



Second Quarter Report 2018

Management's Discussion & Analysis

For the Three and Six Months Ended June 30, 2018 and 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for Imperial Metals Corporation ("Imperial", the "Company", "we", "us" or "our") should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2018 including the notes thereto ("Interim Financial Statements"), as well as the audited Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2017. This MD&A contains statements that may be considered forward-looking information, and therefore investors are directed to review section "Forward-Looking Statements and Risks Notice" within this MD&A.

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

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

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

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 The Company was incorporated under the British Columbia *Company Act*, which was superseded by the British Columbia *Business Corporations Act*, on December 6, 2001 under the name IMI Imperial Metals Inc. Imperial changed its name to Imperial Metals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

The Company is listed on The Toronto Stock Exchange and its shares trade under symbol III. As at August 13, 2018, the Company had 120,782,585 common shares outstanding, and on a diluted basis 137,500,897 common shares outstanding.

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

SIGNIFICANT EVENTS AND LIQUIDITY

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

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 Company is able to successfully extend or refinance the Senior Credit Facility and the Second Lien Credit Facility prior to their maturity in the fourth quarter of 2018 and the Senior Unsecured Notes which mature in the first quarter of 2019. 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 extend or renegotiate this debt, and that adequate additional financing will be available on terms acceptable to the Company or at all, which creates a material uncertainty that could have an adverse impact on the Company's financial condition and results of operations and may cast significant doubt on the Company's ability to continue as a going concern.

On April 28, 2017 the acquisition of Huckleberry Mines Ltd. ("Huckleberry") closed with Huckleberry becoming a wholly owned subsidiary of the Company. Huckleberry exercised 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 \$2.0 million.

On May 30, 2017, the Company completed the sale of the Sterling gold mine property and related assets.

During the latter half of 2017 the Company completed a number of transactions to improve liquidity. These included a rights offering for net proceeds of approximately \$42.3 million, a private placement for gross proceeds of \$5.0 million, amendment of the financial covenants and extension of maturities for both the Senior Credit Facility and Second Lien Credit Facility to October 1, 2018 and December 1, 2018, respectively, and entered into a \$26.0 million bridge loan financing ("Bridge Loan").

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

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

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

Board of Director Changes

On behalf of the Board of Directors, the Company is pleased to announce the appointments of Janine North and J.P. Veitch as independent non-executive directors, elected on May 22, 2018 at the annual general meeting.

Laurie Pare retired after not standing for re-election at the Annual General Meeting on May 22, 2018. Members of the Board are indebted to Mr. Pare for his five years of dedicated service to the Company, and wish him well in his future endeavours.

Executive Changes

Randall Thompson has been appointed Vice President Operations. Randall has a history with Imperial, working for Huckleberry Mines Ltd., as Vice President Operations and General Manger, and later as President. He has a strong history in underground mine operations, and will work to advance development of the Martel zone at Mount Polley and the deep resource at Red Chris.

Gordon Keevil resigned as Vice President Corporate Development effective May 2018. The Company wishes to extend its gratitude to Mr. Keevil for his nine years of service to Imperial. Mr. Keevil will continue to provide assistance to the Company on an as needed basis.

ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The Company's significant accounting policies are presented in the audited consolidated financial statements for the year ended December 31, 2017. The following outlines the new accounting policies adopted by the Company effective January 1, 2018 and those new standards and interpretations not yet adopted by the Company.

ADOPTION OF NEW ACCOUNTING STANDARDS

The Company applies, for the first time, *IFRS 15, Revenue from Contracts with Customers* and *IFRS 9, Financial Instruments* that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

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.

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 transfers to the customer and on the date of shipment.

Based on management's 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.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transaction

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Company has no share-based payment transactions with net settlement features for withholding tax obligations and therefore, these amendments do not have any impact on the Company’s consolidated financial statements.

Accounting Standards Issued But Not Yet Adopted

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. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15.

The Company is currently evaluating the impact the standard will have on its consolidated financial statements.

QUARTER HIGHLIGHTS

FINANCIAL

In the December 2018 quarter the Company finalized the accounting for the April 2017 acquisition of the remaining 50% of Huckleberry Mines Ltd. that it did not own. IFRS 3 requires that any amounts resulting from the finalization of the accounting for the acquisition to be retroactively updated to the period in which the acquisition took place. The Company has therefore revised the items impacted by the finalization of the gain on bargain purchase of Huckleberry and the gain on revaluation of the 50% interest in Huckleberry in the comparative June 2017, September 2017 and December 2017 periods. All amounts related to this revision have been reflected in this MD&A. For further information on Huckleberry and the accounting for

the gains, refer to Note 5 of the audited consolidated financial statements for the year ended December 31, 2017 and Note 5 of the Interim Financial Statements for the three and six months ending June 30, 2018.

Revenues decreased to \$80.1 million in the June 2018 quarter compared to \$106.7 million in the 2017 comparative quarter, a decrease of \$26.6 million or 24.9%.

Revenue from the Red Chris mine in the June 2018 quarter was \$57.3 million compared to \$62.3 million in the 2017 comparative quarter. This decrease was attributable to a lower quantity of copper concentrate sold partially offset by higher copper prices.

Revenue from the Mount Polley mine in the June 2018 quarter was \$22.8 million compared to \$44.1 million in the 2017 comparative quarter. The strike by unionized employees that commenced in May 2018 resulted in lower production and restricted the ability of the Company to record revenue during the June 2018 quarter.

In the June 2018 quarter, there were 2.6 concentrate shipments from Red Chris mine (2017-3.5 concentrate shipments) and 0.7 concentrate shipments from Mount Polley mine (2017-1.3 concentrate shipments). Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date.

The London Metals Exchange cash settlement copper price per pound averaged US\$3.12 in the June 2018 quarter compared to US\$2.57 in the 2017 comparative quarter. The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,306 in the June 2018 quarter compared to US\$1,257 in the June 2017 quarter. The average CDN/US\$ Dollar exchange rate was 1.291 in the June 2018 quarter, 4% lower than the exchange rate of 1.345 in the June 2017 quarter. In CDN dollar terms the average copper price in the June 2018 quarter was CDN\$4.03 per pound compared to CDN\$3.46 per pound in the 2017 comparative quarter and the average gold price in the June 2018 quarter was CDN\$1,686 per ounce compared to CDN\$1,691 per ounce in the 2017 comparative quarter.

Revenue in the June 2018 quarter decreased by \$6.9 million due to a negative revenue revaluation as compared to a \$0.5 million negative revenue revaluation in the 2017 comparative quarter. Revenue revaluations are the result of the copper price on the settlement date and/or the current period balance sheet date being higher or lower than when the revenue was initially recorded or the copper price at the last balance sheet date.

Net loss for the June 2018 quarter was \$36.6 million (\$0.31 per share) compared to net income of \$99.5 million (\$1.06 per share) in the 2017 comparative quarter. The decrease in net income of \$136.1 million was primarily due to the following factors:

- Income/loss from mine operations went from a loss of \$5.9 million in June 2017 to a loss of \$15.4 million in June 2018, a decrease in net income of \$9.5 million.
- Interest expense went from \$18.3 million in June 2017 to \$19.3 million in June 2018, a decrease in net income of \$1.0 million.
- Foreign exchange gains/losses on current and non-current debt went from a gain of \$12.4 million in June 2017 to a loss of \$9.2 million in June 2018, a decrease in net income of \$21.6 million.
- Gain of \$109.8 million in the June 2017 quarter was recognized relating to the purchase of the additional 50% share in Huckleberry and revaluation of equity investment. No such gain recognized in June 2018.
- The Company's equity income in Huckleberry went from \$1.0 million in June 2017 to \$nil in June 2018, a decrease in net income of \$1.0 million.
- Idle mine costs went from \$1.4 million in June 2017 to \$1.6 million in June 2018, a decrease in net income of \$0.2 million.
- Tax position went from a recovery of \$3.5 million in June 2017 to \$12.2 million in June 2018, an increase in net income of \$8.7 million.

