

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 Canadian generally accepted accounting principles 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 & Touche LLP, an independent firm of Chartered 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 professional 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.



J. Brian Kynoch
President

March 29, 2010



Andre Deepwell
Chief Financial Officer

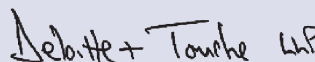
AUDITORS' REPORT

To the Shareholders of Imperial Metals Corporation

We have audited the consolidated balance sheets of Imperial Metals Corporation (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of (loss) income and comprehensive (loss) income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, British Columbia
March 29, 2010

CONSOLIDATED BALANCE SHEETS


December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 18)	\$ 23,854	\$ 14,043
Short term investments	-	27,320
Marketable securities	216	176
Accounts receivable	42,188	18,120
Taxes receivable	2,751	4,772
Inventory (Note 3)	28,953	16,827
Derivative instrument assets and margin deposits (Note 13)	5,846	49,789
Future income taxes (Note 12)	3,808	6,977
	107,616	138,024
Derivative Instrument Assets and Margin Deposits (Note 13)	4,524	11,812
Mineral Properties (Note 5)	247,253	224,635
Future Site Reclamation Deposits	6,456	6,778
Future Income Taxes (Note 12)	6,874	3,361
Other Assets	348	291
	\$ 373,071	\$ 384,901
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 20,456	\$ 16,860
Concentrate sales repayable	-	30,470
Taxes payable	6,325	-
Short term debt (Note 6)	5,679	-
Derivative instrument liabilities (Note 13)	14,026	2,132
Current portion of share based compensation liability (Notes 10 & 11)	9,411	-
Current portion of long term debt (Note 7)	1,436	2,977
Current portion of debt component of convertible debentures (Note 8)	13,746	-
Current portion of future site reclamation costs (Note 9)	1,070	934
Future income taxes (Note 12)	7,413	30,440
	79,562	83,813
Derivative instrument liabilities (Note 13)	4,339	-
Long Term Debt (Note 7)	1,220	1,671
Debt Component of Convertible Debentures (Note 8)	-	12,572
Future Site Reclamation Costs (Note 9)	13,438	13,388
Share Based Compensation Liability (Notes 10 & 11)	732	-
Future Income Taxes (Note 12)	39,668	39,309
	138,959	150,753
SHAREHOLDERS' EQUITY		
Share Capital (Note 11)	76,225	63,225
Contributed Surplus	918	918
Equity Component of Convertible Debentures (Note 8)	4,808	4,808
Retained Earnings	152,161	165,197
	234,112	234,148
	\$ 373,071	\$ 384,901

See accompanying notes to these financial statements.

Approved by the Board:


 Larry G. Moeller
 Director


 Brian Kynoch
 Director

 Commitments, Contingencies and Pledges (Note 17)
 Contingent Liabilities (Note 21) and Subsequent Events (Note 22)

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

Years Ended December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

	2009	2008
REVENUES		
Mineral sales	\$ 200,404	\$ 226,699
Interest income	236	1,630
Other	497	1,416
	<u>201,137</u>	<u>229,745</u>
EXPENSES		
Mineral production and transportation costs	136,777	160,280
Mineral property holding costs	1,206	1,149
Accretion of future site restoration costs (Notes 9)	1,070	1,140
Depletion and depreciation	14,807	29,199
General and administration	2,955	2,468
Share based compensation (Notes 10 & 11)	10,468	(5,000)
Interest on long term debt	922	1,121
Other interest	187	1,171
Interest accretion on short and long term debt	1,174	1,077
Financing costs (Note 11(d))	-	1,143
Foreign exchange loss (gain)	7,436	(5,603)
Future site restoration expense recovery	(675)	-
Writedown of mineral properties (Note 5)	-	16,187
	<u>176,327</u>	<u>204,332</u>
INCOME FROM OPERATIONS	<u>24,810</u>	<u>25,413</u>
OTHER INCOME (EXPENSES)		
Realized gains on derivative instruments (Note 13)	19,696	40,302
Unrealized (losses) gains on derivative instruments (Note 13)	(62,435)	44,240
Provision for loss on counterparty default on derivative instruments (Note 13)	-	(28,306)
Other	(455)	(773)
	<u>(43,194)</u>	<u>55,463</u>
(LOSS) INCOME BEFORE TAXES	<u>(18,384)</u>	<u>80,876</u>
(Recovery of) income and mining taxes (Note 12)	(5,625)	21,259
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME	<u>\$ (12,759)</u>	<u>\$ 59,617</u>
(Loss) Income Per Share (Note 14)		
Basic	\$ (0.39)	\$ 1.83
Diluted	\$ (0.39)	\$ 1.83
Weighted Average Number of Common Shares Outstanding (Note 14)		
Basic	32,454,691	32,529,596
Diluted	32,454,691	32,542,441

