0.10	\$0.22
<b>Adjusted EBITDA <sup>(2)</sup></b>	\$23,567	\$19,684	\$21,469	\$28,586
<b>Cash Flow <sup>(2)</sup></b>	\$21,494	\$20,317	\$17,087	\$28,639
<b>Cash Flow per share <sup>(1)(2)</sup></b>	\$0.29	\$0.27	\$0.23	\$0.38
<b>Average LME copper price/lb in US\$</b>	\$3.080	\$3.190	\$3.240	\$3.210
<b>Average LME gold price/troy oz in US\$</b>	\$1,289	\$1,294	\$1,291	\$1,327
<b>Average CDN/US\$ exchange rate</b>	\$1.091	\$1.103	\$1.049	\$1.039
<b>Period end CDN/US\$ exchange rate</b>	\$1.068	\$1.105	\$1.064	\$1.029

	Three Months Ended			
	June 30 2013	March 31 2013	December 31 2012 <sup>(3)</sup>	September 30 2012 <sup>(3)</sup>
Total sales including 50% equity share of Huckleberry				
<i>Copper 000's lbs sold</i>	15,583	15,775	12,716	10,005
<i>Gold ounces sold</i>	12,172	12,982	15,167	7,504
<i>Silver ounces sold</i>	65,977	67,749	48,850	46,016
Total sales excluding Huckleberry				
<i>Copper 000's lbs sold</i>	9,646	9,975	9,975	4,756
<i>Gold ounces sold</i>	11,779	12,628	14,979	7,171
<i>Silver ounces sold</i>	32,784	33,990	32,883	17,028
Total Revenues	\$41,317	\$50,866	\$58,547	\$29,682
Equity Income (loss) in Huckleberry	\$2,279	\$1,934	\$1,704	\$564
Net Income	\$7,541	\$10,621	\$11,718	\$4,343
Income per share <sup>(1)</sup>	\$0.10	\$0.14	\$0.16	\$0.06
Diluted Income per share <sup>(1)</sup>	\$0.10	\$0.14	\$0.16	\$0.06
Adjusted Net Income <sup>(2)</sup>	\$5,968	\$10,217	\$10,635	\$7,432
Adjusted Net Income per share <sup>(1)(2)</sup>	\$0.08	\$0.14	\$0.14	\$0.10
Adjusted EBITDA <sup>(2)</sup>	\$18,043	\$18,502	\$22,647	\$17,472
Cash Flow <sup>(2)</sup>	\$16,036	\$16,451	\$21,418	\$11,508
Cash Flow per share <sup>(1)(2)</sup>	\$0.22	\$0.22	\$0.29	\$0.15
Average LME copper price/lb in US\$	\$3.240	\$3.600	\$3.590	\$3.500
Average LME gold price/troy oz in US\$	\$1,413	\$1,630	\$1,719	\$1,655
Average CDN/US\$ exchange rate	\$1.023	\$1.009	\$0.991	\$0.995
Period end CDN/US\$ exchange rate	\$1.051	\$1.016	\$0.995	\$0.984

<sup>(1)</sup> 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.

<sup>(2)</sup> Refer to table under heading Non-IFRS Measures for details of the calculation of these amounts.

<sup>(3)</sup> The Company adopted IFRS11 on January 1, 2013 which resulted in the Company changing the accounting for its investment in Huckleberry Mines Ltd. from proportionate consolidation to the equity method. All comparative periods have been restated to reflect the impact of the adoption of IFRS11.

The financial information for each of the most recently completed eight quarters has been prepared in accordance with International Financial Reporting Standards.

The Company believes the measures referred to in (2) 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 three primary factors:

- Fluctuations in revenue are due to the timing of shipping schedules and quantities of copper and gold sold on each ship, production volumes at the mines, changes in the price of copper, gold and the CDN/US 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 and changes in tax rates.
- Inclusion of Sterling mine operations in the September 2013 quarter upon restart of the mine.

The significantly lower net income in the September 2012 quarter was primarily due to lower quantities of copper and gold sold by the Company, inclusive of the Company's share of Huckleberry, during this quarter as shipment levels were lower than in the other quarters. The lower net income in the June 2013 quarter is primarily due to a \$2.3 million adjustment for deferred income taxes during that period resulting from the British Columbia provincial income tax rate increasing from 10% to 11%. The higher net income in the September 2013 quarter is due primarily to lower operating expenses. The lower net income in the March 2014 quarter is primarily due to the loss resulting from the temporary suspension of the Huckleberry mill. The higher net income on the June 2014 quarter is primarily due to the foreign exchange gain on non current debt net of loss on related cross currency swap.

## RELATED PARTY TRANSACTIONS

### CORPORATE

Details on related party transactions can be found in Note 21 to the Interim Financial Statements for the June 2014 quarter.

### OTHER

As of August 14, 2014 the Company had 74,946,268 common shares outstanding, and on a diluted basis 77,210,718 common shares outstanding. Additional information about the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://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 MD&A, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws.

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

### INTERNAL CONTROLS AND PROCEDURES

The Company's management 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., in which the Company holds a 50% interest. 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.

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 June 30, 2014 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 MD&A.

### CONTINGENT LIABILITIES

The Company is from time to time involved in various claims and legal proceedings arising in the conduct of its business. The tailings dam breach at the Mount Polley mine has resulted in the loss of production from the mine for an indeterminate period of time. In addition, the Company will incur costs for remediation and repair the extent of which are unknown at this time.

### RISK FACTORS

The Company's business involves a high degree of risk. You should carefully consider the risks described in the Company's MD&A and those described in the audited Consolidated Financial Statements for the year ended December 31, 2013. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of those risks actually occurs, our business, financial condition, results of operations and cash flow would suffer. Many of these risks and uncertainties have been heightened by the Mount Polley tailings dam failure. The risks discussed below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-Looking Statements and Risks Notice".

## OUTLOOK

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

### OPERATIONS, EARNINGS AND CASH FLOW

With the cessation of production at Mount Polley as of August 4, 2014 base and precious metals production allocable to Imperial in 2014 from the Mount Polley, Huckleberry and Sterling mines is now anticipated to be 42.5 million pounds copper, 35,600 ounces gold and 162,200 ounces silver. With the delay in start up of Red Chris, production is now anticipated to begin in the fourth quarter, and approximately 9.0 million pounds copper and 5,000 ounces gold may be produced in this quarter.

Derivative instruments for the balance of 2014 will protect the pricing for copper and gold settling in 2014. In addition Mount Polley has hedged 36,000 ounces of gold for 2015 which can be allocated to the production expected from the Red Chris mine. However, the quarterly revenues will fluctuate depending on copper and gold prices, the CDN Dollar/US 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 2014 will be limited in scope, and conducted at our existing mining operations Huckleberry and Sterling. A minor exploration program will be conducted at Huckleberry, and work will focus on interpretation of information collected over the last two years. Underground drilling at Sterling will continue in the vicinity of the underground workings.

### DEVELOPMENT

Open pit mining activity for the 2014 second quarter continued to focus on providing mill feed from the Springer Phase 3 pit, while stripping the Cariboo pit. Mining in both the Springer and Cariboo pits continued with the planned completion of Springer Phase 3 by the end of the year, and transition of mill feed to the Cariboo pit in the 2014 fourth quarter, however the tailings dam breach will result in the loss of mine production for an indeterminate period of time.

At Huckleberry mine, Main Zone Optimization pit stripping and ore release will continue throughout 2014. Given the five week cessation of mill production, Huckleberry is investigating whether the planned dam construction in 2014 can be reduced. A limited grassroots exploration program for Huckleberry claims is planned for 2014.

