

Imperial Metals Corporation 2018 Annual Report



Imperial enters joint venture with Newcrest

On March 10, 2019 Imperial announced it had entered into an agreement to sell a 70% interest in its Red Chris copper and gold asset to Newcrest Mining Limited. Imperial and Newcrest will form a joint venture for the operation of Red Chris, with Newcrest acting as operator.

Imperial President, Brian Kynoch, said "This transaction presents a compelling opportunity for all stakeholders as it allows Imperial to significantly strengthen its balance sheet while forging a strategic partnership with a leading global mining company. We believe this joint venture partnership will enable Imperial to unlock significant value at Red Chris by leveraging Newcrest's unique technical expertise in block caving operations. With a stronger financial position and highly actionable path to exploiting the underground mining potential of Red Chris, Imperial will be in a much stronger position to create value and opportunities for its shareholders, stakeholders and the Tahltan Nation."

Newcrest's Managing Director and CEO, Sandeep Biswas, said: "We are delighted to add this joint venture into the Newcrest portfolio. We believe we can bring our unique technical capabilities to unlock the full value potential of this orebody in one of the premier gold districts in the world. We have identified a clear path to potentially turn Red Chris into a Tier 1 operation. The geology of Red Chris is similar to our Cadia orebodies in Australia and we will be applying our considerable experience in exploration, open pit mining, caving and processing to maximize the value of Red Chris and the opportunities in the surrounding region. We look at this opportunity in the same way as we do with Cadia, where we have proven we can create significant value from deep underground porphyry orebodies. We are pleased to be establishing a joint venture with Imperial and look forward to building a collaborative relationship with Tahltan Nation and the Government of British Columbia."



MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for Imperial Metals Corporation ("Imperial", the "Company", "we", "us" or "our") should be read in conjunction with the audited Consolidated Financial Statements and related notes for the year ended December 31, 2018. The Consolidated 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.

Imperial is a Canadian mining company active in the acquisition, exploration, development, mining and production of base and precious metals. The Company, through its subsidiaries, owns the Red Chris, Mount Polley and Huckleberry copper mines in British Columbia. Imperial also holds a 50% interest in the Ruddock Creek lead/zinc property in British Columbia. Imperial has interests in various other early stage exploration properties, however exploration is currently focused at existing mining operations. The Company also continues to evaluate potential acquisitions.

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

The Company is listed on The Toronto Stock Exchange and its shares trade under symbol III. As at March 29, 2019, the Company had 127,110,479 common shares outstanding, and on a diluted basis 142,917,891 common shares outstanding. Additional Company disclosure can be obtained from imperialmetals.com or sedar.com.

FORWARD-LOOKING STATEMENTS & RISKS NOTICE

This MD&A is a review of the Company's operations and financial position as at and for the year ended December 31, 2018, and plans for the future based on facts and circumstances as of March 29, 2019. Except for statements of historical fact relating to the Company, certain information contained herein constitutes forward-looking information which are prospective in nature and reflect the current views and/or expectations of Imperial. Often, but not always, forward-looking information can be identified by the use of statements such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "forecasts", "projects", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such information in this MD&A includes, without limitation, statements regarding: expectations that the agreement to sell a 70% interest in the Company's Red Chris mine to Newcrest will successfully close and within necessary time frames, resulting in the joint venture between the parties for the operation of the Red Chris asset going forward, with Newcrest acting as operator; the 2019 production targets for the Red Chris and Mount Polley mines; expectations that Red Chris mine operations are expected to return to normal as run-off water volumes increase due to the warmer early Spring temperatures; expectations that milling of the low grade stockpiles at Mount Polley will continue until May 2019, at which time that mine will be put on care and maintenance until the economics of mining at Mount Polley improve; consideration for implementation of a preliminary plan to restart the Huckleberry mine at such time when the economics of mining improve; costs and timing of current and proposed exploration and development, including plans to conduct future additional diamond drilling at Mount Polley in the vicinity of the Springer pit and ground magnetometer surveying, and plans to further explore the western edge of the massive sulphide horizons at Ruddock Creek; production and marketing; capital expenditures; adequacy of funds for projects and liabilities; the receipt of necessary regulatory permits, approvals or other consents; outcome and impact of litigation; cash flow; working capital requirements; the requirement for additional capital; results of operations, production, revenue, margins and earnings; future prices of copper and gold; future foreign currency exchange rates and impact; future accounting changes; and future prices for marketable securities.

Forward-looking information is not based on historical facts, but rather on then current expectations, beliefs, assumptions, estimates and forecasts about the business and the industry and markets in which the Company operates, including, but not limited to, assumptions that: the agreement to sell a 70% interest in the Company's Red Chris mine to Newcrest will successfully close and within necessary time frames, enabling the Company to satisfy its debt obligations and repay its credit facilities as they become due; the Company will have access to capital as required and will be able to fulfill its funding obligations as the Red Chris minority joint venture partner; the Company will be able to advance and complete remaining planned rehabilitation activities within expected timeframes; there will be no significant delay or other material impact on the expected timeframes or costs for completion of rehabilitation of the Mount Polley mine and implementation of Mount Polley's long term water management plan; the Company's initial rehabilitation activities at Mount Polley will be successful

in the long term; all required permits, approvals and arrangements to proceed with planned rehabilitation and Mount Polley's long term water management plan will be obtained in a timely manner; there will be no material operational delays at the Red Chris mine; equipment will operate as expected; there will not be significant power outages; there will be no material adverse change in the market price of commodities and exchange rates; the Red Chris mine will achieve expected production outcomes (including with respect to mined grades and mill recoveries and access to water as needed). Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. We can give no assurance that the forward-looking information will prove to be accurate.

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

Important risks that could cause Imperial's actual results, revenues, performance or achievements to differ materially from Imperial's expectations include, among other things: the risk that the agreement to sell a 70% interest in the Company's Red Chris mine to Newcrest will not successfully close and within necessary time frames, jeopardizing the Company's ability to satisfy its debt obligations and repay its credit facilities as they become due, and undermining the Company's ability to continue as a going concern; the risk that the Company's ownership of the Red Chris mine may be diluted over time should it not have access to capital as required and will not be able to meet its funding obligations as the Red Chris minority joint venture partner; that additional financing that may be required may not be available to Imperial on terms acceptable to Imperial or at all; uncertainty regarding the outcome of sample testing and analysis being conducted on the area affected by the Mount Polley Breach; risks relating to the timely receipt of necessary approvals and consents to proceed with the rehabilitation plan and Mount Polley's long term water management plan; risks relating to the remaining costs and liabilities and any unforeseen longer-term environmental consequences arising from the Mount Polley Breach; uncertainty as to actual timing of completion of rehabilitation activities and the implementation of Mount Polley's long term water management plan; risks relating to the impact of the Mount Polley Breach on Imperial's reputation; the quantum of claims, fines and penalties that may become payable by Imperial and the risk that current sources of funds are insufficient to fund liabilities; risks that Imperial will be unsuccessful in defending against any legal claims or potential litigation; risks of protesting activity and other civil disobedience restricting access to the Company's properties; failure of plant, equipment or processes to operate in accordance with specifications or expectations; cost escalation, unavailability of materials and equipment, labour unrest, power outages, and natural phenomena such as weather conditions and water shortages negatively impacting the operation of the Red Chris mine; changes in commodity and power prices; changes in market demand for our concentrate; inaccurate geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources); and other hazards and risks disclosed within this Management's Discussion and Analysis for the year ended December 31, 2018 and other public filings which are available on Imperial's profile at sedar.com. For the reasons set forth above, investors should not place undue reliance on forward-looking information. Imperial does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

SIGNIFICANT EVENTS AND LIQUIDITY

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

On January 5, 2018, the Company issued 2,353,274 common shares in payment of \$6.2 million of interest due on December 31, 2017 for certain debt facilities.

On April 4, 2018, the Company issued 816,414 common shares in payment of \$1.8 million of interest due on March 31, 2018 for the Junior Credit Facility.

On July 9, 2018, the Company issued 3,107,425 common shares in payment of \$6.1 million of interest due on June 30, 2018 for the Junior Credit Facility and Convertible Debentures.

On September 14, 2018 the Company commenced a financial and business restructuring process including the appointment of a Special Committee which is authorized by the Board of Directors to identify, consider, negotiate and potentially implement all strategic alternatives including sales of some of the Company's assets, joint ventures, a recapitalization, and a sale or merger of the Company.

At September 14, 2018 the Company had completed the following:

- The Company's \$200.0 million syndicated Secured Revolving Senior Credit Facility was replaced by a bilateral Secured Revolving Senior Credit Facility of equal amount and the maturity date extended from October 1, 2018 to February 15, 2019. The new Secured Revolving Senior Credit Facility is supported by a guarantee from Edco Capital Corporation ("Edco"), a company controlled by a significant shareholder of the Company, for an annual fee of 2.25%. The annual guarantee fee is less than the reduction in the interest rate charged on the Senior Credit Facility, and results in reduced interest expense to the Company. All the financial covenants that were in place on the syndicated Senior Credit Facility were removed from the new Senior Credit Facility.
- The due date of the Company's Second Lien Credit Facility of \$50.0 million was extended from December 1, 2018 to February 15, 2019 and the annual fee for the guarantee of this facility by Edco was reduced from 3.88% to 2.25%.
- The due date of the Company's Bridge Loan of \$26.0 million was extended from January 5, 2019 to February 28, 2019.
- The Company sold a 0.5% net smelter return royalty interest on the Red Chris project for US\$17.0 million (\$22.2 million) to a company of which a significant shareholder of the Company is a minority equity shareholder.

At November 27, 2018, the Company provided an operational and financial update as follows:

- The Company reported that an action for damages arising out of the August 4, 2014 failure of the perimeter embankment at the Mount Polley mine has been settled among all parties to the action in consideration of net payments to the Company totaling approximately \$108.0 million. This settlement represents compromises of disputed claims and does not constitute an admission of liability on the part of any party to the action.
- In accordance with the existing buyback option, the Directors of the Company approved the repurchase of the 0.5% net smelter return royalty interest in the Red Chris project sold in September 2018. The buyback option provided for the repurchase of this royalty by the Company for US\$17.0 million, being equal to the proceeds received on the royalty, plus simple interest at 6% per annum.

Subsequent to December 31, 2018, the Company reported the following:

On January 7, 2019, due to declining copper prices, the Mount Polley mine would suspend operations end of May 2019. The mine is expected to remain on care and maintenance until the economics of mining improve.

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

On February 15, 2019, the Company issued 2,785,080 common shares in payment of \$3.8 million of interest due on September 30, 2018 and December 31, 2018 for the Junior Credit Facility. The Company also extended the maturity dates on a number of its credit facilities as follows:

- The Senior Credit Facility extended from February 15, 2019 to March 7, 2019
- The Second Lien Credit Facility extended from February 15, 2019 to March 11, 2019
- The Bridge Loan extended from February 28, 2019 to March 13, 2019
- The Junior Credit Facility extended from March 12, 2019 to March 15, 2019

On March 7, 2019, the Company extended the maturity dates on a number of its credit facilities as follows:

- The Senior Credit Facility extended from March 7, 2019 to March 15, 2019
- The Second Lien Credit Facility extended from March 11, 2019 to March 15, 2019
- The Bridge Loan extended from March 13, 2019 to March 15, 2019

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

On March 11, 2019, the Company received a favorable judgement with respect to the uncertain status at December 31, 2018 of the recovery by the Company of approximately \$11.0 million of BC mineral taxes paid in prior years.

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

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

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

Executive Changes

Randall Thompson was appointed Vice President Operations in July 2018, and in November 2018 he was appointed General Manager of the Red Chris mine.

Dr. Carolyn Anglin resigned as Chief Scientific Officer & Vice President Environmental Affairs on December 31, 2018.

OVERVIEW

Select Annual Financial Information

expressed in thousands, except share and per share amounts	Years Ended December 31		
	2018	2017	2016
Total revenues	\$360,173	\$453,113	\$428,218
Net income (loss)	\$(125,595)	\$77,113	\$(54,080)
Net income (loss) per share	\$(1.06)	\$0.82	\$(0.66)
Diluted income (loss) per share	\$(1.06)	\$0.82	\$(0.66)
Adjusted net loss ⁽¹⁾	\$(84,763)	\$(62,626)	\$(56,784)
Adjusted net loss per share ⁽¹⁾	\$(0.71)	\$(0.66)	\$(0.69)
Adjusted EBITDA ⁽¹⁾	\$33,268	\$88,457	\$106,624
Working capital deficiency	\$789,470	\$238,269	\$89,108
Total assets	\$1,573,903	\$1,723,768	\$1,527,778
Total debt (including current portion)	\$871,268	\$852,378	\$835,365
Cash flow ⁽¹⁾⁽²⁾	\$143,449	\$88,381	\$107,591
Cash flow per share ⁽¹⁾⁽²⁾	\$1.21	\$0.94	\$1.32

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

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

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

expressed in thousands	Years Ended December 31	
	2018	2017
Net income (loss) before undernoted items	\$(26,923)	\$(6,182)
Interest expense	(57,249)	(55,887)
Foreign exchange gain (loss) on non-current debt	(36,949)	29,280
Impairment of mineral properties	(79,719)	-
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	-	109,818
Settlement and insurance recoveries	74,949	-
Gain on sale of Sterling	296	641
Share of loss in Huckleberry	-	(557)
Net Income (Loss)	\$(125,595)	\$77,113

Revenues decreased to \$360.2 million in 2018 compared to \$453.1 million in 2017, a decrease of \$92.9 million or 20.5%.

Revenue from the Red Chris mine in 2018 was \$255.7 million compared to \$289.1 million in 2017. Revenue from the Mount Polley mine in 2018 was \$104.4 million compared to \$163.5 million in 2017. There were 12.0 concentrate shipments in 2018 from the Red Chris mine (2017-15.0 concentrate shipments) and 3.0 concentrate shipments from the Mount Polley mine in 2018 (2017-4.7 concentrate shipments). Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where metal prices will settle at a future date.

The London Metals Exchange cash settlement copper price per pound averaged US\$2.96 in 2018 compared to US\$2.80 in 2017. The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,269 in 2018 compared to US\$1,257 in 2017. The average US\$ remained relatively steady compared to the CDN\$ in 2018 over 2017.

In 2018 the average copper price was CDN\$3.84 per pound and the average gold price was CDN\$1,645 per ounce compared to 2017 when the average copper price was CDN\$3.63 per pound and the average gold price was CDN\$1,632 per ounce.

Revenue in 2018 decreased by a \$19.0 million negative revenue revaluation compared to a positive revenue revaluation of \$15.2 million in 2017. Revenue revaluations are the result of the metal prices on the settlement date and/or the current period balance sheet date being higher or lower than when the revenue was initially recorded or the metal prices at the last balance sheet date and finalization of contained metals as a result of final assays.

Net loss for 2018 was \$125.6 million (\$1.06 per share) compared to net income of \$77.1 million (\$0.82 per share) in 2017. The majority of decrease in net income of \$202.7 million was primarily due to the following factors:

- Loss from mine operations went from income of \$19.5 million in 2017 to a loss of \$33.0 million in 2018, an increase in net loss of \$52.5 million.
- Interest expense increased from \$75.5 million in 2017 to \$78.4 million in 2018, an increase to net loss of \$2.9 million.
- Foreign exchange gain on current and non-current debt went from a gain of \$30.2 million in 2017 to a loss of \$36.9 million in 2018, an increase in net loss of \$67.1 million.
- Impairment on mineral properties went from \$nil in 2017 to \$109.2 million in 2018, an increase in net loss of \$109.2 million.
- A gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry of \$109.8 million in 2017 compared to \$nil in 2018, an increase in net loss of \$109.8 million.
- Rehabilitation costs of \$0.2 million in 2018 compared to \$5.8 million in 2017, a decrease in net loss of \$5.6 million.
- Other income totalled \$108.1 million in 2018 largely due to the settlement of \$106.2 million, net of costs pertaining to the August 4, 2014 tailings dam breach at the Mount Polley Mine ("Mount Polley Breach") compared to an expense of \$0.3 million in 2017, a decrease in net loss of \$107.8 million.
- An income and mining tax recovery of \$38.1 million in 2018 compared to a recovery of \$10.6 million in 2017, a decrease in net loss of \$27.5 million.

The 2018 net loss included foreign exchange loss related to changes in CDN\$/US\$ exchange rate of \$38.4 million compared to foreign exchange gain of \$30.4 million in 2017. The \$38.4 million foreign exchange loss in 2018 is comprised of a \$36.4 million loss on the Senior Notes, a \$0.6 million loss on short term loans, and a \$1.4 million loss on operational items. The average CDN\$/US\$ exchange rate in the 2018 was 1.296 compared to an average of 1.298 in 2017.

Cash flow was \$143.4 million in 2018 compared to cash flow of \$88.4 million in 2017. Cash flow is a measure used by the Company to evaluate its performance, however, it is not a term recognized under IFRS. The Company believes Cash flow is useful to investors and it is one of the measures used by management to assess the financial performance of the Company.

Capital expenditures were \$77.0 million in 2018, down from \$92.9 million in 2017. The 2018 expenditures included \$34.8 million for tailings dam construction, \$35.7 million on equipment and components and \$6.5 million for other capital items.

At December 31, 2018 the Company had \$18.6 million in cash (December 31, 2017-\$51.9 million). The Company has classified \$603.6 million of its non-current debt as current at December 31, 2018 (December 31, 2017-\$213.9 million).

NON-IFRS FINANCIAL MEASURES

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

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

Adjusted Net Loss and Adjusted Net Loss per Share

Adjusted net loss in 2018 was \$84.8 million (\$0.71 per share) compared to an adjusted net loss of \$62.6 million (\$0.66 per share) in 2017. Adjusted net income or loss shows the financial results excluding the effect of items not settling in the current period and non-recurring items. Adjusted net income or loss is calculated by removing the gains or loss, resulting from acquisition and disposal of property, mark to market revaluation of derivative instruments not related to the current period, net of tax, unrealized foreign exchange gains or losses on non-current debt, net of tax, as further detailed in the following table.

Calculation of Adjusted Net Loss

expressed in thousands, except share and per share amounts	Years Ended December 31	
	2018	2017
Net income (loss) reported	\$(125,595)	\$77,113
Unrealized foreign exchange (gain) loss on non-current debt, net of tax ^(a)	36,358	(29,280)
Impairment of mineral properties, net of tax ^(c)	79,719	-
Settlement and insurance recoveries, net of tax ^(d)	(74,949)	-
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry ^(b)	-	(109,818)
Gain on sale of Sterling ^(b)	(296)	(641)
Adjusted net loss	\$(84,763)	\$(62,626)
Basic weighted average number of common shares outstanding	118,939,728	94,384,477
Adjusted net loss per share	\$(0.71)	\$(0.66)

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

(b) There are no tax effects related to this transaction.

(c) The impairment of mineral properties have been excluded as these recoveries are non-recurring.

(d) Settlement and insurance recoveries related to Mount Polley, net of tax.

Adjusted EBITDA

Adjusted EBITDA in 2018 was \$33.3 million compared to \$88.5 million in 2017. We define Adjusted EBITDA as net income (loss) before interest expense, taxes, depletion and depreciation, and as adjusted for certain other items described in the 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 (loss) to Adjusted EBITDA is as follows:

expressed in thousands	Years Ended December 31	
	2018	2017
Net income (loss)	\$(125,595)	\$77,113
Adjustments:		
Income and mining tax recovery	(38,062)	(10,554)
Interest expense	78,423	75,523
Depletion and depreciation	75,040	83,216
Impairment of mineral properties	109,204	-
Accretion of future site reclamation provisions	3,167	2,310
Share based compensation	606	1,105
Foreign exchange (gain) loss	38,389	(30,441)
Revaluation (gain) loss on marketable securities	16	(242)
Share of loss in Huckleberry	-	557
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	-	(109,818)
Gain on sale of Sterling	(296)	(641)
Settlement and insurance recoveries	(107,676)	-
Other	52	329
Adjusted EBITDA	\$33,268	\$88,457

Cash Flow and Cash Flow Per Share

Cash flow in 2018 was \$143.5 million compared to \$88.4 million in 2017. Cash flow per share was \$1.21 in 2018 compared to \$0.94 in 2017.

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

expressed in thousands, except per share and per share amounts	Years Ended December 31	
	2018	2017
Income (loss) before taxes	\$(163,657)	\$66,559
Items not affecting cash flows:		
Equity loss in Huckleberry	-	557
Depletion and depreciation	75,040	83,216
Impairment of mineral properties	109,204	-
Share based compensation	606	1,105
Accretion of future site reclamation provisions	3,167	2,310
Unrealized foreign exchange gains	36,670	(30,242)
Interest expense	78,423	75,523
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	-	(109,818)
Gain on sale of Sterling	(296)	(641)
Other	4,292	(188)
Cash flow	\$143,449	\$88,381
Basic weighted average number of common shares outstanding	118,939,728	94,384,477
Cash flow per share	\$1.21	\$0.94

Cash Cost Per Pound of Copper Produced

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

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

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

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

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

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

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

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US\$ for the three months ended December 31, 2018 and 2017.

Calculation of Cash Cost Per Pound of Copper Produced

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

Three Months Ended December 31, 2018					
	Red Chris	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
	B	C			D=B+C
Cost of sales	\$63,495	\$34,532	\$ -	\$98,027	\$98,027
Less:					
Depletion and depreciation	(12,016)	(6,442)	-	(18,458)	(18,458)
Share based compensation	194	(23)	-	171	171
Cash costs before adjustment to production basis	51,673	28,067	\$ -	\$79,740	79,740
Adjust for inventory change	5,664	(2,906)			2,758
Adjust transportation and offsite costs	198	(1,515)			(1,317)
Treatment, refining and royalty costs	5,691	959			6,650
By-product and other revenues	(19,058)	(12,784)			(31,842)
Cash cost of copper produced in CDN\$	\$44,168	\$11,821			\$55,989
US\$ to CDN\$ exchange rate	1.3210	1.3210			1.3210
Cash cost of copper produced in US\$	\$33,435	\$8,949			\$42,384
Copper produced – pounds	15,568	3,184			18,752
Cash cost per lb copper produced in US\$	\$2.15	\$2.81			\$2.26

Three Months Ended December 31, 2017					
	Red Chris	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
	B	C			D=B+C
Cost of sales	\$68,123	\$44,256	\$40	\$112,419	\$112,379
Less:					
Depletion and depreciation	(15,833)	(6,327)	(9)	(22,169)	(22,160)
Share based compensation	(80)	(40)	-	(120)	(120)
Cash costs before adjustment to production basis	52,210	37,889	\$31	\$90,130	90,099
Adjust for inventory change	4,733	1,356			6,089
Adjust transportation and offsite costs	(124)	(175)			(299)
Treatment, refining and royalty costs	8,252	1,520			9,772
By-product and other revenues	(19,841)	(16,355)			(36,196)
Cash cost of copper produced in CDN\$	\$45,230	\$24,325			\$69,465
US\$ to CDN\$ exchange rate	1.2715	1.2715			1.2715
Cash cost of copper produced in US\$	\$35,572	\$19,060			\$54,632
Copper produced – pounds	23,234	4,023			27,257
Cash cost per lb copper produced in US\$	\$ 1.53	\$4.74			\$2.00

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US\$ for the years ended December 31, 2018 and 2017.

