

Imperial Metals Corporation 2017 Annual Report



2017 Highlights

- ◆ Acquisition of remaining 50% interest in Huckleberry mine
- ◆ Year over year improvements in overall operations at Red Chris
- ◆ Confirmation of additional underground development potential at Mount Polley
- ◆ Completion of equity financing and extension of Senior Credit Facilities
- ◆ Sale of Sterling mine

MANAGEMENT'S DISCUSSION AND ANALYSIS



This Management's Discussion and Analysis ("MD&A") for Imperial Metals Corporation ("Imperial", the "Company", "we", "us" or "our") should be read in conjunction with the audited Consolidated Financial Statements and related notes for the year ended December 31, 2017. The Consolidated Financial Statements and comparative information have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The reporting currency of the Company is the Canadian ("CDN") Dollar.

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

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 The Company was incorporated under the British Columbia *Company Act*, which was superseded by the British Columbia *Business Corporations Act*, on December 6, 2001 under the name IMI Imperial Metals Inc. Imperial changed its name to Imperial Metals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

The Company is listed on The Toronto Stock Exchange and its shares trade under symbol III. As at March 28, 2018, the Company had 116,858,746 common shares outstanding, and on a diluted basis 133,921,058 common shares outstanding. Additional Company disclosure can be obtained from imperialmetals.com or sedar.com.

FORWARD-LOOKING STATEMENTS AND RISKS NOTICE

This MD&A is a review of the Company's operations and financial position as at and for the year ended December 31, 2017, and plans for the future based on facts and circumstances as of March 28, 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: use of proceeds from financings and credit; expectations for cash savings arising from the payment of interest due on certain debt facilities in common shares; the 2018 production targets for the Red Chris and Mount Polley mines; expectations that Red Chris will receive its new electric powered hydraulic excavator during the second quarter of 2018 and that the addition of the new excavator and the receipt of the five 150 ton haul trucks will support an increase of the mining rate to about 130,000 tonnes per day and provide quicker access to the deeper higher grade portions of the Main and East zones; results of preliminary engineering studies indicating that block caving may be the best method to develop Red Chris' deep resource below the current designed pit and the drill program currently under development will provide information required to further advance the block cave studies; the reduction of mining operations at Mount Polley to minimal levels during the second half of 2018; reliance on low grade stockpiles to provide mill feed for Mount Polley until the dredging of the Springer pit is completed (targeted for the end of the year), following which mining operations are expected to return to normal levels with Springer pit supplying mill feed to the concentrator; plans for a small exploration program at Mount Polley to commence during the second half of 2018; expectations that South Springer has the potential to significantly increase the Mount Polley mineral resource, assuming planned drilling is positive; the development of a preliminary plan to reopen Huckleberry mine in 2019 subject to further strengthening of the price of copper; mine plans; costs and timing of current and proposed exploration and development; production and marketing; capital expenditures; adequacy of funds for projects and liabilities; the receipt of necessary regulatory permits, approvals or other consents; outcome and impact of litigation; cash flow; working capital requirements; the requirement for additional capital; results of operations, production, revenue, margins and earnings; future prices of copper and gold; future foreign currency exchange rates and impact; future accounting changes; and future prices for marketable securities.

Forward-looking information is not based on historical facts, but rather on then current expectations, beliefs, assumptions, estimates and forecasts about the business and the industry and markets in which the Company operates, including, but not limited to, assumptions that: the Company will be able to advance and complete remaining planned rehabilitation activities within expected timeframes; there will be no significant delay or other material impact on the expected timeframes or costs for completion of rehabilitation of the Mount Polley mine and implementation of Mount Polley's long term water management plan; the Company's initial rehabilitation activities at Mount Polley will be successful in the long term; all required permits, approvals and arrangements to proceed with planned rehabilitation and Mount Polley's long term water management plan will be obtained in a timely manner; there will be no material operational delays at the Red Chris or Mount Polley mines; Huckleberry mine will restart in 2019; equipment will operate as expected; there will not be significant power outages; the Company's use of derivative instruments from time to time will enable the Company to achieve expected pricing protection; there will be no material adverse change in the market price of commodities and exchange rates; the Red Chris and Mount Polley mines will achieve expected production outcomes (including with respect to mined grades and mill recoveries and access to water as needed); and Imperial will have access to capital as required and satisfy financial covenants contained in its credit facilities and other loan documents. 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 additional financing that may be required may not be available to Imperial on terms acceptable to Imperial or at all; that Imperial may be unable to satisfy financial covenants contained in its credit facilities and other loan documents; uncertainty regarding the outcome of sample testing and analysis being conducted on the area affected by the Mount Polley Breach; risks relating to the timely receipt of necessary approvals and consents to proceed with the rehabilitation plan and Mount Polley's long term water management plan; risks relating to the remaining costs and liabilities and any unforeseen longer-term environmental consequences arising from the Mount Polley Breach; uncertainty as to actual timing of completion of rehabilitation activities and the implementation of Mount Polley's long term water management plan; risks relating to the impact of the Mount Polley Breach on Imperial's reputation; that Huckleberry mine will not restart in 2019; the quantum of claims, fines and penalties that may become payable by Imperial and the risk that current sources of funds are insufficient to fund liabilities; risks that Imperial will be unsuccessful in defending against any legal claims or potential litigation; risks of protesting activity and other civil disobedience restricting access to the Company's properties; failure of plant, equipment or processes to operate in accordance with specifications or expectations; cost escalation, unavailability of materials and equipment, labour unrest, power outages, and natural phenomena such as weather conditions and water shortages negatively impacting the operation of the Red Chris mine or the Mount Polley mine; changes in commodity and power prices; changes in market demand for our concentrate; inaccurate geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources); and other hazards and risks disclosed within this Management's Discussion and Analysis for the year ended December 31, 2017 and other public filings which are available on Imperial's profile at sedar.com. For the reasons set forth above, investors should not place undue reliance on forward-looking information. Imperial does not undertake to update any forward looking information, except in accordance with applicable securities laws.

SIGNIFICANT EVENTS AND LIQUIDITY

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

The August 4, 2014 tailings dam breach at the Mount Polley mine ("Mount Polley Breach") resulted in the loss of full production from the mine, which was the primary source of cash flow for the Company in 2014. The Mount Polley mine restarted operations on August 5, 2015 using a modified operation plan that included the use of the Springer pit to contain the tailings produced. On June 23, 2016, Mount Polley received the necessary authorizations from the Ministry of Energy and Mines and the Ministry of Environment, to return to normal mine operations, making use of its repaired and buttressed tailings storage facility.

During the first quarter of 2017, the Company amended certain financial covenants under the Senior Credit Facility for the March 31, June 30 and September 30, 2017 reporting periods.

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.

At June 30, 2017, the Company did not meet one of four financial covenants contained in its Senior Credit Facility. The Company obtained a waiver for this covenant as discussed below.

On July 15, 2017, Mount Polley mine operations were temporarily suspended as a result of an Evacuation Order and restrictions on highway use issued by the Cariboo Regional District for the City of Williams Lake. The mine recalled crews and restarted operations on July 31, after the Evacuation Order was downgraded to an Evacuation Alert, allowing employees to return to their homes.

On July 31, 2017, the Company closed a \$20.0 million bridge loan financing ("Bridge Loan") with affiliates of its two major shareholders.

As at September 30, 2017 the Company had obtained a waiver with respect to the debt due to the Senior Credit Facility lenders and the Second Lien Credit Facility lender (collectively the "Senior Debt" and "Senior Debt Lenders", respectively) such that no event of default had occurred under the Senior Debt as of that date. The Senior Debt agreements were amended effective October 31, 2017 when the Senior Debt Lenders permanently waived the breach of a financial covenant related to the quarter ended June 30, 2017 and amended certain financial covenants. In addition, the Senior Credit Facility and Second Lien Credit Facility were extended to October 1, 2018 and December 1, 2018, respectively.

On October 27, 2017 the Company closed a private placement ("Private Placement") for gross proceeds of \$5.0 million to improve working capital.

On October 31, 2017 the Company extended the maturity date of the Bridge Loan to January 5, 2019 and increased the amount to \$26.0 million.

On October 31, 2017 the Company also obtained a new \$10.0 million Unsecured Debt Facility. In addition, the Company modified the payment of interest for certain debt facilities to be paid in common shares of the Company until December 31, 2018. The payment of interest in common shares will result in cash savings of approximately \$16.0 million per annum.

On December 22, 2017, the Company completed a rights offering for net proceeds of approximately \$42.3 million. The Company issued 19,080,978 common shares. The proceeds of the rights offering will be used as set out in the Company's rights offering circular dated November 20, 2017, including the payment of fees in accordance with the Standby Guarantee Agreement.

Subsequent to December 31, 2017, 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.

OVERVIEW

Select Annual Financial Information

expressed in thousands, except share and per share amounts	Years Ended December 31		
	2017	2016	2015
Total revenues	\$453,113	\$428,218	\$128,701
Net income (loss)	\$77,113	\$(54,080)	\$(96,961)
Net income (loss) per share	\$0.82	\$(0.66)	\$(1.25)
Diluted income (loss) per share	\$0.82	\$(0.66)	\$(1.25)
Adjusted net loss ⁽¹⁾	\$(62,626)	\$(56,784)	\$(50,254)
Adjusted net loss per share ⁽¹⁾	\$(0.66)	\$(0.69)	\$(0.65)
Adjusted EBITDA ⁽¹⁾	\$88,457	\$106,624	\$3,370
Working capital deficiency ⁽²⁾	\$238,269	\$89,108	\$197,952
Total assets	\$1,723,768	\$1,527,778	\$1,479,352
Total debt (including current portion)	\$852,378	\$835,365	\$914,461
Cash flow ⁽¹⁾⁽³⁾	\$88,381	\$107,591	\$14,135
Cash flow per share ⁽¹⁾⁽³⁾	\$0.94	\$1.32	\$0.18

(1) Refer to table under heading *Non-IFRS Financial Measures* for further details. The 2015 amounts have been revised to conform with the presentation adopted in 2016.

(2) Defined as current assets less current liabilities. The 2017 amount includes \$201,562 related to the senior credit facility and the second lien credit facility that was classified as current at December 31, 2017. The 2015 amount includes \$166,072 related to the senior credit facility that was classified as current at December 31, 2015 prior to the renewal of the facility.

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

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

expressed in thousands	Years Ended December 31	
	2017	2016
Net income before undernoted items	\$(6,182)	\$6,540
Interest expense	(55,887)	(51,979)
Foreign exchange gain on non-current debt, net of gains on cross currency swaps	29,280	10,004
Impairment of mineral properties	-	(7,300)
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	109,818	-
Gain on sale of Sterling	641	-
Share of loss in Huckleberry	(557)	(11,345)
Net Income (Loss)	\$77,113	\$(54,080)

Revenues increased to \$453.1 million in 2017 compared to \$428.2 million in 2016, an increase of \$24.9 million or 5.8%.

Revenue from the Red Chris mine in 2017 was \$289.1 million compared to \$295.3 million in 2016.

Revenue from the Mount Polley mine in 2017 was \$163.5 million compared to \$131.5 million in 2016.

There were 15.0 concentrate shipments in 2017 from the Red Chris mine (2016 - 17.0 concentrate shipments) and 4.7 concentrate shipments from the Mount Polley mine in 2017 (2016 - 5.0 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\$2.80 in 2017 compared to US\$2.21 in 2016. The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,257 in 2017 compared to US\$1,248 in 2016. The US\$ weakened by 2.0% compared to the CDN\$ in 2017 over 2016.

In 2017 the average copper price was CDN\$3.63 per pound and the average gold price was CDN\$1,632 per ounce compared to 2016 when the average copper price was CDN\$2.93 per pound and the average gold price was CDN\$1,655 per ounce.

Revenue in 2017 was increased by a \$15.2 million positive revenue revaluation compared to a positive revenue revaluation of \$4.4 million in 2016. Positive revenue revaluations are the result of the commodity prices on the settlement date and/or the current period balance sheet date being higher than when the revenue was initially recorded or the commodity prices at the last balance sheet date and vice versa for negative revenue revaluations.

Net income for 2017 was \$77.1 million (\$0.82 per share) compared to net loss of \$54.1 million (\$0.66 per share) in 2016. The majority of increase in net income of \$131.2 million was primarily due to the following factors:

- Income from mine operations went from income of \$27.9 million in 2016 to \$19.5 million in 2017, a decrease in net income of \$8.4 million.
- Interest expense increased from \$70.2 million in 2016 to \$75.5 million in 2017, a decrease to net income of \$5.3 million.
- Foreign exchange gain on current and non-current debt went from a gain of \$14.6 million in 2016 to a gain of \$30.2 million in 2017, an increase in net income of \$15.6 million.
- Loss on derivative instruments went from a loss of \$4.5 million in 2016 to \$nil in 2017, an increase in net income of \$4.5 million.
- Impairment on mineral properties went from \$7.3 million in 2016 to \$nil million in 2017, an increase in net income of \$7.3 million.
- A gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry of \$109.8 million in 2017 compared to \$nil in 2016, an increase in net income of \$109.8 million.
- The Company's equity loss in Huckleberry went from loss of \$11.3 million in 2016 to a loss of \$0.6 million in 2017, an increase in net income of \$10.7 million.
- Rehabilitation costs of \$5.8 million in 2017 compared to \$nil in 2016, a decrease in net income of \$5.8 million.
- An income and mining tax recovery of \$10.6 million in 2017 compared to a recovery of \$3.2 million in 2016, an increase in net income of \$7.4 million.

The 2017 net income included foreign exchange gain related to changes in CDN\$/US\$ exchange rate of \$30.4 million compared to foreign exchange gain of \$13.6 million in 2016. The \$30.4 million foreign exchange gain in 2017 is comprised of a \$29.3 million gain on the senior notes, a \$0.9 million gain on short term loans, and a \$0.2 million gain on operational items. The average CDN\$/US\$ exchange rate in the 2017 was 1.298 compared to an average of 1.326 in 2016.

Cash flow was \$88.4 million in 2017 compared to cash flow of \$107.6 million in 2016. 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 \$92.9 million in 2017, down from \$150.5 million in 2016. The 2017 expenditures included \$45.4 million for equipment and components, \$31.6 million for tailings dam construction, \$6.8 million relating to non-cash consideration received by the Company in the Sterling gold mine sale in the form of a Net Smelter Royalty ("NSR") and Net Operating Profit ("NOP") which have been included in mineral properties, \$3.5 million relating to environmental capital expenditures and \$5.6 million for other capital.

At December 31, 2017 the Company had \$51.9 million in cash (December 31, 2016-\$14.3 million). The Company has classified \$213.9 million of its non-current debt as current at December 31, 2017 (December 31, 2016-\$18.7 million).