The June 2018 quarter net loss included foreign exchange loss related to changes in CDN/US Dollar exchange rate of \$9.6 million compared to foreign exchange gain of \$12.4 million in the 2017 comparative quarter. The \$9.6 million foreign exchange loss is comprised of an \$8.9 million loss on the senior notes, a \$0.2 million loss on long term equipment loans, and a \$0.5 million loss on operational items. The average CDN/US Dollar exchange rate in the June 2018 quarter was 1.291 compared to an average of 1.345 in the 2017 comparative quarter.

Cash flow was negative \$2.6 million in the June 2018 quarter compared to positive cash flow of \$12.3 million in the 2017 comparative quarter. Cash flow is a measure used by the Company to evaluate its performance, however, it is not a term recognized under IFRS. The Company believes Cash flow is useful to investors and it is one of the measures used by management to assess the financial performance of the Company.

Capital expenditures were \$15.8 million in the June 2018 quarter, down from \$28.8 million in the 2017 comparative quarter. The June 2018 expenditures included \$8.5 million for tailings dam construction, \$5.4 million on mobile equipment and \$1.9 million for other capital items.

At June 30, 2018, the Company has not hedged any copper, gold or CDN/US Dollar exchange. Quarterly revenues will fluctuate depending on copper and gold prices, the CDN/US Dollar exchange rate, and the timing of concentrate sales, which is dependent on concentrate production and the availability and scheduling of transportation.

OPERATIONS

Red Chris Mine

Metal production for the June 2018 quarter was 11.51 million pounds copper and 8,614 ounces gold, down 25% and up 40% respectively from the 2017 comparative quarter. The mill achieved an average throughput of 27,802 tonnes per calendar day during the June 2018 quarter. Throughput was impacted by the failure of a trunnion bearing in the ball mill, resulting in about six days of mill downtime in May.

Metal recoveries were 72.96% copper and 43.94% gold, a decrease of about 4% and an increase of about 16% respectively from the comparable 2017 quarter. Gold grades and recovery were better than expected during the quarter, while copper recovery continues to lag expectations with the majority of the ore fed to the mill coming from the upper benches of the phase 4 pushback of the Main zone.

Red Chris Production	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Ore milled - tonnes	2,529,951	2,703,363	5,120,442	5,106,864
Ore milled per calendar day - tonnes	27,802	29,707	28,290	28,215
Grade % - copper	0.283	0.341	0.366	0.363
Grade g/t - gold	0.241	0.192	0.276	0.196
Recovery % - copper	72.96	75.79	75.59	77.64
Recovery % - gold	43.94	36.92	45.89	37.27
Copper – 000's pounds	11,510	15,423	31,235	31,751
Gold – ounces	8,614	6,159	20,829	11,971
Silver – ounces	19,388	26,875	54,270	54,827

Red Chris recently acquired a PC7000 electric excavator, which is currently being commissioned.

A review by Golder Associates of the potential for utilizing block cave methods to mine the deep mineralization, recommended five geotechnical holes, one of which has been completed. The remainder of the geotechnical holes are being deferred to a later date as their locations are not impacted by this year's mining operations.

The completed hole (RC18-588) was drilled using orientated core diamond drilling to gather geotechnical information regarding the proposed block cave mine also intersected significant copper and gold mineralization below the East zone pit. The drill hole was designed to test an area where the proposed block cave infrastructure may be constructed and more rock quality information was needed. Preliminary results indicate that the rock quality and strength in this area tested for development is very positive.

Drill hole RC18-588 was collared from the ramp near the bottom of the current East zone pit. It was directed to the northeast at -65° to pass through the upper part of the planned block cave target and test the ground for geotechnical information down to the proposed production level. As expected, the hole intersected good chalcopryrite-pyrite mineralization in leucodiorite at the start before crossing a projected fault at approximately 155 metres after which grade decreased. The intensity of quartz veins mineralized with chalcopryrite and minor bornite gradually improved at approximately 380 metres depth as the hole entered the northeastern part of the main block cave target. Continuous copper-gold values were intersected to approximately 750 metres, except for minor post-mineral dikes. The remainder of the hole went through a mixture of Stuhini Group country rocks and Red stock intrusives close to the northern margin of the stock, returning low to moderate grades.

Significant assay intervals tabulated below:

Drill Hole #	Total Length (m)	Interval From (m)	Interval To (m)	Interval Length (m)	Copper (%)	Gold (g/t)
RC18-588	1,057.67	12.2	896.0	883.8	0.34	0.33
including		381.9	748.5	366.6	0.53	0.60
including		448.5	616.0	167.5	0.70	0.84

Jim Miller-Tait, P.Geo., the designated Qualified Person as defined by National Instrument 43-101, has reviewed and approved this disclosure relating to drill hole RC18-588. A full QA/QC program using blanks, standards and duplicates was maintained for all samples submitted to the Red Chris laboratory where the core samples were analyzed.

Exploration, development and capital expenditures were \$12.1 million in the June 2018 quarter compared to \$18.7 million in the comparative 2017 quarter.

Mount Polley Mine

Metals production was impacted by the employee union strike initiated May 23. Processing operations continued at a lower rate with staff operating the mill, but mining operations were suspended and only low grade stockpiles have been processed. As a result, grades for the 2018 second quarter were lower with copper at 0.182% and gold at 0.261 g/t compared to 0.212% copper and 0.334 g/t gold during the comparable 2017 quarter. Metal production was 3.82 million pounds copper and 9,110 ounces gold, a decrease of 31.8% and 34.7% respectively from the 5.61 million pounds copper and 13,958 ounces gold produced in the June 2017 quarter. Mill throughput averaged 17,395 tonnes per calendar day, down about 11% from the comparable 2017 quarter. The average throughput during the month of June was 14,957 tonnes per day.

Mount Polley Production	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Ore milled - tonnes	1,582,944	1,779,403	3,195,430	3,472,164
Ore milled per calendar day - tonnes	17,395	19,554	17,654	19,183
Grade % - copper	0.180	0.212	0.190	0.209
Grade g/t - gold	0.261	0.334	0.291	0.344
Recovery % - copper	60.80	67.33	68.69	69.23
Recovery % - gold	68.64	73.15	71.48	72.35
Copper – 000's pounds	3,819	5,606	9,191	11,067
Gold – ounces	9,110	13,958	21,390	27,769
Silver – ounces	7,531	10,537	16,497	21,414

Exploration, development and capital expenditures were \$3.4 million in the June 2018 quarter compared to \$3.1 million in the comparative 2017 quarter.

The collective agreement with the unionized workforce at the Mount Polley mine expired on December 31, 2017. Since late 2017 the Company had been in the process of negotiating a new contract. On May 7, 2018 the Company served the Union with 72 hour lockout notice and on May 23, 2018, the unionized employees went on strike. On August 2, 2018 the union ratified the new collective agreement and employees have been recalled to their normal shifts.

Huckleberry Mine

Huckleberry continues to be on care and maintenance.

For the quarter ending June 30, 2018, Huckleberry incurred idle mine costs comprised of \$1.3 million in operating costs and \$0.3 million in depreciation expense.