Huckleberry mill operations resumed April 5, 2014 and during the 2014 second quarter mill throughput returned to its original 700-800 tonnes per operating hour. To enable the SAG mill to be restarted, the damaged teeth on the bull gear were re-profiled to reduce their load, the north pinion gear was replaced with a spare, and the rotation of the mill motors was reversed. A replacement bull gear and two pinion gears for the SAG mill have been ordered and are expected to arrive on-site late this year. Until then, monthly inspections are being performed to monitor the status of the damaged teeth on the bull gear.

At Sterling mine, work on permitting for an open pit mine and expanded leach pad continues.

At Ruddock Creek surface exploration in the 2014 field season will include detailed geological and structural mapping in a number of areas. The Ruddock Creek Mine Project Description Report was accepted by the provincial and federal government agencies on May 20, 2014. Its submission has triggered the formal environmental assessment process, and on July 14 the federal Canadian Environmental Assessment Agency (CEAA) released notice that a federal environmental assessment is required for the Ruddock Creek Mine Project. On July 15 CEAA released a notice that the Minister of the Environment granted substitution of the environmental assessment to British Columbia. On July 25 the Company received a draft Section 11 order from the provincial Environmental Assessment Office which establishes the formal scope, procedures and methods concerning the Project’s Environmental Assessment. While some exploration will be conducted this summer, most field work will continue to focus on technical and environmental studies which are well underway on-site.

The BC Hydro 287kv Northwest Transmission Line (NTL) was energized between the Skeena and Bob Quinn substations on July 15, 2014. Construction by the Company of the Iskut extension of the NTL from Bob Quinn to Tatogga continues to progress. At present, all foundations are installed and only 2 of the 263 total structures remain to be erected. Conductor stringing activities were delayed by the delivery of faulty implosion sleeves. These sleeves are used to splice the conductor and dead end assemblies at the towers. The redesigned implosion sleeves were delivered at the end of July. Stringing operations are now approximately 1/3 complete. The conductor stringing, sagging and clipping is planned through August and September.

The 16 kilometre 287kv power line from Tatogga to the mine site is complete. The 25kv site distribution power line is complete except for tie-ins to transformers. On-site construction at Red Chris is well advanced. Interior steel, mechanical installation, and the tailings and reclaim water systems are 93% complete. Piping and electrical work has progressed 70% and is expected to be completed on time for the commissioning and start-up of milling operations at Red Chris. Pre-commissioning activities for the crusher and conveyors will be commencing next week. Mining operations have commenced at Red Chris with the first excavation of ore grade material from the East zone. This material is being stockpiled for commencement of milling operations.

A geotechnical drilling program in June delineated an additional glacial till borrow in the Tailings Impoundment Area. This till and associated sand and gravel will be used to raise the North Starter Dam. An application has been submitted to the provincial Ministry of Environment to seek an amendment to the Red Chris Environmental Management Act Approval that will permit operational effluent discharges to the tailings impoundment.

The forecast net construction cost of the Red Chris mine is now estimated to be \$631.0 million versus the previous estimate of \$570.0 million. The majority of the cost increase can be attributed to power line construction winter work and delays due to faulty implosion sleeves. Due to delays associated with the faulty implosion sleeves, the completion of the Iskut extension is now anticipated to be in September 2014. Commissioning and startup of the Red Chris milling operations will follow the energization of the site.

#### **FINANCING**

The Company has secured additional financing in the amount of \$100.0 million of additional unsecured debt which management estimates will provide sufficient liquidity to complete and commission the Red Chris mine and to fund the estimated costs to remediate the effects of the tailings dam breach at the Mount Polley mine.

#### **ACQUISITIONS**

Management continues to evaluate potential acquisitions and exploration opportunities both on currently owned properties and new prospects.

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited – Prepared by Management  
expressed in thousands of Canadian dollars

	Notes	June 30 2014	December 31 2013
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$6,967	\$3,095
Marketable securities		910	1,063
Trade and other receivables	3	42,387	16,807
Inventory	4	24,987	27,358
Derivative instrument assets	12	223	3,473
Prepaid expenses and deposits		1,588	2,204
		<u>77,062</u>	<u>54,000</u>
Derivative Instrument Assets	12	74	-
Investment in Huckleberry Mines Ltd.	5	92,214	92,132
Mineral Properties	6	1,055,737	824,823
Deferred Income Taxes		666	-
Other Assets	7	6,110	4,496
		<u>\$1,231,863</u>	<u>\$975,451</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	8	\$94,462	\$66,511
Taxes payable		3,536	5,444
Short term debt	9	-	132,410
Derivative instrument liabilities	12	88	1,735
Current portion of non-current debt	10	11,077	10,373
Current portion of future site reclamation provisions	11	285	285
		<u>109,448</u>	<u>216,758</u>
Derivative Instrument Liabilities	12	8,021	-
Non-Current Debt	10	550,752	234,009
Future Site Reclamation Provisions	11	18,647	15,760
Deferred Income Taxes	17	102,570	90,760
		<u>789,438</u>	<u>557,287</u>
<b>EQUITY</b>			
Share Capital	13	123,578	120,408
Share Option Reserve	13	14,282	15,119
Warrant Reserve	13	870	-
Currency Translation Adjustment		1,324	1,336
Retained Earnings		302,371	281,301
		<u>442,425</u>	<u>418,164</u>
		<u>\$1,231,863</u>	<u>\$975,451</u>
Commitments and Pledges	6, 25		
Contingent Liabilities	26		
Subsequent Events	27		

See accompanying notes to these condensed consolidated interim financial statements.

Approved by the Board and authorized for issue on August 14, 2014

*“Larry G. Moeller”*  
Larry G. Moeller  
Director

*“J. Brian Kynoch”*  
J. Brian Kynoch  
Director

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

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

	Notes	Second Quarter		Year to Date	
		Three Months Ended June 30		Six Months Ended June 30	
		2014	2013	2014	2013
Revenue		\$51,066	\$41,317	\$102,401	\$92,183
Cost of Sales	14	(33,615)	(28,045)	(69,058)	(65,365)
Income from Mine Operations		17,451	13,272	33,343	26,818
General and Administration	15	(2,123)	(1,642)	(4,606)	(3,629)
Finance Income (Costs)	16	5,961	(343)	3,942	(378)
Other Income		135	19	124	50
Equity Income in Huckleberry	5	1,390	2,279	82	4,213
Income before Taxes		22,814	13,585	32,885	27,074
Income and Mining Taxes	17	(7,601)	(6,044)	(11,815)	(8,912)
Net Income		15,213	7,541	21,070	18,162
Other Comprehensive Income					
Items that may be subsequently reclassified to profit or loss					
Currency translation adjustment		(1,150)	1,027	(12)	1,637
Total Comprehensive Income		\$14,063	\$8,568	\$21,058	\$19,799
Income Per Share					
Basic	18	\$0.20	\$0.10	\$0.28	\$0.24
Diluted	18	\$0.20	\$0.10	\$0.28	\$0.24
Weighted Average Number of Common Shares Outstanding					
Basic	18	74,945,642	74,391,817	74,891,397	74,373,114
Diluted	18	75,887,798	75,251,740	75,946,294	75,382,814

See accompanying notes to these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

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

	Share Capital		Share Option Reserve	Warrant Reserve	Currency Translation Adjustment	Retained Earnings	Total
	Number of Shares	Amount					
Balance December 31, 2012	74,319,750	\$116,892	\$14,547	\$ -	\$(837)	\$240,347	\$370,949
Issued on exercise of options	84,600	876	(315)	-	-	-	561
Share based compensation expense	-	-	990	-	-	-	990
Total comprehensive income	-	-	-	-	1,637	18,162	19,799
Balance June 30, 2013	74,404,350	\$117,768	\$15,222	\$ -	\$800	\$258,509	\$392,299
Balance December 31, 2013	74,676,018	\$120,408	\$15,119	\$ -	\$1,336	\$281,301	\$418,164
Issued on exercise of options	270,250	3,170	(1,284)	-	-	-	1,886
Warrants issued (Notes 13(c) and 21)	-	-	-	870	-	-	870
Share based compensation expense	-	-	447	-	-	-	447
Total comprehensive income	-	-	-	-	(12)	21,070	21,058
Balance June 30, 2014	74,946,268	\$123,578	\$14,282	\$870	\$1,324	\$302,371	\$442,425

See accompanying notes to these condensed consolidated interim financial statements.



## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

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

	Notes	Second Quarter		Year to Date	
		Three Months Ended June 30	Three Months Ended June 30	Six Months Ended June 30	Six Months Ended June 30
		2014	2013	2014	2013
<b>OPERATING ACTIVITIES</b>					
Income before taxes		\$22,814	\$13,585	\$32,885	\$27,074
Items not affecting cash flows					
Equity income in Huckleberry		(1,390)	(2,279)	(82)	(4,213)
Depletion and depreciation		6,126	4,076	12,623	8,435
Share based compensation		225	489	447	990
Accretion of future site reclamation provisions		166	69	323	138
Unrealized foreign exchange (gains) losses		(13,848)	885	(13,986)	1,113
Unrealized losses (gains) on derivative instruments		7,413	(1,073)	9,514	(1,563)
Other		(12)	284	87	513
		<u>21,494</u>	<u>16,036</u>	<u>41,811</u>	<u>32,487</u>
Net change in non-cash operating working capital balances	19	(6,185)	39,822	(16,821)	25,087
Income and mining taxes paid		(2,750)	(2,017)	(3,472)	(2,460)
Income and mining taxes received		9	2,179	9	2,179
Interest paid		(1,713)	(1,353)	(6,555)	(2,408)
Cash provided by operating activities		<u>10,855</u>	<u>54,667</u>	<u>14,972</u>	<u>54,885</u>
<b>FINANCING ACTIVITIES</b>					
Proceeds of short term debt		-	106,068	174,576	327,469
Repayment of short term debt		-	(116,456)	(307,256)	(284,829)
Proceeds of non-current debt		143,420	20,000	624,262	20,000
Repayment of non-current debt		(32,478)	(979)	(293,298)	(1,500)
Issue of share capital		15	193	1,886	561
Other		(6)	-	(869)	-
Cash provided by financing activities		<u>110,951</u>	<u>8,826</u>	<u>199,301</u>	<u>61,701</u>
<b>INVESTING ACTIVITIES</b>					
Acquisition and development of mineral properties		(132,871)	(66,031)	(223,254)	(124,326)
Net change in non-cash investing working capital balances		16,686	8,738	13,576	11,185
Proceeds on sale of mineral properties		77	68	93	96
Increase in future site reclamation deposits		(3)	(91)	(3)	(91)
Other		(183)	(52)	(831)	(49)
Cash used in investing activities		<u>(116,294)</u>	<u>(57,368)</u>	<u>(210,419)</u>	<u>(113,185)</u>
<b>EFFECT OF FOREIGN EXCHANGE ON CASH</b>					
		<u>(43)</u>	<u>47</u>	<u>18</u>	<u>68</u>
<b>INCREASE IN CASH</b>					
CASH, BEGINNING OF PERIOD		<u>1,498</u>	<u>97</u>	<u>3,095</u>	<u>2,800</u>
CASH, END OF PERIOD		<u>\$6,967</u>	<u>\$6,269</u>	<u>\$6,967</u>	<u>\$6,269</u>

See accompanying notes to these condensed consolidated interim financial statements.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

**1. NATURE OF OPERATIONS AND LIQUIDITY**

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:

- development stage Red Chris copper/gold property in northwest British Columbia;
- open pit copper/gold Mount Polley mine in central British Columbia;
- open pit copper Huckleberry mine in northern British Columbia;
- underground gold Sterling mine in southwest Nevada.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes the Company will continue operating in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course as they come due.

The tailings dam breach at the Mount Polley mine has resulted in the loss of production from the mine for an indeterminate period of time. In addition, the Company will incur costs for remediation and repair. See also Note 27 Subsequent Events. While the precise costs of remediation and repair are presently unknown, the Company believes that the costs can be managed over time given the underlying value of the Company's assets and by the resources provided by the additional financing as detailed below together with insurance proceeds.

The Company is also projecting an additional \$25,000 of costs to complete the Red Chris mine over the previous estimate, and a further \$36,000 of costs to complete the Iskut extension of the Northwest Transmission Line from Bob Quinn to Tatogga.

The Company has secured additional financing in the amount of \$100,000 of additional unsecured debt which management estimates will provide sufficient liquidity to complete and commission the Red Chris mine and to fund the estimated costs to remediate the effects of the tailings dam breach at the Mount Polley mine. However, there are inherent risks associated with the startup of a mine, and inherent uncertainties related to the scope of the remediation and repair.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the fiscal year ended December 31, 2013, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the International Accounting Standards Board which are applicable from January 1, 2014.

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2013 prepared in accordance with IFRS.

The preparation of condensed consolidated interim financial statements 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. The significant accounting judgments and estimates applied in the preparation of the Company’s unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in Note 2 to the Company’s audited consolidated financial statements for the year ended December 31, 2013.

#### Changes in Accounting Standards

##### *Levies Imposed by Governments*

In May 2013, the IASB issued IFRIC 21 – *Levies* (“IFRIC 21”), an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* (“IAS 37”), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014. The application of IFRIC 21 did not have a significant impact on the Company’s condensed consolidated interim financial statements.

#### Changes in Accounting Standards Not Yet Effective

##### *Financial Instruments*

The IASB intends to replace IAS 39 – *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9 – *Financial Instruments* (“IFRS 9”) which is intended to reduce the complexity in the classification and measurement of financial instruments. IFRS 9 is effective for annual periods commencing on or after January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its condensed consolidated interim financial statements.

##### *Revenue Recognition*

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”). The standard replaces IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programs”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets From Customers” and SIC 31 “Revenue–Barter Transactions Involving Advertising Services”. IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contract with customers. This standard is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of determining the impact of IFRS 15 on its condensed consolidated financial statements.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

### 3. TRADE AND OTHER RECEIVABLES

	June 30 2014	December 31 2013
Trade receivables	\$41,260	\$16,563
Taxes receivable	1,127	244
	<u>\$42,387</u>	<u>\$16,807</u>

### 4. INVENTORY

	June 30 2014	December 31 2013
Stockpile ore	\$2,245	\$1,372
Stockpiles and ore under leach	6,512	6,342
Dore	13	-
Concentrate	3,653	7,675
Supplies	12,564	11,969
	<u>\$24,987</u>	<u>\$27,358</u>

	Three Months Ended		Six Months Ended	
	June 30 2014	June 30 2013	June 30 2014	June 30 2013
Inventory recognized as expense during the period	<u>\$23,593</u>	<u>\$21,009</u>	<u>\$49,968</u>	<u>\$51,091</u>
Impairment charges on stock pile and ore under leach included in expense during the period	<u>\$1,025</u>	<u>\$ -</u>	<u>\$1,917</u>	<u>\$ -</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

### 5. INVESTMENT IN HUCKLEBERRY MINES LTD.

The Company has a 50% interest in Huckleberry Mines Ltd. (“Huckleberry”) and has determined the joint arrangement qualifies as a joint venture which is accounted for using the equity method. The Huckleberry open pit copper/molybdenum mine is 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.