NON-IFRS FINANCIAL MEASURES

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

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

Adjusted Net Loss and Adjusted Net Loss per Share

Adjusted net loss in 2017 was \$62.6 million (\$0.66 per share) compared to an adjusted net loss of \$56.8 million (\$0.69 per share) in 2016. Adjusted net income or loss shows the financial results excluding the effect of items not settling in the current period and non-recurring items. Adjusted net income or loss is calculated by removing the gains or loss, resulting from acquisition and disposal of property, mark to market revaluation of derivative instruments not related to the current period, net of tax, unrealized foreign exchange gains or losses on non-current debt, net of tax, as further detailed in the following table.

Calculation of Adjusted Net Loss

expressed in thousands, except share and per share amounts	Years Ended December 31	
	2017	2016
Net income (loss) reported	\$77,113	\$(54,080)
Realized and unrealized loss on derivative instruments related to cross currency swaps, net of tax ^(a)	-	3,889
Unrealized foreign exchange gain on non-current debt, net of tax ^(b)	(29,280)	(13,893)
Impairment of mineral properties ^(d)	-	7,300
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry ^(c)	(109,818)	-
Gain on sale of Sterling ^(c)	(641)	-
Adjusted net loss	\$(62,626)	\$(56,784)
Basic weighted average number of common shares outstanding	94,384,477	81,795,510
Adjusted net loss per share	\$(0.66)	\$(0.69)

- (a) Derivative financial instruments related to foreign currency swaps are recorded at fair value on the Company's Statement of Financial Position, with changes in the fair value, net of taxes flowing through net income. The amounts ultimately realized may be materially different than reflected in the financial statements due to changes in value of the underlying foreign currency hedged.
- (b) Non-current debt is recorded on the Company's Statement of Financial Position at the foreign exchange rate in effect on that date, with changes in foreign exchange rates, net of taxes, flowing through net income. The amounts of non-current debt ultimately payable may be materially different than reflected in the financial statements due to foreign currency movements. 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.
- (c) There are no tax effects related to this transaction.
- (d) The impairment of mineral properties have been excluded as these recoveries are non-recurring. The impairment is not tax effected as there is a full valuation allowance on these mineral properties and hence no tax recovery.

Adjusted EBITDA

Adjusted EBITDA in 2017 was \$88.5 million compared to \$106.6 million in 2016. 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	Years Ended December 31		
	2017	2016	2015
Net income (loss) ^(a)	\$77,113	\$(54,080)	\$(96,961)
Adjustments:			
Income and mining tax recovery	(10,554)	(3,195)	(20,941)
Interest expense	75,523	70,242	37,731
Depletion and depreciation	83,216	81,387	32,382
Impairment of mineral properties	-	7,300	-
Accretion of future site reclamation provisions	2,310	925	844
Reversal of unrealized gains (unrealized gains) on derivative instruments	-	30,632	(23,132)
Realized loss on derivative instruments related to foreign currency derivatives	-	(26,162)	(701)
Share based compensation	1,105	2,727	432
Foreign exchange (gain) loss	(30,441)	(13,562)	81,915
Revaluation (gain) loss on marketable securities	(242)	(38)	235
(Gain) loss on sale of mineral properties	(26)	203	(470)
Share of loss in Huckleberry	557	11,345	3,036
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	(109,818)	-	-
Gain on sale of Sterling	(641)	-	-
Insurance recoveries	-	-	(11,000)
Other	355	(1,100)	-
Adjusted EBITDA	\$88,457	\$106,624	\$3,370

(a) The 2015 EBITDA has been adjusted to conform to the presentation adopted for 2016 and 2017.

Cash Flow and Cash Flow Per Share

Cash flow in 2017 was \$88.4 million compared to \$107.6 million in 2016. Cash flow per share was \$0.94 in 2017 compared to \$1.32 in 2016.

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

expressed in thousands, except per share and per share amounts	Years Ended December 31	
	2017	2016
Income (loss) before taxes	\$66,559	\$(57,275)
Items not affecting cash flows:		
Equity loss in Huckleberry	557	11,345
Depletion and depreciation	83,216	81,387
Impairment of mineral properties	-	7,300
Share based compensation	1,105	2,727
Accretion of future site reclamation provisions	2,310	925
Unrealized foreign exchange gains	(30,242)	(13,764)
Reversal of unrealized gains on derivative instruments	-	30,632
Realized gains on derivative instruments related to foreign currency derivatives	-	(26,162)
Interest expense	75,523	70,242
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	(109,818)	-
Gain on sale of Sterling	(641)	-
Other	(188)	234
Cash flow	\$88,381	\$107,591
Basic weighted average number of common shares outstanding	94,384,477	81,795,510
Cash flow per share	\$0.94	\$1.32

Cash Cost Per Pound of Copper Produced

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

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

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

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

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

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

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

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US\$ for the three months ended December 31, 2017 and 2016.

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

Three Months Ended December 31, 2016					
	Red Chris	Mount Polley	Sterling & Corporate	Total per Financial Statements	Composite
	B	C			D=B+C
Cost of sales	\$53,361	\$34,574	\$641	\$88,576	\$87,935
Less:					
Depletion and depreciation	(10,116)	(6,537)	(101)	(16,754)	(16,653)
Share based compensation	(128)	(91)	-	(219)	(219)
Cash costs before adjustment to production basis	43,117	27,946	\$540	\$71,603	71,603
Adjust for inventory change	5,478	6,679			12,157
Adjust transportation and offsite costs	(188)	36			(152)
Treatment, refining and royalty costs	5,804	1,968			7,772
By-product and other revenues	(7,043)	(18,121)			(25,164)
Cash cost of copper produced in Cdn\$	\$47,168	\$18,508			\$65,676
<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\$	\$35,358	\$13,874			\$49,232
<i>Copper produced – pounds</i>	<i>14,659</i>	<i>4,977</i>			<i>19,636</i>
Cash cost per lb copper produced in US\$	\$2.41	\$2.79			\$2.51

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US\$ for the years ended December 31, 2017 and 2016.

Calculation of Cash Cost Per Pound of Copper Produced

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

Year Ended December 31, 2017							
	Huckleberry		Red	Mount	Sterling &	Total per	
	100%	50%	Chris	Polley	Corporate	Financial	Composite
		A	B	C		Statements	D=A+B+C
Cost of sales	\$ -	\$ -	\$254,644	\$178,009	\$982	\$433,635	\$426,486
Less:							
Depletion and depreciation	-	-	(50,458)	(30,721)	(159)	(81,338)	(80,291)
Share based compensation	-	-	(294)	(96)		(390)	(390)
Cash costs before adjustment to production basis	-	-	203,892	147,192	\$823	\$351,907	351,084
Adjust for inventory change	-	-	6,874	(19,833)			(12,959)
Adjust transportation and offsite costs	-	-	315	(1,038)			(723)
Treatment, refining and royalty costs	-	-	26,480	7,349			33,829
By-product and other revenues	-	-	(50,791)	(76,321)			(127,112)
Cash cost of copper produced in Cdn\$	\$ -	\$ -	\$186,770	\$57,349			\$244,119
US\$ to Cdn\$ exchange rate	-	-	1.2980	1.2980			1.2980
Cash cost of copper produced in US\$	\$ -	\$ -	\$143,891	\$44,183			\$188,073
Copper produced – pounds	-	-	74,636	19,071			93,707
Cash cost per lb copper produced in US\$	-	-	\$1.93	\$2.32			\$2.01

Year Ended December 31, 2016**							
	Huckleberry		Red	Mount	Sterling &	Total per	
	100%	50%	Chris	Polley	Corporate	Financial	Composite
		A	B	C		Statements	D=A+B+C
Cost of sales	\$83,864	\$41,932	\$254,617	\$143,414	\$2,262	\$400,293	\$439,963
Less:							
Depletion and depreciation	(20,433)	(10,217)	(54,034)	(26,585)	(441)	(81,060)	(90,836)
Share based compensation	-	-	(655)	(399)	-	(1,054)	(1,054)
Management fees paid by Huckleberry*	(435)	(218)	-	-	-	-	(218)
Cash costs before adjustment to production basis	62,996	31,497	199,928	116,430	\$1,821	\$318,179	347,855
Adjust for inventory change	(11,165)	(5,583)	(4,051)	11,779			2,145
Adjust transportation and offsite costs	(422)	(211)	(792)	150			(853)
Treatment, refining and royalty costs	9,228	4,614	32,933	9,855			47,402
By-product and other revenues	(5,390)	(2,695)	(76,680)	(76,831)			(156,206)
Cash cost of copper produced in Cdn\$	\$55,247	\$27,622	\$151,338	\$61,383			\$240,343
US\$ to Cdn\$ exchange rate	1.3228	1.3228	1.3256	1.3256			1.3253
Cash cost of copper produced in US\$	\$41,765	\$20,881	\$114,166	\$46,306			\$181,353
Copper produced – pounds	20,438	10,219	83,614	25,338			119,171
Cash cost per lb copper produced in US\$	\$2.04	\$2.04	\$1.37	\$1.83			\$1.52

* Management fee paid by Huckleberry to Imperial recorded as revenue by Imperial on the equity basis of accounting for Huckleberry.

** Huckleberry was not in operation during the fourth quarter of 2016 and therefore the exchange rate used for the twelve months ended December 31, 2016 shown above is the rate for the nine months ended September 30, 2016 and the exchange rate used for the Composite amount is a weighted-average of these two rates.

DEVELOPMENTS DURING 2017

Red Chris Mine

The Red Chris mill achieved 95% of design capacity averaging 28,433 tonnes per calendar day in 2017.

Fourth quarter production totaled 23.23 million pounds copper and 13,020 ounces gold, compared to 19.65 million pounds copper and 8,426 ounces gold in the 2017 third quarter, an increase of 18% and 55% respectively. Copper and gold grades were higher in the fourth quarter and averaged 0.52% copper and 0.324 g/t gold, with the higher grades delivered to the mill from the lower benches in the Main zone pit. Metal recoveries also increased to 81.03% for copper and 49.99% for gold. The average copper recovery for the fourth quarter sets a new record high for Red Chris, and the gold recovery is a record high for a quarter during which only Main Zone ores were treated.

There was significant rise in gold production between the 2017 first and fourth quarters from 5,811 to 13,020 ounces, as a result of the gold grade increasing from 0.201 g/t to 0.324 g/t, and gold recovery increasing from 37.43% to 49.99%. Quarterly copper production during the year increased approximately 42% from the first quarter to year end as a result of better grade and recovery.

At the Red Chris mine, additional mining equipment, including five 150 ton haul trucks from Huckleberry mine and a new electric powered hydraulic excavator, are being mobilized to increase the mining rate. The haul trucks have arrived at site, and the excavator is expected to arrive during the second quarter of 2018. The increase in the mining rate to about 130,000 tonnes per day will provide for quicker access to the deeper higher grade portions of the Main and East zones.

The 2018 production target for Red Chris is 72-77 million pounds copper and 31-33 thousand ounces gold.

Annual Production for the Year Ended December 31	2017	2016
Ore milled - <i>tonnes</i>	10,378,181	9,651,738
Ore milled per calendar day - <i>tonnes</i>	28,433	26,371
Grade % - copper	0.413	0.51
Grade g/t - gold	0.233	0.31
Recovery % - copper	79.01	77.52
Recovery % - gold	43.00	49.04
Copper – <i>000's pounds</i>	74,636	83,614
Gold – <i>ounces</i>	33,416	47,088
Silver – <i>ounces</i>	133,157	190,624

Exploration, development and capital expenditures were \$57.8 million in 2017 compared to \$123.1 million in 2016.

Mount Polley Mine

Fourth quarter production totaled 4.02 million pounds copper and 10,252 ounces gold, a slight increase compared to 3.98 million pounds copper and 9,989 ounces gold in the 2017 third quarter. Ore release from the Cariboo pit was slower than planned at the beginning of the year as the forest fires in the Cariboo region affected mining operations this summer. The reduction in mill feed available from the Cariboo pit resulted in a higher percentage of mill feed coming from stockpiles in the fourth quarter.

Dredging of tailings in the Springer pit (deposited in the pit in 2015-2016 to allow for restart of milling operations prior to repair of the tailings storage facility) recently commenced. Once mining operations in the Cariboo pit are completed in mid-2018, Mount Polley will rely on low grade stockpiles to provide mill feed, until the dredging of the Springer pit is completed. Dredging of the Springer pit is targeted to be complete around the end of the year.

Mining in 2017 was mainly in the Cariboo pit, and was supplemented at times from low grade stockpiles. The forest fires in the region impacted both mining and milling operations. Copper production in 2017 was down about 25% from that achieved in 2016 with lower head grades and recovery, while gold production was up slightly on higher grades.

The 2018 production target for Mount Polley is 17-19 million pounds copper and 44-47 thousand ounces gold.

Annual Production for the Year Ended December 31	2017	2016
Ore milled - <i>tonnes</i>	6,723,188	6,684,824
Ore milled per calendar day - <i>tonnes</i>	18,420	18,265
Grade % - copper	0.199	0.25
Grade g/t - gold	0.322	0.31
Recovery % - copper	64.53	69.66
Recovery % - gold	68.93	69.78
Copper – <i>000's pounds</i>	19,071	25,339
Gold – <i>ounces</i>	48,009	46,444
Silver – <i>ounces</i>	36,626	90,125

Exploration, development, and capital expenditures were \$27.0 million in 2017 compared to \$26.7 million in 2016.

Huckleberry Mine

On April 28, 2017 the Company became the sole owner of Huckleberry by virtue of Huckleberry exercising its right of first refusal to purchase for cancellation all the shares of Huckleberry held by a syndicate of Japanese companies in exchange for cash consideration of \$2.0 million. Huckleberry became a wholly-owned subsidiary of the Company on that date.

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

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

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

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

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

Expressed in thousands of dollars

Identifiable Assets Acquired and Liabilities Assumed

Cash ⁽¹⁾	\$18,440
Reclamation bonds	14,135
Prepaid and other receivables	785
Inventories	12,048
Mineral properties	186,034
Deferred income tax assets	12,037
Trade and other payables	(1,668)
Deferred trade payables	(4,925)
Future site reclamation provisions	(22,042)
Deferred income tax liabilities	(26,185)
	<u>188,659</u>

Assets Relinquished

Accrued receivable due to the Company	\$1,009
Company's investment in Huckleberry held before the business combination	77,832
	<u>78,841</u>

Total Gain	<u>\$109,818</u>
------------	------------------

Gain on bargain purchase of Huckleberry	\$93,321
Gain on revaluation of 50% interest in Huckleberry	16,497
Total Gain	<u>\$109,818</u>

(1) Net of \$2.0 million paid by Huckleberry for cancellation of shares.