See accompanying notes to these financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

	Number of Shares	Share Capital		Contributed Surplus	Equity Component of Convertible Debentures	Retained Earnings	Total		
			Amount						
Balance December 31, 2007	32,689,244	\$	64,163	\$	4,808	\$	107,321	\$	176,292
Purchase of common shares for cancellation pursuant to normal course issuer bid (Note 11 (c))	(477,743)		(938)		-		(1,741)		(2,679)
Warrants issued for drawdown on Line of Credit facility (Note 11 (d))	-		-		918		-		918
Forfeited shares (Note 11(a))	(82,516)		-		-		-		-
Net income	-		-		-		59,617		59,617
Balance December 31, 2008	32,128,985		63,225		918		165,197		234,148
Purchase of common shares for cancellation pursuant to normal course issuer bid (Note 11 (c))	(88,300)		(173)		-		(277)		(450)
Issued on exercise of options	5,833		61		-		-		61
Issued for acquisition of Selkirk (Note 4)	2,200,000		13,112		-		-		13,112
Net loss	-		-		-		(12,759)		(12,759)
Balance December 31, 2009	34,246,518	\$	76,225	\$	918	\$	152,161	\$	234,112

See accompanying notes to these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

	2009	2008
OPERATING ACTIVITIES		
Net (loss) income	\$ (12,759)	\$ 59,617
Items not affecting cash flows		
Depletion and depreciation	14,807	29,199
Share based compensation, net of cash paid	10,166	(5,019)
Accretion of debt and future site restoration costs	2,244	2,217
Unrealized foreign exchange (gain) loss	2,908	(3,769)
Future income taxes	(24,952)	21,125
Unrealized (gains) losses on derivative instruments	62,435	(44,240)
Writedown of mineral properties	-	16,187
Future site restoration expense recovery	(675)	-
Non-cash financing costs (Note 11(d))	-	918
Other	378	99
	54,552	76,334
Net change in non-cash operating working capital balances (Note 19)	(45,366)	13,806
Cash provided by operating activities	9,186	90,140
FINANCING ACTIVITIES		
Proceeds of short term debt	59,123	106,738
Repayment of short term debt	(53,577)	(129,205)
Repayment of long term debt	(3,081)	(4,866)
Issue of share capital	38	-
Purchase of common shares for cancellation (Note 11(c))	(450)	(2,679)
Cash provided (used in) by financing activities	2,053	(30,012)
INVESTING ACTIVITIES		
Decrease (increase) in short term investments	27,320	(16,485)
Increase (decrease) in non-current derivative instruments and margin deposits	1,591	(3,000)
Acquisition, exploration and development of mineral properties	(26,706)	(46,744)
Acquisition of investment in Selkirk, net of cash acquired of \$1,248	(1,319)	-
Increase in future site reclamation deposits	(98)	(1,713)
Other	599	(578)
Cash provided by (used in) investing activities	1,387	(68,520)
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	(2,815)	3,014
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,811	(5,378)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,043	19,421
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 23,854	\$ 14,043

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years Ended December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

	2009	2008
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:		
Cash	\$ 23,854	\$ 14,032
Short term money market investments	-	11
	<u>\$ 23,854</u>	<u>\$ 14,043</u>
OPERATING ACTIVITIES		
Interest expense paid	\$ 1,094	\$ 2,338
Income and mining taxes paid	\$ 7,645	\$ 10,117

SUPPLEMENTAL INFORMATION ON NON-CASH FINANCING AND INVESTING ACTIVITIES

During the year ended December 31, 2009

- (a) the Company issued 2,200,000 common shares at \$13,112 as partial consideration for the acquisition of Selkirk (Note 4).
- (b) the Company purchased mobile mining equipment at a cost of \$1,130 which was financed by long term debt denominated in US Dollars.
- (c) the Company received marketable securities with a fair value of \$1 as an option payment on a mineral property.

During the year ended December 31, 2008

- (a) the Company issued 600,000 warrants with a fair value of \$918 in connection with a short term debt facility (Note 11(d)).

See accompanying notes to these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and reflect the following policies:

Basis of Presentation

These consolidated financial statements include the accounts of the Company and those entities which are controlled by the Company through voting equity interests, referred to as subsidiaries. Entities which are jointly controlled, referred to as joint ventures, are proportionately consolidated. Variable Interest Entities ("VIEs"), which include but are not limited to, special purpose entities, trusts, partnerships, and other legal structures, as defined by the Accounting Standards Board in Accounting Guideline 15 "Consolidation of Variable Interest Entities", are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIEs are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. The Company has determined that it does not have any VIEs. All inter-company balances and transactions have been eliminated upon consolidation.