	June 30 2014	December 31 2013
Balance, beginning of period	\$92,132	\$83,799
Equity income for the period	82	8,333
Balance, end of period	<u>\$92,214</u>	<u>\$92,132</u>

#### *Statement of Financial Position* <sup>(1)</sup>

stated 100% - Imperial's equity share is 50%

#### ASSETS

##### Current Assets

	June 30 2014	December 31 2013
Cash	\$22,725	\$31,583
Short term investments	15,000	15,000
Other current assets	29,228	31,959
	<u>66,953</u>	<u>78,542</u>
Mineral Properties	172,976	163,486
Other Non-Current Assets	19,916	16,501
	<u>\$259,845</u>	<u>\$258,529</u>

#### LIABILITIES

##### Current Liabilities

Trade and other payables	\$12,494	\$15,267
Other current liabilities	11,357	12,427
	<u>23,851</u>	<u>27,694</u>
Future Site Reclamation Provisions	40,714	37,812
Other Non-Current Liabilities	10,851	8,758
	<u>75,416</u>	<u>74,264</u>

#### EQUITY

Share Capital	57,596	57,596
Retained Earnings	126,833	126,669
	<u>184,429</u>	<u>184,265</u>
	<u>\$259,845</u>	<u>\$258,529</u>

<sup>(1)</sup> The Company's equity share of earnings of Huckleberry includes certain adjustments to ensure consistency of accounting policies with those of the Company. These adjustments are reflected in the above figures.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

### 5. INVESTMENT IN HUCKLEBERRY MINES LTD. (continued)

#### Statement of Income (Loss) and Comprehensive Income (Loss) and Retained Earnings

[stated 100% - Imperial's equity share is 50%]

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Revenue	\$19,807	\$32,878	\$47,401	\$72,660
Cost of Sales	(15,377)	(30,999)	(44,428)	(63,507)
Income from Mine Operations	4,430	1,879	2,973	9,153
General and Administration	(485)	1,993	23	1,981
Finance Costs	(433)	629	(336)	615
Idle mine costs	189	-	(3,327)	-
Income (Loss) before Taxes	3,701	4,501	(667)	11,749
Income and Mining Tax (Expense) Recovery	(919)	57	832	(3,323)
Net Income and Comprehensive Income	\$2,782	\$4,558	\$165	\$8,426

#### Statement of Cash Flows

[stated 100% - Imperial's equity share is 50%]

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
<b>OPERATING ACTIVITIES</b>				
Net income (loss) before taxes	\$3,701	\$4,501	\$(667)	\$11,749
Items not affecting cash flows				
Depletion and depreciation	3,567	6,327	8,980	12,009
Unrealized foreign exchange (income) loss	(207)	218	(2)	194
Unrealized gains on derivative instruments	70	(2,090)	43	(2,196)
Other	394	500	414	482
	7,525	9,456	8,768	22,238
Net change in non-cash operating working capital balances	(8,299)	7,935	3,329	17,887
Income and mining taxes paid	(150)	(472)	(500)	(772)
Income and mining taxes received	-	2,603	-	2,603
Cash provided by (used in) operating activities	(924)	19,522	11,597	41,956
<b>INVESTING ACTIVITIES</b>				
Acquisition and development of mineral properties	(7,176)	(26,414)	(17,043)	(40,546)
Net change in non-cash financing working capital balances	-	6,214	-	3,304
Other	(1,733)	208	(3,414)	164
Cash used in investing activities	(8,909)	(19,992)	(20,457)	(37,078)
EFFECT OF FOREIGN EXCHANGE ON CASH	207	(218)	2	(194)
(DECREASE) INCREASE IN CASH	(9,626)	(688)	(8,858)	4,684
CASH, BEGINNING OF PERIOD	32,351	24,500	31,583	19,128
CASH, END OF PERIOD	\$22,725	\$23,812	\$22,725	\$23,812

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

### 5. INVESTMENT IN HUCKLEBERRY MINES LTD. (continued)

#### (a) Mineral Properties

	Cost	Accumulated Depletion, Depreciation and Impairment Losses	Net Carrying Amount
Balance December 31, 2012	\$418,462	\$306,298	\$112,164
Additions	75,562	-	75,562
Depletion & Depreciation	-	24,240	(24,240)
Disposals	(866)	(866)	-
Balance December 31, 2013	493,158	329,672	163,486
Additions	21,648	-	21,648
Depletion & Depreciation	-	12,158	(12,158)
Balance June 30, 2014	\$514,806	\$341,830	\$172,976

Refer to notes 5(c) and (f) for pledged assets and contractual commitments.

#### (b) Derivative Instruments

Huckleberry had no option contracts outstanding at June 30, 2014.

Security deposits required to be paid by Huckleberry to counterparties are calculated based on the fair value of the derivative instrument on each trading date, net of the credit facility provided by the counterparties. At June 30, 2014, security deposits totaled \$nil (December 31, 2013-\$nil).

#### (c) Pledged Assets

At June 30, 2014, Huckleberry had pledged cash deposits of \$12,165 (December 31, 2013-\$12,165) and certain mining equipment with a net book value of \$9,685 (December 31, 2013-\$10,843) as security for future site reclamation obligations.

#### (d) Future Site Reclamation Provisions

Changes to the future site reclamation provisions are as follows:

	Six Months Ended June 30 2014	Year Ended December 31 2013
Balance, beginning of period	\$39,022	\$45,260
Accretion	819	1,525
Costs incurred during the period	(406)	(1,038)
Change in estimates of future costs	2,288	(6,725)
Balance, end of period	41,723	39,022
Less portion due within one period	(1,009)	(1,210)
	\$40,714	\$37,812

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

**5. INVESTMENT IN HUCKLEBERRY MINES LTD.** (continued)

(e) Reclamation Bonding Obligations

Huckleberry is obligated to increase its reclamation bond funding as follows:

2014	\$18,000
2015	6,000
2016	5,000
	<u>\$29,000</u>

(f) Commitments

As at June 30, 2014 Huckleberry is committed to future minimum operating lease payments as follows:

2014	\$65
2015	90
2016	77
2017	7
2018	7
	<u>\$246</u>



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management  
expressed in thousands of Canadian dollars, except share amounts

### 6. MINERAL PROPERTIES

<i>Cost</i>	Mineral Properties being depleted	Mineral Properties not being depleted			Construction in Progress	Total
		Projects not in Production	Exploration & Evaluation Assets	Plant and Equipment		
Balance as at December 31, 2012	\$138,274	\$138,768	\$40,351	\$218,958	\$113,353	\$649,704
Additions	33,596	11,007	1,091	60,527	295,599	401,820
Reclassifications	33,270	(9,533)	(23,737)	-	-	-
Disposals	-	(38)	(7)	(3,015)	-	(3,060)
Foreign exchange movement	458	-	1,426	430	-	2,314
Balance as at December 31, 2013	205,598	140,204	19,124	276,900	408,952	1,050,778
Additions	25,594	21,678	399	14,851	180,639	243,161
Reclassifications	246	(246)	-	-	-	-
Disposals	-	-	(1)	(28)	-	(29)
Foreign exchange movement	26	50	-	8	-	84
Balance as at June 30, 2014	\$231,464	\$161,686	\$19,522	\$291,731	\$589,591	\$1,293,994