From the date of acquisition on April 28, 2017 to December 31, 2017, Huckleberry incurred idle mine costs comprised of \$3.5 million in operating costs, \$1.7 million in depreciation expense and \$1.2 million of other expenses. If the acquisition of Huckleberry had taken place at the beginning of the year, the Company's revenue and profit before tax for 2017 would have been \$453.1 million and \$64.0 million, respectively.

Before April 28, 2017, the Company had a 50% interest in Huckleberry and determined the joint arrangement qualified as a joint venture which was accounted for using the equity method.

Expressed in thousands of dollars

	January 1, 2017 to April 28, 2017	January 1, 2016 to December 31, 2016
Balance, beginning of period	\$78,389	\$89,734
Share of loss for the period	(557)	(11,345)
Revaluation of 50% interest to its fair value at the date of acquisition	16,497	-
Consolidation on acquisition of additional 50% interest in Huckleberry	(94,329)	-
Balance, end of period	<u>\$ -</u>	<u>\$78,389</u>

Sterling Mine

On May 30, 2017 the Company completed the sale of the Sterling gold mine property and related assets for consideration comprised of cash, marketable securities, net smelter royalties, and a net profits interest in certain mine operations.

A summary of the transaction is as follows:

Expressed in thousands of dollars

Assets sold

Inventory and supplies	\$102
Prepaid expenses and deposits	16
Mineral properties	22,188
Reclamation bonds	4,412
	26,718

Liabilities released

Future site reclamation provisions	(5,078)
Net assets sold	\$21,640

Consideration received

Cash	\$13,570
Marketable securities	1,905
Net smelter royalty	2,251
Net profits interest	4,595
Transaction costs	(40)
	\$22,281
Gain on sale of Sterling mine	\$641

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies

Mineral Properties

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

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

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

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

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

Commencement of Commercial Production

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

Property, Plant and Equipment

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

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

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

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

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

Stripping Costs

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

Assessment of Impairment

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

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

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

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

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

Future Site Reclamation Costs

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

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

Income and Mining Taxes

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

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

Inventory

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

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

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

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

Revenue Recognition

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

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

Financial Instruments

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

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

Cash and future site reclamation deposits are classified as fair value through profit or loss and recorded at fair value. The fair value of these assets is based on bank statements or counterparty valuation reports. Marketable securities are classified as fair value through profit or loss because the Company holds these securities for the purpose of trading. The fair value of

marketable securities is based on quoted market prices. Fair value through profit or loss financial assets are measured at fair value with mark-to-market gains and losses recorded in income or loss in the period they occur.

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

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

Trade and other receivables are classified as loans and receivables. Trade and other payables, short term debt, and non-current debt are classified as other financial liabilities and recorded at amortized cost.

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

Objective evidence of impairment could include:

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

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

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

Critical Judgements

Impairment of Mineral Properties

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

Critical Estimates

Reserve and Resource Estimates

The Company estimates its reserves and resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 *Standards for Disclosure of Mineral Projects*. There are numerous uncertainties inherent in estimating reserves and resources, including many factors beyond the Company's control.

Assumptions used in estimating reserves and resources include the forecast prices of commodities, exchange rates, production and capital costs, recovery rates and judgments used in engineering and geological interpretation of available data. Assumptions that are valid at the time of estimation may change significantly when new information becomes available.

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

Depletion and Depreciation of Mineral Properties

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

Stripping Costs

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

Future Site Reclamation Provisions

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

Provision for Rehabilitation Costs

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

Income Taxes

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

Share Based Compensation

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

RESULTS OF OPERATIONS FOR 2017 COMPARED TO 2016

This review of the results of operations should be read in conjunction with the audited Consolidated Financial Statements of the Company for the years ended December 31, 2017 and December 31, 2016.

Overview

Revenues increased to \$453.1 million in 2017 compared to \$428.2 million in 2016, an increase of \$24.9 million or 5.8%. 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.

Net income for 2017 was \$77.1 million (\$0.82 per share) compared to net loss of \$54.1 million (\$0.66 per share) in 2016. The majority of increase in net income of \$131.2 million was primarily due to the following factors:

- Income from mine operations went from income of \$27.9 million in 2016 to \$19.5 million in 2017, a decrease in net income of \$8.4 million.
- Interest expense increased from \$70.2 million in 2016 to \$75.5 million in 2017, a decrease to net income of \$5.3 million.
- Foreign exchange gain on current and non-current debt went from a gain of \$14.6 million in 2016 to a gain of \$30.2 million in 2017, an increase in net income of \$15.6 million.
- Loss on derivative instruments went from a loss of \$4.5 million in 2016 to \$nil in 2017, an increase in net income of \$4.5 million.
- Impairment on mineral properties went from \$7.3 million in 2016 to \$nil million in 2017, an increase in net income of \$7.3 million.
- A gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry of \$109.8 million in 2017 compared to \$nil in 2016, an increase in net income of \$109.8 million.
- The Company's equity loss in Huckleberry went from loss of \$11.3 million in 2016 to a loss of \$0.6 million in 2017, an increase in net income of \$10.7 million.
- Rehabilitation costs of \$5.8 million in 2017 compared to \$nil in 2016, a decrease in net income of \$5.8 million.
- An income and mining tax recovery of \$10.6 million in 2017 compared to a recovery of \$3.2 million in 2016, an increase in net income of \$7.4 million.

Revenue

expressed in thousands of dollars, except quantity amounts

	2017	2016
Revenue before revaluation	\$437,872	\$423,825
Revenue revaluation	15,241	4,393
	<u>\$453,113</u>	<u>\$428,218</u>

expressed in thousands of dollars, except quantity amounts

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

expressed in thousands of dollars, except quantity amounts

	Year Ended December 31, 2016			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
<i>Sales</i>				
Copper – 000's pounds	87,416	24,353	-	111,769
Gold – ounces	49,170	43,890	536	93,596
Silver – ounces	200,890	89,080	-	289,970
<i>Revenue</i>				
Copper	\$218,681	\$59,362	\$ -	\$278,043
Gold	72,790	70,354	809	143,953
Silver	3,846	1,795	-	5,641
	295,317	131,511	809	427,637
Corporate and Other	-	-	-	581
Total Revenue	<u>\$295,317</u>	<u>\$131,511</u>	<u>\$809</u>	<u>\$428,218</u>

During 2017, the Company sold 96.1 million pounds copper and 88,846 ounces gold compared to 111.8 million pounds copper and 93,596 ounces gold in 2016. Total revenue during 2017 was \$453.1 million compared to \$428.2 million during 2016.

During 2017, 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 63.8% and Mount Polley mine accounted for 36.1% of the Company's revenue in 2017. Copper accounted for 69.2% and gold accounted for 30.3% of the Company's revenue in the period.

The average London Metals Exchange cash settlement copper price in US\$ was about 26.7% higher in 2017 than in 2016, averaging US\$2.80 per pound compared to US\$2.21 per pound. The CDN Dollar strengthened by 2% compared to the US\$ in 2017 over 2016. Factoring in the average exchange rate, the price of copper averaged CDN\$3.63 per pound in 2017, about 23.9% higher than 2016 average of CDN\$2.93 per pound.

The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,257 in 2017 compared to US\$1,248 in 2016. Factoring in the average exchange rate, the price of gold averaged CDN\$1,632 per ounce in 2017 about 13.9% lower than 2016 average of CDN\$1,655 per ounce.

Cost of Sales

expressed in thousands of dollars

	2017	2016
Operating expenses	\$262,078	\$238,273
Salaries, wages and benefits	89,829	79,906
Depletion and depreciation	81,338	81,060
Share based compensation	390	1,054
	<u>\$433,635</u>	<u>\$400,293</u>

Cost of sales for 2017 were \$433.6 million compared to \$400.3 million in 2016, due to the following major factors:

- Red Chris mine operating expenses and salaries, wages and benefits for 2017 were \$204.7 million compared to \$200.6 million in 2016;
- Mount Polley mine operating expenses and salaries, wages and benefits for 2017 were \$147.4 million compared to \$116.8 million for 2016;
- Depletion and depreciation for the Red Chris and Mount Polley mines was \$81.3 million in 2017 compared to \$80.6 million in 2016;
- Included in cost of sales for 2017 are inventory impairments to net realizable value of \$9.0 million compared to \$23.3 million in 2016.

General and Administration Costs

expressed in thousands of dollars

	2017	2016
Administration	\$3,632	\$3,468
Share based compensation - corporate	715	1,673
Depreciation – corporate assets	129	327
Foreign exchange (gain) loss – operations (excluding debt)	(217)	995
	<u>\$4,259</u>	<u>\$6,463</u>

General and administration costs were \$4.3 million in 2017 compared to \$6.5 million in 2016. Administration costs remained relatively steady; share based compensation costs decreased in 2017 due to a lower number of options outstanding which still had vesting remaining on them; and there was a foreign exchange gain on operational items due to a favorable exchange rate compared to a loss in 2016.

The average CDN\$/US\$ exchange rate for 2017 was 1.298 compared to 1.326 in 2016. Foreign exchange gains and losses are attributable to holding US Dollar denominated cash, accounts receivable, and accounts payable. These net US Dollar asset and liability balances are primarily the result of the activities at the Red Chris and Mount Polley mines.

Interest Expense

expressed in thousands of dollars

	2017	2016
Interest on non-current debt	\$67,987	\$65,301
Other interest	7,536	4,941
	<u>\$75,523</u>	<u>\$70,242</u>

Interest expense is determined by a variety of factors including levels of non-current debt, levels of short term debt on concentrate advances, the interest rate on the debt and foreign exchange rates on interest incurred on US denominated debt. Interest expense increased to \$75.5 million in 2017 from \$70.2 million in 2016, primarily as a result of the following:

- Interest expense on non-current debt increased from \$65.3 million in 2016 to \$68.0 million in 2017 an increase of \$2.7 million. This increase was primarily driven by higher interest rates paid on the Senior Credit Facility, including renewal fees;
- Other interest increased from \$4.9 million in 2016 to \$7.5 million in 2017 an increase of \$2.6 million. This increase was primarily due to additional interest expense on other obligations in 2017 compared to 2016. The average balances outstanding during 2017 were also higher than in 2016, which resulted to higher interest expense.

Other Finance Income, Net

expressed in thousands of dollars

	2017	2016
Accretion of future site reclamation provisions	\$(2,310)	\$(925)
Foreign exchange gain on short term debt	944	83
Foreign exchange gain on non-current debt	29,280	14,474
Fair value adjustment to marketable securities	242	38
Unrealized loss on derivative instruments	-	(4,470)
	28,156	9,200
Interest income	166	53
	<u>\$28,322</u>	<u>\$9,253</u>

Other net finance income totaled \$28.3 million in 2017 compared to \$9.3 million in 2016 with the income resulting primarily from foreign exchange discussed below.

At December 31, 2017 the Company had US\$ denominated debt of US\$328.4 million compared to US\$337.7 million at December 31, 2016. Foreign exchange gains attributable to US denominated short and non-current debt reflect the foreign currency movement during the year and resulted in a \$28.4 million gain on the senior notes in 2017 (2016-\$13.2 million gain), \$0.8 million gain on equipment loans in 2017 (2016-\$1.3 million loss) and a \$0.9 million gain on short term debt in 2017 (2016-\$0.1 million gain).

Income and Mining Taxes Recovery

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

expressed in thousands of dollars

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Income (loss) before taxes	\$66,559	100.0	\$(57,275)	100.0
Income tax expense (recovery) thereon at statutory rates	17,305	26.0	(14,892)	(26.0)
Decrease (increase) resulting from:				
Non-deductible share based compensation	287	0.4	709	1.2
Non-taxable gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	(28,553)	(42.9)	-	-
Share of loss in Huckleberry	145	0.2	2,950	5.2
Non-taxable portion of foreign exchange gain	(3,192)	(4.8)	(739)	(1.3)
Non-deductible (taxable) portion of loss (gain) on derivatives	-	-	581	1.0
Deferred income tax assets not recognized	1,267	1.9	5,405	9.4
Revisions to prior year estimates	315	0.5	113	0.2
Rate difference	2,193	3.3	-	-
B.C. mineral tax (recovery)	(16)	(0.0)	3,314	5.8
Other	(305)	(0.5)	(636)	(1.1)
Income and mining tax recovery	<u>\$(10,554)</u>	<u>(15.9)</u>	<u>\$(3,195)</u>	<u>(5.6)</u>
Current income and mining tax expense	\$2,064		\$2,463	
Deferred income and mining tax recovery	<u>(12,618)</u>		<u>(5,658)</u>	
	<u>\$ (10,554)</u>		<u>\$ (3,195)</u>	

expressed in thousands of dollars

	December 31 2017	December 31 2016
Deferred income and mining tax (assets) and liabilities		
Mineral properties	\$187,780	\$142,788
Mineral properties – mineral tax	8,668	5,981
Future tax deductions related to mineral properties	-	(15,992)
Debt component of convertible debentures	4,876	6,334
Other	(1,016)	(867)
Net operating tax losses carried forward ⁽¹⁾	(130,854)	(70,321)
Net deferred income and mining tax liabilities	\$69,454	\$67,923

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

As at December 31, 2017, the Company had net operating tax loss carry forwards in Canada of \$486.8 million which can be applied to reduce future Canadian taxable income and will expire between 2026 and 2037. In addition, the Company had net operating tax loss carry forwards in the United States of US\$19.2 million which can be applied to reduce future US taxable income and will expire in 2031 to 2035.

The Company had the following temporary differences and unused tax losses at December 31, 2017 in respect of which no deferred tax asset has been recognized:

	Mineral Properties & Other	Tax Losses	Total
expressed in thousands of dollars			
Expiry 2027 and beyond	\$ -	\$30,550	\$30,550
No expiry date	103,224	-	103,224
	\$103,224	\$30,550	\$133,774

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 2016.

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 December 31, 2017.

LIQUIDITY & CAPITAL RESOURCES AND FINANCING

At December 31, 2017, the Company had cash of \$51.9 million, available capacity of \$5.4 million for future draws under the senior secured revolving credit facility, and a working capital deficiency of \$238.3 million, which includes \$213.9 million current portion of debt; compared to cash of \$14.3 million and a working capital deficiency of \$89.1 million at December 31, 2016.

During the 2017 fiscal year the Company completed a number of transactions to improve liquidity. These include:

- a) The sale of Sterling gold mine property for cash proceeds of \$13.6 million and other assets.
- b) Extending the Senior Credit Facility and the Second Lien Credit Facility to October 1, 2018 and December 1, 2018, respectively. Two of the four financial covenants were removed leaving only a Senior Debt to EBITDA covenant of 3.75:1 and a minimum liquidity covenant of \$5.0 million.
- c) Closing a non-brokered Private Placement with related parties, consisting of units of the Company raising gross proceeds of \$5.0 million to be used for general corporate purposes.