EARNINGS AND CASH FLOW

Select Quarter Financial Information

expressed in thousands, except share and per share amounts

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Total revenues	\$80,066	\$106,741	\$197,978	\$222,490
Net income (loss)	\$(36,555)	\$99,544	\$(52,721)	\$80,792
Net income (loss) per share	\$(0.31)	\$1.06	\$(0.45)	\$0.86
Diluted income (loss) per share	\$(0.31)	\$1.06	\$(0.45)	\$0.86
Adjusted net loss ⁽¹⁾	\$(27,823)	\$(21,780)	\$(32,577)	\$(44,076)
Adjusted net loss per share ⁽¹⁾	\$(0.24)	\$(0.23)	\$(0.28)	\$(0.47)
Adjusted EBITDA ⁽¹⁾	\$2,180	\$12,851	\$34,212	\$28,039
Working capital deficiency	\$(791,538)	\$(910,645)	\$(791,538)	\$(910,645)
Total assets	\$1,661,947	\$1,661,258	\$1,661,947	\$1,661,258
Total debt (including current portion)	\$856,802	\$849,917	\$856,802	\$849,917
Cash flow ⁽¹⁾⁽²⁾	\$(2,593)	\$12,341	\$33,365	\$27,406
Cash flow per share ⁽¹⁾⁽²⁾	\$(0.02)	\$0.13	\$0.28	\$0.29

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

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

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

expressed in thousands

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Net income (loss) before undernoted items	\$(13,043)	\$(10,298)	\$(3,937)	\$(17,374)
Interest expense	(14,450)	(13,518)	(28,315)	(26,955)
Foreign exchange gain (loss) on debt	(9,237)	12,430	(20,644)	15,780
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	-	109,818	-	109,818
Gain on sale of Sterling	175	80	175	80
Share of income (loss) in Huckleberry	-	1,032	-	(557)
Net income (loss)	\$(36,555)	\$99,544	\$(52,721)	\$80,792

NON-IFRS FINANCIAL MEASURES

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

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

Adjusted Net Loss and Adjusted Net Loss Per Share

Adjusted net loss in the June 2018 quarter was \$27.8 million (\$0.24 per share) compared to an adjusted net loss of \$21.8 million (\$0.23 per share) in the 2017 comparative quarter. Adjusted net loss reflects the financial results excluding the effect of items not settling in the current period and non-recurring items. Adjusted net loss is calculated by removing the gains or losses, resulting from mark to market revaluation of derivative instruments, net of tax, unrealized foreign exchange gains or losses on non-current debt, net of tax and other adjustments as further detailed in the following table.

Calculation of Adjusted Net Income (Loss)

expressed in thousands, except share and per share amounts

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Net income (loss) reported	\$(36,555)	\$99,544	\$(52,721)	\$80,792
Unrealized foreign exchange (gain) loss on non-current debt, net of tax ^(a)	8,907	(11,426)	20,318	(14,970)
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry ^(b)	-	(109,818)	-	(109,818)
Gain on sale of Sterling ^(b)	(175)	(80)	(175)	(80)
Adjusted net loss	\$(27,823)	\$(21,780)	\$(32,578)	\$(44,076)
Basic weighted average number of common shares outstanding	117,648,245	93,586,710	117,203,671	93,586,710
Adjusted net loss per share	\$(0.24)	\$(0.23)	\$(0.28)	\$(0.47)

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

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

Adjusted EBITDA

Adjusted EBITDA in the June 2018 quarter was a loss of \$2.2 million compared to income of \$12.9 million in the 2017 comparative quarter. We define Adjusted EBITDA as net income (loss) before interest expense, taxes, depletion and depreciation, and as adjusted for certain other items described in the reconciliation table below.

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

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

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

expressed in thousands	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Net income (loss)	\$(36,555)	\$99,544	\$(52,721)	\$80,792
Adjustments:				
Income and mining tax recovery	(12,231)	(3,520)	(12,265)	(8,515)
Interest expense	19,271	18,268	38,263	36,426
Depletion and depreciation	16,766	20,905	38,423	42,591
Accretion of future site reclamation provisions	791	586	1,578	939
Share based compensation	198	313	402	583
Foreign exchange (gain) loss	9,553	(12,509)	21,344	(15,640)
Revaluation (gain) losses on marketable securities	215	(81)	(624)	(71)
Share of (income) loss from Huckleberry	-	(1,032)	-	557
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	-	(109,818)	-	(109,818)
Gain on sale of Sterling	(175)	(80)	(175)	(80)
Other	(13)	275	(13)	275
Adjusted EBITDA	\$(2,180)	\$12,851	\$34,212	\$28,039

Cash Flow and Cash Flow Per Share

Cash flow in the June 2018 quarter was negative \$2.6 million compared to positive \$12.3 million in the 2017 comparative quarter. Cash flow per share was \$(0.02) in the June 2018 quarter compared to \$0.13 in the 2017 comparative quarter.

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

expressed in thousands, except per share and per share amounts	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Income (Loss) before taxes	\$(48,786)	\$96,024	\$(64,986)	\$72,277
Items not affecting cash flows				
Equity (income) loss in Huckleberry	-	(1,032)	-	557
Depletion and depreciation	16,766	20,905	38,423	42,591
Share based compensation	198	313	402	583
Accretion of future site reclamation provisions	791	586	1,578	939
Unrealized foreign exchange (gain) loss	9,140	(12,744)	20,497	(15,998)
Interest expense	19,271	18,268	38,263	36,426
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	-	(109,818)	-	(109,818)
Gain on sale of Sterling	(175)	(80)	(175)	(80)
Other	202	(81)	(637)	(71)
Cash flow	\$(2,593)	\$12,341	\$33,365	\$27,406
Basic weighted average number of common shares outstanding	117,648,245	93,586,710	117,203,671	93,586,710
Cash flow per share	\$(0.02)	\$0.13	\$0.28	\$0.29

Cash Cost Per Pound of Copper Produced

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

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

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

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

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

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

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

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US\$ for the three months ended June 30, 2018 and 2017.

Cash Cost Per Pound of Copper Produced

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

	Three Months Ended June 30, 2018				
	Red	Mount	Sterling &	Total per	Composite
	Chris	Polley	Corporate	Financial	
	A	B		Statements	C=A+B
Cost of sales	\$72,405	\$23,093	\$ -	\$95,498	\$95,498
Less:					
Depletion and depreciation	(12,051)	(4,382)	-	(16,433)	(16,433)
Share based compensation	(14)	(29)	-	(43)	(43)
Cash costs before adjustment to production basis	60,340	18,682	\$ -	\$79,022	79,022
Adjust for inventory change	(3,053)	1,717			(1,336)
Adjust transportation and offsite costs	(470)	(244)			(714)
Treatment, refining and royalty costs	3,611	1,114			4,725
By-product and other revenues	(13,797)	(15,121)			(28,918)
Cash cost of copper produced in CDN\$	\$46,631	\$6,148			\$52,779
US\$ to CDN\$ exchange rate	1.2910	1.2910			1.2910
Cash cost of copper produced in US\$	\$36,120	\$4,762			\$40,882
<i>Copper produced – pounds</i>	11,510	3,819			15,329
Cash cost per lb copper produced in US\$	\$3.14	\$1.25			\$2.67

	Three Months Ended June 30, 2017				
	Red	Mount	Sterling &	Total per	Composite
	Chris	Polley	Corporate	Financial	
	A	B		Statements	C=A+B
Cost of sales	\$69,267	\$42,954	\$371	\$112,592	\$112,221
Less:					
Depletion and depreciation	(12,366)	(8,014)	(56)	(20,436)	(20,380)
Share based compensation	(94)	(7)	-	(101)	(101)
Cash costs before adjustment to production basis	56,807	34,933	\$315	\$92,055	91,740
Adjust for inventory change	(6,083)	(2,170)			(8,253)
Adjust transportation and offsite costs	(694)	438			(256)
Treatment, refining and royalty costs	7,235	2,352			9,587
By-product and other revenues	(9,689)	(22,429)			(32,118)
Cash cost of copper produced in CDN\$	\$47,576	\$13,124			\$60,700
US\$ to CDN\$ exchange rate	1.3450	1.3450			1.3450
Cash cost of copper produced in US\$	\$35,372	\$9,758			\$45,130
<i>Copper produced – pounds</i>	15,423	5,606			21,029
Cash cost per lb copper produced in US\$	\$2.29	\$1.74			\$2.15

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US\$ for the six months ended June 30, 2018 and 2017.