<i>Accumulated depletion &amp; depreciation &amp; impairment losses</i>	Mineral Properties being depleted	Mineral Properties not being depleted			Construction in Progress	Total
		Projects not in Production	Exploration & Evaluation Assets	Plant and Equipment		
Balance as at December 31, 2012	\$86,092	\$ -	\$1,645	\$119,563	\$ -	\$207,300
Depletion & depreciation	8,248	-	-	12,846	-	21,094
Disposals	-	-	-	(3,012)	-	(3,012)
Foreign exchange movement	447	-	-	126	-	573
Balance as at December 31, 2013	94,787	-	1,645	129,523	-	225,955
Depletion & depreciation	3,205	-	-	9,071	-	12,276
Foreign exchange movement	7	-	-	19	-	26
Balance as at June 30, 2014	\$97,999	\$ -	\$1,645	\$138,613	\$ -	\$238,257

#### Carrying Amount

Balance as at December 31, 2012	\$52,182	\$138,768	\$38,706	\$99,395	\$113,353	\$442,404
Balance as at December 31, 2013	\$110,811	\$140,204	\$17,479	\$147,377	\$408,952	\$824,823
Balance as at June 30, 2014	\$133,465	\$161,686	\$17,877	\$153,118	\$589,591	\$1,055,737

At June 30, 2014 the Company had contractual commitments totaling \$13,115 (December 31, 2013-\$81,624) for the acquisition of property, plant and equipment (Note 25(c)). At June 30, 2014 mineral property assets with a carrying value of \$1,370 (December 31, 2013-\$1,370) are legally restricted for the purposes of settling future site reclamation provisions (Note 25 (b)). During the six months ended June 30, 2014 the Company capitalized borrowing costs of \$15,413 (June 30, 2013-\$2,390) related to the Red Chris project into construction in progress at a weighted average borrowing rate of 6.57% (June 30, 2013-3.06%).

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

**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 18,774 hectares, which consists of seven mining leases totalling 2,007 hectares, and 42 mineral claims encompassing 16,767 hectares.

**Huckleberry**

The Company owns 50% (Note 5) of the Huckleberry open pit copper mine located 88 kilometres south-southwest of Houston in west central British Columbia. The Huckleberry property covers 19,779.9 hectares, which consists of two mining leases covering 2,421.7 hectares and 39 mineral claims encompassing approximately 17,358.2 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 29,482.14 hectares and is comprised of five 30 year mining leases covering 5,141 hectares and 83 mineral claims encompassing 24,341.14 hectares. The Red Chris project was issued a Mines Act permit in May 2012 by the Province of British Columbia. The commissioning of the Red Chris project will begin with the completion of the power lines to the Red Chris project, expected to be completed by the end of September 2014. Net smelter royalties of 1.0% is payable on production from all or portions of 23 core mineral tenures and 1.5% payable on production from the 27 Red Chris South claims.

**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 Ruddock Creek Joint Venture (Note 20) is owned by Imperial (50%), Mitsui Mining and Smelting Co. Ltd. (30%) and Itochu Corporation (20%) (“Itochu/Mitsui”). The Ruddock Creek zinc/lead property is located 155 kilometres northeast of Kamloops in the Scrip Range of the Monashee Mountains in southeast British Columbia, and consists of 42 mineral claims totalling 21,156 hectares. Net smelter royalties of 1% is payable on production from the three main claims and 1.5% payable on production from the 16 Irony claims.

**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.

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### 7. OTHER ASSETS

	June 30 2014	December 31 2013
Future site reclamation deposits	\$3,091	\$3,077
Other	3,019	1,419
	<u>\$6,110</u>	<u>\$4,496</u>

### 8. TRADE AND OTHER PAYABLES

	June 30 2014	December 31 2013
Trade payables	\$49,774	\$38,930
Accrued liabilities	44,688	27,581
	<u>\$94,462</u>	<u>\$66,511</u>

### 9. SHORT TERM DEBT

Amounts due for short term debt facilities are:

	June 30 2014	December 31 2013
Bank loan facilities aggregating \$nil (December 31, 2013 -\$150,000) 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 was guaranteed by a related party (Note 21). A portion of the facility was utilized for letters of credit pledged for settlement of future site reclamation provisions. The facility was due on demand and was repaid and cancelled in March 2014.		
(i) Bankers Acceptances with a maturity value of \$nil (December 31, 2013-\$120,000)	\$ -	\$119,980
(ii) Cheques issued in excess of funds on deposit to be funded from the loan facility	-	12,430
	<u>\$ -</u>	<u>\$132,410</u>

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

	Six Months Ended June 30 2014	Year Ended December 31 2013
Balance, beginning of period	\$132,410	\$92,403
Amounts advanced	174,576	488,870
Amounts repaid	(307,256)	(449,347)
Foreign exchange losses	270	484
Balance, end of period	<u>\$ -</u>	<u>\$132,410</u>

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### 10. NON-CURRENT DEBT

Amounts due for non-current debt are:

	Six Months Ended June 30 2014	Year Ended December 31 2013
Senior secured revolving credit facility, net of issue costs	(a) \$173,244	\$ -
Senior unsecured notes, net of issue costs	(b) 338,601	-
Junior credit facility	(c) -	-
Line of credit facility	(d) -	195,000
Equipment loans	(e) 49,984	49,382
	561,829	244,382
Less portion due within one year	(11,077)	(10,373)
	<u>\$550,752</u>	<u>\$234,009</u>

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

	Six Months Ended June 30 2014	Year Ended December 31 2013
Balance, beginning of period	\$244,382	\$8,341
Amounts advanced	624,262	249,375
Foreign exchange (gain) loss	(14,169)	1,929
Accretion of debt issue costs	652	-
Amounts repaid	(293,298)	(15,263)
Balance, end of period	561,829	244,382
Less portion due within one year	(11,077)	(10,373)
	<u>\$550,752</u>	<u>\$234,009</u>

(a) Senior secured revolving credit facility from a syndicate of banks aggregating \$200,000 (December 31, 2013-\$nil) due on October 1, 2016. The facility is secured by trade and other receivables, inventory, shares of all material subsidiaries and a floating charge on certain assets of the Company. A portion of the facility has been utilized for letters of credit pledged for settlement of future site reclamation provisions (Note 25(b)).

(i) Principal

\$175,156 \$ -

(ii) Unamortized financing costs

(1,912) -

\$173,244 \$ -

(b) Senior unsecured notes (the "Notes") due March 15, 2019 aggregating US\$325,000 with interest at 7% per annum payable on March 15 and September 15 of each year commencing September 15, 2014. The Notes, net of transaction costs, are accounted for at amortized cost using the effective interest method.

The notes are guaranteed by all the material subsidiaries of the Company. The Company may redeem some or all of the Notes at any time on or after March 15, 2017 at redemption prices ranging from 103.5% to 100% plus accrued interest and prior to that date at 100% plus a make-whole premium plus accrued interest. Prior to March 15, 2017 the Company may also redeem up to 35% of the principal amount of the Notes up to the net proceeds of certain equity offerings at a redemption price of 107% plus accrued interest.

The indenture governing the Notes places certain transaction-based restrictions on the Company's ability to incur additional indebtedness; prepay, redeem or repurchase certain debt; pay dividends or make other distributions or repurchase or redeem shares; make loans and investments; sell assets; incur liens; enter into transactions with affiliates; consolidate, merge or sell all or substantially all of the Company's assets, in each case subject to certain exceptions.