Under the Private Placement the Company issued 1,818,182 units (the “Units”) at a price of \$2.75 per Unit. Each Unit consists of one common share and one-half of one transferable common share purchase warrant. Each whole warrant entitles the holder to purchase, for a period of 24 months from the date of issue, one additional common share of the Company at a price of \$3.25 per share.

- d) Entering into a new \$10.0 million unsecured debt facility (“2017 LOC Loan Facility”) provided by a related party. The 2017 LOC Loan Facility bears interest at 12% per annum and matures on January 5, 2019. The 2017 LOC Loan Facility may be used for general working capital purposes, including capital expenditures.
- e) Amending or elected certain debt agreements such that from the respective next interest payment dates until January 1, 2019 the interest on the \$75.0 million Junior Credit facility, all of the \$115.0 million 2014 Convertible Debentures and \$27.9 million of the \$30.0 million 2015 Convertible Debentures will be paid in shares of the Company, subject to approval of the Toronto Stock Exchange.
- f) Establishing a bridge loan and extending the maturity to January 5, 2019 along with increasing the amount to \$26.0 million.
- g) Completing a rights offering and issued a total of 19,080,978 common shares for net proceeds of approximately \$42.3 million. The Company issued a total of 16,119,049 common shares under basic subscription privileges in the rights offering and a total of 2,961,929 common shares under additional subscription privileges. The Company used the proceeds of the financing to improve its working capital and for general corporate purposes.

Credit Risk

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

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

From time to time the Company enters into derivative instruments with a number of counterparties to limit the amount of credit risk associated with any one counterparty. The Company did not enter into any derivative instruments during the year ended December 31, 2017.

Liquidity Risk

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

At December 31, 2017, 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 LOC loan facility, and \$18.0 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 December 31, 2017, the Company has drawn in cash \$152.5 million (\$0.2 million net of deferred financing costs) of the senior credit facility and utilized \$42.1 million of the facility for letters of credit to secure reclamation bond obligations for a total usage of \$194.6 million leaving \$5.4 million available for future draws.

At December 31, 2017, the provision for rehabilitation costs related to the Mount Polley mine tailings dam failure was \$5.4 million (December 31, 2016-\$2.1 million). During 2016 the Company had received permits to resume normal operations using the rebuilt tailings dam. While the precise costs of rehabilitation are unknown, the Company believes the costs can be managed over time.

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

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

Improvements to liquidity in 2017 compared to 2016 include the cash raised from the equity financing completed in December 2017, the continuing optimization of Red Chris mine operations and the resumption of normal operations at the Mount Polley mine in mid-2016. In addition, improved copper prices in CDN dollar terms are also a positive factor however this is mitigated somewhat by the requirement to repay the deferred trade payables

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

The Company had the following contractual obligations with respect to financial instruments as of December 31, 2017:

expressed in thousands of dollars

	Within 1 Year	2 Years	3 Years	4 Years	5 years	Total
Trade and other payables	\$110,043	\$ -	\$ -	\$ -	\$ -	\$110,043
Other obligations	41,034	15,263	14,071	2,142	-	72,510
Current portion of non-current debt	214,340	-	-	-	-	214,340
Non-current debt	-	513,419	115,967	30,047	-	659,433
	365,417	528,682	130,038	32,189	-	1,056,326
Less future accretion and unamortized finance cost	(466)	(2,871)	(13,801)	(4,257)	-	(21,395)
Total	\$364,951	\$525,811	\$116,237	\$27,932	\$ -	\$1,034,931

Liquidity and Working Capital 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. 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 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.

Joining the Payment Plan was optional and in March 2016 the Red Chris, Mount Polley and Huckleberry mines joined the Payment Plan with the resulting payment deferral plan being effective for the March 2016 electricity billings onwards. At the maximum discount or maximum repayment of 75% the estimated monthly payment deferral or repayment for the Red Chris, Mount Polley and Huckleberry mines would be approximately \$2.1 million. Due to the CDN\$ copper prices being higher than CDN\$3.40 per pound during the year, the deferred trade payables balance related to the Red Chris and Mount Polley mines would have declined during the year however the Company extended repayment of some of those obligations. The balances under the Payment Plan rose from \$17.9 million at December 31, 2016 to \$22.1 million at December 31, 2017, which includes an increase of \$5.1 million as a result of the acquisition of the Huckleberry mine.

Currency Risk

Financial instruments that impact the Company’s net income and comprehensive income due to currency fluctuations include US\$ denominated cash, accounts receivable, derivative instrument assets, reclamation deposits, trade and other payables and debt. If the US\$ had been 10% higher/lower and all other variables were held constant, net income and comprehensive income for the year ended December 31, 2017 would have been higher/lower by \$33.6 million.

Cash Flow

Cash flow was \$88.4 million in 2017 compared to cash flow of \$107.6 million in 2016.

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

Working Capital

At December 31, 2017, the Company had cash of \$51.9 million, \$5.4 million undrawn on the Senior Credit Facility and a working capital deficiency of \$238.3 million, which includes \$213.9 million current portion of debt, compared to a working capital deficiency of \$89.1 million at December 31, 2016, which included \$18.8 million current portion of debt.

Acquisition and Development of Mineral Properties

Acquisition and development of mineral properties totaled \$92.9 million in 2017 compared to \$150.5 million in 2016.

expressed in thousands of dollars

	2017	2016
Capital and Development Expenditures		
Red Chris	\$57,783	\$123,087
Mount Polley	27,030	26,372
Sterling	6,966	150
Other	5	18
	<u>91,784</u>	<u>149,627</u>
Exploration Expenditures		
Red Chris	12	35
Mount Polley	696	363
Sterling	61	146
Other	337	326
	<u>1,106</u>	<u>870</u>
	<u>\$92,890</u>	<u>\$150,497</u>

DERIVATIVE INSTRUMENTS

The Company had no derivative instruments for copper or gold at December 31, 2017 or at the date of this document.

DEBT AND OTHER OBLIGATIONS

At December 31, 2017 the Company's current debt, net of unamortized deferred financing costs and accretion was comprised of the following:

- A secured revolving senior credit facility of \$200.0 million - \$193.7 million utilized comprised of \$151.6 million drawn and \$42.1 million utilized for letters of credit related to reclamation bonding
- A secured revolving second lien credit facility of \$50.0 million - \$49.9 million (utilized)
- A variety of equipment loans denominated in both CDN\$/US\$ with a remaining balance of \$12.3 million

Non-Current Debt

At December 31, 2017, the Company's non-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 - \$404.8 million (US\$325.0 million)
- Convertible debentures with a face value of \$145.0 million - \$127.0 million (book value)
- Bridge Loan - \$26.0 million
- A variety of equipment loans denominated in both CDN\$/US\$ with a remaining balance of \$5.7 million

During 2017, the Company had the following material transactions related to its debt:

- The Company extended the maturity date of the senior credit facility and the second lien credit facility to October 1, 2018 and December 1, 2018, respectively.
- Entered into a new \$10.0 million unsecured debt facility provided by a related party. The 2017 LOC Loan Facility bears interest at 12% per annum and matures on January 5, 2019. The 2017 LOC Loan Facility may be used for general working capital purposes, including capital expenditures.
- Amended or elected certain debt agreements such that from December 31, 2017 until January 1, 2019 the interest on the \$75.0 million Junior Credit facility, all of the \$115.0 million 2014 Convertible Debentures and \$27.9 million of the \$30.0 million 2015 Convertible Debentures will be paid in shares of the Company, subject to approval of the Toronto Stock Exchange.
- Established a bridge loan and extended the maturity to January 5, 2019 along with increasing the amount to \$26.0 million.

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

Financial Covenants

Giving effect to the covenant amendments on the senior credit facility and second lien credit facility, the Company has the following financial covenants related to its various debt agreements:

- 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 the agreements can be found on www.sedar.com.

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings. At December 31, 2017, about 30% of the Company's outstanding borrowings were at floating interest rates compared to December 31, 2016 when about 24% of the Company's outstanding borrowings were at floating interest rates. The Company monitors its exposure to interest rates and is comfortable with its current exposure. The Company has not entered into any derivative contracts to manage this risk.

If interest rates had been 100 basis points higher/lower on the Company's floating rate debt and all other variables were held constant, the amount of interest expense in the year ended December 31, 2017 would have increased/decreased by \$2.0 million.

Off-Balance Sheet Arrangements

At December 31, 2017 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 December 31, 2017 the fair value of the Notes is \$381.2 million (December 31, 2016-\$416.7 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 December 31, 2017 as follows:

expressed in thousands of dollars

	Level 1	Level 2	Total
Financial assets			
Cash	\$51,895	-	\$51,895
Marketable securities	2,270	-	2,270
Provisionally priced receivables	-	18,537	18,537
Future site reclamation deposits	14,319	-	14,319
	68,484	18,537	87,021
Financial liabilities			
Amounts owing on provisionally priced receivables	-	(148)	(148)
	\$68,484	\$18,389	\$86,873

SELECT QUARTERLY FINANCIAL INFORMATION

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

	Three Months Ended			
	December 31 2017	September 30 2017	June 30 2017	March 31 2017
Total revenues	\$140,466	\$90,157	\$106,741	\$115,749
Equity income (loss) in Huckleberry	\$ -	\$ -	\$1,032	\$(1,589)
Net income (loss)	\$33,914	\$(2,129)	\$64,080	\$(18,752)
Basic income (loss) per share ⁽¹⁾	\$0.36	\$(0.02)	\$0.68	\$(0.20)
Diluted income (loss) per share ⁽¹⁾	\$0.36	\$(0.02)	\$0.68	\$(0.20)
Adjusted net income (loss) ⁽²⁾⁽³⁾	\$536	\$(18,615)	\$(22,251)	\$(22,296)
Adjusted net income (loss) per share ⁽¹⁾⁽²⁾⁽³⁾	\$0.01	\$(0.20)	\$(0.23)	\$(0.24)
Adjusted EBITDA ⁽²⁾	\$44,141	\$16,275	\$12,853	\$15,188
Cash flow ⁽²⁾	\$43,009	\$17,966	\$12,341	\$15,065
Cash flow per share ⁽¹⁾⁽²⁾	\$0.46	\$0.19	\$0.13	\$0.16
Average LME copper price/lb in US\$	\$3.09	\$2.88	\$2.57	\$2.65
Average LME gold price/troy oz in US\$	\$1,275	\$1,278	\$1,257	\$1,219
Average CDN/US\$ exchange rate	\$1.271	\$1.253	\$1.345	\$1.323
Period end CDN/US\$ exchange rate	\$1.255	\$1.248	\$1.298	\$1.332
	December 31 2016	September 30 2016	June 30 2016	March 31 2016
	2016	2016	2016	2016
Total revenues	\$78,125	\$97,108	\$116,200	\$136,785
Equity income (loss) in Huckleberry	\$(3,326)	\$(2,346)	\$(1,697)	\$(3,976)
Net income (loss)	\$(47,060)	\$(20,589)	\$(4,160)	\$17,729
Basic income (loss) per share ⁽¹⁾	\$(0.57)	\$(0.25)	\$(0.05)	\$0.22
Diluted income (loss) per share ⁽¹⁾	\$(0.57)	\$(0.25)	\$(0.05)	\$0.22
Adjusted net loss ⁽²⁾⁽³⁾	\$(30,690)	\$(20,038)	\$(1,214)	\$(4,842)
Adjusted net loss per share ⁽¹⁾⁽²⁾⁽³⁾	\$(0.37)	\$(0.25)	\$(0.01)	\$(0.06)
Adjusted EBITDA ⁽²⁾	\$(441)	\$16,726	\$40,488	\$49,881
Cash flow ⁽²⁾	\$(405)	\$18,244	\$40,327	\$49,425
Cash flow per share ⁽¹⁾⁽²⁾	\$ -	\$0.22	\$0.49	\$0.60
Average LME copper price/lb in US\$	\$2.39	\$2.17	\$2.14	\$2.12
Average LME gold price/troy oz in US\$	\$1,218	\$1,335	\$1,259	\$1,181
Average CDN/US\$ exchange rate	\$1.334	\$1.305	\$1.289	\$1.375
Period end CDN/US\$ exchange rate	\$1.343	\$1.312	\$1.301	\$1.297

(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 three primary factors:

- (a) 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.
- (b) 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 income in the March 2016 quarter was primarily due to the continued increase in production at the Red Chris mine and the Mount Polley mine being operated at closer to nameplate capacity and included foreign exchange gains on current and non-current debt of \$30.7 million on revaluation of the Company's US\$ denominated debt and net unrealized and realized losses of \$7.3 million related to derivative instruments.
- (b) 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.
- (c) 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.
- (d) 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.
- (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 \$74.8 million gain on bargain purchase that was recognized by the Company on the acquisition of the remaining 50% share of 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 \$74.8 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. There was also an additional \$35.0 million recognized on the initially estimated \$74.8 million gain on the bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry after finalization of the fair values during the last quarter of 2017.

FOURTH QUARTER RESULTS

Revenue in the fourth quarter of 2017 was \$140.5 million compared to \$78.1 million in 2016. Sales revenue is recorded when title for concentrate is transferred on ship loading. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date.

The Company recorded a net income of \$33.9 million (\$0.36 per share) in the fourth quarter of 2017 compared to net loss of \$47.1 million (\$0.57 per share) in the prior year quarter. There was also an additional \$35.0 million of the net income in the fourth quarter of 2017 related to the finalization of the gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry.

Expenditures for exploration and ongoing capital projects at Mount Polley, Red Chris and Huckleberry totaled \$17.3 million during the three months ended December 31, 2017 compared to the expenditures for exploration and ongoing capital projects at Mount Polley, Red Chris and Sterling which totaled \$88.3 million in the 2016 comparative quarter. The fourth quarter of 2016 included \$57.2 million for the Company's share of construction of the Northwest Transmission Line that it was obligated to reimburse to BC Hydro.

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

		2017	2016
Loan guarantee fee for guarantee of second lien credit facility	(a)	\$1,814	\$1,284
Interest expense	(e)	\$16,359	\$15,916

Statement of Financial Position

expressed in thousands of dollars

		2017	2016
Accrued interest on senior unsecured notes and convertible debentures	(e)	\$5,088	\$3,326
Junior Credit Facility	(b)	\$75,000	\$75,000
Senior unsecured notes (US\$53,300)	(c)	\$66,865	\$71,556
Convertible Debentures	(d)(f)	\$59,000	\$59,000
Bridge Loan	(h)	\$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 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 audited Consolidated Financial Statements for the year ended December 31, 2017.

Disclosure Controls and Procedures

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

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

Internal Controls and Procedures

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

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

The Company's management, under the supervision of the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2015. In making this assessment, management used the criteria set forth in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that, as of December 31, 2017, the Company's internal control over financial reporting were effective. There have been no changes in the Company's internal controls over financial reporting and disclosure controls and procedures during the 2016 financial year that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting and disclosure.

