

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 Option Reserve	Warrant Reserve	Equity Component of Convertible Debentures	Currency Translation Adjustment	Retained Earnings	Total
	Number of Shares	Amount						
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		(33,321)	37,644
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.

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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.

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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.

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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.

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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.

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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.

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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

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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.

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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%.

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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>

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6. MINERAL PROPERTIES

Cost	Mineral Properties not being Depleted				Total
	Mineral Properties being Depleted	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 not being Depleted				Total
	Mineral Properties being Depleted	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
<i>Carrying Amount</i>					
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)).

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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.

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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).

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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.

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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)).

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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)).

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(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

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(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	<u>97,668</u>	<u>98,342</u>
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.

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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:

Exercise Prices	Options Outstanding		Options Exercisable	
	Options Outstanding	Remaining Contractual Life in Years	Options Outstanding & Exercisable	Remaining Contractual Life in Years
\$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.

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(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>

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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>

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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	\$ (163,657)	100.0	\$ 66,559	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	\$ (38,062)	(23.3)	\$ (10,554)	(15.9)
Current income and mining tax expense	\$ 1,532		\$ 2,064	
Deferred income and mining tax recovery	(39,594)		(12,618)	
	\$ (38,062)		\$ (10,554)	

	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)	\$ (29,715)	\$ (69,454)

	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	\$ (29,715)	\$ (69,454)

⁽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.

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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>

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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.

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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

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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.

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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.

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

						December 31	December 31
	Within 1 Year	2 Years	3 Years	4 Years	5 years	2018	2017
						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	Provisional	December 31	Provisional
	2018	Price	2017	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

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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	<u>\$ (12,483)</u>	<u>\$ 202</u>	<u>\$ (12,281)</u>

	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	<u>\$ 20,913</u>	<u>\$ 3,107</u>	<u>\$ 24,020</u>

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
	<u>34,223</u>	<u>5,030</u>	<u>39,253</u>
Financial Liabilities			
Amounts owing on provisionally priced receivables included in trade and other payables	-	(1,008)	(1,008)
	<u>\$ 34,223</u>	<u>\$ 4,022</u>	<u>\$ 38,245</u>

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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.

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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.