(i) Principal

\$346,970 \$ -

(ii) Unamortized financing costs

(8,369) -

\$338,601 \$ -

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	Six Months Ended June 30 2014	Year Ended December 31 2013
(c) Junior credit facility from a related party aggregating \$75,000 (December 31, 2013-\$nil) unsecured with interest payable quarterly at 10% per annum. The facility is available for drawdown until the earlier of the date the Company meets the completion test specified in the senior credit facility or June 1, 2015. The facility is due on March 15, 2019 however the facility must be repaid upon (i) receipt of proceeds from specific sources as described in the agreement, (ii) the debt ratio in the senior credit facility permitting repayment of the debt. In connection with this facility, the Company issued 750,000 warrants (Notes 13(c) and 21). Subsequent to June 30, 2014 the Company drew down \$40,000 of this facility.	\$ -	\$ -
(d) Line of credit facility from a related party (Note 21) aggregating \$nil (December 31, 2013-\$200,000) unsecured and due on January 1, 2015 with interest payable monthly at 7% per annum. This facility was repaid and cancelled in March 2014.	\$ -	\$195,000
(e) During the three and six months ended June 30, 2014 the Company financed certain mobile mining equipment at the Mount Polley mine with a \$5,587 term loan repayable over five years at a fixed interest rate of 2.90% with monthly payments, inclusive of interest, of \$60 until July 2015, \$100 thereafter until a final payment of \$559 in August 2019, secured by the financed equipment.		

### 11. FUTURE SITE RECLAMATION PROVISIONS

The Company has recognized provisions for future site reclamation at its Mount Polley, 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:

	Six Months Ended June 30 2014	Year Ended December 31 2013
Balance, beginning of period	\$16,045	\$12,397
Accretion (Note 16)	323	307
Costs incurred during the period	-	(200)
Change in estimates of future costs and effect of translation of foreign currencies	2,564	3,541
Balance, end of period	18,932	16,045
Less portion due within one year	(285)	(285)
	\$18,647	\$15,760

The total undiscounted amount of estimated future cash flows required to settle the obligations is \$22,726 (December 31, 2013-\$20,425). The estimated future cash flows were then adjusted using a 2.0% (December 31, 2013-2.0%) rate of inflation. The estimated future cash flows have been discounted using a rate of 3.82% (December 31, 2013-4.20%).

The obligations are expected to be settled primarily in the years 2014 through 2041.

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 25(b) and (d) for assets pledged and legally restricted for the purposes of settling future site reclamation provisions and obligation to increase reclamation bond funding.

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### 12. DERIVATIVE INSTRUMENTS

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 and gold prices and the CDN/US Dollar exchange rate. There is no master netting agreement which allows for the Company to offset gains and losses from the various contracts.

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

At June 30, 2014, the Company had entered into various contracts to protect the cash flow from Mount Polley against a decline in the price of copper and gold and to lock in the CDN/US Dollar exchange and interest rate on a portion of the Notes (Note 10). The Company has not applied 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 June 30, 2014 depending on the attributes of the contracts.

(i) Option contracts outstanding at June 30, 2014 for copper are as follows:

Contract Period	Weighted Average		Put Options Purchased <i>lbs of copper</i>	Call Options Sold <i>lbs of copper</i>
	Minimum Price <i>US\$/lb</i>	Maximum Price <i>US\$/lb</i>		
	2014	\$2.89		

(ii) Option contracts outstanding at June 30, 2014 for gold are as follows:

Contract Period	Weighted Average		Put Options Purchased <i>ounces of gold</i>	Call Options Sold <i>ounces of gold</i>
	Minimum Price <i>US\$/oz</i>	Maximum Price <i>US\$/oz</i>		
	2014	\$1,237		
2015	\$1,250	\$1,415	36,000	36,000

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

(iii) On March 12, 2014, concurrent with the issuance of the Notes, the Company entered into US Dollar fixed to CDN Dollar fixed cross currency swaps aggregating US\$110,000 in principal amount to lock in the foreign exchange rate on a portion of the US\$325,000 Notes and related interest payments (Note 10). These cash flow hedges provide the Company with a fixed US Dollar to CDN Dollar exchange rate and a fixed interest rate on the US\$110,000 swapped to \$122,232 principal amount of the Notes. The foreign exchange rate on the US\$110,000 swapped principal plus related interest payments over the five year term of the Notes is fixed at 1.1112 CDN for each US Dollar. The interest rate on the CDN Dollar obligations is fixed at 7.6% per annum over the term of the Notes. At June 30, 2014 the fair value of the cross currency swap was a liability of \$8,021.

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### 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

#### (b) Share Option Plans

The changes in share options were as follows:

	Six Months Ended June 30, 2014		Year Ended December 31, 2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of period	2,582,700	\$8.28	3,014,968	\$8.13
Exercised	(270,250)	\$6.98	(356,268)	\$6.76
Forfeited	(48,000)	\$11.55	(76,000)	\$9.38
Outstanding at end of period	2,264,450	\$8.36	2,582,700	\$8.28
Options exercisable at end of period	1,761,450	\$7.46	1,962,700	\$7.44

The following table summarizes information about the Company's share options outstanding at June 30, 2014:

Exercise Prices	Options Outstanding		Options Exercisable	
	Options Outstanding	Remaining Contractual Life in Years	Options Outstanding and Exercisable	Remaining Contractual Life in Years
\$4.41	870,900	4.50	870,900	4.75
\$5.93	175,500	5.50	176,000	5.75
\$11.55	1,218,050	6.29	715,050	6.54
	2,264,450	5.50	1,761,950	5.58

For share options exercised during the three months and six months ended June 30, 2014, the weighted average share price at the date of exercise was \$14.05 and \$17.09, respectively (June 30, 2013-\$13.42 and \$11.99, respectively).

Refer to Notes 13(b) and (c) of the audited consolidated financial statements for the year ended December 31, 2013 for further details of the Company's Share Options Plans and Normal Course Issuer Bid.

#### (c) Warrants

In connection with the junior credit facility (Note 10(c)) the Company issued 750,000 warrants on March 12, 2014 to a related party. Each warrant is exercisable at \$20 and entitles the holder to purchase one common share of the Company. The warrants expire on March 12, 2016. At June 30, 2014 all 750,000 warrants remained outstanding.

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### 14. COST OF SALES

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Operating expenses	\$19,452	\$15,884	\$38,588	\$38,491
Salaries, wages and benefits	8,171	8,074	18,142	18,421
Depletion and depreciation	5,975	4,049	12,294	8,378
Share based compensation	17	38	34	75
	<u>\$33,615</u>	<u>\$28,045</u>	<u>\$69,058</u>	<u>\$65,365</u>

### 15. GENERAL AND ADMINISTRATION COSTS

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Administration	\$1,339	\$1,404	\$2,594	\$2,789
Share based compensation	208	451	413	915
Depreciation	151	27	329	57
Foreign exchange loss (gain)	425	(240)	1,270	(132)
	<u>\$2,123</u>	<u>\$1,642</u>	<u>\$4,606</u>	<u>\$3,629</u>

### 16. FINANCE INCOME (COSTS)

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Accretion of future site reclamation provisions	\$(166)	\$(69)	\$(323)	\$(138)
Other interest expense	-	(18)	-	(29)
Financing fees	-	(375)	-	(375)
Foreign exchange loss on current debt	-	(148)	(270)	(226)
Foreign exchange gain (loss) on non-current debt	13,592	(704)	14,169	(863)
Fair value adjustment to marketable securities	(66)	(288)	(153)	(537)
Realized (loss) gains on derivative instruments	(1)	-	13	-
Unrealized (losses) gains on derivative instruments	(7,413)	1,074	(9,514)	1,564
	<u>5,946</u>	<u>(528)</u>	<u>3,922</u>	<u>(604)</u>
Interest income	15	185	20	226
Finance income (costs)	<u>\$5,961</u>	<u>\$(343)</u>	<u>\$3,942</u>	<u>\$(378)</u>