Limitations on Controls and Procedures

In accordance with National Instrument 52-109, a company may limit its certification of design of disclosures and procedures and internal control over financial reporting to exclude the controls, policies and procedures of a business that it acquired not more than 365 days before the end of the relevant financial period (i.e. not more than 365 days before December 31, 2017).

The Company's management, with the participation of the CEO and the CFO, has limited the scope of the design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures at Huckleberry which was acquired on April 28, 2017.

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

Contingent Liabilities

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

At December 31, 2017 the Company has a provision of \$5.3 million for future rehabilitation activities related to the Mount Polley Breach. The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required and is subject to revision in the future as further information becomes available to the Company.

During the third quarter of 2014, a securities class action lawsuit was filed against the Company and certain of its directors, officers and others in the Ontario Superior Court of Justice in Toronto (the Claim). The Company has engaged independent legal counsel to advise it on this matter. At this time the Company cannot predict the outcome of the Claim or determine the amount of any potential losses and accordingly, no provision has been made as of December 31, 2017. However, the Company is of the view that the allegations contained in the Claim are without merit and intends to vigorously defend its position.

RISK FACTORS

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

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

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

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

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

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

certain hazards where insurance coverage may not continue to be available at economically feasible premiums, or at all. These risks could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage to our properties or the properties of others, delays in mining, increased production costs, monetary losses and possible legal liability. Losses from these events may cause us to incur significant costs that would materially adversely affect our business, results of operations, financial condition and cash flows.

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

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

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

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

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

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

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

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

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

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

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

assumes that the materials and supplies required for operations will be available for purchase. Lack of supply or increased costs for any of these inputs would decrease productivity, reduce the profitability of our mines, and potentially result in us suspending operations at our mines.

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

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

Our operations, by their nature, use large amounts of electricity and energy. Energy prices can be affected by numerous factors beyond our control, including global and regional supply and demand, political and economic conditions, and applicable regulatory regimes. The prices of various sources of energy may increase significantly from current levels. An increase in electricity and energy prices could negatively affect our business, financial condition, liquidity and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

Cautionary notice regarding mineral reserve and mineral resource estimates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We and our subsidiaries may be able to incur significant additional indebtedness in the future. Although the indenture that governs the Notes and the agreements that govern Credit Facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness.

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

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

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

- incur additional indebtedness and guarantee indebtedness;
- pay dividends or make other distributions or repurchase or redeem our capital stock;
- prepay, redeem or repurchase certain debt;
- make loans and investments;

- sell, transfer or otherwise dispose of assets;
- incur or permit to exist certain liens;
- enter into transactions with affiliates;
- enter into agreements restricting our subsidiaries' ability to pay dividends; and
- consolidate, amalgamate, merge or sell all or substantially all of our assets.

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

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

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

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

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

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

In addition, some important corporate events, such as leveraged recapitalizations, may not, under the indenture governing the Notes, constitute a "change of control" that would require us to repurchase the Notes, even though those corporate events could increase the level of our indebtedness or otherwise adversely affect our capital structure, credit ratings or the value of the Notes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to taxation risk.

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

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

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

Our directors may have interests that conflict with our interests.

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

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

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

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

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

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

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

The Company's critical operating systems may be compromised.

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

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

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

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



OUTLOOK

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

Operations, Earnings and Cash Flow

The 2017 annual base and precious metals production from Red Chris and Mount Polley mines was 93.7 million pounds copper and 81.4 thousand ounces gold. Metal production targets for 2018 are 89-96 million pounds copper and 75-80 thousand ounces gold. At December 31, 2017 the Company had not hedged any copper, gold or CDN\$/US\$ exchange. Quarterly revenues will fluctuate depending on copper and gold prices, the CDN\$/US\$ exchange rate, and the timing of concentrate sales, which is dependent on concentrate production and the availability and scheduling of transportation.

Exploration

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

Development

At the Red Chris mine, additional mining equipment, including five 150 ton haul trucks from the Huckleberry mine and a new electric powered hydraulic excavator, are being mobilized to increase the mining rate. The haul trucks have arrived at site, and the excavator is expected to arrive during the second quarter of 2018. The increase in the mining rate to about 130,000 tonnes per day will provide for quicker access to the deeper higher grade portions of the Main and East zones.

Looking to the future at the Red Chris mine, preliminary engineering studies have been conducted to determine the optimum method to mine the deep resource below the current designed pits. Based on this work, it appears that the best method will be a block cave mining of the deep resource beneath both the East and Main pits. A drill program is being developed that will provide information required to further advance the block cave studies.

At the Mount Polley mine, construction of a pipeline from the water treatment plant to the Quesnel Lake diffuser system was completed at the end of November 2017. The treated water from the treatment plant will no longer be discharged into Hazeltine Creek. On January 8, 2018, treated water began being discharged via the newly installed pipeline deep into Quesnel Lake. The Mount Polley site has a positive water balance, and now has means of discharging excess site water.

Dredging of tailings in the Springer pit (deposited in the pit in 2015-2016 to allow for restart of milling operations prior to repair of the tailings storage facility) recently commenced. Once mining operations in the Cariboo pit are completed in mid-2018, Mount Polley will rely on low grade stockpiles to provide mill feed, until the dredging of the Springer pit is completed. Dredging of the Springer pit is targeted to be complete around the end of the year.

During the second half of 2018, while low-grade stockpiles are providing mill feed, mining operations are to be cut back to minimal levels. When the dredging is complete, providing access to the bottom of the Springer pit, a return of mining operations to normal levels is planned. At that point, the Springer pit will begin supplying mill feed to the concentrator.

South Springer is another area with potential to significantly increase the mineral resource. The mineralization is under the saddle separating the Cariboo and Springer Phase 6 pits, which presents an ideal location for additional low stripping ratio reserves, assuming planned drilling is positive. With the configuration of the Cariboo pit providing an excellent platform to conduct an exploration drilling, follow up on the 2012 drilling is planned with a small exploration program to commence during the second half of 2018.

At Huckleberry, a preliminary plan to reopen the mine has been developed and is under consideration for implementation in 2019 if the copper price continues to strengthen in 2018.

Acquisitions

Management continues to evaluate potential acquisitions.

Management's Responsibility for Financial Reporting

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

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

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

/s/ J. Brian Kynoch

J. Brian Kynoch
President

/s/ Andre Deepwell

Andre Deepwell
Chief Financial Officer

March 28, 2018



Independent Auditor's Report

To the Shareholders of
Imperial Metals Corporation

We have audited the accompanying consolidated financial statements of Imperial Metals Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of income (loss) and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Imperial Metals Corporation as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has a working capital deficiency of \$238.3 million as at December 31, 2017. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.



Chartered Professional Accountants
March 29, 2018
Vancouver, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

expressed in thousands of Canadian dollars

	Notes	December 31 2017	December 31 2016
ASSETS			
Current Assets			
Cash		\$51,895	\$14,251
Marketable securities		2,270	123
Trade and other receivables	3	24,447	11,152
Inventory	4	50,187	66,441
Prepaid expenses and deposits		3,879	2,873
		132,678	94,840
Investment in Huckleberry Mines Ltd.	5	-	78,389
Mineral Properties	6	1,545,860	1,332,023
Other Assets	7	45,230	22,526
		<u>\$1,723,768</u>	<u>\$1,527,778</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	8, 29	\$110,043	\$115,649
Taxes payable		2,205	1,868
Short term debt	10	-	13,277
Provision for rehabilitation costs	18	3,651	2,051
Current portion of debt	11	213,874	18,727
Current portion of other obligations	9	41,034	32,210
Current portion of future site reclamation provisions	12	140	166
		370,947	183,948
Provision for rehabilitation costs	18	1,684	-
Non-Current Debt	11	638,504	803,361
Other Obligations	9	31,476	41,708
Future Site Reclamation Provisions	12	98,202	42,215
Deferred Income Taxes	19	69,454	67,923
		<u>1,210,267</u>	<u>1,139,155</u>
EQUITY			
Share Capital	13	290,201	243,525
Share Option Reserve	13	18,582	17,477
Warrant Reserve	13	689	-
Equity Component of Convertible Debentures	11	25,534	25,534
Currency Translation Adjustment		7,537	8,242
Retained Earnings		170,958	93,845
		<u>513,501</u>	<u>388,623</u>
		<u>\$1,723,768</u>	<u>\$1,527,778</u>
Commitments and Pledges	4, 6, 26		
Contingent Liabilities	27		

See accompanying notes to these consolidated financial statements.

Approved by the Board and authorized for issue on March 28, 2018

/s/ Larry G. Moeller

Director

/s/ J. Brian Kynoch

Director

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

Years Ended December 31, 2017 and 2016

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

	Notes	2017	2016
Revenue		\$453,113	\$428,218
Cost of Sales	14	(433,635)	(400,293)
Income from Mine Operations		19,478	27,925
General and Administration	15	(4,259)	(6,463)
Idle Mine Costs		(5,270)	-
Interest Expense	16	(75,523)	(70,242)
Other Finance Income, Net	17	28,322	9,253
Gain on Bargain Purchase of Huckleberry and revaluation of equity investment in Huckleberry	5	109,818	-
Gain on Sale of Sterling	28	641	-
Impairment of Mineral Properties	6	-	(7,300)
Rehabilitation Costs	18	(5,840)	-
Other (Expense) Income		(251)	897
Share of Loss in Huckleberry	5	(557)	(11,345)
Income (Loss) before Taxes		66,559	(57,275)
Income and Mining Tax Recovery	19	10,554	3,195
Net Income (Loss)		77,113	(54,080)
Other Comprehensive Loss			
Items that may be subsequently reclassified to profit or loss			
Currency translation adjustment		(705)	(927)
Total Comprehensive Income (Loss)		\$76,408	\$(55,007)
Income (Loss) Per Share			
Basic	20	\$0.82	\$(0.66)
Diluted	20	\$0.82	\$(0.66)
Weighted Average Number of Common Shares Outstanding			
Basic	20	94,384,477	81,795,510
Diluted	20	94,384,477	81,795,510

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years Ended December 31, 2017 and 2016

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

	Share Capital		Share	Warrant	Equity	Currency	Retained	Total
	Number of	Amount	Option	Reserve	Component of	Translation	Earnings	
	Shares		Reserve		Convertible	Adjustment		
					Debentures			
Balance December 31, 2015	81,761,028	\$178,730	\$14,789	\$870	\$25,534	\$9,169	\$147,055	\$376,147
Private Placement	11,818,182	64,710	-	-	-	-	-	64,710
Issued on exercised options	7,500	85	(39)	-	-	-	-	46
Share based compensation expense	-	-	2,727	-	-	-	-	2,727
Expiry of warrants	-	-	-	(870)	-	-	870	-
Total comprehensive loss	-	-	-	-	-	(927)	(54,080)	(55,007)
Balance December 31, 2016	93,586,710	243,525	17,477	-	25,534	8,242	93,845	388,623
Private Placement	1,818,182	4,283	-	689	-	-	-	4,972
Rights offering	19,080,978	42,282	-	-	-	-	-	42,282
Issued pursuant to Employee Share Purchase Plan	19,602	111	-	-	-	-	-	111
Share based compensation expense	-	-	1,105	-	-	-	-	1,105
Total comprehensive income (loss)	-	-	-	-	-	(705)	77,113	76,408
Balance December 31, 2017	114,505,472	\$290,201	\$18,582	\$689	\$25,534	\$7,537	\$170,958	\$513,501

See accompanying notes to these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

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

	Notes	2017	2016
OPERATING ACTIVITIES			
Income (loss) before Taxes		\$66,559	\$(57,275)
Items not affecting cash flows			
Share of loss in Huckleberry	5	557	11,345
Gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	5	(109,818)	-
Gain on sale of Sterling	28	(641)	-
Depletion and depreciation		83,216	81,387
Impairment of mineral properties		-	7,300
Share based compensation		1,105	2,727
Accretion of future site reclamation provisions		2,310	925
Unrealized foreign exchange gains		(30,242)	(13,764)
Reversal of unrealized gains on derivative instruments		-	30,632
Realized gains on derivative instruments related to foreign currency derivatives		-	(26,162)
Interest expense	16	75,523	70,242
Other		(188)	234
		88,381	107,591
Net change in non-cash operating working capital balances	21	(43)	26,716
Income and mining taxes paid		(1,114)	(1,870)
Income and mining taxes recovered		48	1,013
Interest paid		(61,828)	(57,485)
Cash provided by operating activities		25,444	75,965
FINANCING ACTIVITIES			
Proceeds of short term debt	10	345,297	327,026
Repayment of short term debt	10	(337,630)	(338,420)
Proceeds of non-current debt	11, 21(b)	75,544	64,976
Repayment of non-current debt	11	(53,671)	(130,519)
Issue of share capital, net of issue costs		47,254	64,754
Cash provided by (used in) financing activities		76,794	(12,183)
INVESTING ACTIVITIES			
Acquisition and development of mineral properties		(77,099)	(89,578)
Net change in non-cash investing working capital balances	21	(13,698)	6,536
Payment of Northwest Transmission Line payable		(5,619)	(1,192)
Proceeds on sale of derivative instruments related to foreign currency derivatives		-	26,162
Proceeds on sale of mineral properties		26	156
Cash received on acquisition of Huckleberry	5	18,440	-
Cash received on sale of Sterling	28	13,570	-
Other		(9)	7
Cash used in investing activities		(64,389)	(57,909)
EFFECT OF FOREIGN EXCHANGE ON CASH		(205)	(810)
INCREASE IN CASH		37,644	5,063
CASH, BEGINNING OF YEAR		14,251	9,188
CASH, END OF YEAR		\$51,895	\$14,251

See accompanying notes to these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

1. NATURE OF OPERATIONS

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

The Company's key projects are:

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

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

At December 31, 2017, the Company had cash of \$51,895, available capacity of \$5,409 for future draws under the senior secured revolving credit facility (Note 11(a)), \$10,000 undrawn on the 2017 LOC Loan Facility (Note 11(i)), and a working capital deficiency of \$238,269. The working capital deficiency is primarily due to debt of \$201,573 related to the Senior Credit Facility and the Second Lien Credit Facility which mature in the fourth quarter of 2018. At December 31, 2016, the Company had cash of \$14,251, available capacity of \$49,880 for future draws under the senior secured revolving credit facility, and a working capital deficiency of \$89,108.

The payment of interest for certain debt facilities will be paid in common shares of the Company until December 31, 2018 (Notes 11(d), 11(e) and 11(f)). The payment of interest in common shares will result in cash savings of approximately \$16,000 per annum.