Cash Cost Per Pound of Copper Produced

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

	Six Months Ended June 30, 2018				
	Red Chris	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
	A	B			C=A+B
Cost of sales	\$136,064	\$59,776	\$ -	\$195,840	\$195,840
Less:					
Depletion and depreciation	(25,042)	(12,657)	-	(37,699)	(37,699)
Share based compensation	(36)	(57)	-	(93)	(93)
Cash costs before adjustment to production basis	110,986	47,062	\$ -	\$158,048	158,048
Adjust for inventory change	2,779	1,370			4,149
Adjust transportation and offsite costs	(379)	(169)			(548)
Treatment, refining and royalty costs	9,706	2,575			12,281
By-product and other revenues	(33,100)	(35,249)			(68,349)
Cash cost of copper produced in CDN\$	\$89,992	\$15,589			\$105,581
<i>US\$ to CDN\$ exchange rate</i>	<i>1.2780</i>	<i>1.2780</i>			<i>1.2780</i>
Cash cost of copper produced in US\$	\$70,416	\$12,198			\$82,614
<i>Copper produced – pounds</i>	<i>31,235</i>	<i>9,191</i>			<i>40,426</i>
Cash cost per lb copper produced in US\$	\$2.25	\$1.33			\$2.04

	Six Months Ended June 30, 2017				
	Red Chris	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
	A	B			C=A+B
Cost of sales	\$128,299	\$104,854	\$936	\$234,089	\$233,153
Less:					
Depletion and depreciation	(22,799)	(19,141)	(150)	(42,090)	(41,940)
Share based compensation	(162)	(12)	-	(174)	(174)
Cash costs before adjustment to production basis	105,338	85,701	\$786	\$191,825	191,039
Adjust for inventory change	80	(17,670)			(17,590)
Adjust transportation and offsite costs	(520)	(670)			(1,190)
Treatment, refining and royalty costs	13,597	4,496			18,093
By-product and other revenues	(18,407)	(44,377)			(62,784)
Cash cost of copper produced in CDN\$	\$100,088	\$27,480			\$127,568
<i>US\$ to CDN\$ exchange rate</i>	<i>1.3340</i>	<i>1.3340</i>			<i>1.3340</i>
Cash cost of copper produced in US\$	\$75,028	\$20,600			\$95,628
<i>Copper produced – pounds</i>	<i>31,751</i>	<i>11,067</i>			<i>42,818</i>
Cash cost per lb copper produced in US\$	\$2.36	\$1.86			\$2.23

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2018 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2017

Overview

Revenues decreased to \$80.1 million in the June 2018 quarter compared to \$106.7 million in the 2017 comparative quarter. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date.

The Company had a loss from mine operations of \$15.4 million in the June 2018 quarter compared to a loss of \$5.9 million in the 2017 comparative quarter.

Net loss for the June 2018 quarter was \$36.6 million (\$0.31 per share) compared to a net income of \$99.5 million (\$1.06 per share) in the 2017 comparative quarter.

Revenue

expressed in thousands of dollars, except quantity amounts

	Three Months Ended June 30	
	2018	2017
Revenue before revaluation	\$86,998	\$107,228
Revenue revaluation	(6,932)	(487)
	<u>\$80,066</u>	<u>\$106,741</u>

expressed in thousands of dollars, except quantity amounts

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

expressed in thousands of dollars, except quantity amounts

	Three Months Ended June 30, 2017			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
Sales				
Copper – 000's pounds	16,863	6,222	-	23,085
Gold – ounces	6,707	15,779	191	22,677
Silver – ounces	31,702	11,936	-	43,638
Revenue				
Copper	\$50,840	\$18,503	\$ -	\$69,343
Gold	11,089	25,198	324	36,611
Silver	363	417	-	780
	<u>62,292</u>	<u>44,118</u>	<u>324</u>	<u>106,734</u>
Corporate	-	-	-	7
Total Revenue	<u>\$62,292</u>	<u>\$44,118</u>	<u>\$324</u>	<u>\$106,741</u>

During the June 2018 quarter, the Company sold 16.2 million pounds copper and 17,736 ounces gold compared to 23.1 million pounds copper and 22,677 ounces gold in the 2017 comparative quarter.

During the June 2018 quarter there were 2.6 concentrate shipments from Red Chris mine (2017–3.5 concentrate shipments) and 0.7 concentrate shipments from Mount Polley mine (2017-1.3 concentrate shipments).

During the June 2018 quarter, the Company's revenue was derived primarily from the sale of copper and gold in concentrate from the Red Chris and Mount Polley mines. The Red Chris mine accounted for 71.5% and Mount Polley mine accounted for 28.5% of the Company's revenue in the period. Copper accounted for 67.1% and gold accounted for 32.9% of the Company's revenue in the period.

Cost of Sales

expressed in thousands of dollars

	Three Months Ended June 30	
	2018	2017
Operating expenses	\$63,032	\$67,430
Salaries, wages and benefits	15,990	24,625
Depletion and depreciation	16,433	20,436
Share based compensation	43	101
	<u>\$95,498</u>	<u>\$112,592</u>

Cost of sales for the June 2018 quarter were \$95.5 million compared to \$112.6 million for the comparative quarter in 2017, due to the following major factors:

- Red Chris mine operating expenses and salaries, wages and benefits for 2018 were \$60.3 million compared to \$57.5 million in the comparative 2017 quarter;
- Mount Polley mine operating expenses and salaries, wages and benefits for 2018 were \$18.8 million compared to \$35.1 million in the comparative 2017 quarter;
- depletion and depreciation for the Red Chris and Mount Polley mines was \$16.4 million compared to \$20.0 million in the comparative 2017 quarter;
- included in cost of sales for 2018 are inventory impairment charges of \$1.7 million compared to \$1.6 million in the comparative 2017 quarter.

General and Administration Costs

expressed in thousands of dollars

	Three Months Ended June 30	
	2018	2017
Administration	\$1,173	\$962
Share based compensation - corporate	155	212
Depreciation – corporate assets	32	32
Foreign exchange loss	316	(77)
	<u>\$1,676</u>	<u>\$1,129</u>

General and administration costs were \$1.7 million in the June 2018 quarter compared to \$1.1 million in the 2017 comparative quarter. Administration costs increased due to higher staffing costs while share based compensation costs decreased due to a lower number of options outstanding which still had vesting remaining.

The average CDN/US Dollar exchange rate for the June 2018 quarter was 1.291 compared to 1.345 in the 2017 comparative quarter. Foreign exchange gains are attributable to holding US Dollar denominated cash, accounts receivable, and accounts payable. These net US Dollar asset and liability balances are primarily the result of the activities at the Red Chris and Mount Polley mines.