### 17. INCOME AND MINING TAXES

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Current income and mining taxes	\$305	\$(1,989)	\$671	\$1,924
Deferred income and mining taxes	7,296	8,033	11,144	6,988
	<u>\$7,601</u>	<u>\$6,044</u>	<u>\$11,815</u>	<u>\$8,912</u>



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### 18. INCOME PER SHARE

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

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Net Income	\$15,213	\$7,541	\$21,070	\$18,162
Basic weighted-average number of common shares outstanding	74,945,642	74,391,817	74,891,397	74,373,114
Effect of dilutive securities - stock options	942,157	859,923	1,054,897	1,009,700
Diluted weighted-average number of common shares outstanding	75,887,798	75,251,740	75,946,294	75,382,814
Basic net income per common share	\$0.20	\$0.10	\$0.28	\$0.24
Diluted net income per common share	\$0.20	\$0.10	\$0.28	\$0.24

Excluded from the calculation of diluted net income per common share for the period ended June 30, 2014 are 750,000 warrants (June 30, 2013-nil warrants) which are anti-dilutive.

### 19. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Trade and other receivables	\$(4,036)	\$36,432	\$(24,698)	\$15,732
Inventory	(1,489)	(1,717)	413	4,270
Derivative instrument assets	(1,752)	-	(74)	-
Prepaid expenses and deposits	8	159	616	897
Trade and other payables	(671)	4,948	6,810	4,188
Derivative instrument liabilities	1,755	-	112	-
	\$(6,185)	\$39,822	\$(16,821)	\$25,087

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

During the three and six months ended June 30, 2014 the Company issued nil and 750,000 warrants, respectively, for financing costs (Notes 10(c) and 21) at an ascribed value of \$870.

During the three and six months ended June 30, 2013 the Company purchased certain property, plant and equipment at a cost of \$15,162 and \$15,162 respectively, which was financed by long term debt.

During the three and six months ended June 30, 2013 the Company received marketable securities with a fair value of \$nil and \$3 respectively, as an option payment on a mineral property.

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### 20. JOINT OPERATIONS

Included in the condensed consolidated interim financial statements are the following amounts representing the Company's interests in joint operations consisting primarily of a 50% interest in the Ruddock Creek Joint Venture (Note 6) and a 35% interest in the Porcher Island Joint Venture:

#### *Statements of Financial Position*

	Six Months Ended June 30	
	2014	2013
Current Assets		
Cash	\$77	\$288
Other current assets	8	3
	<u>85</u>	<u>291</u>
Mineral properties	12,724	12,006
Other non-current assets	45	45
	<u>12,854</u>	<u>12,342</u>
Current Liabilities		
Trade and other payables	(31)	(13)
Non-current future site reclamation provisions	(220)	(303)
	<u>\$12,603</u>	<u>\$12,026</u>

#### *Statements of Cash Flows*

	Six Months Ended June 30	
	2014	2013
Cash provided by financing activities	\$ -	\$500
Cash used in investing activities	(362)	(257)
(Decrease) increase in cash	<u>\$(362)</u>	<u>\$243</u>

There have been no operations since inception of the Ruddock Creek Joint Venture and the Porcher Island Joint Venture as the joint operations are currently in the exploration stage.

### 21. RELATED PARTY TRANSACTIONS

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

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Cost of sales	\$6	\$ -	\$6	\$6
Loan guarantee fee for guarantee of portion of bank loan facility (Note 9)	\$ -	\$117	\$91	\$234
Financing fees – cash	\$ -	\$375	\$1,000	\$375
Financing fees – warrants (Notes 10(c) and 13 (c))	\$ -	\$ -	\$870	\$ -
Interest	\$1,015	\$83	\$4,203	\$83
Accrued interest on Notes	\$1,211	\$ -	\$1,211	\$ -
Notes (US\$53,300)	\$56,903	\$ -	\$56,903	\$ -
Acquisition and development of mineral properties	\$29	\$ -	\$29	\$ -
Trade and other payables	\$29	\$ -	\$29	\$ -

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.

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### 22. COMPENSATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

The remuneration of the Company's directors and other key management personnel during the six months ended June 30, 2014 and 2013 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Short term benefits <sup>(1)</sup>	\$359	\$330	\$714	\$658
Share based payments <sup>(2)</sup>	\$ -	\$ -	\$ -	\$ -

<sup>(1)</sup> Short term employee benefits include salaries, estimated 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 For the Six Months Ended June 30, 2014 and 2013.

<sup>(2)</sup> Share-based payments are the fair value of options granted to directors and other key management personnel.

### 23. REPORTABLE SEGMENTED INFORMATION

The Company operates primarily in Canada. Except for assets, comprised primarily of the Sterling mine, totaling \$37,792 as at June 30, 2014 (December 31, 2013-\$33,470) located in the United States, all of its assets are located in Canada. The Company's reportable segments reflect the internal reporting used by the Company's management to report to the chief operating decision maker. The Company has five reportable segments each including related exploration and development activities; Mount Polley, Huckleberry, Red Chris, Sterling and Corporate. Transactions between reportable segments are recorded at fair value.

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

	Three Months Ended June 30, 2014					
	Mount Polley	Huckleberry	Sterling	Red Chris	Corporate	Total
Reportable segmented revenues	\$49,609	\$ -	\$1,422	\$ -	\$249	\$51,280
Less inter-segment revenues	-	-	-	-	(214)	(214)
Revenues from external sources	\$49,609	\$ -	\$1,422	\$ -	\$35	\$51,066
Depletion and Depreciation	\$4,787	\$ -	\$1,075	\$ -	\$264	\$6,126
Finance Income (Costs)	\$(1,667)	\$ -	\$(17)	\$7,414	\$231	\$5,961
Equity Income in Huckleberry	\$ -	\$1,390	\$ -	\$ -	\$ -	\$1,390
Net Income (Loss)	\$9,901	\$1,390	\$(980)	\$7,210	\$(2,308)	\$15,213
Capital Expenditures	\$25,504	\$ -	\$15	\$116,096	\$206	\$141,821
Equity Investment	\$ -	\$92,214	\$ -	\$ -	\$ -	\$92,214
Total Assets	\$293,352	\$92,214	\$32,792	\$785,042	\$28,463	\$1,231,863
Total Liabilities	\$150,292	\$ -	\$2,605	\$612,285	\$24,256	\$789,438

	Three Months Ended June 30, 2013					
	Mount Polley	Huckleberry	Sterling	Red Chris	Corporate	Total
Reportable segmented revenues	\$41,037	\$ -	\$36	\$ -	\$523	\$41,596
Less inter-segment revenues	-	-	(36)	-	(243)	\$(279)
Revenues from external sources	\$41,307	\$ -	\$ -	\$ -	\$280	\$41,317
Depletion and Depreciation	\$3,941	\$ -	\$ -	\$ -	\$135	\$4,076
Finance (Costs) Income	\$2,070	\$ -	\$(15)	\$(284)	\$(2,114)	\$(343)
Equity Income in Huckleberry	\$ -	\$2,279	\$ -	\$ -	\$ -	\$2,279
Net Income (Loss)	\$10,427	\$2,279	\$6	\$(1,689)	\$(3,482)	\$7,541
Capital Expenditures	\$23,723	\$ -	\$(861)	\$59,529	\$142	\$82,533
Equity Investment	\$ -	\$88,012	\$ -	\$ -	\$ -	\$88,012
Total Assets	\$209,207	\$88,012	\$34,831	\$365,885	\$24,224	\$722,159
Total Liabilities	\$231,135	\$ -	\$3,412	\$31,526	\$63,787	\$329,860