Calculation of Cash Cost Per Pound of Copper Produced

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

	Year Ended December 31, 2018				
	Red Chris	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
	B	C			D=B+C
Cost of sales	\$267,665	\$125,511	\$ -	\$393,176	\$393,176
Less:					
Depletion and depreciation	(48,931)	(24,845)	-	(73,776)	(73,776)
Share based compensation	107	(109)	-	(2)	(2)
Cash costs before adjustment to production basis	218,841	100,557	\$ -	\$319,398	319,398
Adjust for inventory change	8,003	(5,598)			2,405
Adjust transportation and offsite costs	(272)	(1,506)			(1,778)
Treatment, refining and royalty costs	21,776	4,317			26,093
By-product and other revenues	(65,323)	(60,144)			(125,467)
Cash cost of copper produced in CDN\$	\$183,025	\$37,626			\$220,651
US\$ to CDN\$ exchange rate	1.2960	1.2960			1.2960
Cash cost of copper produced in US\$	\$141,223	\$29,032			\$170,255
Copper produced – pounds	60,349	14,974			75,323
Cash cost per lb copper produced in US\$	\$2.34	\$1.94			\$2.26

	Year Ended December 31, 2017				
	Red Chris	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
	B	C			D=B+C
Cost of sales	\$254,644	\$178,009	\$982	\$433,635	\$426,486
Less:					
Depletion and depreciation	(50,458)	(30,721)	(159)	(81,338)	(80,291)
Share based compensation	(294)	(96)	-	(390)	(390)
Cash costs before adjustment to production basis	203,892	147,192	\$823	\$351,907	351,084
Adjust for inventory change	6,874	(19,833)			(12,959)
Adjust transportation and offsite costs	315	(1,038)			(723)
Treatment, refining and royalty costs	26,480	7,349			33,829
By-product and other revenues	(50,791)	(76,321)			(127,112)
Cash cost of copper produced in CDN\$	\$186,770	\$57,349			\$244,119
US\$ to CDN\$ exchange rate	1.2980	1.2980			1.2980
Cash cost of copper produced in US\$	\$143,891	\$44,183			\$188,073
Copper produced – pounds	74,636	19,071			93,707
Cash cost per lb copper produced in US\$	\$1.93	\$2.32			\$2.01

DEVELOPMENTS DURING 2018

Red Chris Mine

Fourth quarter metal production was 15.57 million pounds copper and 12,366 ounces gold, an increase of 15% and 41% respectively from the 13.55 million pounds copper and 8,741 ounces gold produced in the third quarter of 2018. Metal recoveries in the fourth quarter were 76.21% copper and 50.57% gold, compared to 74.92% copper and 45.65% gold in the third quarter of 2018. Annual recoveries for 2018 were 75.60% for copper and 47.13% for gold.

Annual metal production for 2018 was 60.35 million pounds copper and 41,935 ounces gold, both at 97% of the revised production targets. The mill achieved 97.4% of design capacity, treating an average of 29,228 tonnes per calendar day.

Annual Production for the Year Ended December 31	2018	2017
Ore milled - <i>tonnes</i>	10,668,313	10,378,181
Ore milled per calendar day - <i>tonnes</i>	29,228	28,433
Grade % - copper	0.339	0.413
Grade g/t - gold	0.259	0.233
Recovery % - copper	75.60	79.01
Recovery % - gold	47.13	43.00
Copper – <i>000's pounds</i>	60,349	74,636
Gold – <i>ounces</i>	41,935	33,416
Silver – <i>ounces</i>	103,634	133,157

The five haul trucks from Huckleberry mine were fully operational within the first quarter of 2018. The newly procured electric hydraulic shovel was operational in the third quarter of 2018.

In the third and fourth quarters of 2018, the Company used its own resources for the construction of the tailings impoundment area because the independent contractors constructing the tailings impoundment area were redirected to respond to the wildfires in the local region. This diversion of primary mine operations hauling units to the tailings impoundment area resulted in a lower productivity in mining operations during those periods.

MillSlicer was installed on the SAG mill in July 2018 to improve overall control of the mill. This vibration-based signal is in addition to the electronic ear, bearing pressure and mill power used in controlling mill fill level. Expectations from the increased response time of these new signals is improved production and mill liner life.

Work was initiated on the diagnosing of the high clay ore in the mineralized faults present in the Main zone and East zone, with results integrated into operational recovery models in advance of the 2019 Production Plan. Segregation of faulted material for plant-scale batch processing of fault material commenced in the fourth quarter of 2018, with the first planned plant-scale 'baseline' run in January 2019.

Work advanced on the underground resource conceptualization in conjunction with Golder Associates. In the second quarter of 2018, a geotechnical hole was completed to gather geotechnical information regarding the proposed block cave; notably, this hole also intersected significant copper and gold mineralization below the East zone pit. Work on a preliminary economic assessment of the block cave potential, incorporating the information from the geotechnical drill hole, was initiated in 2018 by Golder Associates.

In the 2018 third quarter, the management structure at Red Chris mine was reorganized. Randall Thompson, Imperial Vice President Operations, was appointed as Red Chris Mine General Manager, with a mandate to direct improvements of the mine operations.

Exploration, development and capital expenditures were \$62.9 million in 2018 compared to \$57.8 million in 2017.

Mount Polley Mine

Fourth quarter metal production was 3.18 million pounds copper and 7,983 ounces gold. Mill throughput averaged 17,467 tonnes per calendar day during the 2018 fourth quarter. Metal recoveries in the fourth quarter were 39.05% copper and 59.71% gold. The mill treated an average of 16,975 tonnes per calendar day while achieving recoveries of 52.89% copper and 67.25% gold.

Annual metal production for 2018 was 14.97 million pounds copper and 37,120 ounces gold, respectively 96% and 94% of the revised production targets.

Milling of low grade stockpiles is targeted to continue until May 2019, at which time the mine will be placed on care and maintenance until the economics of mining at Mount Polley improve.

Annual Production for the Year Ended December 31	2018	2017
Ore milled - <i>tonnes</i>	6,195,760	6,723,188
Ore milled per calendar day - <i>tonnes</i>	16,975	18,420
Grade % - copper	0.207	0.199
Grade g/t - gold	0.277	0.322
Recovery % - copper	52.89	64.53
Recovery % - gold	67.25	68.93
Copper – <i>000's pounds</i>	14,974	19,071
Gold – <i>ounces</i>	37,120	48,009
Silver – <i>ounces</i>	33,458	36,626

Dredging of tailings, deposited in the Springer pit in 2015-2016 to allow for restart of milling operations prior to repair of the tailings storage facility, commenced in early 2018. Mining operations in the Cariboo pit were completed in late 2018, and the mill relied on feed from the low grade stockpiles since that time. Dredging work in the Springer pit was suspended for the winter.

The South Springer is an area with potential to significantly increase mineral resource estimates. The mineralization is under the saddle separating the Cariboo and Springer Phase 6 pits, which presents an ideal location for additional low stripping ratio reserves, assuming planned drilling is positive. With the configuration of the Cariboo pit providing an excellent platform to conduct exploration drilling, follow up on 2012 drilling is planned for a future date.

During the spring of 2018 a four hole diamond drill program was completed totalling 953.12 m. The holes were drilled in the Saddle area between the Springer and Cariboo pits to confirm mineralization in this area for future mining plans. This information has been incorporated into the mine's block model.

In early 2018, Mount Polley was in mediation with USW Local 1-2017 to renew a collective agreement which had terminated December 31, 2017. Mediation efforts proved unsuccessful, and on May 23, 2018 Mount Polley initiated a lock out of its employees, following which unionized employees began strike action. Following further negotiations, in August 2018 unionized employees voted 79% to accept a new three year contract, effective as at January 1, 2018.

In November 2018, the legal action for damages arising from the Mount Polley Breach was settled among all parties to the action, in consideration of net payments to the Company totaling approximately CDN\$108 million. This settlement represents compromises of disputed claims and does not constitute an admission of liability on the part of any party to the action.

Exploration, development, and capital expenditures were \$13.3 million in 2018 compared to \$27.7 million in 2017.

Huckleberry Mine

Huckleberry mine ceased mine operations in August 2016, and remains on care and maintenance.

A preliminary plan to restart the mine has been developed, and will be under consideration for implementation, at such time when the economics of mining improve. In the interim, the Company will develop exploration programs designed to expand the resource.

Ruddock Creek Project

The Ruddock Creek lead-zinc project is operated by way of a joint venture with Imperial, Mitsui Mining and Smelting Co. Ltd. and Itochu Corporation. Imperial operates the project through its wholly owned subsidiary Ruddock Creek Mining Corporation. Japan Oil, Gas and Metals National Corporation agreed to fund Imperial's share of the 2018 drill program and upon the completion of the program has the assignable right to be vested in an approximate 1.57% Participating Interest in the joint venture. At that time Imperial's interest will reduce to approximately 48.43%.

Drill results from the first surface diamond drill hole RD-18-V41 at the Ruddock Creek Project were reported in September 2018 (of a planned three hole program targeting the deep extension of the V-Zone). Results from the first surface diamond drill hole RD-18-V41, included 21.7 m grading 16.99% zinc, 3.44% lead and 2.41 g/t silver, which included 10.4 m grading 25.70% zinc, 5.41% lead and 3.44 g/t silver. The drill hole targeted the V-Zone mineralization 425 m below surface and about 300 m below the deepest previous mineralized intercept in the zone. Drill hole RD-18-V41 was collared near the valley floor of Oliver Creek at an elevation of approximately 1,191 m above sea level and drilled to a final depth of 828.8 m.

The V-Zone is located near the western edge of the Ruddock Creek massive sulphide horizons, which have an indicated strike length of about five km, and is approximately two km west of the Creek Zone, the nearest zone of detailed drilling. Little or no exploration drilling has been conducted along the intervening section of the horizon. The V-Zone strikes east-west and dips at about 70° to the north. The zone had been traced with surface showings and by shallow drilling for a horizontal distance of about 700 m, and with this recent intersection, to a depth of approximately 425 m. Due to the steep terrain, long nearly flat drill holes from near the valley bottom were designed to test the zone at depth. Hole RD-18-V41 was drilled using an underground diamond drill rig bolted to a road accessible cliff face at an azimuth of 27° and a dip of plus 10°. Core size was HQ to a depth of 450 m. When the core size was reduced to NQ size, the hole was drilled to a final depth of 828.8 m.

The decision to drill test the V-Zone at such a depth beneath the nearest intercept was supported by the highly predictable nature of the zinc-lead mineralization intercepted in the shallower helicopter supported surface diamond drill holes, electromagnetic and magnetic geophysical anomalies, and a re-interpretation of the geology. The V-Zone in hole RD-18-V41, which was projected to be intersected at a depth of 750 m, was intercepted at 751.5 m, confirming the anticipated predictability of the zone at depth. The highest grades previously intersected in the V-Zone were in holes RD-12-V38, which intercepted 17.77% zinc and 3.72% lead over a true width of approximately 7.6 m, and RD-12-V40, which intercepted 10.00% zinc and 1.80% lead over a true width of approximately 10.9 m.

Drill hole RD-18-42, drilled at -10° below RD-18-41 to a final depth of 1,003.9 m, targeted the mineralization 300 m below the intersection in hole RD-18-41, at an estimated in hole depth of 834 m. Unfortunately, the hole intersected a late stage pegmatite dyke or sill from a depth of 805-956 m with no significant base metal mineralization intersected.

Drill hole RD-18-43, drilled at 0° (flat) in between RD-18-41 and 42 to a final depth of 831.5 m, targeted the mineralization 120 m below the intersection in hole RD-18-41 at an estimated in hole depth of 790-800 m. The favorable calc-silicate host rock was intersected from 747-775 m with narrow 2-10 cm, stringer semi-massive sphalerite-galena mineralized bands intersected but not comparable to the intersection in hole RD-18-41. The best two intervals intersected were 6.31% zinc, 0.5% lead and 11.0 g/t silver over 0.5 m from 751.44 m to 751.94 m, grading 5.89% zinc and 0.04% lead over 0.5 m from 767.18 m to 767.68 m. The intervals are approximately true thickness.

SJ Geophysics completed an in-hole EM and Magnetic survey in hole RD-18-43 but holes RD-18-41 and 42 were not able to be surveyed due to hole conditions. The survey outlined a significant off-hole EM and Magnetic response for such a zinc rich system in the area of the favorable calc-silicate host and stringer style zinc-lead mineralization.

Jim Miller-Tait, P.Geo., VP Exploration is the designated Qualified Person as defined by National Instrument 43-101 for the exploration program, and has reviewed and approved disclosure relating to drill hole RD-18-V41. Ruddock Creek samples for the 2018 drilling reported were analyzed at Bureau Veritas Mineral Laboratories in Vancouver, British Columbia. A full QA/QC program using blanks, standards and duplicates was completed.

Plans for further exploration of the western edge of the massive sulphide horizons have been developed and are being discussed with our joint venture partners.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies

Mineral Properties

Mineral properties represent capitalized expenditures related to the development of mining properties, related plant and equipment, expenditures related to exploration activities and expenditures arising from property acquisitions. Capitalized costs include interest and financing costs for amounts borrowed to develop mining properties and construct facilities, and operating costs, net of revenues, incurred prior to the commencement of commercial production.

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

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

Resource value and exploration potential value is noted as mineral properties not being depleted in Note 6. At least annually or when otherwise appropriate and subsequent to its review and evaluation for impairment, value from the non-depletable category is transferred to the depletable category if resources or exploration potential have been converted into reserves.

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

Commencement of Commercial Production

On the commencement of commercial production, net costs are charged to operations using the unit-of-production method by property based upon estimated recoverable reserves. Management considers a number of factors related to the ability of a property to operate at its design capacity over a specified period of time in determining when a property has reached commercial production. These factors include production levels as intended by management, plant throughput quantities, recovery rates, and number of uninterrupted days of production.

Property, Plant and Equipment

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

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

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

Milling equipment and related buildings, intangible assets used in production, and tailings facilities are depleted on a unit-of-production basis over the estimated recoverable proven and probable reserves at the mines to which they relate.

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

Stripping Costs

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

Assessment of Impairment

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

Post-feasibility exploration properties, producing mining properties and plant and equipment are reviewed at the end of each reporting period for evidence of impairment at the cash generating unit (CGU) level. A CGU is defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any such indication exists, the entity shall estimate the recoverable amount of the CGU to determine if it exceeds the CGU's carrying value.

The recoverable amount for a CGU is the greater of the fair value less cost of disposal (FVLCD) and the value in use. Fair value less cost of disposal is the amount that would be received by the Company to sell a CGU in a transaction between arms-length parties less any costs directly attributable to the disposal of the CGU. Value in use is the present value of future cash flows expected to be derived by the Company from the CGU, which is estimated using discounted cash flow techniques. When it is not possible to determine fair value less cost of disposal by quotes from an active market, a written offer to purchase the CGU, or a binding sales agreement to purchase the CGU, the Company estimates the fair value less cost of disposal using discounted cash flow techniques. Resources in the measured and indicated categories are valued using estimated fair values based on market transactions.

Discounted cash flow techniques are dependent on a number of factors, including future metal prices, the amount of reserves, resources and exploration potential, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and future site reclamation costs. Additionally, the reviews take into account factors such as political, social, legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts in assessing these factors.

An impairment loss or reversal thereof is recognized in income or loss to the extent that the carrying amount exceeds or is below the recoverable amount.

Future Site Reclamation Costs

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

Future site reclamation costs are capitalized as part of the carrying value of the related mineral property at its initial discounted value and amortized over the useful life of the mineral property using the unit-of-production method. Subsequent changes to future site reclamation costs are recorded with a corresponding change to the carrying amounts of related mineral property.

Income and Mining Taxes

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

In a business combination, temporary differences arise as a result of differences in the fair values of identifiable assets and liabilities acquired and their respective tax bases. Deferred tax assets and liabilities are recognized for the tax effects of these differences. Deferred tax assets and liabilities are not recognized for temporary differences arising from goodwill or from the initial recognition of assets and liabilities acquired in a transaction other than a business combination which does not affect either accounting or taxable income or loss. Government assistance, including investment tax credits, is credited against the expenditure generating the assistance when it is probable that the government assistance will be realized.

Revenue Recognition

The revenue from the sale of concentrate is recognized at the point in time when control of the concentrate passes to the customer which occurs when title transfer to the customer and on the date of shipment.

Revenue is recorded in the statement of income and comprehensive income net of treatment and refining costs and royalties paid to counterparties under terms of the off take arrangements. The estimated revenue is recorded based on metal prices and exchange rates on the date of shipment and is adjusted at each reporting date to the date of settlement metal prices. The actual amounts will be reflected in revenue upon final settlement, which could be as long as four to five months after the date of shipment. These adjustments reflect changes in metal prices and changes in quantities arising from final weight and assay calculations. The net realizable value of copper concentrate inventory is calculated on the basis of current market prices less treatment and refining costs.

Financial Assets

Financial assets are initially measured at fair value and are subsequently measured at either amortized cost or fair value through profit or loss, depending on the classification of the financial assets.

The classification of assets is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs. Trade receivable that do not contain a significant financial component or for which the Company has applied the practical expedient for contracts that have a maturity of a one year or less, are measured at the transaction price determined under IFRS 15 in accordance with revenue recognition accounting policy.

The Company has categorized its financial assets in accordance with International Financial Reporting Standard 9, Financial Instruments ("IFRS 9") into one of the following two categories:

Fair value through profit or loss

Includes equity investments, gold and copper price contract assets, gold and copper swap contracts, copper forward contracts, and other financial assets designated to this category under the fair value option. The Company has assessed the contractual cash flows of its provisionally priced contracts in accordance with IFRS 9 and has classified these contracts as fair value through profit or loss ("FVTPL").

Financial assets at amortized cost

Includes cash and cash equivalents, future site reclamation deposits and trade receivables at amortized cost.

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. The quoted market price used for financial assets held by the Company is the last bid price of the day.

Financial assets measured at amortized cost are subject to an allowance for expected credit losses based on the historic experience realizing these assets and information available about the probability of future collection. The Company applies a simplified lifetime expected credit loss model to measure expected credit losses for trade and other receivables.

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

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

Financial Liabilities

Financial liabilities are accounted for at amortized cost except for those at FVTPL which includes liabilities designated as FVTPL and derivatives. Financial liabilities classified as FVTPL or those which are designated as FVTPL under the fair value option are measured at fair value with unrealized gains and losses recognized in net earnings. In cases where financial liabilities are designated as FVTPL, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statements of operations. Financial liabilities at amortized cost are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost.

The Company has classified its financial liabilities in accordance with IFRS 9 into one of the following two categories:

Fair value through profit or loss - Includes provisions related to copper price option contract liabilities.

Financial liabilities at amortized cost - Includes trade and other payables and long-term debt.

Critical Judgements

Revenue recognition

Determination of performance obligations. The Company applied judgement to determine if a good or service that is promised to a customer is distinct based on whether the customer can benefit from the good or service on its own or together with other readily available resources and whether the good or service is separately identifiable. Based on these criteria, the Company determined the primary performance obligation relating to its sales contracts is the delivery of the concentrates. Shipping and insurance services arranged by the Company for its concentrate sales customers that occur after the transfer of control are also considered to be performance obligations.

Transfer of control. Judgement is required to determine when transfer of control occurs relating to the sale of the Company's concentrate to its customers. Management based its assessment on a number of indicators of control, which include, but are not limited to whether the Company has present right of payment, and whether the physical possession of the goods, significant risks and rewards and legal title have been transferred to the customer.

Variable consideration. Variable consideration should only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company identified a variable component of its revenue for concentrate sales relating to adjustments to the final sales price based on differences between the original and final assay results relating to the quantity and quality of concentrate shipments. Based on the Company's proficiency in its assaying process, evidenced by the insignificant amount of historical adjustments from the initial to final assays, the Company concluded the variability in consideration caused by assaying results was negligible. Therefore, the Company does not expect a significant amount of reversal in revenue related to assaying differences.

Impairment of Mineral Properties

Both external and internal information is reviewed and considered by management in their assessment of whether mineral properties are impaired. External sources of information include changes in the market, economic and legal environment, in which the Company operates, that are not within its control and affect the recoverable amount of its mineral properties, plant and equipment. The internal sources of information include the manner in which mineral properties, plant and equipment are being used or are expected to be used and indications of economic performance of assets. Management concluded that the difference between the Company's market capitalization and net assets per the Consolidated Statement of Financial Position is a result of the amount of debt being carried by the Company rather than the value of Company's assets. In determining the recoverable amounts of producing mineral properties management estimates the discounted future pre-tax cash flows expected to be derived from the Company's producing mineral properties. Reductions in commodity prices, increases in estimated future production and capital costs, reductions in mineral reserves and exploration potential and adverse economic events can result in impairment charges. In determining the economic recoverability and probability of future economic benefit of non-producing mineral properties management also considers geological information, likelihood of conversion of resources to reserves, scoping and feasibility studies, permitting, infrastructure, development costs, and life of mine plans.

Interests in Other Entities

As part of its process in determining the classification of its interests in other entities, the Company applies judgment in interpreting these interests such as

- the determination of the level of control or significant influence held by the Company;
- the accounting standard's applicability to the operations;
- the legal structure and contractual terms of the arrangement;
- concluding whether the Company has rights to assets and liabilities or to net assets of the arrangement; and
- when relevant, other facts and circumstances.

The Company has determined that the Ruddock Creek Joint Venture and the Porcher Island Joint Venture represent joint operations as they are unincorporated entities.

Functional Currency

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

Contingencies

Contingencies can be either possible assets or liabilities arising from past events which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. Such contingencies include, but are not limited to, environmental obligations, litigation, regulatory proceedings, tax matters and losses results from other events and developments. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgement regarding the outcome of future events.

Critical Estimates

Reserve and Resource Estimates

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

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

Depletion and Depreciation of Mineral Properties

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

Stripping Costs

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

Future Site Reclamation Provisions

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

Provision for Rehabilitation Costs

The provision for rehabilitation costs represents management's estimate of the future cash outflows required to settle the estimated rehabilitation costs related to the August 4, 2014 Mount Polley mine tailings dam breach. The provision incorporates the Company's estimate of costs for rehabilitation, including geotechnical investigations, environmental monitoring, community relations, communications and related corporate support costs. The provision is based on the scope and timing of work as determined by the Company in consultation with regulatory agencies and incorporates the risks associated with each activity. Changes in any of these factors can result in a change to the provision for rehabilitation costs.

Income Taxes

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

Share Based Compensation

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

RESULTS OF OPERATIONS FOR 2018 COMPARED TO 2017

This review of the results of operations should be read in conjunction with the audited Consolidated Financial Statements of the Company for the years ended December 31, 2018 and December 31, 2017.

Overview

Revenues decreased to \$360.2 million in 2018 compared to \$453.1 million in 2017, a decrease of \$92.9 million or 20.5%. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where metal prices will settle at a future date and the finalization of contained metals as a result of final assays.

Net loss for 2018 was \$125.6 million (\$1.06 per share) compared to net income of \$77.1 million (\$0.82 per share) in 2017. The majority of decrease in net income of \$202.7 million was primarily due to the following factors:

- Loss from mine operations went from income of \$19.5 million in 2017 to a loss of \$33.0 million in 2018, an increase in net loss of \$52.5 million.
- Interest expense increased from \$75.5 million in 2017 to \$78.4 million in 2018, an increase to net loss of \$2.9 million.
- Foreign exchange gain on current and non-current debt went from a gain of \$30.2 million in 2017 to a loss of \$36.9 million in 2018, an increase in net loss of \$67.1 million.
- Impairment on mineral properties went from \$nil in 2017 to \$109.2 million in 2018, an increase in net loss of \$109.2 million.
- A gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry of \$109.8 million in 2017 compared to \$nil in 2018, an increase in net loss of \$109.8 million.
- Rehabilitation costs of \$0.2 million in 2018 compared to \$5.8 million in 2017, a decrease in net loss of \$5.6 million.
- Other income totalled \$108.1 million in 2018 largely due to the settlement of \$106.2 million, net of costs pertaining to the August 4, 2014 tailings dam breach at the Mount Polley mine, compared to an expense of \$0.3 million in 2017, a decrease in net loss of \$107.8 million.
- An income and mining tax recovery of \$38.1 million in 2018 compared to a recovery of \$10.6 million in 2017, a decrease in net loss of \$27.5 million.

Revenue

expressed in thousands of dollars, except quantity amounts

	2018	2017
Revenue before revaluation	\$379,181	\$437,872
Revenue revaluation	(19,008)	15,241
	<u>\$360,173</u>	<u>\$453,113</u>

expressed in thousands of dollars, except quantity amounts

	Year Ended December 31, 2018			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
Sales				
Copper – 000's pounds	60,004	15,347	-	75,351
Gold – ounces	41,715	37,611	-	79,326
Silver – ounces	105,022	33,100	-	138,122
Revenue				
Copper	\$190,829	\$46,287	\$ -	\$237,116
Gold	64,728	57,775	-	122,503
Silver	180	344	-	524
	<u>255,737</u>	<u>104,406</u>	<u>-</u>	<u>360,143</u>
Corporate and Other	-	-	-	30
Total Revenue	<u>\$255,737</u>	<u>\$104,406</u>	<u>\$ -</u>	<u>\$360,173</u>

expressed in thousands of dollars, except quantity amounts

	Year Ended December 31, 2017			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
Sales				
Copper – 000's pounds	73,177	22,884	-	96,061
Gold – ounces	31,912	56,734	200	88,846
Silver – ounces	132,617	44,516	-	177,133
Revenue				
Copper	\$240,215	\$73,545	\$ -	\$313,760
Gold	47,959	89,268	341	137,568
Silver	903	731	-	1,634
	<u>289,077</u>	<u>163,544</u>	<u>341</u>	<u>452,962</u>
Corporate and Other	-	-	-	151
Total Revenue	<u>\$289,077</u>	<u>\$163,544</u>	<u>\$341</u>	<u>\$453,113</u>

During 2018, the Company sold 75.4 million pounds copper and 79,326 ounces gold compared to 96.1 million pounds copper and 88,846 ounces gold in 2017. Total revenue during 2018 was \$360.2 million compared to \$453.1 million during 2017.