American Bullion Minerals Ltd. ("ABML"), a 52% owned subsidiary was in bankruptcy until May 21, 2008. ABML was reconsolidated with the Company effective May 22, 2008. The balances at the date of reconsolidation were not material.

Cash and Cash Equivalents

Cash equivalents include money market instruments that are readily convertible to cash and have maturities at the date of purchase of less than ninety days.

Short Term Investments

Short term investments include money market instruments that are readily convertible to cash and have maturities at the date of purchase of between ninety days and less than one year.

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. Unrealized holding gains and losses related to held for trading securities are included in the income statement in each period.

The Company estimates the fair value of marketable securities at the balance sheet date using quoted market prices.

Inventory

Copper concentrates, inclusive of contained gold and silver, are valued on a first in first out basis at the lower of production cost to produce saleable metal and net realizable value. 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.

Mineral Properties

Mineral properties represent capitalized expenditures related to the development of mining properties, related plant and equipment and expenditures related to exploration arising from property acquisitions.

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 depletable mineral properties in Note 5.

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.

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

Resource value and exploration potential value is noted as non-depletable mineral properties in Note 5. 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 are depleted and depreciated by property using either a unit-of-production method over the estimated recoverable proven and probable reserves at the mines to which they relate, or for plant and equipment, using the straight line method over their estimated useful lives of 4-12 years for mobile mine equipment and vehicles and 4-5 years for office, computer and communications equipment.

Maintenance and repairs are charged to operations when incurred. Renewals and betterments, which extend the useful life of the assets, are capitalized.

Pre-production and Exploration Properties

The Company follows the method of accounting for these mineral properties whereby all costs related to acquisition, exploration and development are capitalized by property. 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. 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.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the properties, and on future profitable production or proceeds from the disposition thereof.

Stripping Costs

Costs associated with the removal of overburden and other mine waste materials 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. At December 31, 2009 the balance of deferred stripping charges was \$29,236 (2008-\$33,087). During the year ended December 31, 2009 the Company capitalized \$1,905 (2008-\$21,443) of deferred stripping costs and recorded depletion expense thereon of \$5,757 (2008-\$3,324).

Assessment of Impairment

Management reviews the carrying value of mineral exploration properties at least annually for evidence of impairment. This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest. When the results of this review indicate that an impairment exists, the Company estimates the net recoverable amount of pre-feasibility study exploration properties by reference to the potential for success of further exploration activity and/or the likely proceeds to be received from sale or assignment of rights.

An impairment is considered to exist on post-feasibility exploration properties and producing mining properties, plant and equipment if the total undiscounted cash flows are less than the carrying amount of the assets.

When the carrying values of post-feasibility study exploration properties and producing mining properties, plant and equipment are estimated to exceed their net recoverable amounts, an impairment loss is measured and recorded based on estimated discounted cash flows.

Convertible Debenture

The convertible debenture is a compound financial instrument. Accordingly, the fair value of the conversion right forming part of the convertible debenture has been classified as part of the shareholders' equity with the balance of the proceeds classified as a financial liability. The carrying value of the financial liability is being accreted to the principal amount as additional interest expense over the term of the convertible debenture.

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 estimated 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 the Company's credit adjusted risk free interest rate. The liability is accreted over time to the estimated amount ultimately payable through periodic charges to earnings. The estimated present value of the future site reclamation costs are re-measured 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.

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

Income Taxes

The Company accounts for income taxes using the asset and liability method. Under this method, future income tax assets and future income 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 income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such assets will be ultimately realized. These future income 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. Business acquisitions result in a gross up of mineral properties to recognize future income tax liabilities for the tax effect of such differences.

The tax deduction for the expenditures incurred related to flow through share financings has been assigned to the related shareholders, resulting in a future income tax liability which has been recorded as a charge to share capital when the expenditures are renounced. Any recognition of a portion of previously unrecognized future income tax assets is recorded as a future income tax recovery in the statement of income.

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 net of treatment and refining costs 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 balance sheet date to the date of settlement metal prices. The actual amounts will be reflected in revenue upon final settlement, which is usually 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.

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 balance sheet. 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 at each balance sheet date. Gains or losses resulting from changes in the fair value of hedged items are included in income or expense on the date the related hedged item is settled.

Foreign Currency Translation

The Company uses the temporal method to translate transactions and balances denominated in foreign currencies. Under this method, monetary items are translated at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Revenue and expense items are translated at average exchange rates in the month they occur except for depletion, depreciation and amortization of assets which are translated using the same rates as the related assets. Gains and losses on translation are recorded in the statement of income.