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	Six Months Ended June 30, 2014					
	Mount Polley	Huckleberry	Sterling	Red Chris	Corporate	Total
Reportable segmented revenues	\$96,016	\$ -	\$3,070	\$ -	\$777	\$102,865
Less inter-segment revenues	-	-	-	-	(462)	(462)
Revenues from external sources	\$96,016	\$ -	\$3,070	\$ -	\$315	\$102,401
Depletion and Depreciation	\$9,781	\$ -	\$2,288	\$ -	\$554	\$12,623
Finance Income (Costs)	\$(2,104)	\$ -	\$(34)	\$6,229	\$(149)	\$3,942
Equity Income in Huckleberry	\$ -	\$82	\$ -	\$ -	\$ -	\$82
Net Income (Loss)	\$21,954	\$82	\$(1,960)	\$6,275	\$(5,281)	\$21,070
Capital Expenditures	\$41,709	\$ -	\$50	\$196,305	\$403	\$238,467
Equity Investment	\$ -	\$92,214	\$ -	\$ -	\$ -	\$92,214
Total Assets	\$293,352	\$92,214	\$32,792	\$785,042	\$28,463	\$1,231,863
Total Liabilities	\$150,292	\$ -	\$2,605	\$612,285	\$24,2566	\$789,438

	Six Months Ended June 30, 2013					
	Mount Polley	Huckleberry Note 5	Sterling	Red Chris	Corporate	Total
Reportable segmented revenues	\$91,624	\$ -	\$62	\$ -	\$1,047	\$92,733
Less inter-segment revenues	-	-	(62)	-	(488)	(550)
Revenues from external sources	\$91,624	\$ -	\$ -	\$ -	\$559	\$92,183
Depletion and Depreciation	\$8,165	\$ -	\$ -	\$ -	\$270	\$8,435
Finance (Costs) Income	\$844	\$ -	\$(31)	\$(277)	\$(914)	\$(378)
Equity Income in Huckleberry	\$ -	\$4,213	\$ -	\$ -	\$ -	\$4,213
Net Income (Loss)	\$19,875	\$4,213	\$(10)	\$(999)	\$(4,917)	\$18,162
Capital Expenditures	\$40,651	\$ -	\$(451)	\$101,420	\$258	\$141,878
Equity Investment	\$ -	\$88,012	\$ -	\$ -	\$ -	\$88,012
Total Assets	\$209,207	\$88,012	\$34,831	\$365,885	\$24,224	\$722,159
Total Liabilities	\$231,135	\$ -	\$3,412	\$31,526	\$63,787	\$329,860

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

expressed in thousands of Canadian dollars, except share amounts

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Revenue by geographic area				
Japan	\$49,179	\$17,850	\$72,636	\$44,121
United States	1,820	23,203	29,418	47,502
Canada	67	264	347	560
	<u>\$51,066</u>	<u>\$41,317</u>	<u>\$102,401</u>	<u>\$92,183</u>

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

In the six months ended June 30, 2014 the Company had three principal customers (June 30, 2013–three principal customers) with each customer accounting for 50%, 26% and 21% of revenues (June 30, 2013–52%, 25% and 23% of revenues). The Company is not reliant on any one customer to continue to operate as a going concern.

In the three months ended June 30, 2014 the Company had two principal customers (June 30, 2013–two principal customers) with each customer accounting for 53% and 43% of revenues (June 30, 2013–56% and 51% of revenues). The Company is not reliant on any one customer to continue to operate 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.

The Company sells all of its concentrate and gold production to third party smelters and traders. The Company's revenue from operations by major product and service are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Copper	\$34,737	\$25,532	\$66,458	\$55,387
Gold	15,729	14,982	34,443	34,855
Silver	533	521	1,153	1,381
Other	67	282	347	560
	<u>\$51,066</u>	<u>\$41,317</u>	<u>\$102,401</u>	<u>\$92,183</u>

Huckleberry sells copper concentrate to smelters owned by the Company's joint venture partners in Huckleberry (Note 5).

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

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### 24. FINANCIAL INSTRUMENTS

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

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities; and

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – inputs that are not based on observable market data.

The fair value of the Company’s financial instruments has been classified within the fair value hierarchy as at June 30, 2014 as follows:

	Level 1	Level 2	Total
Financial Assets			
Cash	\$6,967	\$ -	\$6,967
Marketable securities	910	-	910
Provisionally priced receivables	-	32,874	32,874
Derivative instruments assets	-	297	297
Future site reclamation deposits	3,091	-	3,091
	10,968	33,171	44,139
Financial Liabilities			
Derivative instrument liabilities	-	8,109	8,109
	\$10,968	\$25,062	\$36,030

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three and Six Months Ended June 30, 2014 and 2013

Unaudited – Prepared by Management

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### 25. COMMITMENTS AND PLEDGES

(a) At June 30, 2014 the Company is committed to future minimum operating lease payments as follows:

2014	\$293
2015	388
2016	391
2017	198
2018	-
	<u>\$1,270</u>

(b) At June 30, 2014 the Company has pledged the following assets for settlement of future site reclamation provisions:

Future site reclamation deposits included with other assets	\$3,091
Mineral property, plant and equipment	1,370
Letters of credit (Note 10)	24,558
	<u>\$29,019</u>

(c) At June 30, 2014 the Company had commitments to purchase plant and equipment for the Red Chris project at a cost of \$13,115.

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

2014	\$1,200
2015	4,500
2016	6,000
2017	5,500
2018	4,000
2019 and beyond	3,800
	<u>\$25,000</u>

### 26. CONTINGENT LIABILITIES

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



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the Three and Six Months Ended June 30, 2014 and 2013

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**27. SUBSEQUENT EVENTS**

Subsequent to June 30, 2014:

- (a) The tailings dam at the Mount Polley mine was breached on August 4, 2014 causing a discharge of water and tailings. The free floating debris on Quesnel Lake has been secured and removal of the wooden debris onto land is expected to begin soon. Mining crews are working on installing a rock dyke inside the tailings impoundment across the breach to secure the remaining tailings. Crews have also installed two pumping systems to reduce the water level in Polley Lake to normal levels. Business interruption and physical damage insurers have been notified. It is not known how long it will take to restore operations. Additionally, the costs to remediate are unknown. The Company is working closely with provincial agencies, local ministries, and other affected parties to develop and implement a remediation plan.
- (b) The Company has become aware of a proposed securities class action against the Company and certain of its directors, officers and others in the Ontario Superior Court of Justice in Toronto (the "Proposed Claim"). The Company has not been formally served with a copy of the Proposed Claim. The Company has engaged independent legal counsel to advise it on this matter and intends to vigorously defend the Proposed Claim if and when served.
- (c) On August 14, 2014 the Company obtained commitments for \$100,000 of new financing. The \$100,000 is comprised of a minimum of \$80,000 and a maximum of \$100,000 of 6%, 6 year Convertible Debentures. To the extent that the maximum issuance of Convertible Debentures is not achieved the shortfall is committed to be funded by 6 year non-convertible Debenture bearing interest at 12%.

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Andre Deepwell | Chief Financial Officer & Corporate Secretary  
Don Parsons | Chief Operating Officer  
Kelly Findlay | Vice President Finance  
Steve Robertson | Vice President Corporate Affairs  
Gordon Keevil | Vice President Corporate Development

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