Interest Expense

expressed in thousands of dollars

	Three Months Ended June 30	
	2018	2017
Interest on non-current debt	\$17,348	\$16,771
Other interest	1,923	1,497
	<u>\$19,271</u>	<u>\$18,268</u>

Interest expense increased to \$19.3 million in the June 2018 quarter from \$18.3 million in the 2017 comparative quarter. The interest expense increased primarily as a result of the following: interest expense on non-current debt increased from \$16.8 million in the June 2017 quarter to \$17.3 million in the June 2018 quarter, an increase of \$0.5 million related primarily to higher rates paid on the Senior Credit Facility. Other interest expense increased from \$1.5 million in 2017 to \$1.9 million in 2018, an increase of \$0.4 million. This increase was primarily due to the additional interest expense on other obligations in 2018 compared to 2017. Higher interest rates on certain debt during the 2018 quarter compared to the comparative 2017 quarter, resulted in higher interest expense. Interest expense is determined by a variety of factors including levels of non-current debt, levels of short term debt on concentrate advances, the interest rate on the debt and foreign exchange rates on interest incurred on US denominated debt.

Other Finance Income (Expense)

expressed in thousands of dollars

	Three Months Ended June 30	
	2018	2017
Accretion of future site reclamation provisions	\$(791)	\$(586)
Foreign exchange gain (loss) on debt	(9,237)	12,430
Fair value adjustment to marketable securities	(215)	81
	<u>(10,243)</u>	<u>11,925</u>
Interest income	51	47
Other finance income (expense)	<u>\$(10,192)</u>	<u>\$11,972</u>

Other finance expense totaled \$10.2 million in the June 2018 quarter compared to income of \$12.0 million in the 2017 comparative quarter. The expense resulted primarily from the foreign exchange discussed below.

At June 30, 2018, the Company had US Dollar denominated debt of US\$330.3 million compared to US\$328.4 million at December 31, 2017. Foreign exchange gains and losses attributable to US denominated short and non-current debt reflect the foreign currency movement during the three months ended June 30, 2018 and resulted in an \$8.9 million loss on the senior notes and \$0.3 million loss on equipment loans.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2017

Overview

Revenues decreased to \$198.0 million in the June 2018 period compared to \$222.5 million in the 2017 comparative period. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date.

The Company had income from mine operations of \$2.1 million in the June 2018 period compared to a loss of \$11.6 million in the 2017 comparative period.

Net loss for the June 2018 period was \$52.7 million (\$0.45 per share) compared to a net income of \$80.8 million (\$0.86 per share) in the 2017 comparative period.

Revenue

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30	
	2018	2017
Revenue before revaluation	\$210,494	\$217,879
Revenue revaluation	(12,516)	4,611
	<u>\$197,978</u>	<u>\$222,490</u>

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30, 2018			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
Sales				
Copper – 000's pounds	31,992	8,569	-	40,561
Gold – ounces	20,999	19,986	-	40,985
Silver – ounces	55,645	15,582	-	71,227
Revenue				
Copper	\$106,156	\$27,697	\$ -	\$133,853
Gold	32,964	30,952	-	63,916
Silver	40	168	-	208
	<u>139,160</u>	<u>58,817</u>	<u>-</u>	<u>197,977</u>
Corporate	-	-	-	1
Total Revenue	<u>\$139,160</u>	<u>\$58,817</u>	<u>\$ -</u>	<u>\$197,978</u>

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30, 2017			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
Sales				
Copper – 000's pounds	31,874	14,926	-	46,800
Gold – ounces	11,671	36,501	200	48,372
Silver – ounces	57,758	29,357	-	87,115
Revenue				
Copper	\$98,004	\$46,281	\$ -	\$144,285
Gold	18,509	58,234	342	77,085
Silver	345	631	-	976
	<u>116,858</u>	<u>105,146</u>	<u>342</u>	<u>222,346</u>
Corporate	-	-	-	144
Total Revenue	<u>\$116,858</u>	<u>\$105,146</u>	<u>\$342</u>	<u>\$222,490</u>

During the June 2018 period the Company sold 40.6 million pounds copper and 40,985 ounces gold compared to 46.8 million pounds copper and 48,372 ounces gold in the 2017 comparative period.

During the June 2018 period the Company's revenue was derived primarily from the sale of copper and gold in concentrate from the Red Chris and Mount Polley mines. The Red Chris mine accounted for 67.6% and Mount Polley mine accounted for 32.3% of the Company's revenue in the period. Copper accounted for 70.3% and gold accounted for 29.7% of the Company's revenue in the period.

Cost of Sales

expressed in thousands of dollars

	Six Months Ended June 30	
	2018	2017
Operating expenses	\$119,222	\$138,054
Salaries, wages and benefits	38,826	53,771
Depletion and depreciation	37,699	42,090
Share based compensation	93	174
	<u>\$195,840</u>	<u>\$234,089</u>

Cost of sales for the June 2018 period reflects primarily the operations at the Red Chris and Mount Polley mines.

General and Administration Costs

expressed in thousands of dollars

	Six Months Ended June 30	
	2018	2017
Administration	\$2,209	\$1,770
Share based compensation - corporate	309	409
Depreciation – corporate assets	64	64
Foreign exchange loss – operations, excluding debt	700	141
	<u>\$3,282</u>	<u>\$2,384</u>

General and administration costs were \$3.3 million in the June 2018 period compared to \$2.4 million in the 2017 comparative period.

The average CDN/US Dollar exchange rate for the June 2018 period was 1.2780 compared to 1.334 in the 2017 comparative period. Foreign exchange losses are attributable to holding US Dollar denominated cash, accounts receivable, and accounts payable. These net US Dollar asset and liability balances are primarily the result of the activities at the Red Chris and Mount Polley mines.

Interest Expense

expressed in thousands of dollars

	Six Months Ended June 30	
	2018	2017
Interest on non-current debt	\$34,390	\$33,550
Other interest	3,873	2,876
	<u>\$38,263</u>	<u>\$36,426</u>

Interest expense increased to \$38.3 million in the June 2018 period from \$36.4 million in the 2017 comparative period. The interest expense increased primarily as a result of the following: interest expense on non-current debt increased from \$33.6 million in the June 2017 period to \$34.4 million in the June 2018 period, an increase of \$0.8 million related primarily to higher interest rates paid on the Senior Credit Facility, including facility renewal fees. Other interest expense increased from \$2.9 million in 2017 to \$3.9 million in the June 2018, an increase of \$1.0 million. This increase was primarily due to the additional interest expense on other obligations in 2018 compared to 2017. The average balances outstanding during 2018 were also higher than in 2017, which resulted to higher interest expense. Interest expense is determined by a variety of factors including levels of non-current debt, levels of short term debt on concentrate advances, the interest rate on the debt and foreign exchange rates on interest incurred on US denominated debt.

Other Finance Income (Expense)

expressed in thousands of dollars

	Six Months Ended June 30	
	2018	2017
Accretion of future site reclamation provisions	\$(1,578)	\$(939)
Foreign exchange gain (loss) on debt	(20,644)	15,780
Fair value adjustment to marketable securities	624	71
Realized gain on derivative instruments	-	-
Unrealized loss on derivative instruments	-	-
	(21,598)	14,912
Interest income	188	61
Other finance income (expense)	\$(21,410)	\$14,973

Other finance expense totaled \$21.4 million in the June 2018 period compared to income of \$15.0 million in the 2017 comparative period with the income and expense resulting from a combination of factors as discussed below.