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. However, there are inherent risks related to the operation of the Company’s mines which could require additional sources of financing. There can be no assurance that adequate additional financing will be available on terms acceptable to the Company or at all, which creates a material uncertainty that could have an adverse impact on the Company’s financial condition and results of operations and may cast significant doubt on the Company’s ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

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

Basis of Presentation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

Basis of Consolidation

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

Marketable Securities

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

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

Inventory

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

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

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

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

Mineral Properties

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

Commencement of Commercial Production

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

Property, Plant and Equipment

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

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

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

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

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

Stripping Costs

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

Assessment of Impairment

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

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

The recoverable amount for a CGU is the greater of the fair value less cost to sell and the value in use. Fair value less cost to sell is the amount that would be received by the Company to sell a CGU in a transaction between arms-length parties less any costs directly attributable to the disposal of the CGU. Value in use is the present value of future cash flows expected to be derived by the Company from the CGU, which is estimated using discounted cash flow techniques. When it is not

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

possible to determine fair value less cost to sell by quotes from an active market, a written offer to purchase the CGU, or a binding sales agreement to purchase the CGU, the Company estimates the fair value less cost to sell using discounted cash flow techniques. Resources in the measured and indicated categories are valued using estimated fair values based on market transactions.

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

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

Future Site Reclamation Costs

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

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

Income and Mining Taxes

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

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

Revenue Recognition

Estimated mineral revenue, based upon prevailing metal prices, is recorded in the financial statements when title to the concentrate transfers to the customer which generally occurs on date of shipment. Revenue is recorded in the statement of income and comprehensive income net of treatment and refining costs and royalties paid to counterparties under terms of the off take arrangements. The estimated revenue is recorded based on metal prices and exchange rates on the date of shipment and is adjusted at each reporting date to the date of settlement metal prices. The actual amounts will be reflected in revenue upon final settlement, which could be as long as four to five months after the date of shipment. These

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

adjustments reflect changes in metal prices and changes in quantities arising from final weight and assay calculations. The net realizable value of copper concentrate inventory is calculated on the basis of current market prices less treatment and refining costs.

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

Financial Derivatives

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

Financial Instruments

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

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

Cash and future site reclamation deposits are classified as fair value through profit or loss and recorded at fair value. The fair value of these assets is based on bank statements or counterparty valuation reports. Marketable securities are classified as fair value through profit or loss because the Company holds these securities for the purpose of trading. The fair value of marketable securities is based on quoted market prices. Fair value through profit or loss financial assets are measured at fair value with mark-to-market gains and losses recorded in income or loss in the period they occur.

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

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

Trade and other receivables are classified as loans and receivables. Trade and other payables, short term debt, and non-current debt are classified as other financial liabilities and recorded at amortized cost.

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

Objective evidence of impairment could include:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

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

Foreign Currency Translation

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

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

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

Joint Ventures

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

Joint Operations

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

Reportable Segmented Information

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

Share Based Payments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

Borrowing Costs

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

Income (Loss) Per Common Share

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

Significant Accounting Judgments, Estimates and Assumptions

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

(i) Critical Judgments

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

Interests in Other Entities

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

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

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

Functional Currency

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

Impairment of Mineral Properties

Both external and internal information is reviewed and considered by management in their assessment of whether mineral properties are impaired. External sources of information include changes in the market, economic and legal environment, in which the Company operates, that are not within its control and affect the recoverable amount of its mineral properties, plant and equipment. The internal sources of information include the manner in which mineral properties, plant and equipment are being used or are expected to be used and indications of economic performance

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

of assets. Management concluded that the difference between the Company's market capitalization and net assets per the Consolidated Statement of Financial Position is a result of the amount of debt being carried by the Company rather than the value of Company's assets. In determining the recoverable amounts of producing mineral properties management estimates the discounted future pre-tax cash flows expected to be derived from the Company's producing mineral properties. Reductions in commodity prices, increases in estimated future production and capital costs, reductions in mineral reserves and exploration potential and adverse economic events can result in impairment charges. In determining the economic recoverability and probability of future economic benefit of non-producing mineral properties management also considers geological information, likelihood of conversion of resources to reserves, scoping and feasibility studies, permitting, infrastructure, development costs, and life of mine plans.

(ii) Critical Estimates and Assumptions

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

Reserve and Resource Estimates

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

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

Depletion and Depreciation of Mineral Properties

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

Stripping Costs

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

Future Site Reclamation Provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

Provision for Rehabilitation Costs

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

Income Taxes

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

Share Based Compensation

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

New and Amended Standards and Interpretations

The Company applied certain amendments to accounting standards, which are effective for annual periods beginning on or after January 1, 2017. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements.

Amendment to IAS 12, Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company applied the amendments retrospectively. However, their application has had no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments. The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Company's consolidated financial statements.

Amendment to IAS 7, Statement of Cash Flows

This amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. The Company has presented the required disclosures for the current and the comparative period in Note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

Accounting Standards Issued But Not Yet Adopted

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and will replace 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. The final version of IFRS 9 was issued in July 2014 and includes (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward-looking “expected loss” impairment model, and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

The Company will adopt IFRS 9 for financial statements beginning from January 1, 2018, using the full retrospective method. The Company has identified financial instruments that would be impacted by this standard, and have assessed if the new standard has impacted the financial reporting of these instruments. Upon assessing the impact of the new standard on the financial statements of the Company, the Company has determined that the new measurement requirements under IFRS 9 are expected to impact certain debt instruments held by the Company as a result of modification to those debt instruments. The Company, at this time, is unable to quantify the expected impact in these consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) proposes to replace IAS 18, Revenue, IAS 11, Construction Contracts, and some revenue-related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

The Company will adopt IFRS 15 for the year beginning January 1, 2018. Upon assessing the impact of the new standard on the financial statements of the Company, and applying the IFRS 15 model to the Company’s revenue recognition process, the Company has determined that the new revenue recognition model of IFRS 15 is not expected to have a material and/or quantitative impact on the Company’s consolidated financial statements and revenue recognition accounting policy.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

3. TRADE AND OTHER RECEIVABLES

	December 31 2017	December 31 2016
Trade receivables	\$24,231	\$10,644
Taxes receivable	216	508
	<u>\$24,447</u>	<u>\$11,152</u>

4. INVENTORY

	December 31 2017	December 31 2016
Stockpile ore	\$22,450	\$15,400
Dore	-	13
Concentrate	9,761	32,047
Supplies	48,335	35,946
Total inventories	80,546	83,406
Less non-current inventories included in other assets (Note 7)	(30,359)	(16,965)
Total current inventories	<u>\$50,187</u>	<u>\$66,441</u>

During the year ended December 31, 2017 an inventory amount of \$402,314 was recognized in cost of sales (2016-\$283,691) and an impairment charge of \$9,549 (2016-\$23,287) on stockpile ore, concentrate and supplies inventory was included in cost of sales and \$186 (2016-\$nil) was included in idle mine cost. As at December 31, 2017, the Company had \$80,546 (2016-\$83,406) of inventory pledged as security for debt.

5. INVESTMENT IN HUCKLEBERRY MINES LTD.

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

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

Identifiable Assets Acquired and Liabilities Assumed

Cash (net of \$2,000 paid for cancellation of shares)	\$18,440
Reclamation bonds	14,135
Prepaid and other receivables	785
Inventories	12,048
Mineral properties	186,034
Deferred income tax assets	12,037
Trade and other payables	(1,668)
Deferred trade payables	(4,925)
Future site reclamation provisions	(22,042)
Deferred income tax liabilities	(26,185)
	<u>188,659</u>

Assets Relinquished

Accrued receivable due to the Company	\$1,009
Company's investment in Huckleberry held before the business combination	77,832
	<u>78,841</u>
Total Gain	<u>\$109,818</u>

Gain on bargain purchase of Huckleberry	\$93,321
Gain on revaluation of 50% interest in Huckleberry	16,497
Total Gain	<u>\$109,818</u>

From the date of acquisition on April 28, 2017 to December 31, 2017, Huckleberry incurred idle mine costs comprised of \$3,521 in operating costs, \$1,749 in depreciation expense and \$1,160 of other expenses.

If the acquisition of Huckleberry had taken place at the beginning of the year, the Company's revenue and profit before tax for 2017 would have been \$453,113 and \$63,933 respectively.

Before April 28, 2017, the Company had a 50% interest in Huckleberry and determined the joint arrangement qualified as a joint venture which was accounted for using the equity method.

	January 1, 2017 to April 28, 2017	January 1, 2016 to December 31, 2016
Balance, beginning of period	\$78,389	\$89,734
Share of loss for the period	(557)	(11,345)
Revaluation of 50% interest to its fair value at the date of acquisition	16,497	-
Consolidation on acquisition of additional 50% interest in Huckleberry	(94,329)	-
Balance, end of period	<u>\$ -</u>	<u>\$78,389</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

6. MINERAL PROPERTIES

Cost	Mineral Properties being Depleted	Mineral Properties not being Depleted			Total
		Projects not in Production	Exploration & Evaluation Assets	Plant & Equipment	
Balance December 31, 2015	\$331,921	\$55,765	\$50,745	\$1,118,048	\$1,556,479
Additions	10,599	403	396	148,043	159,441
Disposals	-	-	(181)	(1,882)	(2,063)
Foreign exchange movement	-	-	(1,457)	50	(1,407)
Balance December 31, 2016	342,520	56,168	49,503	1,264,259	1,712,450
Additions	38,249	713	7,352	83,862	130,176
Sale of Sterling	-	-	(34,014)	(2,118)	(36,132)
Acquisition of Huckleberry	82,662	-	79,934	23,438	186,034
Disposals	-	-	(2)	(603)	(605)
Foreign exchange movement	-	-	(608)	(60)	(668)
Balance December 31, 2017	\$463,431	\$56,881	\$102,165	\$1,368,778	\$1,991,255

Accumulated depletion & depreciation & impairment losses	Mineral Properties being Depleted	Mineral Properties not being Depleted			Total
		Projects not in Production	Exploration & Evaluation Assets	Plant & Equipment	
Balance December 31, 2015	\$114,407	\$ -	\$1,645	\$178,870	\$294,922
Depletion and depreciation	24,821	-	-	54,747	79,568
Disposals	-	-	-	(876)	(876)
Impairments	-	-	7,300	-	7,300
Foreign exchange movement	-	-	(375)	(112)	(487)
Balance December 31, 2016	139,228	-	8,570	232,629	380,427
Depletion and depreciation	22,625	-	-	57,078	79,703
Disposals	-	-	-	(525)	(525)
Foreign exchange movement	-	-	22	(288)	(266)
Sale of Sterling	-	-	(6,947)	(6,997)	(13,944)
Balance December 31, 2017	\$161,853	\$ -	\$1,645	\$281,897	\$445,395
<i>Carrying Amount</i>					
Balance December 31, 2015	\$217,514	\$55,765	\$49,100	\$939,178	\$1,261,557
Balance December 31, 2016	\$203,292	\$56,168	\$40,933	\$1,031,630	\$1,332,023
Balance December 31, 2017	\$301,578	\$56,881	\$100,520	\$1,086,881	\$1,545,860

At December 31, 2017, the deferred stripping costs of \$54,237 (2016-\$65,378) were included in mineral properties.

At December 31, 2017, the Company had \$6,674 of contractual commitments (2016-\$nil) for the expenditures on property, plant and equipment.

At December 31, 2017, mineral property assets with a carrying value of \$9,805 (December 31, 2016-\$1,370) are legally restricted for the purposes of settling future site reclamation provisions (Note 26(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

Red Chris Mine

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

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

Mount Polley Mine

The Mount Polley copper/gold mine is owned and operated by Mount Polley Mining Corporation, a subsidiary of the Company. The property, located in central British Columbia, is comprised of 20,113 hectares, consisting of seven mining leases totalling 2,007 hectares, and 46 mineral claims encompassing 18,106 hectares. A production royalty is payable on ore mined from Mining Lease 933970 but no production occurred on this tenure in 2017 nor is any planned in 2018.

Huckleberry Mine

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

Sterling Mine

During the year ended December 31, 2016 the Company recorded an impairment of \$7,300 on the Sterling gold mine property and related assets. On May 30, 2017 the Company completed the sale of its interest in the Sterling gold mine property and related assets (Note 28).

Other Exploration Properties

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

7. OTHER ASSETS

	December 31 2017	December 31 2016
Future site reclamation deposits	\$14,319	\$4,667
Non-current inventory - ore stockpile	17,545	14,650
Non-current inventory - supplies	7,730	-
Non-current inventory - critical spare parts	5,084	2,315
Other	552	894
	<u>\$45,230</u>	<u>\$22,526</u>

8. TRADE AND OTHER PAYABLES

	December 31 2017	December 31 2016
Trade payables	\$68,307	\$68,947
Accrued liabilities (Note 29)	41,736	46,702
	<u>\$110,043</u>	<u>\$115,649</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

9. OTHER OBLIGATIONS

	December 31 2017	December 31 2016
Deferred trade payables	\$22,121	\$17,910
Northwest Transmission Line payable	50,389	56,008
	72,510	73,918
Less portion due within one year	(41,034)	(32,210)
	<u>\$31,476</u>	<u>\$41,708</u>

(a) Deferred Trade Payable

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

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

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

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

(b) Northwest Transmission Line Payable

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

10. SHORT TERM DEBT

Amounts due for short term debt are:

	December 31 2017	December 31 2016
Concentrate advances of US\$nil (December 31, 2016-US\$9,889) from purchasers of the concentrate at the Red Chris and Mount Polley mines repayable from sale of concentrate secured by a first charge on the concentrate	\$ -	\$13,277

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

	December 31 2017	December 31 2016
Balance, beginning of year	\$13,277	\$24,754
Amounts advanced	345,297	327,026
Bridge loan reclassified to non-current debt (Note 11 (a))	(20,000)	-
Amounts repaid	(337,630)	(338,420)
Foreign exchange gains	(944)	(83)
Balance, end of year	<u>\$ -</u>	<u>\$13,277</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

11. NON-CURRENT DEBT

Amounts due for non-current debt are:

	December 31 2017	December 31 2016
Senior secured revolving credit facility, net of issue costs	(a) \$151,628	\$109,967
Second lien secured revolving credit facility, net of issue costs	(b) 49,945	49,789
Senior unsecured notes, net of issue costs	(c) 404,841	430,984
Junior credit facility	(d) 75,000	75,000
Convertible debentures - 2014	(e) 101,198	96,475
Convertible debentures - 2015	(f) 25,744	24,686
Bridge loan	(g) 26,000	-
Equipment loans	(h) 18,022	35,187
2017 LOC loan facility	(i) -	-
	852,378	822,088
Less portion due within one year	(213,874)	(18,727)
	<u>\$638,504</u>	<u>\$803,361</u>

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

	December 31 2017	December 31 2016
Balance, beginning of year	\$822,088	\$889,707
Amounts advanced, net of issue costs	84,490	68,695
Bridge loan reclassified from short term debt (Note 10)	20,000	-
Foreign exchange gains	(29,280)	(14,474)
Accretion of debt issue costs	2,970	3,262
Accretion of interest on convertible debentures	5,781	5,517
Amounts repaid	(53,671)	(130,619)
Balance, end of year	852,378	822,088
Less portion due within one year	(213,874)	(18,727)
	<u>\$638,504</u>	<u>\$803,361</u>

(a) Senior Credit Facility

Senior secured revolving credit facility from a syndicate of banks aggregating \$200,000 (December 31, 2016-\$200,000) due on October 1, 2018. The facility is secured by trade and other receivables, inventory, shares of all material subsidiaries and a floating charge on certain assets of the Company. Of this facility, \$42,091 (December 31, 2016-\$39,520) has been utilized for letters of credit pledged for settlement of future site reclamation provisions (Note 26(b)).