During 2018, the Company's revenue was derived primarily from the sale of copper and gold in concentrate from the Red Chris and Mount Polley mines. The Red Chris mine accounted for 71.0% and Mount Polley mine accounted for 29.0% of the Company's revenue in 2018. Copper accounted for 65.8% and gold accounted for 34.0% of the Company's revenue in the period.

The average London Metals Exchange cash settlement copper price in US\$ was about 5.7% higher in 2018 than in 2017, averaging US\$2.96 per pound compared to US\$2.80 per pound. The average CDN\$ remained relatively steady compared to the US\$ in 2018 over 2017. Factoring in the average exchange rate, the price of copper averaged CDN\$3.84 per pound in 2018, about 5.8% higher than 2017 average of CDN\$3.63 per pound.

The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,269 in 2018 compared to US\$1,257 in 2017. Factoring in the average exchange rate, the price of gold averaged CDN\$1,645 per ounce in 2018 about 8.0% higher than 2017 average of CDN\$1,632 per ounce.

Cost of Sales

expressed in thousands of dollars

	2018	2017
Operating expenses	\$238,175	\$262,078
Salaries, wages and benefits	81,223	89,829
Depletion and depreciation	73,776	81,338
Share based compensation	2	390
	<u>\$393,176</u>	<u>\$433,635</u>

Cost of sales for 2018 were \$393.2 million compared to \$433.6 million in 2017, due to the following major factors:

- Red Chris mine operating expenses and salaries, wages and benefits for 2018 were \$218.7 million compared to \$204.7 million in 2017;
- Mount Polley mine operating expenses and salaries, wages and benefits for 2018 were \$100.7 million compared to \$147.4 million for 2017;
- Depletion and depreciation for the Red Chris and Mount Polley mines was \$73.8 million in 2018 compared to \$81.3 million in 2017;
- Included in cost of sales for 2018 are inventory impairment charges in relation to stockpile ore, concentrate inventory and supplies inventory of \$7.9 million compared to \$9.5 million in 2017.

General and Administration Costs

expressed in thousands of dollars

	2018	2017
Administration	\$3,741	\$3,632
Share based compensation - corporate	604	715
Depreciation – corporate assets	129	129
Foreign exchange (gain) loss – operations (excluding debt)	1,439	(217)
	<u>\$5,913</u>	<u>\$4,259</u>

General and administration costs were \$5.9 million in 2018 compared to \$4.3 million in 2017. Administration costs remained relatively steady; share based compensation costs decreased due to a lower number of options outstanding which still had vesting remaining on them; and there was a foreign exchange loss on operational items due to unfavorable exchange rates compared to a gain in 2017.

The average CDN\$/US\$ exchange rate for 2018 was 1.296 compared to 1.298 in 2017. Foreign exchange gains and losses are attributable to holding US Dollar denominated cash, accounts receivable, and accounts payable. These net US Dollar asset and liability balances are primarily the result of the activities at the Red Chris and Mount Polley mines.

Interest Expense

expressed in thousands of dollars

	2018	2017
Interest on non-current debt	\$67,345	\$67,987
Other interest	11,078	7,536
	<u>\$78,423</u>	<u>\$75,523</u>

Interest expense is determined by a variety of factors including levels of non-current debt, levels of short term debt on concentrate advances, the interest rate on the debt and foreign exchange rates on interest incurred on US denominated debt. Interest expense increased to \$78.4 million in 2018 from \$75.5 million in 2017, primarily as a result of an increase in interest on other obligations combined with an increase in interest and renewal fees for the Senior Credit Facility. On September 14, 2018, the Senior Credit Facility maturity was extended and subsequently was classified to short term debt.

Other Finance Income (Expense)

expressed in thousands of dollars

	2018	2017
Accretion of future site reclamation provisions	\$(3,167)	\$(2,310)
Foreign exchange gain (loss) on short term debt	(591)	944
Foreign exchange gain (loss) on non-current debt	(36,358)	29,280
Fair value adjustment to marketable securities	(16)	242
	(40,132)	28,156
Interest income	311	166
	<u>\$(39,821)</u>	<u>\$28,322</u>

Other finance expense totaled \$39.8 million in 2018 compared to income of \$28.3 million in 2017 with the expense resulting primarily from foreign exchange discussed below.

At December 31, 2018 the Company had US\$ denominated debt of US\$335.0 million compared to US\$328.4 million at December 31, 2017. Foreign exchange loss attributable to US denominated short and non-current debt reflect the foreign currency movement during the year and resulted in a \$35.5 million loss on the Senior Notes in 2018 (2017-\$28.4 million gain), \$0.9 million loss on equipment loans in 2018 (2017-\$0.8 million gain) and a \$0.6 million loss on short term debt in 2018 (2017-\$0.9 million gain).

Income and Mining Taxes Recovery

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

expressed in thousands of dollars

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
(Loss) income before taxes	<u>\$(163,657)</u>	100.0	<u>\$66,559</u>	100.0
Income tax (recovery) expense thereon at statutory rates	(44,188)	(27.0)	17,305	26.0
Decrease (increase) resulting from:				
Non-deductible share based compensation	163	0.1	287	0.4
Non-taxable gain on bargain purchase of Huckleberry	-	-	(28,553)	(42.9)
Share of loss in Huckleberry	-	-	145	0.2
Non-taxable (non-deductible) portion of foreign exchange loss (gain)	4,194	2.6	(3,192)	(4.8)
Deferred income tax assets not recognized	-	-	1,267	1.9
Revisions to prior year estimates	4,132	2.5	315	0.5
Rate difference	46	-	2,193	3.3
B.C. mineral tax	(2,613)	(1.6)	(16)	-
Other	204	0.1	(305)	(0.5)
Income and mining tax recovery	<u>\$(38,062)</u>	(23.3)	<u>\$(10,554)</u>	(15.9)
Current income and mining tax expense	\$1,532		\$2,064	
Deferred income and mining tax recovery	<u>(39,594)</u>		<u>(12,618)</u>	
	<u>\$(38,062)</u>		<u>\$(10,554)</u>	

	December 31 2018	December 31 2017
Deferred income and mining tax assets	\$6,437	\$ -
Deferred income and mining tax (liabilities)	(36,152)	(69,454)
Net deferred income and mining tax (liabilities)	<u>\$(29,715)</u>	<u>\$(69,454)</u>

	December 31 2018	December 31 2017
Deferred income and mining tax assets and (liabilities)		
Mineral properties	\$(184,408)	\$(187,780)
Mineral properties – mineral tax	(4,524)	(8,668)
Debt component of convertible debentures	(3,240)	(4,876)
Other	1,686	1,016
Net operating tax losses carried forward ⁽¹⁾	160,771	130,854
Net deferred income and mining tax liabilities	<u>\$(29,715)</u>	<u>\$(69,454)</u>

⁽¹⁾ The Company believes that it is probable that the results of future operations will generate sufficient taxable income to realize the above noted deferred income tax assets.

As at December 31, 2018, the Company had net operating tax loss carry forwards in Canada of \$597.7 million which can be applied to reduce future Canadian taxable income and will expire between 2026 and 2038. In addition, the Company had net operating tax loss carry forwards in the United States of US\$21.0 million which can be applied to reduce future US taxable income and will expire in 2031 to 2035.

The Company had the following temporary differences and unused tax losses at December 31, 2018 in respect of which no deferred tax asset has been recognized:

	Mineral Properties & Other	Tax Losses	Total
Expiry 2027 and beyond	\$ -	\$30,842	\$30,842
No expiry date	147,692	-	147,692
	<u>\$147,692</u>	<u>\$30,842</u>	<u>\$178,534</u>

CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from 2017. The capital structure of the Company consists of current and non-current debt and equity comprised of share capital, share option reserve, equity component of convertible debentures, warrant reserve, currency translation adjustment and retained earnings.

The Company is in compliance with the debt covenants related to its non-current debt as at December 31, 2018.

LIQUIDITY & CAPITAL RESOURCES AND FINANCING

At December 31, 2018, the Company had cash of \$18.6 million, available capacity of \$30.8 million for future draws under the Senior Credit Facility, \$10.0 million undrawn on the 2017 LOC loan facility (expired undrawn subsequent to December 31, 2018) and a working capital deficiency of \$789.5 million, which includes \$725.4 million of current debt; compared to cash of \$51.9 million and a working capital deficiency of \$238.3 million at December 31, 2017.

Credit Risk

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

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

From time to time the Company enters into derivative instruments with a number of counterparties to limit the amount of credit risk associated with any one counterparty. The Company did not enter into any derivative instruments during the year ended December 31, 2018.

Liquidity Risk

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

At December 31, 2018, the Company's primary sources of credit are comprised of a \$200.0 million Senior Credit Facility, a \$50.0 million Second Lien Credit Facility, US\$325.0 million Senior Notes, \$145.0 million face value of unsecured convertible debentures, a \$75.0 million unsecured Junior Credit Facility, a \$26.0 million Bridge loan facility, a \$10.0 million LOC loan facility, and \$22.7 million in secured equipment loans and leases.

The Company's \$200.0 million Senior Credit Facility and the \$50.0 million second lien revolving loan credit facility (fully drawn) are due on September 5, 2019 and September 9, 2019, respectively. At December 31, 2018, the Company had drawn in cash \$122.0 million (\$0.2 million net of deferred financing costs) of the Senior Credit Facility and utilized \$47.2 million of the facility for letters of credit to secure reclamation bonds and other obligations for a total usage of \$169.2 million leaving \$30.8 million available for future draws.

Cash balances on hand, the projected cash flow from the Red Chris and Mount Polley mines, as well as the available credit facilities are expected to be sufficient to fund the Company's obligations as they come due until the completion of the Newcrest Transaction. However, there are inherent risks related to the operation of the Company's mines which could require additional sources of financing. There can be no assurance that adequate additional financing will be available on terms acceptable to the Company or at all, which creates a material uncertainty that could have an adverse impact on the Company's financial condition and results of operations and may cast doubt on the Company's ability to continue as a going concern.

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

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

The Company had the following contractual obligations with respect to financial instruments as of December 31, 2018:

expressed in thousands of dollars	Within 1 Year	2 Years	3 Years	4 Years	5 years	Total
Trade and other payables	\$104,621	\$ -	\$ -	\$ -	\$ -	\$104,621
Other obligations	39,321	13,722	3,814	-	-	56,857
Short-term debt	121,773	-	-	-	-	121,773
Current portion of non-current debt	604,251	-	-	-	-	604,251
Non-current debt	-	119,172	33,338	3,365	1,972	157,847
	869,966	132,894	37,152	3,365	1,972	1,045,349
Less future accretion and unamortized finance cost	(603)	(8,846)	(3,154)	-	-	(12,603)
Total	\$869,363	\$124,048	\$33,998	\$3,365	\$1,972	\$1,032,746

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US\$ denominated cash, accounts receivable, derivative instrument assets, reclamation deposits, trade and other payables and debt. If the US\$ had been 10% higher/lower and all other variables were held constant, net income and comprehensive income for the year ended December 31, 2018 would have been higher/lower by \$38.5 million.

Cash Flow

Cash flow was \$143.5 million in 2018 compared to cash flow of \$88.4 million in 2017.

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

Working Capital

At December 31, 2018, the Company had cash of \$18.6 million, \$30.8 million undrawn on the Senior Credit Facility and a working capital deficiency of \$789.5 million, which includes \$725.4 million current portion of debt, compared to a working capital deficiency of \$238.3 million at December 31, 2017, which included \$213.9 million current portion of debt.

Acquisition and Development of Mineral Properties

Acquisition and development of mineral properties totaled \$77.0 million in 2018 compared to \$92.9 million in 2017.

expressed in thousands of dollars	2018	2017
Capital and Development Expenditures		
Red Chris	\$62,457	\$57,783
Mount Polley	13,185	27,030
Sterling	-	6,966
Other	17	5
	75,659	91,784
Exploration Expenditures		
Red Chris	450	12
Mount Polley	137	696
Sterling	-	61
Other	726	337
	1,313	1,106
	\$76,972	\$92,890

DERIVATIVE INSTRUMENTS

The Company had no derivative instruments for copper or gold at December 31, 2018 or at the date of this document.

DEBT AND OTHER OBLIGATIONS

At December 31, 2018 the Company's current debt, net of unamortized deferred financing costs and accretion was comprised of the following:

- an unsecured Junior Credit Facility of \$75.0 million
- Senior Notes - \$442.8 million (US\$325.0 million)
- a Senior Credit Facility of \$200.0 million - \$169.2 million utilized comprised of \$122.0 million drawn and \$47.2 million utilized for letters of credit related to reclamation bonding and for other liabilities
- a Second Lien Credit Facility of \$49.9 million
- Bridge Loan - \$26.0 million
- a variety of equipment loans and leases denominated in both CDN\$/US\$ with a remaining balance of \$9.9 million

Non-Current Debt

At December 31, 2018, the Company's non-current debt, net of unamortized deferred financing costs and accretion was comprised of the following:

- convertible debentures with a face value of \$145.0 million - \$131.4 million (book value)
- a variety of equipment loans and leases denominated in both CDN\$/US\$ with a remaining balance of \$12.8 million

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

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings. At December 31, 2018, about 22% of the Company's outstanding borrowings were at floating interest rates compared to December 31, 2017 when about 24% 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.

If interest rates had been 100 basis points higher/lower on the Company's floating rate debt and all other variables were held constant, the amount of interest expense in the year ended December 31, 2018 would have increased/decreased by \$2.0 million.

Off-Balance Sheet Arrangements

At December 31, 2018 the Company did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

Other Price Risks

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

Fair Value Estimation

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

The carrying value less impairment provision, if necessary, of trade and other receivables and trade and other payables are assumed to approximate their fair values. Except for the Senior Notes, management believes that the carrying value of remaining non-current and short term debt approximates fair value. At December 31, 2018 the fair value of the Senior Notes is \$297.1 million (December 31, 2017-\$381.2 million) based on a quote received from dealers that trade the Senior Notes.

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 December 31, 2018 as follows:

expressed in thousands of dollars

	Level 1	Level 2	Total
Financial assets			
Cash	\$18,574	\$ -	\$18,574
Marketable securities	1,325	-	1,325
Provisionally priced receivables	-	5,030	5,030
Future site reclamation deposits	14,324	-	14,324
	34,223	5,030	39,253
Financial liabilities			
Amounts owing on provisionally priced receivables	-	(1,008)	(1,008)
	\$34,223	\$4,022	\$38,245

SELECT QUARTERLY FINANCIAL INFORMATION

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

	Three Months Ended			
	December 31 2018	September 30 2018	June 30 2018	March 31 2018
Total revenues	\$91,714	\$70,481	\$80,066	\$117,912
Net loss	\$(44,265)	\$(28,609)	\$(36,555)	\$(16,166)
Basic loss per share ⁽¹⁾	\$(0.37)	\$(0.24)	\$(0.31)	\$(0.14)
Diluted loss per share ⁽¹⁾	\$(0.37)	\$(0.24)	\$(0.31)	\$(0.14)
Adjusted net income (loss) ⁽²⁾	\$(15,087)	\$(37,099)	\$(27,823)	\$(4,754)
Adjusted net income (loss) per share ^{(1) (2)}	\$(0.13)	\$(0.30)	\$(0.24)	\$(0.04)
Adjusted EBITDA ⁽²⁾	\$12,341	\$(13,287)	\$(2,180)	\$36,394
Cash flow ⁽²⁾	\$121,850	\$(11,766)	\$(2,593)	\$35,958
Cash flow per share ^{(1) (2)}	\$1.03	\$(0.10)	\$(0.02)	\$0.30
Average LME copper price/lb in US\$	\$2.80	\$2.77	\$3.12	\$3.16
Average LME gold price/troy oz in US\$	\$1,228	\$1,213	\$1,306	\$1,329
Average CDN/US\$ exchange rate	\$1.321	\$1.307	\$1.291	\$1.265
Period end CDN/US\$ exchange rate	\$1.364	\$1.295	\$1.278	\$1.289

	December 31 2017	September 30 2017	June 30 2017	March 31 2017
Total revenues	\$140,466	\$90,157	\$106,741	\$115,749
Equity loss in Huckleberry	\$ -	\$ -	\$1,032	\$(1,589)
Net income (loss)	\$(2,107)	\$(1,572)	\$99,544	\$(18,752)
Basic income (loss) per share ⁽¹⁾	\$(0.02)	\$(0.02)	\$1.06	\$(0.20)
Diluted income (loss) per share ⁽¹⁾	\$(0.02)	\$(0.02)	\$1.06	\$(0.20)
Adjusted net loss ⁽²⁾	\$(492)	\$(18,058)	\$(21,780)	\$(22,296)
Adjusted net loss per share ^{(1) (2)}	\$0.01	\$(0.19)	\$(0.23)	\$(0.25)
Adjusted EBITDA ⁽²⁾	\$42,514	\$17,903	\$12,852	\$15,188
Cash flow ⁽²⁾	\$43,009	\$17,966	\$12,341	\$15,065
Cash flow per share ^{(1) (2)}	\$0.46	\$0.19	\$0.13	\$0.16
Average LME copper price/lb in US\$	\$3.09	\$2.88	\$2.57	\$2.65
Average LME gold price/troy oz in US\$	\$1,275	\$1,278	\$1,257	\$1,219
Average CDN/US\$ exchange rate	\$1.271	\$1.253	\$1.345	\$1.323
Period end CDN/US\$ exchange rate	\$1.255	\$1.248	\$1.298	\$1.332

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

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

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

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

- Fluctuations in revenue are due to the timing of shipping schedules and quantities of copper and gold sold on each ship, production volumes at the mines, changes in the price of copper, gold and the CDN\$/US\$ exchange rate.
- Fluctuations in net income are due to the revenue changes described above and realized and unrealized gains/losses on derivative instruments based on movements in the reference item hedged, changes in foreign exchange rates on US\$ denominated debt, changes in production cost inputs and changes in tax rates and in 2017 the gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry.

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

- (a) The primary reasons for the decrease in net loss in the March 2017 quarter compared to the December 2016 quarter was due to increased revenues and improved income from mine operations in the current quarter resulting from higher sales quantities and foreign exchange gains compared to foreign exchange losses on non-current debt in the December 2016 quarter as a result of the movement in the US/CDN Dollar. In the December 2016 quarter, the Company also took an impairment of \$7.3 million on the Sterling Mine. There were no impairment charges during the June 2017 quarter.
- (b) The primary reasons for the large increase in net income in the June 2017 quarter compared to the December 2016 quarter was largely due to the \$109.8 million gain on bargain purchase that was recognized by the Company on the acquisition of the remaining 50% share of Huckleberry and revaluation of equity investment in Huckleberry. Revenues were lower as production was lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore in those periods.
- (c) The primary reason for loss in the September 2017 quarter compared to the June 2017 quarter was that there was a \$109.8 million gain on bargain purchase that was recognized in the second quarter of 2017. However, that was slightly off set by a foreign exchange gain relating to the Company's US denominated debt in the September 2017 quarter compared to the June 2017 quarter.
- (d) The primary reasons for the increase in net income in the December 2017 quarter compared to the September 2017 quarter was due to higher production at both Red Chris and Mount Polley which led to higher revenues of approximately \$50.3 million.
- (e) The primary reasons for the loss in the June 2018 quarter compared to income in the June 2017 quarter was largely due to the \$109.8 million gain on bargain purchase that was recognized by the Company on the acquisition of the remaining 50% share of Huckleberry in 2017. Revenues were lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore compared to the March 2018 quarter which led to a decrease in overall metal production.
- (f) The primary reasons for the increase in net loss in the September 2018 quarter compared to the September 2017 quarter was largely due to revenues being lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore. However, compared to the June 2018 quarter, net loss in the September 2018 quarter was lower due to a foreign exchange gain of \$7.3 million relating to the Company's US denominated debt compared to foreign exchange loss of \$9.2 million in the June 2018 quarter.
- (g) The primary reasons for the increase in net loss in the December 2018 quarter compared to the September 2018 quarter was largely due to an impairment charge of \$109.2 million on the Mount Polley mine, higher foreign exchange losses on debt of \$23.8 million, partially offset by a \$108.0 million settlement that was received in relation to the Mount Polley Breach

FOURTH QUARTER RESULTS

Revenue in the fourth quarter of 2018 was \$91.7 million compared to \$140.5 million in 2017. Sales revenue is recorded when title for concentrate is transferred on ship loading. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date along with finalization of contained metals as a result of final assays.

The Company recorded a net loss of \$44.3 million (\$0.37 per share) in the fourth quarter of 2018 compared to net loss of \$2.1 million (\$0.02 per share) in the prior year quarter. The fourth quarter of 2017 included \$35.0 million of the net income related to the finalization of the gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry.

Expenditures for exploration and ongoing capital projects at Mount Polley, Red Chris and Huckleberry totaled \$14.2 million during the three months ended December 31, 2018 compared to the expenditures for exploration and ongoing capital projects at Mount Polley, Red Chris and Sterling which totaled \$17.3 million in the 2017 comparative quarter.

RELATED PARTY TRANSACTIONS

Corporate

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

Statement of Income

expressed in thousands of dollars

		2018	2017
Loan guarantee fee for guarantee of Senior Credit Facility and Second Lien Secured Credit Facility	(a)	\$3,039	\$1,814
Interest expense	(f)	\$17,253	\$16,359

Statement of Financial Position

expressed in thousands of dollars

		2018	2017
Accrued interest on Senior Notes and convertible debentures. Junior Credit Facility and Bridge Loan	(e)	\$7,010	\$5,088
Junior Credit Facility	(b)	\$75,000	\$75,000
Senior unsecured notes (US\$53,300)	(c)	\$72,739	\$66,865
Convertible Debentures	(d)(f)	\$59,000	\$59,000
Bridge Loan	(h)	\$13,000	\$13,000
Share issue expenses (backstop fees)	(i)	-	\$310
Deferred Financing fees for debt	(g)	-	\$138

Statement of Cash Flows

expressed in thousands of dollars

		2018	2017
Deferred royalty proceeds	(j)	\$22,156	\$ -
Repurchase of deferred royalty	(i)	\$(22,156)	\$ -

- (a) The loan guarantee fee is related to the guarantee by Edco on the second lien credit facility which provided additional liquidity in 2015 for the commissioning of the Red Chris mine and the new extended senior credit facility on September 14, 2018 to guarantee the facility to maturity on March 7, 2019.
- (b) The \$75.0 million junior credit facility from N. Murray Edwards was used to fund any cost overruns at the Red Chris mine and for general working capital purposes.
- (c) N. Murray Edwards, directors and officers hold US\$53.3 million of the US\$325.0 million senior unsecured notes offering which closed in March 2014 and provided part of the long term financing for the Red Chris mine.
- (d) N. Murray Edwards holds \$40.0 million of the \$115.0 million 2014 convertible debentures which provided funding for completing and commissioning the Red Chris mine, remediating the effects of the Mount Polley Breach, and for ongoing operations.
- (e) Interest expense is related to the senior unsecured notes, the junior credit facility, convertible debentures and on factored accounts receivables and related financing transactions.
- (f) N. Murray Edwards and directors hold \$19.0 million of the \$30.0 million 2015 convertible debenture which closed on August 24, 2015.
- (g) The loan commitment fees paid in 2017 were to companies controlled by N. Murray Edwards which relate to the \$10.0 million 2017 LOC loan facility and \$13.0 million of the \$26.0 million Bridge Loan.
- (h) Arrangement fee relating to the \$13.0 million portion of the \$26.0 million Bridge Loan held by a company controlled by N. Murray Edwards.
- (i) Backstop fee paid to N. Murray Edwards in relation to the rights offering.
- (j) Royalty purchased by an entity in which a significant shareholder of the Company is a minority equity shareholder and related royalty expense. The royalty was repurchased by the Company during the year.

The Company incurred the above transactions and balances in the normal course of operations. Expenses have been measured at the fair value which is determined on a cost recovery basis.

Additional details on related party transactions can be found in Note 24 to the audited Consolidated Financial Statements for the year ended December 31, 2018.

Disclosure Controls and Procedures

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

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

Internal Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures. The Company's internal control system over financial reporting is designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with IFRS. The Company's internal control over financial reporting includes policies and procedures that:

1. pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions and dispositions of the assets of the Company;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2018. In making this assessment, management used the criteria set forth in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2018, the Company's internal control over financial reporting were effective. There have been no changes in the Company's internal controls over financial reporting and disclosure controls and procedures during the 2018 financial year that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting and disclosure.