At June 30, 2018, the Company had US Dollar denominated debt of US\$330.3 million compared to US\$328.4 million at December 31, 2017. Foreign exchange gains and losses attributable to US denominated short and non-current debt reflect the foreign currency movement during the six months ended June 30, 2018 and resulted in a \$20.1 million loss on the senior notes and \$0.5 million loss on equipment loans.

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

The Company is in compliance with the debt covenants related to its non-current debt as at June 30, 2018.

LIQUIDITY & CAPITAL RESOURCES AND FINANCING

At June 30, 2018, the Company had cash of \$15.5 million, available capacity of \$15.6 million for future draws under the Senior Credit Facility, \$10.0 million undrawn on the 2017 LOC loan facility and a working capital deficiency of \$791.5 million, which includes \$730.1 million of current debt.

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 Company is able to successfully extend or refinance the Senior Credit Facility and the Second Lien Credit Facility prior to their maturity in the fourth quarter of 2018 and the Senior Unsecured Notes which mature in the first quarter of 2019. 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 extend or renegotiate this debt, and that adequate additional financing will be available on terms acceptable to the Company or at all, which creates a material uncertainty that could have an adverse impact on the Company's financial condition and results of operations and may cast significant doubt on the Company's ability to continue as a going concern.

Credit Risk

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

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

From time to time the Company enters into derivative instruments with a number of counterparties to limit the amount of credit risk associated with any one counterparty. The Company did not enter into any derivative instruments during the quarter ended June 30, 2018.

Liquidity Risk

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

At June 30, 2018, the Company's primary sources of credit are comprised of a \$200.0 million senior secured revolving credit facility, a \$50.0 million second lien revolving loan credit facility, US\$325.0 million senior unsecured notes, \$145.0 million face value of unsecured convertible debentures, a \$75.0 million unsecured junior credit facility, a \$26.0 million Bridge loan facility, a \$10.0 million 2017 LOC loan facility, and \$13.5 million in secured equipment loans.

The Company's \$200.0 million senior secured revolving credit facility is due on October 1, 2018 and the second lien revolving loan credit facility, which has been fully drawn, is due on December 1, 2018. At June 30, 2018, the Company has drawn in cash \$140.3 million (\$0.2 million net of deferred financing costs) of the senior credit facility and utilized \$44.1 million of the facility for letters of credit to secure reclamation bond obligations for a total usage of \$184.4 million leaving \$15.6 million available for future draws.

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.

Overall liquidity risk of the Company has not significantly changed since late 2017. Improved copper prices in CDN dollar terms from the lower levels in early 2017 contribute to a reduction of liquidity risk, however this is mitigated somewhat by the requirement to repay the deferred trade payables as at these higher price levels the maximum monthly repayment is required.

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

The Company had the following contractual obligations with respect to financial instruments as of June 30, 2018:

expressed in thousands of dollars

	Within 1 Year	2 Years	3 Years	4 Years	Total
Trade and other payables	\$90,924	\$ -	\$ -	\$ -	\$90,924
Other obligations	48,901	14,857	6,515	3,272	73,545
Short term debt	6,714	-	-	-	6,714
Current portion of non-current debt	725,357	-	-	-	725,357
Non-current debt	-	3,280	115,223	30,000	148,503
	871,896	18,137	121,738	33,272	1,045,043
Less future accretion and unamortized finance cost on non-current debt	(1,969)	-	(11,374)	(3,715)	(17,058)
Total	\$869,927	\$18,137	\$110,364	\$29,557	\$1,027,985

Liquidity Enhancements

Electricity Payment Deferral Plan

Commencing in March 2016 the Government of British Columbia provided assistance to copper and coal mines during environments of low commodity prices. The mechanism for this assistance was completed in March 2016 when BC Hydro received approval from the British Columbia Utilities Commission for a tariff supplement that allows a mining customer to defer payment on up to 75% of the monthly electricity billing (the "Payment Plan") depending on the average London Metals Exchange ("LME") 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 payment amounts is charged and added to the deferred payment balance at Bank Prime Rate plus 5%, except for the Huckleberry mine, which has a fixed interest rate of 12%.

The Payment Plan has a five year term with payment deferrals allowed only during the first two years ending March 31, 2018. 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.

Participation in the Payment Plan was optional and in March 2016 the Red Chris, Mount Polley and Huckleberry mines joined the Payment Plan. The Payment Plan does not change mine operating costs and increases interest expense, however, it does provide the Company with increased liquidity when copper prices are below CDN\$3.40 per pound. Payment of any balance under the Payment Plan is due at the end of the five year term.

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US\$ denominated cash, accounts receivable, derivative instrument assets, reclamation deposits, trade and other payables and debt. If the US\$ had been 10% higher/lower and all other variables were held constant, net income and comprehensive income for the June 30, 2018 quarter would have been higher/lower by \$33.0 million.

Cash Flow

Cash flow was negative \$2.6 million in the June 2018 quarter compared to positive \$12.3 million in the 2017 comparative period.

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

Working Capital

At June 30, 2018, the Company had cash of \$15.5 million, available capacity of \$15.6 million for future draws under the Senior Credit Facility, \$10.0 million undrawn on the 2017 LOC loan facility and a working capital deficiency of \$791.5 million, which includes \$730.1 million of current debt.

Acquisition and Development of Mineral Properties

Acquisition and development of mineral properties totaled \$15.8 million in the June 2018 quarter compared to \$28.8 million in the comparative 2017 quarter.

expressed in thousands of dollars

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Capital and Development Expenditures				
Red Chris	\$12,076	\$18,698	\$16,926	\$29,649
Mount Polley	3,372	3,021	7,564	15,399
Sterling	-	6,966	-	6,966
Other	5	3	5	3
	<u>15,453</u>	<u>28,688</u>	<u>24,495</u>	<u>52,017</u>
Exploration Expenditures				
Red Chris	141	1	145	1
Mount Polley	131	42	166	637
Sterling	-	50	-	61
Other	99	57	153	91
	<u>371</u>	<u>150</u>	<u>464</u>	<u>790</u>
	<u>\$15,824</u>	<u>\$28,838</u>	<u>\$24,959</u>	<u>\$52,807</u>

Contingent Liabilities

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

At June 30, 2018, the Company has a provision of \$4.6 million for future rehabilitation activities related to the August 4, 2014 tailings dam breach at the Mount Polley mine ("Mount Polley Breach"). The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required and is subject to revision in the future as further information becomes available to the Company.

During the third quarter of 2014, a securities class action lawsuit was filed against the Company and certain of its directors, officers and others in the Ontario Superior Court of Justice in Toronto (the "Claim"). The Company has engaged independent legal counsel to advise it on this matter. At this time, the Company cannot predict the outcome of the Claim or determine the amount of any potential losses and accordingly no provision has been made as of June 30, 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.

DERIVATIVE INSTRUMENTS

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

The Company had no derivative instruments for copper, gold or foreign exchange at June 30, 2018 or at the date of this document.

DEBT AND OTHER OBLIGATIONS

At June 30, 2018, the Company's current debt, net of unamortized deferred financing costs and accretion was comprised of the following:

- An unsecured junior credit facility of \$75.0 million
- Senior unsecured notes - \$426.1 million (US\$325.0 million)
- A secured revolving senior credit facility of \$200.0 million - \$183.8 million utilized comprised of \$139.7 million drawn and \$44.1 million utilized for letters of credit related to reclamation bonding
- A secured revolving second lien credit facility of \$49.9 million
- Bridge Loan - \$26.0 million
- A variety of equipment loans and leases denominated in both CDN\$/US\$ with a remaining balance of \$6.6 million

Non-Current Debt

At June 30, 2018, the Company's non-current debt, net of unamortized deferred financing costs and accretion was comprised of the following:

- Convertible debentures with a face value of \$145.0 million - \$129.9 million (book value)
- A variety of equipment loans and leases denominated in both CDN\$/US\$ with a remaining balance of \$3.5 million

Detailed disclosure on the Company's debt including amounts owed, interest rates and security can be found in Note 11 of the Interim Financial Statements.