(b) Second Lien Credit Facility

Second lien secured revolving credit facility aggregating \$50,000 (December 31, 2016-\$50,000) due on December 1, 2018. The facility is secured by trade and other receivables, inventory, shares of all material subsidiaries and a floating charge on certain assets of the Company, subject to the priority interests held on those assets by the senior credit facility syndicate. This facility has been guaranteed by a related party (Note 22).

(c) Senior Unsecured Notes

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

(d) Junior Credit Facility

The junior credit facility is from a related party (Note 22). It aggregates \$75,000 (December 31, 2016-\$75,000) and is unsecured with interest payable quarterly at 10% per annum. The facility is due on March 15, 2019, however the facility must be repaid upon (i) receipt of proceeds from specific sources as described in the agreement, (ii) the debt ratio in the senior credit facility permitting repayment of the debt. Interest payments during the period October 31, 2017 to January 1, 2019 are payable in common shares of the Company based on the volume weighted average share price of the Company on the Toronto Stock Exchange (Note 29).

(e) Convertible Debentures - 2014

The debentures with a face value of \$115,000 mature on September 4, 2020 and bear interest at 6% per year with interest payable semi-annually on June 30 and December 31. As a result of the rights offering completed in December 2017 the conversion price was reduced from \$11.91 to \$11.69 per common share. The face value of the convertible debentures are convertible into common shares of the Company at the option of the holder upon at least 61 days advance notice at any time prior to maturity at a conversion price of \$11.69 per common share. The convertible debentures are not callable unless the closing price of the Company's common shares exceeds 125% of the conversion price for at least 30 consecutive days. At the option of the Company, subject to the separate approval of the Toronto Stock Exchange and compliance with all applicable securities laws, such interest may be paid through the issuance of additional convertible debentures or common shares of the Company. Interest payments during the period October 31, 2017 to January 1, 2019 are payable in common shares of the Company based on the volume weighted average share price of the Company on the Toronto Stock Exchange (Note 29).

(f) Convertible Debentures - 2015

The debentures with a face value of \$30,000 mature on August 25, 2021 and bear interest at 6% per year with interest payable semi-annually on June 30 and December 31 with the first payment paid on December 31, 2016. As a result of the rights offering completed in December 2017 the conversion price was reduced from \$12.00 to \$11.77 per common share. The face value of the convertible debentures are convertible into common shares of the Company at the option of the holder upon at least 61 days advance notice at any time prior to maturity at a conversion price of \$11.77 per common share. The convertible debentures are not callable unless the closing price of the Company's common shares exceeds 125% of the conversion price for at least 30 consecutive days. Interest payments on \$27,900 of the \$30,000 outstanding debentures during the period October 31, 2017 to January 1, 2019 are payable in common shares of the Company based on the volume weighted average share price of the Company on the Toronto Stock Exchange (Note 29).

(g) Bridge loan

Bridge loan of \$26,000 (December 31, 2016-nil) maturing on January 5, 2019, of which 50% is provided by a related party, is secured by all assets of the Company and is subordinated to the Senior Credit Facility and Second Lien Credit Facility lenders. Interest on the Bridge loan is payable monthly at the rate of 8% per annum.

(h) Equipment Loans

At December 31, 2017, the Company had equipment loans outstanding denominated in US Dollars totalling US\$5,716 or \$7,171 (2016-US\$14,679; \$19,710) at a weighted average interest rate of 2.67% with monthly payments of US\$771 or \$967. The Company also had equipment loans outstanding denominated in Canadian Dollars totalling \$10,851 (2016-\$15,477) at a weighted average interest rate of 5.26% with monthly payments of \$1,043. All equipment loans are secured by the financed equipment.

(i) 2017 LOC Loan Facility

Unsecured loan facility of \$10,000 (December 31, 2016 - \$nil) from a related party (note 22) with interest at 12% payable on the last day of each calendar quarter. The loan matures on January 5, 2019.

At December 31, 2017 the Company was in full compliance under its debt agreements with all financial covenants that existed at that time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

12. FUTURE SITE RECLAMATION PROVISIONS

The Company has recognized provisions for future site reclamation at its Red Chris, Mount Polley, Huckleberry (effective April 28, 2017), Sterling (to May 30, 2017), Ruddock Creek and Catface properties. Although the ultimate amounts of the future site reclamation provisions are uncertain, the fair value of these obligations is based on information currently available, including closure plans and applicable regulations. The amounts and timing of closure plans for the mineral properties will vary depending on a number of factors including exploration success and alternative mining plans. Significant closure activities include land rehabilitation, water treatment, demolition of facilities, monitoring and other costs.

Changes to the future site reclamation provisions are:

	December 31 2017	December 31 2016
Balance, beginning of year	\$42,381	\$32,743
Accretion (Note 17)	2,310	925
Costs incurred during the year	(495)	(33)
Liability assumed at fair value at acquisition of Huckleberry (Note 5)	22,042	-
Change in estimates of future costs, discount rate and effect of translation of foreign currencies	37,182	8,746
Sale of Sterling (Note 28)	(5,078)	-
Balance, end of year	98,342	42,381
Less portion due within one year	(140)	(166)
	<u>\$98,202</u>	<u>\$42,215</u>

The total undiscounted amount of estimated future cash flows required to settle the obligations is \$173,348 (December 31, 2016-\$57,147). The estimated future cash flows were then adjusted using a 2.0% (December 31, 2016-2.0%) rate of inflation. The estimated future cash flows have been discounted using a rate of 3.20% (December 31, 2016-3.34%) except for obligations related to Mount Polley and Huckleberry beyond 2046 that are discounted using a rate of 4.20%. Obligations in amount of \$86,068 are expected to be settled in the years 2018 through 2046.

The amounts and timing of closure plans for the mineral properties will vary depending on a number of factors including exploration success and alternative mining plans. Refer to Notes 26(b) and (c) for assets pledged and legally restricted for the purposes of settling future site reclamation provisions and the obligation to increase reclamation bond funding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

13. SHARE CAPITAL

(a) Share Capital

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

(b) Share Option Plans

Under the Share Option Plans, the Company may grant options to its directors, officers and employees not to exceed 10% of the issued common shares of the Company. At December 31, 2017, a total of 7,848,647 common share options remain available for grant under the plans. Under the plans, the exercise price of each option cannot be greater than the market price of the Company's shares on the date of grant and an option's maximum term is 10 years. Options are granted from time to time by the Board of Directors and vest over a three or five year period.

During the year ended December 31, 2017, the Company granted 65,000 stock options at a weighted average exercise price of \$5.75. During the year ended December 31, 2016 the Company granted 15,000 stock options at a weighted average exercise price of \$8.00. The weighted average fair value for the options granted in the year ended December 31, 2017 was \$2.49 per option (2016-\$3.83), which was estimated at the date of the grant using the Black-Scholes option pricing model using the following weighted average assumptions: risk-free interest rate - 1.05% (2016- 1.18%); expected dividend yield - \$nil (2016- \$nil); expected stock price volatility – 51.0% (2016- 60.9%); expected option life - 6.5 years (2016- 6.5 years); and, estimated forfeiture rate - 5.00% (2016- 5%).

Movements in Share Options

The changes in share options were as follows:

	December 31, 2017		December 31, 2016	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,871,900	\$8.16	4,157,450	\$8.20
Granted	65,000	\$5.75	15,000	\$8.00
Exercised	-	\$ -	(7,500)	\$5.93
Forfeited	(252,000)	\$8.00	(251,000)	\$8.28
Expired	(83,000)	\$8.12	(42,050)	\$11.55
Outstanding at end of year	3,601,900	\$8.13	3,871,900	\$8.16
Options exercisable at end of year	2,627,900	\$8.24	2,407,900	\$8.26

The following table summarizes information about the Company's share options outstanding at December 31, 2017:

	Options Outstanding		Options Exercisable	
Exercise Prices	Options Outstanding	Remaining Contractual Life in Years	Options Outstanding & Exercisable	Remaining Contractual Life in Years
\$4.41	783,900	1.00	783,900	1.00
\$5.75	65,000	10.01	-	-
\$5.93	156,000	2.00	156,000	2.00
\$8.00	1,537,000	7.93	628,000	7.93
\$11.55	1,060,000	2.79	1,060,000	2.79
	3,601,900	4.69	2,627,900	3.44

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

No share options were exercised during the year ended December 31, 2017. For share options exercised during the year ended December 31, 2016, the weighted average share price at the date of exercise was \$6.42.

(c) Warrants

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

14. COST OF SALES

	2017	2016
Operating expenses	\$262,078	\$238,273
Salaries, wages and benefits	89,829	79,906
Depletion and depreciation	81,338	81,060
Share based compensation	390	1,054
	<u>\$433,635</u>	<u>\$400,293</u>

Included in cost of sales is \$9,549 (2016-\$23,287) of impairment charges in relation to stockpile ore, concentrate inventory and supplies inventory (Note 4).

15. GENERAL AND ADMINISTRATION

	2017	2016
Administration costs	\$3,632	\$3,468
Share based compensation	715	1,673
Depreciation	129	327
Foreign exchange (gain) loss	(217)	995
	<u>\$4,259</u>	<u>\$6,463</u>

16. INTEREST EXPENSE

	2017	2016
Interest on non-current debt	\$67,987	\$65,301
Other interest	7,536	4,941
	<u>\$75,523</u>	<u>\$70,242</u>

17. OTHER FINANCE INCOME, NET

	2017	2016
Accretion of future site reclamation provisions	\$(2,310)	\$(925)
Foreign exchange gain on short term debt	944	83
Foreign exchange gain on non-current debt	29,280	14,474
Fair value adjustment to marketable securities	242	38
Realized gain on derivative instruments	-	26,162
Unrealized loss on derivative instruments	-	(30,632)
	<u>28,156</u>	<u>9,200</u>
Interest income	166	53
Other finance income, net	<u>\$28,322</u>	<u>\$9,253</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

18. PROVISION FOR REHABILITATION COSTS

On August 4, 2014 the tailings dam at the Mount Polley mine near Likely, British Columbia was breached.

At that time the Company charged to expense the estimated rehabilitation costs and during the year ended December 31, 2017 the rehabilitation provision was increased by \$5,840 to reflect assumptions and estimates as of that date.

The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required. It is based on assumptions and estimates at December 31, 2017, and is subject to revision in the future as further information becomes available to the Company.

Changes in the provision for rehabilitation costs are as follows:

	December 31 2017	December 31 2016
Balance, beginning of the year	\$2,051	\$2,123
Costs incurred in the year	(2,556)	(72)
Increase in provision	5,840	-
Balance, end of the year	5,335	2,051
Less portion expected to be incurred within one year	(3,651)	(2,051)
	<u>\$1,684</u>	<u>\$ -</u>

19. INCOME AND MINING TAX RECOVERY

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

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Income (loss) before taxes	\$66,559	100.0	\$(57,275)	100.0
Income tax expense (recovery) thereon at statutory rates	17,305	26.0	(14,892)	(26.0)
Decrease (increase) resulting from:				
Non-deductible share based compensation	287	0.4	709	1.2
Non-taxable gain on bargain purchase of Huckleberry and revaluation of equity investment in Huckleberry	(28,553)	(42.9)	-	-
Share of loss in Huckleberry	145	0.2	2,950	5.2
Non-taxable portion of foreign exchange gain	(3,192)	(4.8)	(739)	(1.3)
Non-deductible (taxable) portion of loss (gain) on derivatives	-	-	581	1.0
Deferred income tax assets not recognized	1,267	1.9	5,405	9.4
Revisions to prior year estimates	315	0.5	113	0.2
Rate difference	2,193	3.3	-	-
B.C. mineral tax (recovery)	(16)	(0.0)	3,314	5.8
Other	(305)	(0.5)	(636)	(1.1)
Income and mining tax recovery	<u>\$(10,554)</u>	<u>(15.9)</u>	<u>\$(3,195)</u>	<u>(5.6)</u>
Current income and mining tax expense	\$2,064		\$2,463	
Deferred income and mining tax recovery	<u>(12,618)</u>		<u>(5,658)</u>	
	<u>\$ (10,554)</u>		<u>\$ (3,195)</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

	December 31 2017	December 31 2016
Deferred income and mining tax (assets) and liabilities		
Mineral properties	\$187,780	\$142,788
Mineral properties – mineral tax	8,668	5,981
Future tax deductions related to mineral properties	-	(15,992)
Debt component of convertible debentures	4,876	6,334
Other	(1,016)	(867)
Net operating tax losses carried forward ⁽¹⁾	(130,854)	(70,321)
Net deferred income and mining tax liabilities	\$69,454	\$67,923

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

As at December 31, 2017, the Company had net operating tax loss carry forwards in Canada of \$486,836 which can be applied to reduce future Canadian taxable income and will expire between 2026 and 2037. In addition, the Company had net operating tax loss carry forwards in the United States of US\$19,246 which can be applied to reduce future US taxable income and will expire in 2031 to 2035.

The Company had the following temporary differences and unused tax losses at December 31, 2017 in respect of which no deferred tax asset has been recognized:

	Mineral Properties & Other	Tax Losses	Total
Expiry 2027 and beyond	\$ -	\$30,550	\$30,550
No expiry date	103,224	-	103,224
	\$103,224	\$30,550	\$133,774

20. EARNINGS (LOSS) PER SHARE

Basic earnings per share is calculated by dividing the net income (loss) for the year by the weighted average number of ordinary shares outstanding during the year.

The basic and diluted earnings per share are the same as there are no instruments that have a dilutive effect on earnings.