Limitations on Controls and Procedures

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

Contingent Liabilities

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

At December 31, 2018 the Company had a provision of \$3.3 million for future rehabilitation activities related to the Mount Polley Breach. The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required and is subject to revision in the future as further information becomes available to the Company.

During the third quarter of 2014, a securities class action lawsuit was filed against the Company and certain of its directors, officers and others in the Ontario Superior Court of Justice in Toronto (the "Claim"). The Company has engaged independent legal counsel to advise it on this matter. At this time, the Company cannot predict the outcome of the Claim or determine the amount of any potential losses and accordingly no provision has been made as of December 31, 2018. However, the Company is of the view that the allegations contained in the Claim are without merit and intends to vigorously defend its position.

RISK FACTORS

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

There are material risks and uncertainties associated with rehabilitation activities resulting from the Mount Polley Breach which may adversely affect our business.

The Mount Polley Breach resulted in loss of production from the mine, the primary source of cash flow for the Company, for a significant period and necessitated extensive response and rehabilitation activities. The Company may not receive approvals and consents necessary to proceed with the remaining rehabilitation plans in a timely manner. The timing and amount of the remaining costs and the liabilities relating to the Mount Polley Breach are as yet unknown, as is the actual timing of completion of rehabilitation activities. Furthermore, there may be unforeseen or long term environmental consequences as a result of the Mount Polley Breach.

It is also unknown at this time whether the Company may become subject to regulatory charges or claims, fines and penalties or the potential quantum thereof. The Company may be unsuccessful in defending against any material legal claims that may arise from the Mount Polley Breach, and current sources of funds may be insufficient to fund liabilities arising from the aforementioned charges or claims. Any additional financing that may be required may not be available to the Company on terms acceptable to the Company or at all.

Mining is inherently dangerous and subject to conditions or events beyond our control, which could have a material adverse effect on our business.

The business of exploring for and producing minerals is inherently risky. Few properties that are explored are ultimately developed into producing mines. Mineral properties are often non-productive for reasons that cannot be anticipated in advance. Title claims can impact the exploration, development, operation and sale of any natural resource project. Availability of skilled people, equipment and infrastructure (including roads, ports and power supply) can constrain the timely development of a mineral deposit. Even after the commencement of mining operations, such operations may be subject to risks and hazards, including environmental hazards, industrial accidents, metallurgical and other processing and performance problems, unusual or unexpected geological conditions, ground control problems, periodic interruptions due to inclement or hazardous weather conditions, including as a result of climate change and flooding. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties and production facilities, personal injuries, environmental damage, delays or interruption of production, increases in production costs, monetary losses, legal liability and adverse governmental action. The Company's property, business interruption and liability insurance may not provide sufficient coverage for losses related to these or other hazards. Insurance against certain risks may not be available to the Company (including certain liabilities for environmental pollution or other hazards) or to other companies within the industry. In addition, the Company may elect not to insure against certain hazards where insurance coverage may not continue to be available at economically feasible premiums, or at all. These risks could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage to our properties or the properties of others, delays in mining, increased production costs, monetary losses and possible legal liability. Losses from these events may cause us to incur significant costs that would materially adversely affect our business, results of operations, financial condition and cash flows.

Changes in the price of base and precious metals in the world markets, which can fluctuate widely, could adversely affect our business, results of operations, financial condition and cash flows.

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

The objectives of any hedging programs that are in place are to reduce the risk of a decrease in a commodity's market price while optimizing upside participation, to maintain adequate cash flows and profitability to contribute to the long-term viability

of the Company's business. There are, however, risks associated with hedging programs including (among other things), an increase in the world price of the commodity, an increase in gold lease rates (in the case of gold hedging), an increase in interest rates, rising operating costs, counterparty risks, liquidity issues with funding margin calls to cover mark to market losses and production interruption events.

In addition to adversely affecting our reserve estimates and our financial condition, declining metal prices can impact operations by requiring a reassessment of the feasibility of a particular project. Such a reassessment may be the result of a management decision or may be required under financing arrangements related to a particular project. Even if a project is ultimately determined to be economically viable, the need to conduct such a reassessment may cause substantial delays or may interrupt operations until the reassessment can be completed.

General economic conditions or changes in consumption patterns may adversely affect our growth and profitability.

The copper market is volatile and cyclical, and consumption of copper is influenced by global economic growth, trends in industrial production, conditions in the housing and automotive industries and economic growth in China, which is the largest consumer of refined copper in the world. Should demand weaken and consumption patterns change (in particular, if consumers seek out cheaper substitute materials), the price of copper could be adversely affected, which could negatively affect our results of operations.

Many industries, including the copper mining industry, can be adversely impacted by market conditions. A downturn in the financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, inflation, fuel and energy costs, consumer debt levels, lack of available credit, the state of the financial markets, interest rates, and tax rates could adversely affect our growth and profitability. Specifically:

- a reduction of the base-metal prices could impact the cost and availability of debt or equity financing and our overall liquidity and, further, the availability of financing on terms favourable to us;
- as China consumes a significant amount of global copper production, the overall state of the Chinese economy, including credit/lending levels, fluctuations in inflation and interest rates and fiscal policy, could have an impact on global demand for copper, thereby potentially affecting copper prices realized by the Company;
- the volatility of metal prices would impact our revenues, profits, losses and cash flows; and
- volatile energy prices, commodity and consumables prices and currency exchange rates would impact our production costs.

Any of these factors would adversely affect our business, results of operations, financial condition and cash flows.

We may be adversely affected by the availability and cost of key inputs.

Our competitive position depends on our ability to control operating costs. The cost structure of each operation is based on the location, grade and nature of the mineral deposit, and the management skills at each site as well as the price of labour, electricity, fuel, steel, chemicals, blasting materials, transportation and shipping and other cost components. If such supplies become unavailable or their cost increases significantly, the profitability of our mines would be impacted and operations at our mines could be interrupted or halted resulting in a significant adverse impact on our financial condition. Our management prepares its cost and production guidance and other forecasts based on its review of current and estimated future costs, and management assumes that the materials and supplies required for operations will be available for purchase. Lack of supply or increased costs for any of these inputs would decrease productivity, reduce the profitability of our mines, and potentially result in us suspending operations at our mines.

Many of our costs are driven by supply and market demand. For example, the cost of local materials, like cement, explosives and electricity, will vary based on demand. Our main cost drivers include the cost of labour plus consumables such as electricity, fuel and steel. Wages can be affected by inflation and currency exchange rates and by the shortage of experienced human resources. The costs of fuel and steel are driven by global market supply and demand. In recent years, the mining industry has been impacted by increased worldwide demand for critical resources such as input commodities, drilling equipment, tires and skilled labour, and these shortages may cause unanticipated cost increases and delays in delivery times, thereby impacting operating costs, capital expenditures and production schedules.

Concentrate treatment charges and transportation costs are also a significant component of operating costs. Concentrate treatment and refining charges have been volatile in recent years. We are dependent on third parties for rail, truck and maritime services to transport our products, and contract disputes, demurrage charges, rail and port capacity issues, availability of vessels, weather and climate and other factors can have a material adverse impact on our ability to transport our products according to schedules and contractual commitments.

Our operations, by their nature, use large amounts of electricity and energy. Energy prices can be affected by numerous factors beyond our control, including global and regional supply and demand, political and economic conditions, and applicable

regulatory regimes. The prices of various sources of energy may increase significantly from current levels. An increase in electricity and energy prices could negatively affect our business, financial condition, liquidity and results of operations.

Increases in these costs would have an adverse impact on our results of operations and would adversely affect our business, results of operations, financial condition and cash flows.

We may be unable to compete successfully with other mining companies.

The mining industry is competitive in all of its phases. We face strong competition from other mining companies in connection with the acquisition of properties producing, or capable of producing, metals. Many of these companies have greater financial resources, operational experience and technical capabilities and a longer operating history than us. We may also encounter increasing competition from other mining companies in our efforts to hire experienced mining professionals. In addition, competition for exploration resources at all levels is very intense. Increased competition could adversely affect our ability to attract necessary capital funding, to acquire it on acceptable terms, or to acquire suitable producing properties or prospects for mineral exploration in the future. At certain times when copper prices increase, such increase encourages increases in mining exploration, development and construction activities, which can result in increased demand for and cost of contract exploration, development and construction services and equipment.

Increased demand for and cost of services and equipment could cause project costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and increased potential for scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment. Any of these outcomes could materially increase project exploration, development or construction costs, result in project delays, or both. As a result of this competition, we may be unable to maintain or acquire attractive mining properties or attract better or more qualified employees, which would adversely affect our business, results of operations, financial condition and cash flows.

We are dependent upon third party smelters for processing our products.

The Company is primarily a producer of concentrates. These must be processed into metal by independent smelters under concentrate sales agreements in order for the Company to be paid for its products. There can be no assurance or guarantee the Company will be able to enter into concentrate sales agreements on terms that are favourable to the Company or at all.

We may become unable to access our markets due to trade barriers.

Access to the Company's markets is subject to ongoing interruptions and trade barriers due to policies and tariffs of individual countries, and the actions of certain interest groups to restrict the import of certain commodities. Although there are currently no significant trade barriers existing or impending of which the Company is aware that do, or could, materially affect the Company's access to certain markets, there can be no assurance that the Company's access to these markets will not be restricted in the future.

Undue reliance should not be placed on estimates of reserves and resources, since these estimates are subject to numerous uncertainties and may be revised. Our actual reserves could be lower than such estimates, which could adversely affect our operating results, financial condition and cash flows.

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

The volume and grade of reserves we actually recover, and rates of production from our current mineral reserves, may be less than estimates of the reserves. Short-term operating factors relating to the mineral reserves, such as the need for orderly development of the deposits or the processing of new or different grades, may cause the mining operation to be unprofitable in any particular accounting period and may also prompt us to modify mineral reserves estimates. There can be no assurance that the indicated amount of reserve will be recovered or that it will be recovered at prices we have assumed in determining the mineral reserves. Fluctuations in the market price of copper, gold and other metals, changing exchange rates and operating and capital costs may make it uneconomical to mine certain mineral reserves in the future.

Reserve estimates can be uncertain because they are based on limited sampling. As we gain more knowledge and understanding of the deposit through on-going exploration and mining activity, the reserve estimate may change significantly, either positively or negatively.

Due to the uncertainty which are attached to inferred mineral resources, there is no assurance that inferred mineral resources will be upgraded to proven and probable mineral reserves as a result of continued exploration.

Cautionary notice regarding mineral reserve and mineral resource estimates.

Disclosure of mineral reserve and mineral resource classification terms and certain mineral resource estimates that are made in accordance with Canadian National Instrument 43-101-Standards of Disclosure for Mineral Projects ("NI43-101"). NI43-101 is a rule developed by the Canadian Securities Administrators (CSA) that establishes standards for all public disclosure an issuer makes of scientific and technical information concerning mineral projects. Unless otherwise indicated, all reserve and resource estimates have been prepared in accordance with NI43-101. These standards differ significantly from the mineral reserve disclosure requirements of the Securities and Exchange Commission ("SEC") set out in Industry Guide 7. Consequently, the Company's mineral reserve and resource information is not comparable to similar information that would generally be disclosed by U.S. companies in accordance with the rules of the SEC.

Terms mineral resources, measured mineral resources, indicated mineral resources and inferred mineral resources comply with the reporting standards in Canada. Further, inferred mineral resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. Therefore, investors are also cautioned not to assume that all or any part of an inferred resource exists. In accordance with Canadian rules, estimates of inferred mineral resources cannot form the basis of feasibility or pre-feasibility studies. It cannot be assumed that all or any part of mineral resources, measured mineral resources, indicated mineral resources or inferred mineral resources will ever be upgraded to a higher category. Investors are cautioned not to assume that any part of the reported mineral resources, measured mineral resources, indicated mineral resources or inferred mineral resources is economically or legally mineable.

Our production estimates may be materially different from actual production, which would adversely affect our business, results of operations, financial condition and cash flows.

Our actual production could be different for a variety of reasons, including:

- short-term operating factors relating to the mineral reserves, such as the need for sequential development of mineral deposits and the processing of new or different grades;
- risks and hazards associated with mining, including geotechnical issues such as pit slope stability at open pit operations and structural issues at underground mines;
- the actual material mined could vary from estimates, with respect to grades and/or tonnage;
- mine failures;
- industrial accidents;
- natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes;
- unusual or unexpected geological conditions;
- changes in power costs and potential power shortages;
- shortages of principal supplies needed for mining operations, including explosives, fuels, chemical reagents, water, equipment parts and lubricants;
- plant and equipment failure;
- the inability to process certain types of ore;
- labour shortages or strikes;
- civil disobedience and protests; and
- restrictions or regulations imposed by government authorities or other changes in the regulatory environment applicable to the mining industry.

There is no assurance that we will achieve our production estimates. Production estimates at newer operations such as our Red Chris mine are particularly uncertain and subject to revision.

We must continually replace and expand our mineral reserves and mineral resources and the depletion of our mineral reserves may not be offset by future discoveries or acquisitions of mineral reserves.

Mines have limited lives based on proven and probable mineral reserves. As a result, we must continually replace and expand our mineral reserves. This is done by expanding known mineral reserves or by locating or acquiring new mineral deposits. There is, however, a risk that depletion of reserves will not be offset by future discoveries of mineral reserves. The life-of-mine estimates for each of our operating mines are based on our best estimate given the information available to us. These estimates may not be correct. Our ability to maintain or increase our annual production of copper, gold and other metals depends in significant part on our ability to find and/or acquire new mineral reserves and bring new mines into production, and to expand mineral reserves at existing mines.

Exploration for minerals is highly speculative in nature and the projects involve many risks. Many projects are unsuccessful and there are no assurances that current or future exploration programs will be successful. Further, significant costs are incurred to establish mineral reserves and to construct mining and processing facilities. Development projects have no operating history upon which to base estimates of future cash flow and are subject to the successful completion of feasibility studies, obtaining necessary government permits, obtaining title or other land rights and availability of financing. In addition, assuming discovery of an economic mineral deposit, depending on the type of mining operation involved, many years may elapse from the initial phases of drilling until commercial operations are commenced. Accordingly, there can be no assurances that our current work programs will result in any new commercial mining operations or yield new reserves to replace and/or expand current reserves.

Our exploration and development of new and existing mines may be unsuccessful.

Because the life of a mine is limited by its mineral reserves, we continually look for opportunities to replace and expand our reserves by exploring existing properties and by looking for potential acquisitions of new properties or companies that own new properties.

Exploration and development of mineral properties involves significant financial and operational risk. There is no assurance that we will be successful in our efforts. Very few properties that are explored are later developed into an operating mine. Developing a property involves many risks and unknowns, such as establishing mineral reserves by drilling, completion of feasibility studies, obtaining and maintaining various permits and approvals from governmental authorities, constructing mining and processing facilities, securing required surface or other land rights, finding or generating suitable sources of power and water, confirming the availability and suitability of appropriate local area infrastructure and developing it if needed, and obtaining adequate financing. Substantial spending may be made on properties that are later abandoned due to a failure to satisfy any of such factors.

The capital expenditures and timeline needed to develop a new mine are considerable and the economics of a project can be affected by changes to them. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. Actual costs may increase significantly and economic returns may differ materially from our estimates. Whether a mineral deposit will be commercially viable depends on a number of factors, including, without limitation, the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices, which fluctuate widely, and government regulations, including, without limitation, regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. We may be unable to satisfactorily resolve fiscal and tax issues, or fail to obtain permits and approvals necessary to operate a project so that the project may not proceed, either on the original timeline, or at all. New mining operations may experience unexpected problems during start-up, which can cause delays and require more capital than anticipated. The combination of these factors may cause us to expend significant resources (financial and otherwise) on a property without receiving a return on investment and could result in the Company being unsuccessful in developing new mines. This, in turn, would adversely affect our business, results of operations, financial condition and cash flows.

Our indebtedness could adversely affect our financial condition and we may not be able to fulfil our obligations to our debt holders.

After giving effect to the financing transactions between 2014 and 2018 consisting of the Senior Credit Facility, the Second Lien Credit Facility, the 2014 and 2015 Convertible Debentures, the Junior Credit Facility, the Bridge Loan and the 2017 LOC Loan Facility (collectively the “Credit Facilities”) and the Senior Notes, the Company has a significant amount of indebtedness.

Subject to the limits contained in the credit agreements that govern our Credit Facilities, the indenture that governs the Senior Notes and our other debt instruments, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions or for other purposes. If we do so, the risks related to our level of indebtedness could intensify. Specifically, a high level of indebtedness could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to the Senior Notes and our other debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements, or requiring us to make non-strategic divestitures;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

In addition, the indenture that governs the Senior Notes and the agreements that govern our Credit Facilities and other debt contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debt.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under such indebtedness, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternatives may not allow us to meet our scheduled debt service obligations. The agreements that govern our Credit Facilities and the indenture that governs the Senior Notes restricts our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

In addition, we conduct a substantial portion of our operations through our subsidiaries, most of which are guarantors of the Senior Notes or our other indebtedness. Accordingly, repayment of our indebtedness will be dependent in large measure on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Unless they are or become guarantors of the Senior Notes, Credit Facilities or our other indebtedness, our subsidiaries do not have any obligation to pay amounts due on the Senior Notes, Credit Facilities or our other indebtedness or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each subsidiary is a distinct legal entity, and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the indenture that governs the Senior Notes and the agreements that govern Credit Facilities limit the ability of our subsidiaries to adopt restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to qualifications and exceptions. In the event that we do not receive distributions from our subsidiaries, we may be unable to make required principal and interest payments on our indebtedness.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations.

If we cannot make scheduled payments on our debt, we will be in default and our debt holders could declare all outstanding principal and interest to be due and payable, causing a cross-acceleration or cross-default under certain of our other debt agreements, if any, and we could be forced into bankruptcy, liquidation or restructuring proceedings.

Despite our significant level of indebtedness, we and our subsidiaries may still be able to incur substantially more debt, which could exacerbate the risks to our financial condition described above.

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the indenture that governs the Senior Notes and the agreements that govern Credit Facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness

incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness.

If additional indebtedness is added to our current debt levels, the related risks that we now face could intensify.

The terms of the agreements that govern our Credit Facilities and the indenture that governs the Senior Notes restrict our current and future operations, particularly our ability to respond to changes or to take certain actions.

The indenture that governs the Senior Notes and the agreements that govern Credit Facilities contains a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interest, including restrictions on our ability to:

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem our capital stock;
- prepay, redeem or repurchase certain debt;
- make loans and investments;
- sell, transfer or otherwise dispose of assets;
- incur or permit to exist certain liens;
- enter into transactions with affiliates;
- enter into agreements restricting our subsidiaries' ability to pay dividends; and
- consolidate, amalgamate, merge or sell all or substantially all of our assets.

In addition, the financial covenants in the credit agreements that govern our Senior Credit Facility and the Second Lien Credit Facility require us to maintain a specified financial ratio and satisfy a financial condition test. Our ability to meet the financial ratio and financial condition test can be affected by events beyond our control, and we may be unable to meet them.

A breach of the covenants or restrictions under the indenture that governs the Senior Notes or under the agreements that govern the Credit Facilities or our other debt instruments from time to time could result in an event of default under the applicable indebtedness. Such a default may allow the creditors to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, an event of default under any one of the Credit Facilities would permit the lenders under our Senior Credit Facility and Second Lien Credit Facility to terminate all commitments to extend further credit under those facilities. Furthermore, if we were unable to repay the amounts due and payable under our Senior Credit Facility, those lenders could proceed against the collateral granted to them to secure such indebtedness. In the event our lenders or noteholders accelerate the repayment of our borrowings, the Company and its subsidiaries may not have sufficient assets to repay that indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our strategy. In addition, our financial results, our substantial indebtedness and our credit ratings could adversely affect the availability and terms of our financing.

We may not be able to repurchase the Senior Notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all outstanding Senior Notes at 101% of their principal amount, plus accrued and unpaid interest to the purchase date. Additionally, under the senior credit facility, a change of control (as defined therein) constitutes an event of default that permits the lenders to accelerate the maturity of borrowings under the credit agreement and the commitments to lend would terminate. The source of funds for any purchase of the Senior Notes and repayment of borrowings under our Senior Credit Facility would be our available cash or cash generated from our subsidiaries' operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the Senior Notes upon a change of control because we may not have sufficient financial resources to purchase all of the debt securities that are tendered upon a change of control and repay any of our other indebtedness that may become due. If we fail to repurchase the Senior Notes in that circumstance, we will be in default under the indenture that governs the Senior Notes. We may require additional financing from third parties to fund any such purchases, and we may be unable to obtain financing on satisfactory terms or at all. Further, our ability to repurchase the Senior Notes may be limited by law. In order to avoid the obligations to repurchase the Senior Notes and events of default and potential breaches of the credit agreement that governs our Senior Credit Facility, we may have to avoid certain change of control transactions that would otherwise be beneficial to us.

In addition, some important corporate events, such as leveraged recapitalizations, may not, under the indenture governing the Senior Notes, constitute a "change of control" that would require us to repurchase the Senior Notes, even though those

corporate events could increase the level of our indebtedness or otherwise adversely affect our capital structure, credit ratings or the value of the Senior Notes.

The exercise by the holders of Senior Notes of their right to require us to repurchase the Senior Notes pursuant to a change of control offer could cause a default under the agreements governing our other indebtedness, including future agreements, even if the change of control itself does not, due to the financial effect of such repurchases on us. In the event a change of control offer is required to be made at a time when we are prohibited from purchasing Senior Notes, we could attempt to refinance the borrowings that contain such prohibitions. If we do not obtain a consent or repay those borrowings, we will remain prohibited from purchasing Senior Notes. In that case, our failure to purchase tendered Senior Notes would constitute an event of default under the indenture which could, in turn, constitute a default under our other indebtedness. Finally, our ability to pay cash to the holders of Senior Notes upon a repurchase may be limited by our then existing financial resources.

A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may increase our future borrowing costs and reduce our access to capital.

Our debt currently has a non-investment grade rating, and any rating assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, future circumstances relating to the basis of the rating, such as adverse changes, so warrant. Any future lowering of our ratings likely would make it more difficult or more expensive for us to obtain additional debt financing.

Fluctuations in exchange rates may adversely affect our operating and capital costs.

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

Changes in interest rates may adversely affect our operating and capital costs.

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

We may be adversely affected by loss of access to capital.

In general, mining is an extremely capital intensive business. Mining companies need significant amounts of ongoing capital to maintain and improve existing operations, invest in large scale capital projects with long lead times, and manage uncertain development and permitting timelines and the volatility associated with fluctuating metals and input prices. The amount of cash currently generated by the Company's operations may not be sufficient to fund projected levels of exploration and development activity and associated overhead costs. The Company may then be dependent upon debt and equity financing to carry out its exploration and development plans. Financial markets, including banking, debt and equity markets, can be extremely volatile and can prevent us from gaining access to the capital required to maintain and grow our business. Failure to obtain, or difficulty or delay in obtaining, requisite financing could result in delay of certain projects or postponement of further exploration, assessment or development of certain properties or projects, and would adversely affect our business, results of operations, financial condition and cash flows.

We are required to obtain government permits and comply with other government regulations to conduct operations.

Regulatory and permitting requirements have a significant impact on the Company's mining operations and can have a material and adverse effect on future cash flow, results of operations and financial condition. In order to conduct mineral exploration and mining activities the Company must obtain or renew exploration or mining permits and licenses in accordance with the relevant mining laws and regulations required by governmental authorities having jurisdiction over the mineral projects. There is no guarantee that the Company will be granted the necessary permits and licenses, that they will be renewed, or that the Company will be in a position to comply with all the conditions that are imposed. Mining is subject to potential risks and liabilities associated with pollution and the disposal of waste from mineral exploration and mine operations. Costs related to discovery, evaluation, planning, designing, developing, constructing, operating, closing and remediating mines and other facilities in compliance with these laws and regulations are significant. In addition to environmental protection, applicable laws and

regulations govern employee health and safety. Not complying with these laws and regulations can result in enforcement actions that may include corrective measures requiring capital expenditures, installation of additional equipment, remedial action and changes to operating procedures resulting in additional costs and temporary or permanent shutdown of operations. The Company may also be required to compensate those parties suffering loss or damage and may face civil or criminal fines or penalties for violating certain laws or regulations. Changes to these laws and regulations in the future could have an adverse effect on the Company's cash flow, results of operations and financial condition.