Financial Covenants

Giving effect to the covenant amendments on the senior credit facility and second lien credit facility in 2017, the Company has the following financial covenants related to the senior credit facility:

- Minimum liquidity of \$5.0 million
- Secured debt to EBITDA ratio

As at the date of this document the Company is in full compliance with all financial covenants under its debt agreements. Copies of certain agreements can be found on sedar.com.

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings. At June 30, 2018, debt of the Company totaling of \$190.4 million was at floating interest rates compared to \$202.1 million at December 31, 2017. The Company monitors its exposure to interest rates and is comfortable with its current exposure. The Company has not entered into any derivative contracts to manage this risk.

Off-Balance Sheet Arrangements

At June 30, 2018, the Company did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

Other Price Risks

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

Fair Value Estimation

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

The carrying value less impairment provision, if necessary, of trade and other receivables and trade and other payables are assumed to approximate their fair values. Except for the Notes, management believes that the carrying value of remaining non-current and short term debt approximates fair value. At June 30, 2018 the fair value of the Notes is \$380.6 million (December 31, 2017-\$381.2 million) 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 June 30, 2018 as follows:

expressed in thousands of dollars

Financial Assets	Level 1	Level 2	Total
Cash	\$15,540	\$ -	\$15,540
Marketable securities	3,069	-	3,069
Provisionally priced accounts receivables	-	1,212	1,212
Future site reclamation deposits	14,319	-	14,319
	32,928	1,212	34,140
Financial Liabilities			
Amounts owing on provisionally priced receivables included in trade and other payables	-	(2,492)	(2,492)
	\$32,928	\$(1,280)	\$31,648

SELECT QUARTER FINANCIAL INFORMATION

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

	Three Months Ended			
	June 30 2018	March 31 2018	December 31 2017	September 30 2017
Total revenues	\$80,066	\$117,912	\$140,466	\$90,157
Net income (loss)	\$(36,555)	\$(16,166)	\$(2,107)	\$(1,572)
Basic income (loss) per share ⁽¹⁾	\$(0.31)	\$(0.14)	\$(0.02)	\$(0.02)
Diluted income (loss) per share ⁽¹⁾	\$(0.31)	\$(0.14)	\$(0.02)	\$(0.02)
Adjusted net income (loss) ⁽²⁾⁽³⁾	\$(27,823)	\$(4,754)	\$(492)	\$(18,058)
Adjusted net income (loss) per share ⁽¹⁾⁽²⁾⁽³⁾	\$(0.24)	\$(0.04)	\$0.01	\$(0.19)
Adjusted EBITDA ⁽²⁾	\$(2,180)	\$36,392	\$44,143	\$16,275
Cash flow ⁽²⁾	\$(2,593)	\$35,958	\$43,009	\$17,966
Cash flow per share ⁽¹⁾⁽²⁾	\$(0.02)	\$0.31	\$0.46	\$0.19
Average LME copper price/lb in US\$	\$3.12	\$3.16	\$3.09	\$2.88
Average LME gold price/troy oz in US\$	\$1.306	\$1,329	\$1,275	\$1,278
Average CDN/US\$ exchange rate	\$1.291	\$1.265	\$1.271	\$1.253
Period end CDN/US\$ exchange rate	\$1.278	\$1.289	\$1.255	\$1.248

	June 30 2017	March 31 2017	December 31 2016	September 30 2016
Total revenues	\$106,741	\$115,749	\$78,125	\$97,108
Equity loss in Huckleberry	\$1,032	\$(1,589)	\$(3,326)	\$(2,346)
Net income (loss)	\$99,544	\$(18,752)	\$(47,060)	\$(20,589)
Basic income (loss) per share ⁽¹⁾	\$1.06	\$(0.20)	\$(0.57)	\$(0.25)
Diluted income (loss) per share ⁽¹⁾	\$1.06	\$(0.20)	\$(0.57)	\$(0.25)
Adjusted net loss ⁽²⁾⁽³⁾	\$(21,780)	\$(22,296)	\$(30,690)	\$(20,038)
Adjusted net loss per share ⁽¹⁾⁽²⁾⁽³⁾	\$(0.23)	\$(0.25)	\$(0.37)	\$(0.25)
Adjusted EBITDA ⁽²⁾	\$12,851	\$15,188	\$(441)	\$16,726
Cash flow ⁽²⁾	\$12,341	\$15,065	\$(405)	\$18,244
Cash flow per share ⁽¹⁾⁽²⁾	\$0.13	\$0.16	\$ -	\$0.22
Average LME copper price/lb in US\$	\$2.57	\$2.65	\$2.39	\$2.17
Average LME gold price/troy oz in US\$	\$1,257	\$1,219	\$1,218	\$1,335
Average CDN/US\$ exchange rate	\$1.345	\$1.323	\$1.334	\$1.305
Period end CDN/US\$ exchange rate	\$1.298	\$1.332	\$1.343	\$1.312

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

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

(3) The adjusted net income (loss) of quarters prior to December 2016 have been adjusted to conform to the presentation adopted for the December 2016 quarter.

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

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

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

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

- (a) The net loss in the June 2016 quarter was primarily due to an increase in finance costs which were \$18.4 million in the June 2016 quarter compared to finance income of \$6.7 million in the March 2016 quarter and finance income of \$1.7 million in the June 2015 quarter. Lower realized foreign exchange gains and lower amounts of interest expense capitalized in the June 2016 quarter were the primary reasons for the increase in finance costs.
- (b) The primary reason for the increase in net loss in the September 2016 quarter compared to the June and March 2016 quarters was a decrease in income from mine operations due to an increase in costs and decrease in grade leading to lower sales volumes. The Company incurred a loss from mine operations of \$2.1 million in the September 2016 quarter compared to income from mine operations of \$20.2 million in the June 2016 quarter and \$20.3 million in the March 2016 quarter.
- (c) The primary reasons for the increase in net loss in the December 2016 quarter compared to the September and June 2016 quarters was a decrease in revenues, higher costs of sales, higher interest and finance costs and an impairment charge of \$7.3 million on the Sterling mine. Revenues were lower as production was lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore in those periods. Other finance costs were higher as the Company incurred higher foreign exchange losses on its non-current debt in the December quarter compared to the September and June quarters.
- (d) The primary reasons for the decrease in net loss in the June 2017 quarter compared to the December 2016 quarter was due to increased revenues and improved income from mine operations in the current quarter resulting from higher sales quantities and foreign exchange gains compared to foreign exchange losses on non-current debt in the December 2016 quarter as a result of the movement in the US/CDN Dollar. In the December 2016 quarter, the Company also took an impairment of \$7.3 million on the Sterling Mine. There were no impairment charges during the June 2017 quarter.
- (e) The primary reasons for the large increase in net income in the June 2017 quarter compared to the December 2016 quarter was largely due to the \$109.8 million gain on bargain purchase that was recognized by the Company on the acquisition of the remaining 50% share of Huckleberry and revaluation of equity investment in Huckleberry. Revenues were lower as production was lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore in those periods.
- (f) The primary reason for loss in the September 2017 quarter compared to the June 2017 quarter was that there was a \$109.8 million gain on bargain purchase that was recognized in the second quarter of 2017. However, that was slightly off set by a foreign exchange gain relating to the Company's US denominated debt in the September 2017 quarter compared to the June 2017 quarter.
- (g) The primary reasons for the increase in net income in the December 2017 quarter compared to the September 2017 quarter was due to higher production at both Red Chris and Mount Polley which led to higher revenues of approximately \$50.3 million.
- (h) The primary reasons for the loss in the June 2018 quarter compared to income in the June 2017 quarter was largely due to the \$109.8 million gain on bargain purchase that was recognized by the Company on the acquisition of the remaining 50% share of Huckleberry in 2017. Revenues were lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore compared to the March 2018 quarter which led to a decrease in overall metal production.