	December 31 2017	December 31 2016
Net Income (Loss)	\$77,113	\$(54,080)
Weighted-average number of common shares outstanding	94,384,477	81,795,510
Basic and diluted earnings (loss) per common share	\$0.82	\$(0.66)

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

	December 31 2017	December 31 2016
Stock options	3,601,900	3,871,900
Warrants	909,091	-
Convertible debentures	12,386,321	12,155,751

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

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

	2017	2016
Trade and other receivables	\$(16,226)	\$(3,085)
Inventory	11,380	(3,413)
Derivative instruments	-	1,347
Prepaid expenses and deposits	(1,057)	(711)
Trade and other payables	3,290	14,740
Deferred trade payables (Note 9(a))	(714)	17,910
Provision for rehabilitation costs	3,284	(72)
	<u>\$(43)</u>	<u>\$26,716</u>

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

During the year ended December 31, 2017 the Company purchased certain mobile equipment at a cost of \$8,946 (December 31, 2016 - \$3,719) which was financed by long-term debt (Note 11(h)).

In October 2016 the Company capitalized \$57,200 for the Northwest Transmission Line construction contribution (Note 9 (b)) and recognized a liability payable to BC Hydro.

During the year ended December 31, 2017, the Company issued of \$111 (2016-\$nil) of shares pursuant to the Employee Share Purchase Plan.

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

	2017	2016
Trade and other payables	<u>\$(13,698)</u>	<u>\$6,536</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

22. RELATED PARTY TRANSACTIONS

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

Subsidiaries	Incorporation	% Equity Interest	
		2017	2016
416898 BC Ltd.	Canada	100%	100%
Bethlehem Resources Corporation	Canada	100%	100%
Catface Copper Mines Limited	Canada	100%	100%
CAT-Gold Corporation	Canada	100%	100%
Goldstream Mining Corporation	Canada	100%	100%
HML Mining Inc.	Canada	100%	100%
High G Minerals Corporation	Canada	100%	100%
Highway 37 Power Corp.	Canada	100%	100%
Huckleberry Mines Ltd. ⁽¹⁾	Canada	100%	50%
Mount Polley Mining Corporation	Canada	100%	100%
Princeton Exploration Ltd.	Canada	100%	100%
Red Chris Development Company Ltd.	Canada	100%	100%
Ruddock Creek Mining Corporation	Canada	100%	100%
Selkirk Metals Corp.	Canada	100%	100%
Sterling Gold Mining Corporation ⁽²⁾	USA	100%	100%

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

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

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

Statement of Income

	2017	2016
Loan guarantee fee for guarantee of second lien credit facility	\$1,814	\$1,284
Interest expense	\$16,359	\$15,916

Statement of Financial Position

	December 31 2017	December 31 2016
Accrued interest on senior unsecured notes, convertible debentures, Junior credit facility and Bridge loan (Note 29)	\$5,088	\$3,326
Junior credit facility	\$75,000	\$75,000
Senior unsecured notes (US\$53,300)	\$66,865	\$71,566
Convertible debentures	\$59,000	\$59,000
Bridge loan	\$13,000	\$ -
Share issue expenses (backstop fees)	\$310	\$ -
Deferred financing fees for debt	\$138	\$ -

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

23. COMPENSATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

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

	December 31 2017	December 31 2016
Short term benefits ⁽¹⁾	\$1,636	\$1,442
Share based payments ⁽²⁾	\$ -	\$ -

⁽¹⁾ Short term employee benefits include salaries, estimated bonuses payable within the year of the Statement of Financial Position date and other annual employee benefits. Directors and other key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2017 and 2016.

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

24. REPORTABLE SEGMENTED INFORMATION

The Company operates primarily in Canada. All of the Company's assets are located in Canada, except for assets comprised primarily of the Sterling mine totalling \$8,482 as at December 31, 2017 (December 31, 2016-\$26,814), which are located in the USA. The Company's reportable segments reflect the internal reporting used by the Company's management to report to the chief operating decision maker.

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

	December 31, 2016					
	Red Chris	Mount Polley	Huckleberry	Sterling	Corporate	Total
Reportable segmented revenues	\$295,441	\$134,095	\$ -	\$897	\$4,731	\$435,164
Less inter-segment revenues	(125)	(2,583)	-	(88)	(4,150)	(6,946)
Revenues from external sources	\$295,316	\$131,512	\$ -	\$809	\$581	\$428,218
Depletion and depreciation	\$54,034	\$26,585	\$ -	\$441	\$327	\$81,387
Interest (expense) and other finance income (expense)	\$(51,047)	\$(9,838)	\$ -	\$(151)	\$47	\$(60,989)
Share of loss in Huckleberry	\$ -	\$ -	\$(11,345)	\$ -	\$ -	(11,345)
Net (loss) income	\$(8,730)	\$(19,327)	\$(11,345)	\$(8,878)	\$(5,800)	\$(54,080)
Capital expenditures	\$123,122	\$26,735	\$ -	\$296	\$344	\$150,497
Equity investment	\$ -	\$ -	\$78,389	\$ -	\$ -	78,389
Total assets	\$1,071,737	\$322,503	\$78,389	\$26,813	\$28,336	\$1,527,778
Total liabilities	\$808,456	\$303,655	\$ -	\$5,120	\$21,924	\$1,139,155

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

Revenue by Geographic Area

	2017	2016
Canada	\$146	\$581
Korea	59,014	67,883
Singapore	93,889	70,425
Switzerland	173,972	159,938
United States	126,092	129,391
	<u>\$453,113</u>	<u>\$428,218</u>

Revenues are attributed to geographic area based on country of customer. In the year ended December 31, 2017, the Company had 7 principal customers accounting for 21%, 17%, 16%, 14%, 13%, 13% and 6% of revenues (December 31, 2016— seven principal customers accounting for 20%, 18%, 17%, 16%, 12%, 11% and 6%). The Company is not reliant on any one customer to continue to operate as a going concern.

The Company's principal product is copper concentrate (contains copper, gold and silver) which is sold at prices quoted on the London Metals Exchange. The Company sells all of its concentrate and gold production to third party traders.

Revenue by Major Product and Service

	2017	2016
Copper	\$313,760	\$278,043
Gold	137,568	143,953
Silver	1,634	5,641
Other	151	581
	<u>\$453,113</u>	<u>\$428,218</u>

25. FINANCIAL INSTRUMENTS, INTEREST RATE AND CREDIT RISK

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

Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from 2016.

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 December 31, 2017.

Credit Risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

From time to time the Company enters into derivative instruments with a number of counterparties to limit the amount of credit risk associated with any one counterparty. The Company did not enter into any derivative instruments during the year ended December 31, 2017. The Company's maximum exposure to credit risk is as follows:

	December 31 2017	December 31 2016
Cash	\$51,895	\$14,251
Marketable securities	2,270	123
Trade receivables	24,231	10,644
Future site reclamation deposits	14,319	4,667
Other assets	552	631
	<u>\$93,267</u>	<u>\$30,316</u>

Liquidity Risk

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

At December 31, 2017, the Company's primary sources of credit are comprised of a \$200,000 senior secured revolving credit facility, a \$50,000 second lien revolving loan credit facility, US\$325,000 senior unsecured notes, \$145,000 face value of unsecured convertible debentures, a \$75,000 unsecured junior credit facility, a \$26,000 Bridge loan facility, a \$10,000 LOC loan facility, and \$18,022 in secured equipment loans.

The Company's \$200,000 senior secured revolving credit facility is due on October 1, 2018 and the second lien revolving loan credit facility is due on December 1, 2018. At December 31, 2017, the Company has drawn \$152,500 (\$151,628 net of deferred financing costs) of the facility and utilized \$42,091 of the facility for letters of credit to secure reclamation bond obligations (Note 11(a)) for a total usage of \$194,591 leaving \$5,409 available for future draws.

At December 31, 2017, the provision for rehabilitation costs related to the Mount Polley mine tailings dam failure was \$5,335 (December 31, 2016-\$2,051). During 2016 the Company had received permits to resume normal operations using the rebuilt tailings dam. While the precise costs of rehabilitation are unknown, the Company believes the costs can be managed over time.

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

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

Improvements to liquidity in 2017 compared to 2016 include the cash raised from the equity financing completed in December 2017, the continuing optimization of Red Chris mine operations and the resumption of normal operations at the Mount Polley mine in mid-2016. In addition, improved copper prices in CDN dollar terms are also a positive factor however this is mitigated somewhat by the requirement to repay the deferred trade payables (Note 9(a)).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

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

	December 31 2017						December 31 2016
	Within 1 Year	2 Years	3 Years	4 Years	5 years	Total	Total
Trade and other payables	\$110,043	\$ -	\$ -	\$ -	\$ -	\$110,043	\$115,649
Other obligations	41,034	15,263	14,071	2,142	-	72,510	73,918
Short term debt	-	-	-	-	-	-	13,277
Current portion of non-current debt	214,340	-	-	-	-	214,340	18,727
Non-current debt	-	513,419	115,967	30,047	-	659,433	833,097
	365,417	528,682	130,038	32,189	-	1,056,326	1,054,668
Less future accretion and unamortized finance cost	(466)	(2,871)	(13,801)	(4,257)	-	(21,395)	(29,736)
Total	\$364,951	\$525,811	\$116,237	\$27,932	\$ -	\$1,034,931	\$1,024,932

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US dollar denominated cash, trade and other accounts receivable, reclamation deposits, trade and other payables and debt. If the US Dollar had been 10% higher/lower and all other variables were held constant, net income and comprehensive income for the year ended December 31, 2017 would have been higher/lower by \$33,591.

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings. At December 31, 2017, about 30% of the Company's outstanding borrowings were at floating interest rates compared to December 31, 2016 when about 24% of the Company's outstanding borrowings were at floating interest rates. The Company monitors its exposure to interest rates and is comfortable with its current exposure. The Company has not entered into any derivative contracts to manage this risk.

If interest rates had been 100 basis points higher/lower on the Company's floating rate debt and all other variables were held constant, the amount of interest expense in the year ended December 31, 2017 would have increased/decreased by \$2,033.

Provisionally Priced Revenues

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

Provisionally priced revenues is comprised of the following:

	December 31 2017	Provisional Price	December 31 2016	Provisional Price
Copper – 000's lbs with provisional price per lb	17,212.4	US\$3.29	24,614.7	US\$2.50
Gold – 000's oz with provisional price per oz	24.5	US\$1,309	3.4	US\$1,151

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

Fair Value Estimation

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

The carrying value less impairment provision, if necessary, of trade and other receivables and trade and other payables are assumed to approximate their fair values. Except for the Notes (Note 11(c)), management believes that the carrying value of remaining non-current and short term debt approximates fair value. At December 31, 2017, the fair value of the Notes is \$381,211 (December 31, 2016-\$416,741) based on a quote received from dealers that trade the Notes.

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

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

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

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

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at December 31, 2017 as follows:

	Level 1	Level 2	Total
Financial Assets			
Cash	\$51,895	\$ -	\$51,895
Marketable securities	2,270	-	2,270
Provisionally priced accounts receivables	-	18,537	18,537
Future site reclamation deposits	14,319	-	14,319
	68,484	18,537	87,021
Financial Liabilities			
Amounts owing on provisionally priced receivables included in trade and other payables	-	(148)	(148)
	\$68,484	\$18,389	\$86,873

26. COMMITMENTS AND PLEDGES

(a) At December 31, 2017, the Company is committed to future minimum operating lease payments as follows:

2018	\$412
2019	416
2020	348
2021	330
2022 and beyond	165
	<u>\$1,671</u>

(b) At December 31, 2017, the Company has pledged the following assets for settlement of future site reclamation provisions:

Future site reclamation deposits included with other assets	\$14,319
Mineral property, plant and equipment	9,805
Letters of credit (Note 11(a))	42,091
	<u>\$66,215</u>

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

2018	<u>\$29,030</u>
------	-----------------

(d) At December 31, 2017, the Company had commitments of \$6,674 for expenditures on mineral properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

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

27. CONTINGENT LIABILITIES

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

On August 4, 2014 the tailings dam at the Mount Polley mine near Likely, British Columbia was breached and at December 31, 2017 the Company has a provision of \$5,335 for future rehabilitation activities related to the Mount Polley mine tailings dam breach (Note 19). The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required and is subject to revision in the future as further information becomes available to the Company.

During the third quarter of 2014, a securities class action lawsuit was filed against the Company and certain of its directors, officers and others in the Ontario Superior Court of Justice in Toronto (the Claim). The Company has engaged independent legal counsel to advise it on this matter. At this time the Company cannot predict the outcome of the Claim or determine the amount of any potential losses and accordingly, no provision has been made as of December 31, 2017. However, the Company is of the view that the allegations contained in the Claim are without merit and intends to vigorously defend its position.

28. SALE OF STERLING

On May 30, 2017 the Company completed the sale of the Sterling gold mine property and related assets for consideration comprised of cash, marketable securities, net smelter royalties, and a net profits interest in certain mine operations.

A summary of the transaction is as follows:

Assets sold

Inventory and supplies	\$102
Prepaid expenses and deposits	16
Mineral properties	22,188
Reclamation bonds	4,412
	<u>26,718</u>

Liabilities released

Future site reclamation provisions	(5,078)
Net assets sold	<u>\$21,640</u>

Consideration received

Cash	\$13,570
Marketable securities, including \$638 contingent consideration received in November 2017	1,905
Net smelter royalty	2,251
Net profits interest	4,595
Transaction costs	(40)
	<u>\$22,281</u>
Gain on sale of Sterling gold mine	<u>\$641</u>

29. SUBSEQUENT EVENTS

Subsequent to December 31, 2017 the Company issued 2,353,274 common shares at an ascribed value of \$2.64 per share for a total of \$6,213 in payment of the interest due on December 31, 2017 on the Junior Credit Facility (Note 11(d)), the 2014 Convertible Debentures (Note 11(e)) and \$27,900 of the \$30,000 face value of the 2015 Convertible Debentures (Note 11(f)). Included in these amounts are 1,387,447 common shares at an ascribed value of \$2.64 per share for a total of \$3,663 issued to related parties.

Annual General Meeting of Shareholders

will be held on May 22, 2018 at 8:00am at the
Hyatt Regency Hotel, 655 Burrard Street, Vancouver

Board of Directors

Pierre Lebel | Chairman

Brian Kynoch

Larry Moeller

Ted Muraro

Laurie Pare

Ed Yurkowski

Management

Brian Kynoch | President

Andre Deepwell | Chief Financial Officer & Corporate Secretary

Don Parsons | Chief Operating Officer

Dr. C.D. ('Lyn) Anglin | Chief Scientific Officer & Vice President Environmental Affairs

Sophie Hsia | General Counsel & Vice President Risk

Darb Dhillon | Vice President Finance

Gordon Keevil | Vice President Corporate Development

Jim Miller-Tait | Vice President Exploration

Sheila Colwill | Vice President Marketing

Imperial Metals Corporation

580 Hornby Street, Suite 200
Vancouver, BC V6C 3B6

604.669.8959 | inquiries@imperialmetals.com
604.488.2657 | investor@imperialmetals.com

imperialmetals.com TSX:III

discover
develop
operate