We are subject to various risks related to environmental, health and safety and other forms of government regulation.

Our mining, processing, development and exploration activities are subject to extensive laws and regulations, which include laws and regulations governing, among other things: the environment, climate change, employee health and safety, mine development, mine operation, mine safety, mine closure and reclamation, exploration, prospecting, taxes, royalties, toxic substances, waste disposal, land use, water use, land claims of local people and other matters. We require permits and approvals from a variety of regulatory authorities for many aspects of mine development, operation, closure and reclamation. Additionally, permits and approvals may be invalidated or subject to challenges after the date of issuance. Such acts could have a material adverse impact on us, our operations or results.

The Company's historical operations have generated chemical and metals depositions in the form of tailing ponds, rock waste dumps, and heap leach pads. Our ability to obtain, maintain and renew permits and approvals and to successfully develop and operate mines may be adversely affected by real or perceived impacts associated with our activities or of other mining companies that affect the environment, human health and safety.

No assurance can be given that new laws and regulations will not be enacted or that existing laws and regulations will not be applied in a manner that could have an adverse effect on our financial position and results of operations. Any such amendments to current laws, regulations and permits governing operations and activities of mining and exploration companies, or more stringent implementation thereof, would have a material adverse impact on us, such as increases in exploration expenses, capital expenditures or production costs or reduction in levels of production at producing properties, or could require abandonment or delays in the development of new mining properties.

Failure to comply with any applicable laws, regulations or permitting requirements may result in enforcement actions against us, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. We are exposed to these potential liabilities through our current development projects and operations as well as operations that have been closed or sold. For example, we could be required to compensate others for losses or damages from our mining activities; and we could face civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Any such regulatory or judicial action could materially affect our operating costs and delay or curtail our operations. There can be no assurance that we have been or will be at all times in compliance with all laws, regulations and permits, that compliance will not be challenged or that the costs of complying with current and future environmental, health and safety laws, regulations and permits will not materially or adversely affect our business, operations or results.

Certain of our assets are not wholly owned or are owned through joint ventures, and any disagreement or failure of partners to meet obligations could have a material adverse effect on our results of operations and financial condition.

We hold a 50% interest in the Ruddock Creek property through our wholly owned subsidiaries. Mitsui Mining and Smelting Co. Ltd. and Itochu Corporation hold the remaining 30% and 20% interest, respectively, through their respective wholly owned subsidiaries, MK Mining Canada, Corporation and ICM Mining (Canada) Inc. Our interest in the Ruddock Creek property is subject to the risks normally associated with the conduct of a joint venture. While we are the operator of the project, MK Mining Canada, Corporation and ICM Mining (Canada) Inc. have approval rights for certain key decisions such as changes in share capital, merger, amalgamation, dissolution of the joint venture, dividends or earning distributions, capital expenditure and operating budgets, exploration budgets, financing and pledge of joint venture assets, suspension or cessation of operations, utilization of derivative instruments, related party transactions, changes in operator or the projects of the joint venture, and hiring of key personnel.

In addition, our co-investors or joint venture partners may have competing interests in our markets that could create conflict of interest issues, and otherwise may have economic or business interests or goals that are inconsistent with our interests or goals and may take actions contrary to our instructions, requests, policies or objectives.

Our co-investors or joint venture partners, such as the ones described above, may have the right to veto any of these decisions and this could therefore lead to a deadlock. The existence or occurrence of one or more of the following circumstances and events could have a material adverse impact on our profitability or the viability of our interests in such assets, which could have a material adverse impact on our future cash flows, earnings, results of operations and financial condition: (i) disagreement with co-investors or joint venture partners on how to develop and operate mines efficiently; (ii) inability of our co-investors or joint

venture partners to meet their obligations; (iii) litigation with our co-investors or joint venture partners regarding such assets or (iv) failure of our co-investors or joint venture partners to comply with applicable laws, rules or regulations.

We are not able to control the amounts of distributions the Ruddock Joint Venture may make to us.

The ability of the Ruddock Joint Venture to make distributions to us may be restricted by, among other things, the terms of each of their governing documents. Accordingly, we are not able to control if and when, and the amount of distributions that the Ruddock Joint Venture may make to us.

We face additional risks and uncertainties from past or future operations in foreign countries.

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

We are, or may become, subject to regulatory investigations, claims, litigation and other proceedings, the outcome of which may affect our business, results of operations, financial condition and cash flows.

The nature of our business has and may continue to subject us from time to time to regulatory investigations, claims, lawsuits and other proceedings and the Company may be involved in disputes with other parties in the future, which may result in litigation. We cannot predict the outcome of any regulatory investigation, claims, litigation or other proceedings. Defence and settlement costs may be substantial, even with respect to claims that have no merit. If we cannot resolve these disputes favourably or successfully defend against any potential regulatory prosecution or other proceedings, our business, financial condition, results of operations and future prospects may be materially adversely affected.

Mineral rights or surface rights to our properties could be challenged, and, if successful, such challenges would adversely affect our business, results of operation, financial condition and cash flows.

The acquisition of title to mineral properties is a very detailed and time-consuming process. Title to mineral concessions may be disputed and title insurance is generally not available. There is no guarantee that title to any such properties will not be challenged or impaired. Third parties may have valid claims underlying portions of our interest, including prior unregistered liens, agreements, transfers or claims, including indigenous land claims, and title may be affected by, among other things, undetected defects. As a result, we may be constrained in our ability to operate our properties or unable to enforce our rights with respect to our properties. An impairment to or defect in our title to our properties would adversely affect our business, results of operations, financial condition and cash flows.

We are dependent on transportation facilities, infrastructure and certain suppliers, a lack of which could impact our production and development of projects.

Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure. Reliable roads, bridges, power sources and water supply affect capital and operating costs and the completion of the development of our projects. Unusual or infrequent weather phenomena, sabotage, community, government or other interference in the maintenance or provision of such infrastructure in any of the jurisdictions in which we operate could adversely affect our business, operations or results. Disruptions in the supply of products or services required for our activities in any of the jurisdictions in which we operate would also adversely affect our business, results of operations, financial condition and cash flows.

We depend on key management personnel and may not be able to attract and retain such persons in the future.

Our business is dependent on retaining the services of a small number of key personnel of the appropriate calibre as the business develops. Our success is, and will continue to be to a significant extent, dependent on the expertise and experience of our directors and senior management, and the loss of one or more of such persons could have a materially adverse effect on us. We do not maintain any key man insurance with respect to any of our officers or directors.

We are subject to taxation risk.

We have operations and conduct business in a number of jurisdictions and are subject to the taxation laws of these jurisdictions. These taxation laws are complicated and subject to changes and are subject to review and assessment in the ordinary course. Any such changes in taxation law or reviews and assessments could result in higher taxes being payable by us which could adversely affect our profitability and cash flows.

Our ability to repatriate funds from foreign subsidiaries may be limited, or we may incur tax payments when doing so.

Should we generate cash flow and profits from foreign subsidiaries, we may need to repatriate funds from those subsidiaries to service our indebtedness or fulfil our business plans, in particular in relation to ongoing expenditures at our development assets. We may not be able to repatriate funds, or we may incur tax payments or other costs when doing so, as a result of a change in applicable law or tax requirements at local subsidiary levels or at the parent company level, which costs could be material.

Our directors may have interests that conflict with our interests.

Certain of our directors also serve as directors and/or officers of other companies involved in natural resource exploration and development or with other companies with which we transact and consequently there exists the possibility for such directors to be in a position of conflict. In all cases where directors have an interest in another resource company, such other companies may also compete with us for the acquisition of mineral property rights. In the event that any such conflict of interest arises, a director who has such a conflict will disclose the conflict to a meeting of our directors and will abstain from voting for or against the approval of such participation or such terms. In appropriate cases, we will establish a special committee of independent directors to review a matter in which directors, or management, may have a conflict.

Actual costs of reclamation are uncertain, and higher than expected costs could negatively impact our results of operations and financial position.

Our operations are subject to reclamation plans that establish our obligations to reclaim properties after minerals have been mined from a site. These obligations represent significant future costs for us. Reclamation bonds or other forms of financial assurance are often required to secure reclamation activities. Governing authorities require companies to periodically recalculate the amount of a reclamation bond and may require bond amounts to be increased. It may be necessary to revise the planned reclamation expenditures and the operating plan for the mine in order to fund an increase to a reclamation bond. Reclamation bonds represent only a portion of the total amount of money that will be spent on reclamation over the life of a mine operation. The actual costs of reclamation set out in mine plans are estimates only and may not represent the actual amounts that will be required to complete all reclamation activity. If actual costs are significantly higher than our estimates, then our results from operations and financial position could be materially adversely affected.

Asset carrying values are evaluated quarterly and may be subject to write downs.

At each quarter end we undertake an evaluation of our portfolio of producing mines, development projects, exploration and other assets to determine whether indication of impairment exists. Where an indication of impairment exists for post feasibility exploration properties, producing properties and plant and equipment, the recoverability of the carrying values of our properties are assessed by comparing carrying values to estimated future net cash flows from each property.

Factors which may affect carrying values include, but are not limited to, copper and gold prices, foreign exchange rates, capital cost estimates, mining, processing and other operating costs, grade and metallurgical characteristics of ore, mine design and timing of production. In the event of a prolonged period of depressed copper prices or in the event of other factors reducing estimated future net cash flows from exploration and development properties, we may be required to take additional material write downs of our exploration and development properties.

The review by management for impairment of the Company's exploration and evaluation properties may be affected by the timing of exploration work, funding priorities, work programs proposed and the exploration results achieved by the Company and by others in the related area of interest.

Risk Factors Relating to the Newcrest Transaction

Completion of the Newcrest Transaction is uncertain.

The Newcrest Transaction is dependent upon the satisfaction or waiver of several conditions. Many of these conditions are outside of the control of either Imperial or Newcrest, including the receipt of key regulatory consents and approvals. There can be no certainty that all conditions precedent to the Newcrest Transaction will be satisfied or waived.

Management of the Company will be devoting a significant portion of their time to satisfying the conditions for completing the Newcrest Transaction, which will impact the Company's ability to undertake or evaluate other business opportunities in the intervening period.

The Newcrest Transaction is subject to customary non-solicitation provisions. It also restricts the Company from taking specified actions in relation to its business and operations until the Newcrest Transaction is completed without first obtaining the consent of Newcrest. These restrictions may prevent the Company from pursuing attractive business opportunities that may arise prior to completion of the Newcrest Transaction.

The Company or Newcrest may be the target of legal claims, securities class actions, derivative lawsuits and other claims in the interim which may delay or prevent the Newcrest Transaction from being completed.

The Newcrest Transaction may be terminated by either Newcrest or the Company in certain circumstances, including failure to obtain the key regulatory consents and approvals by August 15, 2019. If the Newcrest Transaction is terminated prior to completion, the Company will have expended substantial time and resources without receiving the anticipated proceeds from the sale, which could have a materially negative impact on the Company's financial situation.

Failure to complete, or the termination of, the Newcrest Transaction, for any reason, could negatively impact the market price for Imperial's shares and may ultimately result in the default by the Company of its debt obligations should further extensions of such debt not be available, thereby materially undermining the Company's ability to continue as a going concern.

The Company's critical operating systems may be compromised.

Cyber threats have evolved in severity, frequency and sophistication in recent years, and target entities are no longer primarily from the financial or retail sectors. Individuals engaging in cybercrime may target corruption of systems or data, or theft of sensitive data. The Company's mines and mills are automated and networked such that a cyber-incident involving the Company's information systems and related infrastructure could negatively impact its operations. A corruption of the Company's financial or operational data or an operational disruption of its production infrastructure could, among other potential impacts, result in: (i) loss of production or accidental discharge; (ii) expensive remediation efforts; (iii) distraction of management; (iv) damage to the Company's reputation or its relationship with suppliers and/or counterparties; or (v) in events of noncompliance, which events could lead to regulatory fines or penalties. Any of the foregoing could have a material adverse effect on the Company's business, results of operations and financial condition.

While the Company invests in robust security systems to detect and block inappropriate or illegal access to its key systems and works diligently to ensure data and system integrity, there can be no assurance that a critical system is not inadvertently or intentionally breached and compromised. This may result in business interruption losses, equipment damage, or loss of critical or sensitive information.

Our use of derivative contracts exposes us to risk of opportunity loss, mark to market accounting adjustments and exposure to counterparty credit risk.

From time to time, we may enter into price risk management contracts to protect against fluctuations in the price of our products, exchange rate movements, and changes in the price of fuel and other input costs. These contracts could include forward sales or purchase contracts, futures contracts, precious metals streams, purchased put and call options and other contracts. Any such use of forward or futures contracts can expose us to risk of an opportunity loss. The use of derivative contracts may also result in significant mark to market accounting adjustments, which may have a material adverse impact on our reported financial results. We are exposed to credit risk with contract counterparties, including, but not limited to, sales contracts and derivative contracts. In the event of non-performance by a customer in connection with a contract, we could be exposed to a loss of value for that contract.

OUTLOOK

Corporate and Operations

At December 31, 2018 the Company had not hedged any copper, gold or CDN\$/US\$ exchange. Quarterly revenues will fluctuate depending on copper and gold prices, the CDN\$/US\$ exchange rate, and the timing of concentrate sales, which is dependent on concentrate production and the availability and scheduling of transportation.

The 2018 annual base and precious metals production from the Red Chris and Mount Polley mines was 75.32 million pounds copper and 79,056 ounces gold.

On March 10, 2019, Imperial entered into an agreement to sell a 70% interest in the Red Chris mine to Newcrest for US\$806.5 million in cash. Imperial and Newcrest will form a joint venture for the operation of the Red Chris mine going forward, with Newcrest acting as operator. This joint venture partnership will enable Imperial to unlock significant value at Red Chris by leveraging Newcrest's unique technical expertise in block caving operations. With a stronger financial position and highly actionable path to exploiting the underground mining potential of Red Chris, Imperial will be in a much stronger position to create value and opportunities for its shareholders, stakeholders and the Tahltan Nation. The closing is expected to occur in the third quarter of 2019, with an outside date for closing of August 15, 2019.

Imperial announced on January 7, 2019 that due to declining copper prices, Mount Polley operations would be suspended.

Exploration

Imperial has interests in various other early stage exploration properties, and sufficient work will be conducted to keep these properties in good standing.

At Mount Polley, future additional diamond drilling is planned in the vicinity of the Springer pit to infill areas where information is lacking and additional mineralization may be present. And, a program of ground magnetometer surveying will continue in conjunction with targeted areas of soil sampling, prospecting and geological mapping.

At Huckleberry, the Company will develop exploration programs designed to expand the resource.

At Ruddock Creek, plans for further exploration of the western edge of the massive sulphide horizons have been developed and are being discussed with our joint venture partners.

Development

The 2019 Red Chris production plan was developed following an in-depth review of historic data, with key assumptions being identified and validated against past performance. The plan reflects a lower mining rate as compared to 2018 (105,000 tonnes per day vs. 130,000 tonnes per day). The metal for 2019 was estimated by a similar application of historic data for incorporation of mill availability, throughput (tonnes per operating hour) and recovery.

In February 2019, extreme cold temperatures resulted in freezing of available water beyond expectations. There was sufficient free water to maintain operations, however only at a reduced rate (24,785 tonnes per day vs 30,000 tonnes per day). The poor quality of the water available also had a negative impact on copper recoveries. Operations are returning to normal, as volumes of run-off increase, and as ice thaws with the warmer early Spring temperatures.

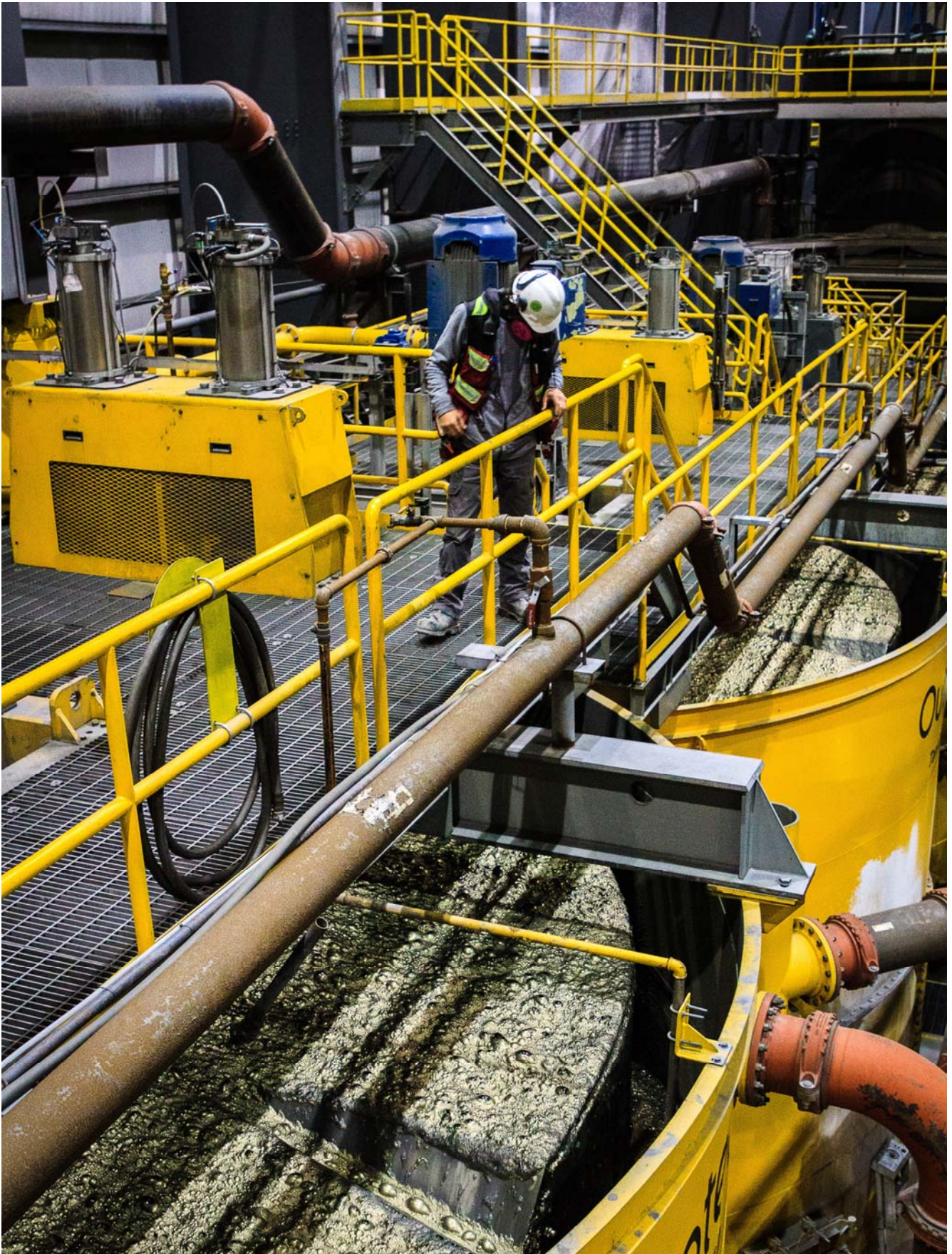
At Mount Polley, extreme cold winter temperatures impacted Mount Polley mill throughput during the latter part of January and all of February 2019. Freezing ore in chutes and stockpiles limited the milling rates. During February 2019, only 9,764 dry metric tonnes were treated per calendar day milled (versus 17,531 dry metric tonnes during February 2018). Since then, warmer Spring temperatures have helped to improve mill throughput, however, to achieve the production targets, throughput during April and May will need to increase.

Milling of low grade stockpiles are targeted to continue until May 2019, at which time the mine will be placed on care and maintenance until the economics of mining at Mount Polley improve. There will be no impact to ongoing environmental monitoring and remediation programs.

At Huckleberry, a preliminary plan to restart the mine has been developed, and will be under consideration for implementation, at such time when the economics of mining improve.

Acquisitions

Management continues to evaluate potential acquisitions.



Management's Responsibility for Financial Reporting

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

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

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

/s/ J. Brian Kynoch

J. Brian Kynoch
President

/s/ Andre Deepwell

Andre Deepwell
Chief Financial Officer

March 29, 2019

Independent Auditor's Report

To the Shareholders of
Imperial Metals Corporation:

Opinion

We have audited the consolidated financial statements of Imperial Metals Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company has a working capital deficiency of \$790 million as at December 31, 2018. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Leigh Derksen.



Chartered Professional Accountants

Vancouver, British Columbia

March 29, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

expressed in thousands of Canadian dollars

	Notes	December 31 2018	December 31 2017
ASSETS			
Current Assets			
Cash		\$18,574	\$51,895
Marketable securities		1,325	2,270
Trade and other receivables	3	7,084	24,447
Inventory	4	49,282	50,187
Prepaid expenses and deposits		6,666	3,879
		82,931	132,678
Mineral Properties	6	1,432,783	1,545,860
Other Assets	7	51,752	45,230
Deferred Income Tax Assets	21	6,437	-
		<u>\$1,573,903</u>	<u>\$1,723,768</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	8	\$104,621	\$128,096
Taxes payable		773	2,205
Short term debt	11	121,773	-
Provision for rehabilitation costs	20	2,265	3,651
Current portion of debt	12	603,648	213,874
Current portion of other obligations	10	39,321	22,981
Current portion of future site reclamation provisions	13	-	140
		872,401	370,947
Provision for rehabilitation costs	20	1,067	1,684
Non-Current Debt	12	145,847	638,504
Deferred Trade Payables	9	4,428	4,068
Other Obligations	10	13,108	27,408
Future Site Reclamation Provisions	13	97,668	98,202
Deferred Income Tax Liabilities	21	36,152	69,454
		<u>1,170,671</u>	<u>1,210,267</u>
EQUITY			
Share Capital	14	304,364	290,201
Share Option Reserve	14	19,188	18,582
Warrant Reserve	14	689	689
Equity Component of Convertible Debentures	12	25,534	25,534
Currency Translation Adjustment		8,094	7,537
Retained Earnings		45,363	170,958
		<u>403,232</u>	<u>513,501</u>
		<u>\$1,573,903</u>	<u>\$1,723,768</u>
Commitments and Pledges	4, 6, 28		
Contingent Liabilities	29		
Subsequent events	30		

See accompanying notes to these consolidated financial statements.