RELATED PARTY TRANSACTIONS

Corporate

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

Statement of Income

expressed in thousands of dollars

		Three Months Ended June 30		Six Months Ended June 30	
		2018	2017	2018	2017
Loan guarantee fee for guarantee of second lien secured revolving credit facility	(a)	\$483	\$421	\$961	\$837
Interest expense	(f)	\$4,216	\$4,039	\$8,354	\$8,012

Statement of Financial Position

expressed in thousands of dollars

		June 30	December 31
		2018	2017
Accrued interest on senior unsecured notes and convertible debentures	(e)	\$5,104	\$5,088
Junior Credit Facility	(b)	\$75,000	\$75,000
Senior unsecured notes (US\$53,300)	(c)	\$70,185	\$66,865
Convertible Debentures	(d)(f)	\$59,000	\$59,000
Bridge Loan	(h)	\$13,000	\$13,000
Share issue expenses (backstop fees)	(i)	\$ -	\$310
Deferred Financing fees for debt	(g)	\$ -	\$138

(a) The loan guarantee fee is related to the guarantee by Edco of the second lien credit facility which provided additional liquidity for the commissioning of the Red Chris mine.

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

(c) N. Murray Edwards, directors and officers hold US\$53.3 million of the US\$325.0 million senior unsecured notes offering which closed in March 2014 and provided part of the long term financing for the Red Chris mine.

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

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

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

(g) The loan commitment fees paid in 2017 were to companies controlled by N. Murray Edwards which relate to the \$10.0 million 2017 LOC loan facility and \$13.0 million of the \$26.0 million Bridge Loan.

(h) \$13.0 million portion of the \$26.0 million Bridge Loan held by a company controlled by N. Murray Edwards.

(i) Backstop fee paid to N. Murray Edwards in relation to the rights offering.

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

Additional details on related party transactions can be found in Note 22 to the Interim Financial Statements for the six months ended June 30, 2018.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

As at June 30, 2018 the Company's senior management have designed disclosure controls and procedures (as defined in National Instrument 52-109 of the Canadian Securities Administrators), or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the period in which the interim or annual filings are being prepared; and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Internal Controls

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

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

There have been no changes in the Company's internal controls over financial reporting and disclosure controls and procedures during the June 30, 2018 period ended that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting and disclosure.

Limitations

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

RISK FACTORS

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

FORWARD-LOOKING STATEMENTS AND RISKS NOTICE

This MD&A is a review of the Company's operations and financial position as at and for the period ended June 30, 2018, and plans for the future based on facts and circumstances as of August 13, 2018. Except for statements of historical fact relating to the Company, certain information contained herein constitutes forward-looking information which are prospective in nature and reflect the current views and/or expectations of Imperial. Often, but not always, forward-looking information can be identified by the use of statements such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "forecasts", "projects", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such information in this MD&A includes, without limitation, statements regarding: positive preliminary results from the first of five exploratory Red Chris geotechnical drill holes in the area being tested for development of a block cave, and the deferment of drilling the remaining four geotechnical holes; the recall of Mount Polley employees to their normal shifts post-ratification by the union of the new collective agreement; the expectation that the cash balances on hand, the projected cash flow from the Red Chris and Mount Polley mines, and the available credit facilities will be sufficient to fund the working capital deficiency and the Company's obligations as they come

due assuming the Company is able to successfully extend or refinance the Senior Credit Facility and the Second Lien Credit Facility prior to their maturity in the fourth quarter of 2018 and the Senior Unsecured Notes in the first quarter of 2019; the use of proceeds from financings and credit; production and marketing; capital expenditures; the adequacy of funds for projects and liabilities; the receipt of necessary regulatory approvals or other consents; the expected outcome and impact of litigation; cash flow; working capital requirements; the requirement for additional capital; results of operations, production, revenue, margins and earnings; future prices of copper and gold; future foreign currency exchange rates and impact; future accounting changes; and future prices for marketable securities.

Forward-looking information is not based on historical facts, but rather on then current expectations, beliefs, assumptions, estimates and forecasts about the business and the industry and markets in which the Company operates, including, but not limited to, assumptions that: the Company will be able to successfully extend or refinance the Senior Credit Facility, the Second Lien Credit Facility and the Senior Unsecured Notes prior to their maturity dates and adequate additional financing will be available on terms acceptable to the Company; the Company will have access to capital as required and satisfy and/or obtain amendments of financial covenants and/or terms contained in its credit facilities and other loan documents; the Company will be able to advance and complete remaining planned rehabilitation activities within expected timeframes; there will be no significant delay or other material impact on the expected timeframes or costs for completion of rehabilitation of the Mount Polley mine and implementation of Mount Polley's long term water management plan; the Company's initial rehabilitation activities at Mount Polley will be successful in the long term; all required, project-related permits and approvals will be obtained in a timely manner; there will be no material operational delays at the Company's mines; equipment will operate as expected; there will not be significant power outages; there will be no material adverse change in the market price of commodities and exchange rates; and the Company's mines will achieve expected production outcomes (including with respect to mined grades and mill recoveries). Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. We can give no assurance that the forward-looking information will prove to be accurate.

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

Important risks that could cause Imperial's actual results, revenues, performance or achievements to differ materially from Imperial's expectations include, among other things: that the Company may not be able to successfully extend or refinance the Senior Credit Facility, the Second Lien Credit Facility and the Senior Unsecured Notes prior to their maturity dates and adequate additional financing may not be available on terms acceptable to the Company or at all thereby creating 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; that the Company may be unable to satisfy and/or obtain amendments of financial covenants or terms contained in its credit facilities and other loan documents; risks relating to the timely receipt of necessary, project-related approvals and consents; risks relating to the remaining costs and liabilities and any unforeseen longer-term environmental consequences arising from the Mount Polley Breach; uncertainty as to actual timing of completion of rehabilitation activities; risks relating to the impact of the Mount Polley Breach on Imperial's reputation; the quantum of claims, fines and penalties that may become payable by Imperial and the risk that current sources of funds are insufficient to fund liabilities; risks that Imperial will be unsuccessful in defending against any legal claims or potential litigation; risks of protesting activity and other civil disobedience restricting access to the Company's properties; failure of plant, equipment or processes to operate in accordance with specifications or expectations; cost escalation, unavailability of materials and equipment, labour strike, unrest or lockout, power outages or shortages, and natural phenomena negatively impacting the operation or maintenance of the Company's mines; changes in commodity and power prices; changes in market demand for the Company's concentrate; inaccurate geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources); and other hazards and risks disclosed within this Management's Discussion and Analysis for the three months and six months ended June 30, 2018 and other public filings which are available on Imperial's profile at sedar.com. For the reasons set forth above, investors should not place undue reliance on forward-looking information. Imperial does not undertake to update any forward-looking information, except in accordance with applicable securities laws.



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