Approved by the Board and authorized for issue on March 29, 2019

/s/ Larry G. Moeller

Director

/s/ J. Brian Kynoch

Director

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

Years Ended December 31, 2018 and 2017

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

	Notes	2018	2017
Revenue		\$360,173	\$453,113
Cost of Sales	15	(393,176)	(433,635)
(Loss) Income from Mine Operations		(33,003)	19,478
General and Administration	16	(5,913)	(4,259)
Idle Mine Costs		(5,492)	(5,270)
Interest Expense	17	(78,423)	(75,523)
Other Finance (Loss) Income	18	(39,821)	28,322
Rehabilitation Costs	20	(151)	(5,840)
Impairment of mineral properties	6	(109,204)	-
Other Income (Expense)	19	108,054	(251)
Gain on Bargain Purchase of Huckleberry	5	-	109,818
Gain on Sale of Sterling		296	641
Share of Loss in Huckleberry		-	(557)
(Loss) Income before Taxes		(163,657)	66,559
Income and Mining Tax Recovery	21	38,062	10,554
Net (Loss) Income		(125,595)	77,113
Other Comprehensive Income (Loss)			
Items that may be subsequently reclassified to profit or loss			
Currency translation adjustment		557	(705)
Total Comprehensive (Loss) Income		\$(125,038)	\$76,408
(Loss) Income Per Share			
Basic	22	\$(1.06)	\$0.82
Diluted	22	\$(1.06)	\$0.82
Weighted Average Number of Common Shares Outstanding			
Basic	22	118,939,728	94,384,477
Diluted	22	118,939,728	94,384,477

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31, 2018 and 2017

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

	Share Capital		Share	Warrant	Equity	Currency	Retained	Total
	Number of	Amount	Option	Reserve	Component of	Translation	Earnings	
	Shares		Reserve		Convertible	Adjustment		
					Debentures			
Balance December 31, 2016	93,586,710	\$243,525	\$17,477	\$ -	\$25,534	\$8,242	\$93,845	\$388,623
Private Placement	1,818,182	4,283	-	689	-	-	-	4,972
Rights offering	19,080,978	42,282	-	-	-	-	-	42,282
Issued pursuant to Employee Share Purchase Plan	19,602	111	-	-	-	-	-	111
Share based compensation expense	-	-	1,105	-	-	-	-	1,105
Total comprehensive income (loss)	-	-	-	-	-	(705)	77,113	76,408
Balance December 31, 2017	114,505,472	290,201	18,582	689	25,534	7,537	170,958	513,501
Issued for payment of interest on debt	6,277,113	14,163	-	-	-	-	-	14,163
Share based compensation expense	-	-	606	-	-	-	-	606
Total comprehensive income (loss)	-	-	-	-	-	557	(125,595)	(125,038)
Balance December 31, 2018	120,782,585	\$304,364	\$19,188	\$689	\$25,534	\$8,094	\$45,363	\$403,232

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

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

	Notes	December 31 2018	December 31 2017
OPERATING ACTIVITIES			
(Loss) Income before taxes		\$(163,657)	\$66,559
Items not affecting cash flows			
Depletion and depreciation		75,040	83,216
Impairment of mineral properties	6	109,204	-
Share based compensation		606	1,105
Accretion of future site reclamation provisions		3,167	2,310
Unrealized foreign exchange losses (gains)		36,670	(30,242)
Interest expense	17	78,423	75,523
Gain on sale of Sterling		(296)	(641)
Share of loss in Huckleberry	5	-	557
Gain on bargain purchase of Huckleberry	5	-	(109,818)
Other		4,292	(188)
		<u>143,449</u>	<u>88,381</u>
Net change in non-cash operating working capital balances	23	(14,418)	(43)
Income and mining taxes paid		(3,036)	(1,066)
Interest paid		(51,242)	(61,828)
Cash provided by operating activities		<u>74,753</u>	<u>25,444</u>
FINANCING ACTIVITIES			
Proceeds of short term debt	11	286,829	345,297
Repayment of short term debt	11	(196,158)	(337,630)
Proceeds of non-current debt	12	73,003	75,544
Repayment of non-current debt	12	(205,219)	(53,671)
Issue of share capital, net of issue costs		-	47,254
Finance lease payments		(1,432)	-
Cash (used in) provided by financing activities		<u>(42,977)</u>	<u>76,794</u>
INVESTING ACTIVITIES			
Acquisition and development of mineral properties		(61,459)	(77,099)
Deferred royalty proceeds		22,156	-
Repurchase of deferred royalty		(22,156)	-
Net change in non-cash investing working capital balances	23	(5,516)	(13,698)
Payment of Northwest Transmission Line payable		-	(5,619)
Proceeds on sale of marketable securities		1,505	-
Proceeds on sale of mineral properties		99	26
Cash received on acquisition of Huckleberry	5	-	18,440
Cash received on sale of Sterling		-	13,570
Other		(5)	(9)
Cash used in investing activities		<u>(65,376)</u>	<u>(64,389)</u>
EFFECT OF FOREIGN EXCHANGE ON CASH		279	(205)
(DECREASE) INCREASE IN CASH		<u>(33,321)</u>	<u>37,644</u>
CASH, BEGINNING OF YEAR		51,895	14,251
CASH, END OF YEAR		<u>\$18,574</u>	<u>\$51,895</u>

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

1. NATURE OF OPERATIONS

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

The Company’s key projects are:

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

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

On September 14, 2018 the Company commenced a financial and business restructuring process including the appointment of a Special Committee which is authorized by the Board of Directors to identify, consider, negotiate and potentially implement all strategic alternatives including sales of some of the Company’s assets, joint ventures, a recapitalization, and a sale or merger of the Company.

As at December 31, 2018 the Company had completed the following:

- The Company’s \$200,000 syndicated Secured Revolving Senior Credit Facility was replaced by a bilateral Secured Revolving Senior Credit Facility of equal amount and the maturity date extended from October 1, 2018 to February 15, 2019. The new Secured Revolving Senior Credit Facility is supported by a guarantee from Edco Capital Corporation, a company controlled by a significant shareholder of the Company, for an annual fee of 2.25%. The annual guarantee fee is less than the reduction in the interest rate charged on the Senior Credit Facility, and results in reduced interest expense to the Company. All the financial covenants that were in place on the syndicated Senior Credit Facility were removed from the new Senior Credit Facility.
- The due date of the Company’s Second Lien Credit Facility of \$50,000 was extended from December 1, 2018 to February 15, 2019 and the annual fee for the guarantee of this facility by Edco Capital Corporation was reduced from 3.88% to 2.25%.
- The due date of the Company’s Bridge Loan of \$26,000 was extended from January 5, 2019 to February 28, 2019.

Subsequent to December 31, 2018 the Company:

- Entered into an agreement to sell a 70% interest in the Red Chris mine to Newcrest Mining Limited (“Newcrest”) for US\$806,500 in cash, while retaining a 30% interest in the mine. The Company and Newcrest will form a joint venture for the operation of the Red Chris mine going forward, with Newcrest acting as operator. The consideration payable will be subject to customary adjustments for certain assumed equipment loans, working capital and non-financial debt at closing.
- Extended the due date of the Senior Credit Facility to September 5, 2019, the due date of the Second Lien Credit Facility to September 9, 2019, the due date of the Bridge Loan to September 11, 2019, the due date of the Junior Credit Facility maturity to September 12, 2019 and the due date of the US\$325,000 Senior Unsecured Notes to September 15, 2019.

At December 31, 2018, the Company had cash of \$18,574, available capacity of \$30,844 for future draws under the Senior Credit Facility (Note 11), \$10,000 undrawn on the 2017 LOC Loan Facility (Note 12(i)), and a working capital deficiency of \$789,469. The working capital deficiency is primarily due to debt of \$725,421 related to the Senior Credit Facility and the Second Lien Credit Facility, which mature on September 5, 2019 and September 9, 2019 accordingly, and the Senior Unsecured Notes which mature on September 15, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

For January 2019 payment of \$8,103 in interest for certain debt facilities was made in common shares of the Company (Notes 12(d), 12(e) and 12(f)).

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

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

Basis of Presentation

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

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and those entities which are controlled by the Company. Control is achieved when the Company has power over the investee; is exposed to or has rights to variable returns from its investment with the investee; and has the ability to use its power to affect its returns. All inter-company balances, transactions, revenues and expenses have been eliminated upon consolidation.

Marketable Securities

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

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

Inventory

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

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

The portion of the ore stockpile that is to be processed more than 12 months from the reporting date and critical spare items, which might impact the production if unavailable, are classified as other assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

Materials and supplies are valued at the lower of cost or net realisable value. Any provision for obsolescence is determined by reference to specific items of stock and a general allowance for obsolescence. A regular review is undertaken to determine the extent of any provision for obsolescence.

Mineral Properties

Mineral properties represent capitalized expenditures related to the development of mining properties, related plant and equipment, expenditures related to exploration activities and expenditures arising from property acquisitions. Capitalized costs include interest and financing costs for amounts borrowed to develop mining properties and construct facilities, and operating costs, net of revenues, incurred prior to the commencement of commercial production.

The costs associated with mineral properties are separately allocated to reserves, resources and exploration potential, and include acquired interests in production, development and exploration stage properties representing the fair value at the time they were acquired. The value associated with resources and exploration potential is the value beyond proven and probable reserves assigned through acquisition. The value allocated to reserves is depleted on a unit-of-production method over the estimated recoverable proven and probable reserves at the mine. The reserve value is noted as mineral properties being depleted in Note 6.

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

Resource value and exploration potential value is noted as mineral properties not being depleted in Note 6. At least annually or when otherwise appropriate and subsequent to its review and evaluation for impairment, value from the non-depletable category is transferred to the depletable category if resources or exploration potential have been converted into reserves.

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

Commencement of Commercial Production

On the commencement of commercial production, net costs are charged to operations using the unit-of-production method by property based upon estimated recoverable reserves. Management considers a number of factors related to the ability of a property to operate at its design capacity over a specified period of time in determining when a property has reached commercial production. These factors include production levels as intended by management, plant throughput quantities, recovery rates, and number of uninterrupted days of production.

Property, Plant and Equipment

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

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

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

Milling equipment and related buildings, intangible assets used in production, and tailings facilities are depleted on a unit-of-production basis over the estimated recoverable proven and probable reserves at the mines to which they relate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

Stripping Costs

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

Assessment of Impairment

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

Post-feasibility exploration properties, producing mining properties and plant and equipment are reviewed at the end of each reporting period for evidence of impairment at the cash generating unit (CGU) level. A CGU is defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If any such indication exists, the entity shall estimate the recoverable amount of the CGU to determine if it exceeds the CGU's carrying value.

The recoverable amount for a CGU is the greater of the fair value less cost of disposal (FVLCD) and the value in use. Fair value less cost of disposal is the amount that would be received by the Company to sell a CGU in a transaction between arms-length parties less any costs directly attributable to the disposal of the CGU. Value in use is the present value of future cash flows expected to be derived by the Company from the CGU, which is estimated using discounted cash flow techniques. When it is not possible to determine fair value less cost of disposal by quotes from an active market, a written offer to purchase the CGU, or a binding sales agreement to purchase the CGU, the Company estimates the fair value less cost of disposal using discounted cash flow techniques. Resources in the measured and indicated categories are valued using estimated fair values based on market transactions.

Discounted cash flow techniques are dependent on a number of factors, including future metal prices, the amount of reserves, resources and exploration potential, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and future site reclamation costs. Additionally, the reviews take into account factors such as political, social, legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts in assessing these factors.

An impairment loss or reversal thereof is recognized in income or loss to the extent that the carrying amount exceeds or is below the recoverable amount.

Future Site Reclamation Costs

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

Future site reclamation costs are capitalized as part of the carrying value of the related mineral property at its initial discounted value and amortized over the useful life of the mineral property using the unit-of-production method. Subsequent changes to future site reclamation costs are recorded with a corresponding change to the carrying amounts of related mineral property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

Income and Mining Taxes

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

In a business combination, temporary differences arise as a result of differences in the fair values of identifiable assets and liabilities acquired and their respective tax bases. Deferred tax assets and liabilities are recognized for the tax effects of these differences. Deferred tax assets and liabilities are not recognized for temporary differences arising from goodwill or from the initial recognition of assets and liabilities acquired in a transaction other than a business combination which does not affect either accounting or taxable income or loss. Government assistance, including investment tax credits, is credited against the expenditure generating the assistance when it is probable that the government assistance will be realized.

Revenue Recognition

The revenue from the sale of concentrate is recognized at the point in time when control of the concentrate passes to the customer which occurs when title transfer to the customer and on the date of shipment.

Revenue is recorded in the statement of income and comprehensive income net of treatment and refining costs and royalties paid to counterparties under terms of the off take arrangements. The estimated revenue is recorded based on metal prices and exchange rates on the date of shipment and is adjusted at each reporting date to the date of settlement metal prices. The actual amounts will be reflected in revenue upon final settlement, which could be as long as four to five months after the date of shipment. These adjustments reflect changes in metal prices and changes in quantities arising from final weight and assay calculations. The net realizable value of copper concentrate inventory is calculated on the basis of current market prices less treatment and refining costs.

Financial Assets

Financial assets are initially measured at fair value and are subsequently measured at either amortized cost or fair value through profit or loss, depending on the classification of the financial assets.

The classification of assets is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs. Trade receivable that do not contain a significant financial component or for which the Company has applied the practical expedient for contracts that have a maturity of a one year or less, are measured at the transaction price determined under IFRS 15 in accordance with revenue recognition accounting policy.

The Company has categorized its financial assets in accordance with International Financial Reporting Standard 9, Financial Instruments ("IFRS 9") into one of the following two categories:

Fair value through profit or loss

Includes equity investments, gold and copper price contract assets, gold and copper swap contracts, copper forward contracts, and other financial assets designated to this category under the fair value option. The Company has assessed the contractual cash flows of its provisionally priced contracts in accordance with IFRS 9 and has classified these contracts as fair value through profit or loss ("FVTPL").

Financial assets at amortized cost

Includes cash and cash equivalents, future site reclamation deposits and trade receivables at amortized cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. The quoted market price used for financial assets held by the Company is the last bid price of the day.

Financial assets measured at amortized cost are subject to an allowance for expected credit losses based on the historic experience realizing these assets and information available about the probability of future collection. The Company applies a simplified lifetime expected credit loss model to measure expected credit losses for trade and other receivables.

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

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

Financial Liabilities

Financial liabilities are accounted for at amortized cost except for those at FVTPL which includes liabilities designated as FVTPL and derivatives. Financial liabilities classified as FVTPL or those which are designated as FVTPL under the fair value option are measured at fair value with unrealized gains and losses recognized in net earnings. In cases where financial liabilities are designated as FVTPL, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statements of operations. Financial liabilities at amortized cost are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost.

The Company has classified its financial liabilities in accordance with IFRS 9 into one of the following two categories:

Fair value through profit or loss

Includes provisions related to copper price option contract liabilities.

Financial liabilities at amortized cost

Includes trade and other payables and long-term debt.

Derivative Instruments

Derivative instruments, including embedded derivatives, are recorded at fair value on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recorded in net earnings.

Provisional pricing

Certain transactions are "provisionally priced" whereby the selling price is subject to final adjustment up to 150 days after delivery to the customer. The final price is based on the market price at the relevant quotation point stipulated in the contract. As is customary in the industry, revenue on provisionally priced sales is recognized based on estimates of the fair value of the consideration receivable based on relevant forward market prices. At each reporting date, provisionally priced metal is marked to market based on the forward selling price for the quotational period stipulated in the contract. For this purpose, the selling price can be measured reliably for those products, such as gold and copper, for which there exists active and freely traded commodity markets. The marking to market of provisionally priced sales contracts is recorded as an adjustment to revenue.

Foreign Currency Translation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

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

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

Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the net assets of the arrangement. Joint control is considered to exist when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement. Interests in joint ventures are recognized as an investment and accounted for using the equity method of accounting.

Joint Operations

A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the assets and liabilities relating to the arrangement. Joint control is considered to exist when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement. Interests in joint operations are accounted for by recognizing the Company's share of assets, liabilities, revenues and expenses incurred jointly.

Reportable Segment Information

The Company's operations are primarily directed towards the exploration, development and production from its mineral properties in Canada. The Company has five reportable segments, Mount Polley, including related exploration and development activities, Red Chris, including related exploration and development activities, Huckleberry, including related exploration and development activities, Sterling, including related exploration and development activities and Corporate, including all other properties and related exploration and development activities.

Share Based Payments

The Company has a share option plan that provides all option holders the right to receive common shares in exchange for the options exercised which is described in Note 14(b). The fair value of each option award that will ultimately vest is estimated on the date of grant using the Black-Scholes option-pricing model. Compensation expense is determined when stock options are granted and recognized in operations over the vesting period of the option. Consideration received on the exercise of stock options is recorded as share capital and the related share-based amounts of share option reserve are credited to share capital.

Borrowing Costs

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

Income (Loss) Per Common Share

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

Significant Accounting Judgments, Estimates and Assumptions

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

(i) Critical Judgments

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

Revenue recognition

Determination of performance obligations. The Company applied judgement to determine if a good or service that is promised to a customer is distinct based on whether the customer can benefit from the good or service on its own or together with other readily available resources and whether the good or service is separately identifiable. Based on these criteria, the Company determined the primary performance obligation relating to its sales contracts is the delivery of the concentrates. Shipping and insurance services arranged by the Company for its concentrate sales customers that occur after the transfer of control are also considered to be performance obligations.

Transfer of control. Judgement is required to determine when transfer of control occurs relating to the sale of the Company's concentrate to its customers. Management based its assessment on a number of indicators of control, which include, but are not limited to whether the Company has present right of payment, and whether the physical possession of the goods, significant risks and rewards and legal title have been transferred to the customer.

Variable consideration. Variable consideration should only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company identified a variable component of its revenue for concentrate sales relating to adjustments to the final sales price based on differences between the original and final assay results relating to the quantity and quality of concentrate shipments. Based on the Company's proficiency in its assaying process, evidenced by the insignificant amount of historical adjustments from the initial to final assays, the Company concluded the variability in consideration caused by assaying results was negligible. Therefore, the Company does not expect a significant amount of reversal in revenue related to assaying differences.

Impairment of Mineral Properties

Both external and internal information is reviewed and considered by management in their assessment of whether there are indicators that mineral properties are impaired. External sources of information include changes in the market, economic and legal environment, in which the Company operates, that are not within its control and affect the recoverable amount of its mineral properties, plant and equipment. The internal sources of information include the manner in which mineral properties, plant and equipment are being used or are expected to be used and indications of economic performance of assets. In the year ended December 31, 2018, management identified an indicator of impairment at the Mount Polley Mine (Note 6). In determining the recoverable amounts of producing mineral properties management estimates the discounted future pre-tax cash flows expected to be derived from the Company's producing mineral properties. Reductions in commodity prices, increases in estimated future production and capital costs, reductions in mineral reserves and exploration potential and adverse economic events can result in impairment charges. In determining the economic recoverability and probability of future economic benefit of non-producing mineral properties management also considers geological information, likelihood of conversion of resources to reserves, estimated market values of measured and indicated resources, scoping and feasibility studies, permitting, infrastructure, development costs, and life of mine plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

Interests in Other Entities

As part of its process in determining the classification of its interests in other entities, the Company applies judgment in interpreting these interests such as

- the determination of the level of control or significant influence held by the Company;
- the accounting standard's applicability to the operations;
- the legal structure and contractual terms of the arrangement;
- concluding whether the Company has rights to assets and liabilities or to net assets of the arrangement; and
- when relevant, other facts and circumstances.

The Company has determined that the Ruddock Creek Joint Venture and the Porcher Island Joint Venture represent joint operations as they are unincorporated entities.

Functional Currency

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

Contingencies

Contingencies can be either possible assets or liabilities arising from past events which, by their nature, will be resolved only when one or more uncertain future events occur or fail to occur. Such contingencies include, but are not limited to, environmental obligations, litigation, regulatory proceedings, tax matters and losses results from other events and developments. The assessment of the existence and potential impact of contingencies inherently involves the exercise of significant judgement regarding the outcome of future events.

(ii) Critical Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Reserve and Resource Estimates

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

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

Depletion and Depreciation of Mineral Properties

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

Stripping Costs

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

Future Site Reclamation Provisions

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

Provision for Rehabilitation Costs

The provision for rehabilitation costs represents management's estimate of the future cash outflows required to settle the estimated rehabilitation costs related to the August 4, 2014 Mount Polley mine tailings dam breach. The provision incorporates the Company's estimate of costs for rehabilitation, including geotechnical investigations, environmental monitoring, community relations, communications and related corporate support costs. The provision is based on the scope and timing of work as determined by the Company in consultation with regulatory agencies and incorporates the risks associated with each activity. Changes in any of these factors can result in a change to the provision for rehabilitation costs.

Income Taxes

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

Share Based Compensation

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

New and Amended Standards and Interpretations

The Company applied IFRS 15 and IFRS 9 for the first time from January 1, 2018. The nature and the effect of these changes as a result of the adoption of these new standards are disclosed below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several other amendments and interpretations applied for the first time in 2018, but did not have an impact on the consolidated financial statements, hence, have not been disclosed.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied.

IFRS 15 also requires enhanced disclosures about revenue to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Company adopted IFRS 15 using the full retrospective method of adoption.

The Company has concluded that revenue from the sale of concentrate should be recognized at the point in time when control of the concentrate passes to the customer which generally occurs when title transfer to the customer and on the date of shipment.

Based on our analysis, the timing and amount of our revenue from product sales did not change under IFRS 15.

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

We have assessed the classification and measurement of our financial assets and financial liabilities under IFRS 9 and concluded that the adoption of IFRS 9 did not affect the current classification of Company's financial assets and financial liabilities.

The Company has determined that the new measurement requirements under IFRS 9 have impact on the certain financial liabilities (debt) held by the Company as a result of modification to those debt instruments. Under IFRS 9, when the contractual cash flows of a financial liability are renegotiated or otherwise modified and the renegotiation or modification does not result in the de-recognition of that financial liability, the Company recalculates the gross carrying amount of the financial liability and recognizes a modification gain or loss in the statement of income (loss). Previously, under IAS 39, the Company did not recognize a gain or loss at the date of modification of a financial liability.

Based on management's detailed review and analysis the effect of adopting of IFRS 9 had trivial effect on the opening retained earnings as at January 1, 2018.

Accounting Standards Issued But Not Yet Adopted

The Company has not early adopted any other standard, interpretation or amendment that have been issued but is not yet effective.

IFRS 16, Leases

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

lessees – recognizing a “right-of-use” asset and the related lease liability at commencement of the lease, with subsequent accounting generally similar to finance lease model under IAS 17.

The Company intends to adopt IFRS 16 on January 1, 2019 using the modified retrospective approach, in accordance with the transitional provisions in IFRS 16. The Company has identified and collected data relating to existing agreements that will extend beyond January 1, 2019 that may contain right-of-use assets. The company has compiled all of its existing operating lease contracts and service contracts and has identified which contracts would be within the scope of IFRS 16.

Based on management’s detailed review and analysis, the effect of adopting of IFRS 16 will have a trivial effect on the opening retained earnings as at January 1, 2019.

Definition of a Business

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

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted.

Uncertainty Over Income Tax Treatments

IFRIC 23 - Uncertainty over Income Tax Treatments (the "Interpretation") sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If no, the entity should reflect the effect of uncertainty in determining its accounting tax position. The Interpretation is effective for annual periods beginning on or after January 1, 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively. The Company does not expect the application of the Interpretation will have a significant impact on the Company's consolidated financial statements.

Annual Improvements 2015-2017 Cycle

In December 2017, the IASB issued the Annual Improvements 2015-2017 cycle, containing amendments to *IFRS 3 - Business Combinations* ("*IFRS 3*"), *IFRS 11 - Joint Arrangements*, *IAS 12 - Income Taxes* and *IAS 23 - Borrowing Costs*. These amendments are effective for annual periods beginning on or after January 1, 2019 and are not expected to have a significant impact on the Company's consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

3. TRADE AND OTHER RECEIVABLES

	December 31 2018	December 31 2017
Trade receivables	\$6,846	\$24,231
Taxes receivable	238	216
	<u>\$7,084</u>	<u>\$24,447</u>

4. INVENTORY

	December 31 2018	December 31 2017
Stockpile ore	\$23,030	\$22,450
Concentrate	12,115	9,761
Supplies	51,260	48,335
Total inventories	86,405	80,546
Less non-current inventories included in other assets (Note 7)	(37,123)	(30,359)
Total current inventories	<u>\$49,282</u>	<u>\$50,187</u>

During the year ended December 31, 2018 inventory of \$403,839 was recognized in cost of sales (2017-\$402,314) and an impairment charge of \$7,929 (2017-\$9,549) on stockpile ore, concentrate and supplies inventory was included in cost of sales and \$nil (2017-\$186) was included in idle mine cost. As at December 31, 2018, the Company had \$86,405 (2017-\$80,546) of inventory pledged as security for debt.

5. INVESTMENT IN HUCKLEBERRY MINES LTD.

On April 28, 2017 the Company became the sole owner of Huckleberry Mines Ltd. ("Huckleberry") by virtue of Huckleberry exercising its right of first refusal to purchase for cancellation all the shares of Huckleberry held by a syndicate of Japanese companies in exchange for cash consideration of \$2,000. Huckleberry became a wholly-owned subsidiary of the Company on that date.

Prior to April 28, 2017 the Company had a 50% interest in Huckleberry that was accounted for on the equity basis of accounting. The Company has accounted for the acquisition of the remaining 50% interest in Huckleberry as a business combination whereby the net assets acquired are recorded at fair value.

The Company has estimated the acquisition date fair values of the acquired assets and liabilities of Huckleberry. The previously held 50% interest in Huckleberry was re-measured at its acquisition date fair value, and the resulting gain is recognised in the statement of income (loss) and other comprehensive income (loss).

The Company used a discounted cash flow model to estimate the expected future cash flows of the mine, based on the life-of-mine plans. Expected future cash flows are based on estimated future production and commodity prices, operating costs, and forecast capital expenditures using the life-of-mine plan as at the acquisition date.

Mineral resources which were not included in the life-of-mine plan and exploration potential were separately valued using a market approach, referring recent comparable transactions. A replacement cost approach was used to determine the fair value of plant and equipment, and the fair value of supplies inventory.

The fair value of cash, reclamation bonds, prepaid and other receivables is equal to its contractual amount and is fully collectible. The fair value of trade and other payable is recognized at the expected cash outflows arisen to settle the contractual obligations.

The Company estimated the fair value of Huckleberry's contractual and legal obligations for protection of the environment as a liability, discounted to net present value, for the best estimate of future costs to retire a mining property asset including costs for dismantling, remediation and ongoing treatment and monitoring of the site. The present value is determined using a pre-tax credit risk adjusted interest rate of 6.28%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

The following table summarizes the consideration transferred to acquire 100% interest in Huckleberry and the fair values of identified assets acquired and liabilities assumed at the acquisition date:

<i>Identifiable Assets Acquired and Liabilities Assumed</i>	April 28, 2017
Cash (net of \$2,000 paid for cancellation of shares)	\$18,440
Reclamation bonds	14,135
Prepaid and other receivables	785
Inventories	12,048
Mineral properties	186,034
Deferred income tax assets	12,037
Trade and other payables	(1,668)
Deferred trade payables	(4,925)
Future site reclamation provisions	(22,042)
Deferred income tax liabilities	(26,185)
	<u>188,659</u>
<i>Assets Relinquished</i>	
Accrued receivable due to the Company	\$1,009
Company's investment in Huckleberry held before the business combination	77,832
	<u>78,841</u>
Total Gain	<u>\$109,818</u>
Gain on bargain purchase of Huckleberry	\$93,321
Gain on revaluation of 50% interest in Huckleberry	16,497
Total Gain	<u>\$109,818</u>

During the year ended December 31, 2018 Huckleberry incurred idle mine costs comprised of operating costs \$4,357 (period from the date of acquisition to December 31, 2017-\$3,521), \$1,135 in depreciation expense (2017-\$1,749) respectively. If the acquisition of Huckleberry had taken place at January 1, 2017, the Company's revenue and profit before tax for 2017 would have been \$453,113 and \$63,933 respectively,

Prior to April 28, 2017 the Company had a 50% interest in Huckleberry that was accounted for on the equity basis of accounting.

	Year Ended December 31 2018	Year Ended December 31 2017
Balance, beginning of period	\$ -	\$78,389
Share of loss for the period	-	(557)
Revaluation of 50% interest to its fair value at the date of acquisition	-	16,497
Consolidation on acquisition of additional 50% interest in Huckleberry	-	(94,329)
Balance, end of period	<u>\$ -</u>	<u>\$ -</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

6. MINERAL PROPERTIES

Cost	Mineral Properties being Depleted	Mineral Properties not being Depleted			Total
		Projects not in Production	Exploration & Evaluation Assets	Plant & Equipment	
Balance December 31, 2016	\$342,520	\$56,168	\$49,503	\$1,264,259	\$1,712,450
Additions	38,249	713	7,352	83,862	130,176
Sale of Sterling	-	-	(34,014)	(2,118)	(36,132)
Acquisition of Huckleberry	82,662	-	79,934	23,438	186,034
Disposals	-	-	(2)	(603)	(605)
Foreign exchange movement	-	-	(608)	(60)	(668)
Balance December 31, 2017	463,431	56,881	102,165	1,368,778	1,991,255
Additions	(3,671)	943	742	75,920	73,934
Reclass to non-current inventory	-	-	-	(2,434)	(2,434)
Reclassification	14,157	(14,157)	-	-	-
Foreign exchange movement	-	-	557	70	627
Balance December 31, 2018	\$473,917	\$43,667	\$103,464	\$1,442,334	\$2,063,382

Accumulated depletion & depreciation & impairment losses	Mineral Properties being Depleted	Mineral Properties not being Depleted			Total
		Projects not in Production	Exploration & Evaluation Assets	Plant & Equipment	
Balance December 31, 2016	\$139,228	\$ -	\$8,570	\$232,629	\$380,427
Depletion and depreciation	22,625	-	-	57,078	79,703
Disposals	-	-	-	(525)	(525)
Foreign exchange movement	-	-	22	(288)	(266)
Sale of Sterling	-	-	(6,947)	(6,997)	(13,944)
Balance December 31, 2017	161,853	-	1,645	281,897	445,395
Depletion and depreciation	18,769	-	-	57,161	75,930
Impairment	101,356	-	-	7,848	109,204
Foreign exchange movement	-	-	-	70	70
Balance December 31, 2018	\$281,978	\$ -	\$1,645	\$346,976	\$630,599
Carrying Amount					
Balance December 31, 2016	\$203,292	\$56,168	\$40,933	\$1,031,630	\$1,332,023
Balance December 31, 2017	\$301,578	\$56,881	\$100,520	\$1,086,881	\$1,545,860
Balance December 31, 2018	\$191,939	\$43,667	\$101,819	\$1,095,358	\$1,432,783

Additions to Mineral Properties being Depleted includes a reduction of \$3,840, which represents a net change in estimates of future site reclamation provisions (2017- increase of \$37,182).

At December 31, 2018, the net carrying value of the deferred stripping costs was \$47,045 (2017-\$54,237) and is included in mineral properties.

At December 31, 2018, leased mobile equipment at cost of \$16,176 (December 31, 2017-\$nil) and accumulated depreciation of \$227 (December 31, 2017-\$nil) was included with plant and equipment.

At December 31, 2018, the Company had provided \$28,370 (December 31, 2018-\$28,370) of security for reclamation bonding obligations by securing certain plant and equipment (Notes 28(b) and (c)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

At December 31, 2018, the Company had \$3,402 of contractual commitments (2017-\$6,674) for the expenditures on property, plant and equipment.

Red Chris Mine

The Red Chris copper/gold mine is owned and operated by Red Chris Development Company Ltd., a subsidiary of the Company. The property, located in northwest British Columbia, is comprised of the Red Chris Main claim group and the Red Chris South group, and consists of 77 mineral tenures that cover a total area of 23,142 hectares. Five of the tenures (5,141 hectares) are mining leases.

The Red Chris project was issued a Mines Act permit in May 2012 by the Province of British Columbia. Commissioning of the Red Chris mine began in late 2014, and commercial production was achieved July 1, 2015. Net smelter royalties between 1.0% to 2.0% are payable on production from the Red Chris mine.

Subsequent to December 31, 2018, the Company entered into an agreement to sell a 70% interest in the Red Chris mine to Newcrest for US\$806,500 in cash, while retaining a 30% interest in the mine. The Company and Newcrest will form a joint venture for the operation of the Red Chris mine going forward, with Newcrest acting as operator (Note 30).

Mount Polley Mine

The Mount Polley copper/gold mine is owned and operated by Mount Polley Mining Corporation, a subsidiary of the Company. The property, located in south-central British Columbia, is comprised of 20,038 hectares, consisting of seven mining leases totalling 2,007 hectares, and 43 mineral claims encompassing 18,031 hectares. A production royalty is payable on ore mined from Mining Lease 933970 but no production occurred on this tenure in 2017 or 2018.

Huckleberry Mine

The Huckleberry copper mine is owned and operated by Huckleberry Mines Ltd., a subsidiary of the Company. The property, located in west-central British Columbia, is comprised of 24,387 hectares, consisting of two mining leases totalling 2,422 hectares, and 44 mineral claims encompassing 21,965 hectares. Huckleberry mine operations were suspended in August 2016. The mine remains on care and maintenance status.

Other Exploration Properties

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

Impairment of Mineral Properties

Every year the Company reviews its mineral properties for impairment. The review at December 31, 2018 determined that the commercial viability of the Mount Polley mine has significantly decreased. The triggers for the impairment test were primarily due to changes to the mine plan and a decline in the copper price. The mine will be suspended by the end of May 2019 and full operations are expected to resume once the commercial viability of the Mount Polley mine improves.

As a result of the review of asset carrying values an impairment charge of \$101,356 was recorded for the Mount Polley mine. The net carrying value of the Mount Polley mine is higher than the cash-generating unit's (CGU's) fair value less cost of disposal (FVLCD) and value in use (VIU). Given the nature of the Company's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with a potential purchaser or similar transactions are taking place. Consequently, the recoverable amount for each CGU is estimated based on post-tax discounted future cash flows (expressed in real terms) expected to be generated from the continued use of the CGUs using market based commodity price and exchange assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, including any expansion projects, and its eventual disposal, based on the latest life of mine plan. These cash flows were discounted using a real post-tax discount rate that reflected current market assessments of the time value of money and the risks specific to the CGU.

The determination of FVLCD is considered to be a Level 3 fair value measurement as it is derived from valuation techniques that include inputs that are not based on observable market data. The Company considers the inputs and the valuation approach to be consistent with the approach taken by market participants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

The determination of recoverable amount is most sensitive to the following key assumptions:

- Production volumes
- Commodity prices
- Discount rates
- Exchange rates

Production volumes: In calculating the FVLCD for the Mount Polley mine, the production volumes incorporated into the cash flow models were estimated based on detailed life-of-mine plans and take into account development plans for the mine determined by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; the contractual duration of mining rights; and the selling price of the commodities extracted. As each producing mine has specific reserve characteristics and economic circumstances, the cash flows of the mines are computed using appropriate individual economic models and key assumptions established by management. The production profiles used were consistent with the reserves and resource volumes approved as part of the Company's process for the estimation of proven and probable reserves, resource estimates and in certain circumstances, include expansion projects. These are then assessed to ensure they are consistent with what a market participant would estimate.

Commodity prices: Forecast commodity prices are based on management's estimates and are derived from forward price curves and long-term views of global supply and demand, building on past experience of the industry and consistent with external market forecasts. These prices were adjusted to arrive at appropriate consistent price assumptions for the different qualities and type of commodities. For impairment analysis, the following commodity prices were used:

	2019	2020	2021	2022	2023+
Copper (US\$ per pound)	\$2.80	\$3.12	\$3.24	\$3.29	\$3.07
Gold (US\$ per ounce)	\$1,250	\$1,306	\$1,312	\$1,306	\$1,302
Silver (US\$ per ounce)	\$14.00	\$17.00	\$17.70	\$17.60	\$18.20

Discount rates: In calculating the recoverable amount, a post-tax discount rate of 8% was applied to the pre-tax cash flows expressed in real terms. This discount rate is derived from the Company's weighted average cost of capital, with appropriate adjustments made to reflect the risks specific to the CGU and is designed to approximate what market participants would assign.

Exchange rates: Foreign exchange rates are estimated with reference to external market forecasts and updated at least annually. The rates applied for the first five years of the valuation are based on observable market data including spot and forward values, thereafter the estimate is interpolated to the long term assumption, which involves market analysis including equity analyst estimates. The assumed long-term US dollar/CDN dollar exchange rates are estimated to be:

	2019	2020	2021	2022	2023+
CDN\$/US\$	1.3349	1.2883	1.2804	1.2637	1.2617

Any variation in the key assumptions above would either result in further impairment or lead to a reversal of impairment for the Mount Polley mine.

During the year ended December 31, 2018 the Company abandoned certain projects at Mount Polley and recognized a charge of \$7,848 as impairment of mineral properties in the statement of income (loss) and comprehensive income (loss).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

7. OTHER ASSETS

	December 31 2018	December 31 2017
Future site reclamation deposits	\$14,324	\$14,319
Non-current inventory - ore stockpile	22,404	17,545
Non-current inventory - supplies	10,085	7,730
Non-current inventory - critical spare parts	4,634	5,084
Other	305	552
	<u>\$51,752</u>	<u>\$45,230</u>

8. TRADE AND OTHER PAYABLES

	December 31 2018	December 31 2017
Trade payables	\$37,422	\$68,307
Deferred payables due within one year (Note 9)	16,819	18,053
Accrued liabilities	50,380	41,736
	<u>\$104,621</u>	<u>\$128,096</u>

9. DEFERRED PAYABLES

	December 31 2018	December 31 2017
Deferred trade payables	\$21,247	\$22,121
Less deferred payables due within one year	(16,819)	(18,053)
	<u>\$4,428</u>	<u>\$4,068</u>

(a) Deferred Trade Payables

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

Interest on the deferred amounts is charged and added to the deferred trade payables balance at Bank Prime Rate plus 5% except for Huckleberry which is at 12%.

The Payment Plan commenced in March 2016 and has a five year term with payment deferrals allowed only during the first two years. Repayments of deferred amounts are required at up to 75% of the monthly electricity billing when the copper price exceeds CDN\$3.40 per pound. At a copper price of CDN\$3.40 per pound there is no deferral or repayment. The maximum deferral of 75% is available at a copper price of CDN\$3.04 per pound or less and the maximum repayments are required at a copper price of CDN\$3.76 per pound or more.

Payment of any remaining balance under the Payment Plan is due at the end of the five year term in March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

10. OTHER OBLIGATIONS

	December 31 2018	December 31 2017
Northwest Transmission Line payable	\$52,429	\$50,389
Less portion due within one year	(39,321)	(22,981)
	<u>\$13,108</u>	<u>\$27,408</u>

Pursuant to a tariff supplement the Company is obligated to reimburse BC Hydro for its portion of the costs related to BC Hydro's construction of the Northwest Transmission Line which provides power to the Red Chris mine. Repayments are due monthly of \$1,192 plus interest at 4.05% per annum. The interest rate is subject to review annually.

11. SHORT TERM DEBT

Amounts due for short term debt are:

	December 31 2018	December 31 2017
Senior secured revolving credit facility, net of issue costs	<u>\$121,773</u>	<u>\$ -</u>

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

	December 31 2018	December 31 2017
Balance, beginning of year	\$ -	\$13,277
Amounts advanced	142,954	345,297
Proceeds from Senior Credit Facility, net of issuance costs (Note 11)	143,875	-
Senior credit facility reclassified from non-current debt (Note 12 (a))	30,300	-
Bridge loan reclassified to non-current debt (Note 12 (g))	-	(20,000)
Amounts repaid	(143,545)	(337,630)
Payment of short term credit facilities (Note 12(a))	(52,613)	-
Accretion of finance fees	211	-
Foreign exchange loss (gain)	591	(944)
Balance, end of year	<u>\$121,773</u>	<u>\$ -</u>

Senior Credit Facility

Senior secured revolving credit facility aggregating \$200,000 (December 31, 2017-\$nil) due February 15, 2019. 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. Of this facility, \$47,156 (December 31, 2017-\$nil) has been utilized for letters of credit pledged for settlement of future site reclamation provisions (Note 28(b)) and for other liabilities. On September 14, 2018 this facility replaced the syndicated senior credit facility of equal amount (Note 12(a)). This facility has been guaranteed by a related party (Note 24). Subsequent to December 31, 2018, the Company extended the due date to September 5, 2019 (Note 30 (b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

12. NON-CURRENT DEBT

Amounts due for non-current debt are:

		December 31 2018	December 31 2017
Senior secured revolving credit facility, net of issue costs	(a)	\$ -	\$151,628
Second lien secured revolving credit facility, net of issue costs	(b)	49,968	49,945
Senior unsecured notes, net of issue costs	(c)	442,781	404,841
Junior credit facility	(d)	75,000	75,000
Convertible debentures - 2014	(e)	106,153	101,198
Convertible debentures - 2015	(f)	26,846	25,744
Bridge loan	(g)	26,000	26,000
Equipment loans	(h)	8,406	18,022
Equipment leases	(j)	14,340	-
2017 LOC loan facility	(i)	-	-
		<u>749,495</u>	<u>852,378</u>
Less portion due within one year		<u>(603,648)</u>	<u>(213,874)</u>
		<u>\$145,847</u>	<u>\$638,504</u>

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

	Loans	Finance Leases	December 31 2018	December 31 2017
Balance, beginning of year	\$852,378	\$ -	\$852,378	\$822,088
Amounts advanced, net of issue costs	73,625	14,890	88,515	84,490
Bridge loan reclassified from short term debt	-	-	-	20,000
Portion of senior credit facility reclassified to short term debt (Note 11)	(30,300)	-	(30,300)	-
Foreign exchange gains (losses)	35,689	668	36,357	(29,280)
Accretion of debt issue costs	2,926	-	2,926	2,970
Accretion of interest on convertible debentures and leases	6,057	213	6,270	5,781
Amounts repaid	(205,219)	(1,432)	(206,651)	(53,671)
Balance, end of year	<u>735,156</u>	<u>14,339</u>	<u>749,495</u>	<u>852,378</u>
Less portion due within one year	<u>(600,727)</u>	<u>(2,921)</u>	<u>(603,648)</u>	<u>(213,874)</u>
	<u>\$134,429</u>	<u>\$11,418</u>	<u>\$145,847</u>	<u>\$638,504</u>

The Company has the following debt facilities:

(a) Senior Credit Facility

Senior secured revolving credit facility from a syndicate of banks aggregating \$nil (December 31, 2017-\$200,000). The facility was secured by trade and other receivables, inventory, shares of all material subsidiaries and a floating charge on certain assets of the Company. Of this facility, \$nil (December 31, 2017-\$42,091) was utilized for letters of credit pledged for settlement of future site reclamation provisions (Note 28(b)). On September 14, 2018 this facility was replaced by a bilateral senior credit facility of equal amount (Note 11).

(b) Second Lien Credit Facility

Second lien secured revolving credit facility aggregating \$50,000 (December 31, 2017-\$50,000) due February 15, 2019. 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, subject to the priority interests held on those assets by the senior credit facility (Note 11). This facility has been guaranteed by a related party (Note 24). Subsequent to December 31, 2018 the Company extended the due date to September 9, 2019 (Note 30 (b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

(c) Senior Unsecured Notes

Senior unsecured notes (the “Notes”) due March 15, 2019 aggregating US\$325,000 with interest at 7% per annum payable each March 15 and September 15. The Notes, net of transaction costs, are accounted for at amortized cost using the effective interest method. 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. Subsequent to December 31, 2018 the Company extended the due date to September 15, 2019 (Note 30 (b)).

(d) Junior Credit Facility

The junior credit facility is from a related party (Note 24). It aggregates \$75,000 (December 31, 2017-\$75,000) and is unsecured with interest payable quarterly at 10% per annum. The facility is due on March 12, 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. Interest payments during the period October 31, 2017 to January 1, 2019 are payable in common shares of the Company based on the volume weighted average share price of the Company on the Toronto Stock Exchange. Subsequent to December 31, 2018 the Company extended the due date to September 12, 2019 (Note 30 (b)).

(e) Convertible Debentures - 2014

The debentures with a face value of \$115,000 mature on September 4, 2020 and bear interest at 6% per year with interest payable semi-annually on September 30 and December 31. As a result of the rights offering completed in December 2017 the conversion price was reduced from \$11.91 to \$11.69 per common share. The face value of the convertible debentures are convertible into common shares of the Company at the option of the holder upon at least 61 days advance notice at any time prior to maturity at a conversion price of \$11.69 per common share. The convertible debentures are not callable unless the closing price of the Company’s common shares exceeds 125% of the conversion price for at least 30 consecutive days. At the option of the Company, subject to the separate approval of the Toronto Stock Exchange and compliance with all applicable securities laws, such interest may be paid through the issuance of additional convertible debentures or common shares of the Company. Interest payments during the period October 31, 2017 to January 1, 2019 are payable in common shares of the Company based on the volume weighted average share price of the Company on the Toronto Stock Exchange.

(f) Convertible Debentures - 2015

The debentures with a face value of \$30,000 mature on August 25, 2021 and bear interest at 6% per year with interest payable semi-annually on September 30 and December 31 with the first payment paid on December 31, 2016. As a result of the rights offering completed in December 2017 the conversion price was reduced from \$12.00 to \$11.77 per common share. The face value of the convertible debentures are convertible into common shares of the Company at the option of the holder upon at least 61 days advance notice at any time prior to maturity at a conversion price of \$11.77 per common share. The convertible debentures are not callable unless the closing price of the Company’s common shares exceeds 125% of the conversion price for at least 30 consecutive days. Interest payments on \$27,900 of the \$30,000 outstanding debentures during the period October 31, 2017 to January 1, 2019 are payable in common shares of the Company based on the volume weighted average share price of the Company on the Toronto Stock Exchange.

(g) Bridge loan

Bridge loan of \$26,000 (December 31, 2017-\$26,000) maturing on February 28, 2019. The Bridge loan (50%) is provided by a related party and is secured by all assets of the Company and is subordinated to the Senior Credit Facility and Second Lien Credit Facility lenders. Interest on the Bridge loan is payable monthly at the rate of 8% per annum. Subsequent to December 31, 2018 the Company extended the due date to September 11, 2019 (Note 30 (b)).

(h) Equipment Loans

At September 30, 2018, the Company had an equipment loan outstanding denominated in US Dollars totalling US\$339 or \$439 (December 31, 2017– US\$5,716; \$7,171) at a weighted average interest rate of 2.57% with monthly payments of US\$339 or \$439. The Company also had equipment loans outstanding denominated in CDN Dollars totalling \$10,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

(December 31, 2017-\$10,851) at a weighted average interest rate of 5.95% with monthly payments of \$664. All equipment loans are secured by the financed equipment.

(i) 2017 LOC Loan Facility

Unsecured loan facility of \$10,000 (December 31, 2017 - \$10,000) from a related party (Note 24) with interest at 12% payable on the last day of each calendar quarter. The loan was undrawn in 2018 and expired undrawn on January 5, 2019.

(i) Equipment Leases

	Interest Rate	Monthly payment	December 31 2018
Finance Lease	6.25%	\$4	\$99
Finance Lease	4.30%	US\$209	14,241
			<u>\$14,340</u>
Contractual Lease Payments			December 31 2018
Due in less than one year			\$3,482
Due in one to five years			12,339
Total undiscounted lease liabilities, end of period			<u>\$15,821</u>

13. FUTURE SITE RECLAMATION PROVISIONS

The Company has recognized provisions for future site reclamation at its Red Chris, Mount Polley, Huckleberry (effective April 28, 2017), Sterling (to May 30, 2017), Ruddock Creek and Catface 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:

	December 31 2018	December 31 2017
Balance, beginning of year	\$98,342	\$42,381
Accretion	3,167	2,310
Costs incurred during the year	-	(495)
Liability assumed at fair value at acquisition of Huckleberry (Note 5)	-	22,042
Change in estimates of future costs, discount rate and effect of translation of foreign currencies	(3,841)	37,182
Sale of Sterling	-	(5,078)
Balance, end of year	97,668	98,342
Less portion due within one year	-	(140)
	<u>\$97,668</u>	<u>\$98,202</u>

The total undiscounted amount of estimated future cash flows required to settle the obligations is \$174,566 (December 31, 2017-\$173,348). The estimated future cash flows were then adjusted using a 2.0% (December 31, 2017-2.0%) rate of inflation. The estimated future cash flows have been discounted using a rate of 3.15% (December 31, 2017-3.20%) except for obligations related to Mount Polley and Huckleberry beyond 2046 that are discounted using a rate of 4.15% (December 31, 2017-4.20%). Obligations in amount of \$86,068 are expected to be settled in the years 2019 through 2046.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

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

(b) Share Option Plans

Under the Share Option Plans, the Company may grant options to its directors, officers and employees not to exceed 10% of the issued common shares of the Company. At December 31, 2018, a total of 9,484,259 common share options remain available for grant under the plans. Under the plans, the exercise price of each option cannot be greater than the market price of the Company's shares on the date of grant and an option's maximum term is 10 years. Options are granted from time to time by the Board of Directors and vest over a three or five year period.

During the year ended December 31, 2018, the Company did not grant any stock options to its directors, officers or employees. During the year ended December 31, 2017, the Company granted 65,000 stock options at a weighted average exercise price of \$5.75. The weighted average fair value for the options granted in the year ended December 31, 2017 was \$2.49, which was estimated at the date of the grant using the Black-Scholes option pricing model using the following weighted average assumptions: risk-free interest rate - 1.05%; expected dividend yield - \$nil; expected stock price volatility - 51.0%; expected option life - 6.5 years; and, estimated forfeiture rate - 5.0%.

Movements in Share Options

The changes in share options were as follows:

	December 31, 2018		December 31, 2017	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,601,900	\$8.13	3,871,900	\$8.16
Granted	-	\$ -	65,000	\$5.75
Forfeited	(108,000)	\$8.00	(252,000)	\$8.00
Expired	(899,900)	\$5.19	(83,000)	\$8.12
Outstanding at end of year	2,594,000	\$9.16	3,601,900	\$8.13
Options exercisable at end of year	2,008,000	\$9.56	2,627,900	\$8.24

The following table summarizes information about the Company's share options outstanding at December 31, 2018:

	Options Outstanding		Options Exercisable	
	Options Outstanding	Remaining Contractual Life in Years	Options Outstanding & Exercisable	Remaining Contractual Life in Years
Exercise Prices				
\$5.75	65,000	9.01	13,000	9.01
\$5.93	156,000	1.00	156,000	1.00
\$8.00	1,393,000	6.93	859,000	6.93
\$11.55	980,000	1.79	980,000	1.79
	2,594,000	4.68	2,008,000	3.97

No share options were exercised during the years ended December 31, 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

(c) Warrants

In connection with a private placement concluded on October 27, 2017 the Company issued 909,091 warrants to related parties at an ascribed value of \$689. Each warrant is exercisable at \$3.25 and entitles the holder to purchase one common share of the Company. The warrants expire on October 27, 2019. The fair value of the warrants was estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.42%, expected dividend yield of nil, expected stock price volatility of 61.97% and expected life of 2 years. At December 31, 2018 and 2017 all warrants remain outstanding.

15. COST OF SALES

	2018	2017
Operating expenses	\$238,175	\$262,078
Salaries, wages and benefits	81,223	89,829
Depletion and depreciation	73,776	81,338
Share based compensation	2	390
	<u>\$393,176</u>	<u>\$433,635</u>

Included in cost of sales is \$7,929 (2017-\$9,549) of impairment charges in relation to stockpile ore, concentrate inventory and supplies inventory (Note 4).

16. GENERAL AND ADMINISTRATION

	2018	2017
Administration costs	\$3,741	\$3,632
Share based compensation	604	715
Depreciation	129	129
Foreign exchange loss (gain)	1,439	(217)
	<u>\$5,913</u>	<u>\$4,259</u>

17. INTEREST EXPENSE

	2018	2017
Interest on non-current debt	\$67,345	\$67,987
Other interest	11,078	7,536
	<u>\$78,423</u>	<u>\$75,523</u>

18. OTHER FINANCE LOSS (INCOME)

	2018	2017
Accretion of future site reclamation provisions	\$3,167	\$2,310
Foreign exchange loss (gain) on short term debt	591	(944)
Foreign exchange loss (gain) on non-current debt	36,358	(29,280)
Fair value adjustment to marketable securities	16	(242)
	<u>40,132</u>	<u>(28,156)</u>
Interest income	(311)	(166)
Other finance loss (income)	<u>\$39,821</u>	<u>\$(28,322)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

19. OTHER INCOME (LOSS)

	2018	2017
Settlement, net of costs	\$106,230	\$ -
Insurance recovery	1,446	-
Gain (loss) on sale of marketable securities	279	(16)
Gain on sale of mineral properties	80	-
Other	19	(235)
Other income (loss)	<u>\$108,054</u>	<u>\$(251)</u>

Net settlement proceeds of \$106,230 were received by the Company for an action arising out of the August 4, 2014 failure of the perimeter embankment at the Mount Polley mine.

20. PROVISION FOR REHABILITATION COSTS

On August 4, 2014 the tailings dam at the Mount Polley mine near Likely, British Columbia was breached. At that time, the Company charged to expense the estimated rehabilitation costs, and during the year ended December 31, 2018 the rehabilitation provision was increased by \$151 (2017 - \$5,840) to reflect assumptions and estimates as of that date.

The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required. It is based on assumptions and estimates at December 31, 2018, and is subject to revision in the future as further information becomes available to the Company.

Changes in the provision for rehabilitation costs are as follows:

	December 31 2018	December 31 2017
Balance, beginning of the year	\$5,335	\$2,051
Costs incurred in the year	(2,154)	(2,556)
Increase in provision	151	5,840
Balance, end of the year	<u>3,332</u>	<u>5,335</u>
Less portion expected to be incurred within one year	<u>(2,265)</u>	<u>(3,651)</u>
	<u>\$1,067</u>	<u>\$1,684</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

21. INCOME AND MINING TAX RECOVERY

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

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
(Loss) income before taxes	<u>\$ (163,657)</u>	<u>100.0</u>	<u>\$ 66,559</u>	<u>100.0</u>
Income tax (recovery) expense thereon at statutory rates	(44,188)	(27.0)	17,305	26.0
Decrease (increase) resulting from:				
Non-deductible share based compensation	163	0.1	287	0.4
Non-taxable gain on bargain purchase of Huckleberry	-	-	(28,553)	(42.9)
Share of loss in Huckleberry	-	-	145	0.2
Non-taxable (non-deductible) portion of foreign exchange loss (gain)	4,194	2.6	(3,192)	(4.8)
Deferred income tax assets not recognized	-	-	1,267	1.9
Revisions to prior year estimates	4,132	2.5	315	0.5
Rate difference	46	-	2,193	3.3
B.C. mineral tax	(2,613)	(1.6)	(16)	-
Other	204	0.1	(305)	(0.5)
Income and mining tax recovery	<u>\$ (38,062)</u>	<u>(23.3)</u>	<u>\$ (10,554)</u>	<u>(15.9)</u>
Current income and mining tax expense	\$ 1,532		\$ 2,064	
Deferred income and mining tax recovery	(39,594)		(12,618)	
	<u>\$ (38,062)</u>		<u>\$ (10,554)</u>	

	December 31 2018	December 31 2017
Deferred income and mining tax assets	\$ 6,437	\$ -
Deferred income and mining tax (liabilities)	(36,152)	(69,454)
Net deferred income and mining tax (liabilities)	<u>\$ (29,715)</u>	<u>\$ (69,454)</u>

	December 31 2018	December 31 2017
Deferred income and mining tax assets and (liabilities)		
Mineral properties	\$ (184,408)	\$ (187,780)
Mineral properties – mineral tax	(4,524)	(8,668)
Debt component of convertible debentures	(3,240)	(4,876)
Other	1,686	1,016
Net operating tax losses carried forward ⁽¹⁾	160,771	130,854
Net deferred income and mining tax liabilities	<u>\$ (29,715)</u>	<u>\$ (69,454)</u>

⁽¹⁾ The Company believes that it is probable that the results of future operations will generate sufficient taxable income to realize the above noted deferred income tax assets.

As at December 31, 2018, the Company had net operating tax loss carry forwards in Canada of \$597,663 which can be applied to reduce future Canadian taxable income and will expire between 2026 and 2038. In addition, the Company had net operating tax loss carry forwards in the United States of US\$20,984 which can be applied to reduce future US taxable income and will expire in 2031 to 2035.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

The Company had the following temporary differences and unused tax losses at December 31, 2018 in respect of which no deferred tax asset has been recognized:

	Mineral Properties & Other	Tax Losses	Total
Expiry 2027 and beyond	\$ -	\$30,842	\$30,842
No expiry date	147,692	-	147,692
	<u>\$147,692</u>	<u>\$30,842</u>	<u>\$178,534</u>

22. (LOSS) EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income (loss) for the year by the weighted average number of ordinary shares outstanding during the year. The basic and diluted earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

	December 31 2018	December 31 2017
Net (Loss) Income	<u>\$(125,595)</u>	<u>\$77,113</u>
Weighted-average number of common shares outstanding	118,939,728	94,384,477
Basic and diluted (loss) earnings per common share	\$(1.06)	\$0.82

The following common shares that may be issued in relation to the following items have been excluded from the calculation of diluted loss per common share as the result would be anti-dilutive:

	December 31 2018	December 31 2017
Stock options	2,594,000	3,601,900
Warrants	909,091	909,091
Convertible debentures	12,386,321	12,386,321

23. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2018	2017
Trade and other receivables	\$18,090	\$(16,226)
Inventory	(2,858)	11,380
Prepaid expenses and deposits	(2,787)	(1,057)
Trade and other payables	(16,306)	3,290
Deferred trade payables (Note 9(a))	(8,554)	(714)
Provision for rehabilitation costs	(2,003)	3,284
	<u>\$(14,418)</u>	<u>\$(43)</u>

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

During the year ended December 31, 2018 the Company purchased certain mobile equipment at a cost of \$15,512 (December 31, 2017 - \$8,946) which was financed by long-term debt and finance lease (Note 12(h),(j)).

During the year ended December 31, 2018 the Company issued 6,277,113 common share at an ascribed value of \$1.97 - \$2.64 per share for total amount of \$14,163 in payment of accrued interest on the Junior Credit Facility (Note 12 (d)), the 2014 Convertible Debentures (Note 12(e)) and a portion of the 2015 Convertible Debentures (Note 12(f)).

During the year ended December 31, 2018, the Company issued of \$nil (2017-\$111) of shares pursuant to the Employee Share Purchase Plan.

(c) Net change in non-cash investing working capital balances:

	2018	2017
Trade and other payables	<u>\$(5,516)</u>	<u>\$(13,698)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

24. RELATED PARTY TRANSACTIONS

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

Subsidiaries	Incorporation	% Equity Interest	
		2018	2017
416898 BC Ltd.	Canada	100%	100%
Bethlehem Resources Corporation	Canada	100%	100%
Catface Copper Mines Limited	Canada	100%	100%
CAT-Gold Corporation	Canada	100%	100%
Goldstream Mining Corporation	Canada	100%	100%
HML Mining Inc.	Canada	100%	100%
High G Minerals Corporation	Canada	100%	100%
Highway 37 Power Corp.	Canada	100%	100%
Huckleberry Mines Ltd. ⁽¹⁾	Canada	100%	100%
Mount Polley Mining Corporation	Canada	100%	100%
Princeton Exploration Ltd.	Canada	100%	100%
Red Chris Development Company Ltd.	Canada	100%	100%
Ruddock Creek Mining Corporation	Canada	100%	100%
Selkirk Metals Corp.	Canada	100%	100%
Sterling Gold Mining Corporation ⁽²⁾	USA	100%	100%

⁽¹⁾ acquired additional 50% interest on April 28, 2017 to hold 100%

⁽²⁾ sale of Sterling gold mine property was completed on May 30, 2017

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

Statement of Income (Loss)

	2018	2017
Loan guarantee fee for guarantee of Second Lien Credit Facility	\$1,695	\$1,814
Loan guarantee fee for guarantee of Senior Credit Facility	\$1,344	\$ -
Interest expense	\$17,253	\$16,359

Statement of Financial Position

	December 31 2018	December 31 2017
Accrued interest on Senior Unsecured Notes, Convertible Debentures, Junior Credit Facility and Bridge Loan (Note 30(a))	\$7,010	\$5,088
Junior Credit Facility	\$75,000	\$75,000
Senior Unsecured Notes (US\$53,320)	\$72,739	\$66,865
Convertible Debentures	\$59,000	\$59,000
Bridge Loan	\$13,000	\$13,000
Share issue expenses (backstop fees)	\$ -	\$310
Deferred financing fees for debt	\$ -	\$138

Statement of Cash Flows

	2018	2017
Deferred royalty proceeds	\$22,156	\$ -
Repurchase of deferred royalty	\$(22,156)	\$ -

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

25. COMPENSATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

The remuneration of the Company's directors and other key management personnel are as follows:

	December 31 2018	December 31 2017
Short term benefits ⁽¹⁾	\$1,432	\$1,636
Share based payments ⁽²⁾	\$ -	\$ -

⁽¹⁾ Short term employee benefits for 2017 include salaries, estimated bonuses payable within the year of the Statement of Financial Position date and other annual employee benefits. Short term employee benefits for 2018 include salaries and other annual employee benefits. Bonus amounts in respect of 2018 will be reported in 2019 when determined. Directors and other key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2018 and 2017.

⁽²⁾ Share based payments are the fair value of options granted in the period to directors and other key management personnel.

26. REPORTABLE SEGMENTED INFORMATION

The Company operates primarily in Canada. All of the Company's assets are located in Canada, except for assets comprised primarily of the Sterling mine totalling \$8,215 as at December 31, 2018 (December 31, 2017-\$8,482), which are located in the USA. The Company's reportable segments reflect the internal reporting used by the Company's management to report to the chief operating decision maker.

	December 31, 2018					
	Red Chris	Mount Polley	Huckleberry	Sterling	Corporate	Total
Reportable segmented revenues	\$248,297	\$113,145	\$1,627	\$ -	\$(671)	\$362,398
Less inter-segment revenues	7,439	(8,739)	(1,627)	-	702	(2,225)
Revenues from external sources	\$255,736	\$104,406	\$ -	\$ -	\$31	\$360,173
Depletion and depreciation	\$48,931	\$24,845	\$1,135	\$ -	\$129	\$75,040
Interest and other finance (expense) income	\$(100,143)	\$(16,340)	\$(1,788)	\$106	\$(79)	\$(118,244)
Net (loss) income	\$(89,660)	\$(35,039)	\$(1,538)	\$656	\$(14)	\$(125,595)
Capital expenditures	\$62,907	\$13,322	\$3	\$ -	\$740	\$76,972
Total assets	\$1,118,039	\$174,851	\$225,825	\$8,215	\$46,973	\$1,573,903
Total liabilities	\$877,987	\$231,370	\$57,859	\$9	\$3,446	\$1,170,671

	December 31, 2017					
	Red Chris	Mount Polley	Huckleberry	Sterling	Corporate	Total
Reportable segmented revenues	\$289,207	\$165,492	\$156	\$359	\$2,109	\$457,323
Less inter-segment revenues	(125)	(1,948)	(156)	(18)	(1,963)	(4,210)
Revenues from external sources	\$289,082	\$163,544	\$ -	\$341	\$146	\$453,113
Depletion and depreciation	\$50,458	\$30,721	\$1,749	\$159	\$129	\$83,216
Interest (expense) and other finance income (expense)	\$(31,115)	\$(14,993)	\$(1,264)	\$120	\$51	\$(47,201)
Gain on bargain purchase of Huckleberry and revaluation of investment in Huckleberry	\$ -	\$ -	\$ -	\$ -	\$109,818	\$109,818
Share of loss in Huckleberry	\$ -	\$ -	\$(557)	\$ -	\$ -	\$(557)
Net income (loss)	\$397	\$(27,231)	\$(9,424)	\$119	\$113,252	\$77,113
Capital expenditures	\$57,795	\$27,726	\$31	\$7,027	\$311	\$92,890
Total assets	\$1,105,872	\$306,932	\$229,929	\$8,482	\$72,553	\$1,723,768
Total liabilities	\$895,154	\$249,747	\$64,323	\$9	\$1,034	\$1,210,267

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

Revenue by Geographic Area

	2018	2017
Switzerland	\$277,451	\$173,972
Korea	63,271	59,014
United States	20,514	126,092
Singapore	(1,094)	93,889
Canada	31	146
	<u>\$360,173</u>	<u>\$453,113</u>

Revenues are attributed to geographic area based on country of customer. In the year ended December 31, 2018, the Company had six principal customers accounting for 26%, 24%, 23%, 18%, 6% and 3% of revenues (December 31, 2017—seven principal customers accounting for 21%, 17%, 16%, 14%, 13%, 13% and 6%). 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 (contains 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 traders.

Revenue by Major Product and Service

	2018	2017
Copper	\$237,115	\$313,760
Gold	122,503	137,568
Silver	524	1,634
Other	31	151
	<u>\$360,173</u>	<u>\$453,113</u>

27. FINANCIAL INSTRUMENTS, INTEREST RATE AND CREDIT RISK

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

Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from 2017.

The capital structure of the Company consists of current and non-current debt and equity comprised of share capital, share option reserve, equity component of convertible debentures, warrant reserve, currency translation adjustment and retained earnings.

Credit Risk

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

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

From time to time the Company enters into derivative instruments with a number of counterparties to limit the amount of credit risk associated with any one counterparty. The Company did not enter into any derivative instruments during the year ended December 31, 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

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

	2018	2017
Cash	\$18,574	\$51,895
Marketable securities	1,325	2,270
Trade receivables	6,846	24,231
Future site reclamation deposits	14,324	14,319
Other assets	305	552
	<u>\$41,374</u>	<u>\$93,267</u>

Liquidity Risk

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

At December 31, 2018, the Company's primary sources of credit are comprised of a \$200,000 senior secured revolving credit facility, a \$50,000 second lien revolving loan credit facility, US\$325,000 senior unsecured notes, \$145,000 face value of unsecured convertible debentures, a \$75,000 unsecured junior credit facility, a \$26,000 Bridge loan facility, a \$10,000 LOC loan facility, and \$22,746 in secured equipment loans and leases.

After December 31, 2018 the Company extended the maturity date of the majority of its debt that was due in early 2019 (Note 30(b)) such that all the Company's debt, excluding equipment loans and leases, matures after the expected date of closing of the transaction with Newcrest to sell a 70% interest in Red Chris.

At December 31, 2018, the provision for rehabilitation costs related to the Mount Polley mine tailings dam failure was \$3,332 (December 31, 2017-\$5,335). During 2016 the Company had received permits to resume normal operations using the rebuilt tailings dam. While the precise costs of rehabilitation are unknown, the Company believes the costs can be managed over time.

Cash balances on hand, the projected cash flow from the Red Chris and Mount Polley mines, as well as the available credit facilities are expected to be sufficient to fund the Company's obligations as they come due until completion of the transaction with Newcrest. However, there are inherent risks related to the operation of the Company's mines which could require additional sources of financing. There can be no assurance that adequate additional financing will be available on terms acceptable to the Company or at all, which creates a material uncertainty that could have an adverse impact on the Company's financial condition and results of operations.

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

Liquidity risk is also impacted by credit risk should a counterparty default on its payments to the Company although the Company considers this risk low.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

The Company had the following contractual obligations with respect to financial instruments:

	December 31 2018						December 31 2017
	Within 1 Year	2 Years	3 Years	4 Years	5 years	Total	Total
Trade and other payables	\$104,621	\$ -	\$ -	\$ -	\$ -	\$104,621	\$110,043
Other obligations	39,321	13,722	3,814			56,857	72,510
Short term debt	121,773	-	-	-	-	121,773	-
Current portion of non-current debt	604,251	-	-	-	-	604,251	214,340
Non-current debt	-	119,172	33,338	3,365	1,972	157,847	659,433
	869,966	132,894	37,152	3,365	1,972	1,045,349	1,056,326
Less future accretion and unamortized finance cost	(603)	(8,846)	(3,154)	-	-	(12,603)	(21,395)
Total	\$869,363	\$124,048	\$33,998	\$3,365	\$1,972	\$1,032,746	\$1,034,931

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US dollar denominated cash, trade and other accounts receivable, reclamation deposits, trade and other payables and debt. If the US Dollar had been 10% higher/lower and all other variables were held constant, net (loss) income and comprehensive (loss) income for the year ended December 31, 2018 would have been higher/lower by \$38,536.

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings. At December 31, 2018, about 22% of the Company's outstanding borrowings were at floating interest rates compared to December 31, 2017 when about 24% 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.

If interest rates had been 100 basis points higher/lower on the Company's floating rate debt and all other variables were held constant, the amount of interest expense in the year ended December 31, 2018 would have increased/decreased by \$1,931.

Provisionally Priced Revenues

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

Provisionally priced revenues is comprised of the following:

	December 31 2018	Provisional Price	December 31 2017	Provisional Price
	000's	US\$	000's	US\$
Copper – provisional price per lb	18,759.5	\$2.63	17,212.4	\$3.29
Gold – provisional price per oz	16.5	\$1,283	24.5	\$1,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

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

	Year ended December 31, 2018		
	Copper	Gold and Silver	Total
Realized	\$(9,667)	\$(788)	\$(10,455)
Unrealized	(2,816)	990	(1,826)
Total	\$(12,483)	\$202	\$(12,281)

	Year ended December 31, 2017		
	Copper	Gold and Silver	Total
Realized	\$17,806	\$2,029	\$19,835
Unrealized	3,107	1,078	4,185
Total	\$20,913	\$3,107	\$24,020

Fair Value Estimation

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

The carrying value less impairment provision, if necessary, of trade and other receivables and trade and other payables are assumed to approximate their fair values. Except for the Notes (Note 12(c)), management believes that the carrying value of remaining non-current and short term debt approximates fair value. At December 31, 2018, the fair value of the Notes is \$297,055 (December 31, 2017-\$381,211) based on a quote received from dealers that trade the Notes.

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 December 31, 2018 as follows:

	Level 1	Level 2	Total
Financial Assets			
Cash	\$18,574	\$ -	\$18,574
Marketable securities	1,325	-	1,325
Provisionally priced accounts receivables	-	5,030	5,030
Future site reclamation deposits	14,324	-	14,324
	34,223	5,030	39,253
Financial Liabilities			
Amounts owing on provisionally priced receivables included in trade and other payables	-	(1,008)	(1,008)
	\$34,223	\$4,022	\$38,245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

28. COMMITMENTS AND PLEDGES

- (a) At December 31, 2018 the Company is committed to future minimum operating lease payments as follows:

2019	\$426
2020	358
2021	330
2022 and beyond	166
	<u>\$1,280</u>

- (b) At December 31, 2018, the Company has pledged the following assets for settlement of future site reclamation provisions:

Future site reclamation deposits included with other assets	\$14,324
Mineral property, plant and equipment	28,370
Letters of credit (Note 11)	42,500
	<u>\$85,194</u>

- (c) The Company has provided \$28,370 for reclamation bonding obligations by securing certain plant and equipment. This security may be required to be replaced with cash security.
- (d) At December 31, 2018, the Company had commitments of \$3,402 for expenditures on mineral properties.

29. 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.

On August 4, 2014 the tailings dam at the Mount Polley mine near Likely, British Columbia was breached and at December 31, 2018, the Company has a provision of \$3,332 for future rehabilitation activities related to the Mount Polley mine tailings dam breach (Note 20). The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required and is subject to revision in the future as further information becomes available to the Company.

During the third quarter of 2014, a securities class action lawsuit was filed against the Company and certain of its directors, officers and others in the Ontario Superior Court of Justice in Toronto (the Claim). The Company has engaged independent legal counsel to advise it on this matter. At this time the Company cannot predict the outcome of the Claim or determine the amount of any potential losses and accordingly, no provision has been made as of December 31, 2018. However, the Company is of the view that the allegations contained in the Claim are without merit and intends to vigorously defend its position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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

30. SUBSEQUENT EVENTS

Subsequent to December 31, 2018 the Company

(a) issued common shares in payment of interest on debt:

- 3,542,814 common shares at an ascribed value of \$1.22 per share for a total of \$4,322 in payment of the interest due on December 31, 2018 on \$27,900 of the \$30,000 face value of the 2015 Convertible Debentures (Note 12(f)). Included in these amounts are 1,428,035 common shares at an ascribed value of \$1.22 per share for a total of \$1,742 issued to related parties.
- 1,549,517 common shares at an ascribed value of \$1.22 per share for a total of \$1,890 in payment of the interest due on December 31, 2018 on the Junior Credit Facility (Note 12(d)). These shares were all issued to a related party.
- 1,235,563 common shares at an ascribed value of \$1.53 per share for a total of \$1,890 in payment of the interest due on September 30, 2018 on the Junior Credit Facility (Note 12(d)). These shares were all issued to a related party.

(b) extended the maturity date of certain of its debt as follows:

- The Senior Credit Facility (Note 11) maturity date has been extended from February 15, 2019 to March 7, 2019, then from March 7, 2019 to March 15, 2019, and from March 15, 2019 to September 5, 2019.
- The Second Lien Credit Facility (Note 12(b)) maturity date has been extended from February 15, 2019 to March 11, 2019 then from March 11, 2019 to March 15, 2019, and from March 15, 2019 to September 9, 2019.
- The US\$325,000 Senior Unsecured Notes (Note 12 (c)) maturity date has been extended to September 15, 2019.
- The Bridge Loan (Note 12 (h)) maturity date has been extended from February 28, 2019 to March 13, 2019 then from March 13, 2019 to March 15, 2019, and from March 15, 2019 to September 11, 2019.
- The Junior Credit Facility (Note 12 (d)) maturity date has been extended from March 12, 2019 to March 15 and then from March 15, 2019 to September 12, 2019.

(c) entered into an agreement on March 10, 2019 to sell a 70% interest in the Red Chris mine to Newcrest for US\$806,500 in cash, while retaining a 30% interest in the mine. The Company and Newcrest will form a joint venture for the operation of the Red Chris asset going forward, with Newcrest acting as operator. The consideration payable will be subject to customary adjustments for certain assumed equipment loans, working capital and non-financial debt at closing.

(d) received a favorable judgement with respect to the uncertain status at December 31, 2018 of the recovery by the Company of approximately \$11,000 of BC mineral taxes paid in prior years.

MANAGEMENT

Brian Kynoch | President

Andre Deepwell | Chief Financial Officer & Corporate Secretary

Don Parsons | Chief Operating Officer

Sophie Hsia | General Counsel & Vice President Risk

Darb Dhillon | Vice President Finance

Randall Thompson | Vice President Operations

Jim Miller-Tait | Vice President Exploration

Sheila Colwill | Vice President Marketing

DIRECTORS

Pierre Lebel | Chairman

Brian Kynoch

Larry Moeller


Ted Muraro

Janine North

J.P. Veitch

Ed Yurkowski



A photograph of a person standing in a vast field of tall green grass under a dramatic, cloudy sky. The person is wearing a hard hat and safety gear, and is positioned in the middle ground. The sky is filled with large, dark clouds, and the sun is visible, creating a lens flare effect. The overall mood is one of exploration and discovery.

discover develop operate



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