Segmented Information

The Company's operations are primarily directed towards the exploration, development and commercial production of mineral properties in Canada. The Company has three reportable segments: Mount Polley mine and related exploration activities, Huckleberry mine and related exploration activities and corporate, which includes all other properties and related exploration and development activities.

Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short term investments, marketable securities, accounts receivable, derivative instrument assets and margin deposits, future site reclamation deposits, accounts payable and accrued liabilities, concentrate sales repayable, short term debt, derivative instrument liabilities, long term debt and debt component of convertible debentures.

Cash and cash equivalents, short term investments, derivative instrument assets and margin deposits, and future site reclamation deposits are classified as held-for-trading and recorded at fair value. Accounts receivable and margin deposits are classified as loans and receivables. Marketable securities are classified as a held-for-trading because the Company holds these securities for the purpose of trading. The fair value of marketable securities is based on quoted market prices. Held-for-trading financial assets are measured at fair value with mark-to-market gains and losses recorded in earnings in the period they occur. Accounts payable and accrued liabilities, concentrate sales repayable, short and long term debt, and debt component of convertible debentures are classified as other financial liabilities and recorded at amortized cost.

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

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

The Company uses derivative financial instruments to mitigate the risk of revenue changes due to changes in copper price and the US/CDN 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 earnings 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 balance sheet date.

Transaction costs related to financial instruments are expensed when they are incurred, unless they are directly attributable to the acquisition or construction of mineral properties, plant and equipment. Development and construction of these assets require a substantial period of time prior to commissioning them and therefore transaction costs for these assets are added to the cost of these assets until such time as the assets are substantially ready for their intended use or sale.

Share Based Compensation

The Company has stock option plans that provide all option holders the right to elect to receive either common shares or a direct cash payment in exchange for the options exercised. Share based compensation is accounted for using the intrinsic value method. Under this method, the Company accrues a liability for stock options based on the excess of the market price of the Company's common shares over the exercise price. The accrued liability is adjusted at each balance sheet date for the effect of stock option grants, vesting of stock options, stock options exercised, as well as the effect of changes in the underlying price of the Company's common shares. The net effect of these items is charged or credited to share based compensation expense. Any consideration received on the exercise of stock options is credited to share capital.

Share Purchase Warrants

Share purchase warrants issued are recorded at fair value in contributed surplus. If and when the warrants are ultimately exercised, the applicable amounts of contributed surplus are credited to share capital.

Debt Financing Costs

The Company expenses debt financing costs when they are incurred.

Earnings Per Common Share

Basic net income per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income 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 debt. In addition, the related interest and accretion on convertible debt, when dilutive (net of tax), are added back to income since these would not be paid or incurred if the convertible debentures were converted into common shares.

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of these consolidated financial statements include, among others, the expected economic lives of and the future operating results and net cash flows expected to result from exploitation of resource properties, the estimated amount of related future site reclamation costs, estimated revenues, measurement and recoverability of accounts receivable and short term investments, estimated net realizable value of inventories, estimated tonnes of waste material mined for calculation of capitalization of deferred stripping costs, depreciation and depletion are dependent on estimates of useful lives and reserve estimates, estimates used in the assessment of impairment, income tax provisions and assets, and the estimated fair values of stock based compensation, warrants, the debt and equity components of the convertible debentures, derivatives and purchase price adjustments on acquisitions. Actual results may differ from those estimates.

Future Accounting Changes

Several new accounting standards will be applicable to the Company commencing January 1, 2010 with most focused on providing additional disclosure on various items.

- (a) Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for financial years beginning on or after January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

Notes to the Consolidated Financial Statements

December 31, 2009 and 2008

[expressed in thousands of dollars, except share amounts]

(b) In January 2009, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations, and Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests, which replace Section 1600 – Consolidated Financial Statements. These new sections are effective for years beginning on or after January 1, 2011 with earlier adoption permitted. Section 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. In addition, acquisition costs are not part of the consideration and are to be expensed when incurred. These new sections are not expected to have a material impact on the Company’s financial condition or operating results.

2. CHANGES IN ACCOUNTING POLICIES

During 2009 the Company adopted the following:

- (a) Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible assets and Section 3450 – Research and Development Costs. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to initial recognition and of intangible assets by profit-oriented enterprises. The adoption of this section did not have a material impact on the Company’s financial condition or operating results.
- (b) In June 2009 the CICA issued amendments to Section 3862, “Financial Instruments – Disclosures”, which are effective for annual financial statements for fiscal years ending after September 30, 2009 and which enhance current disclosure requirements for financial instruments. These enhanced disclosures set out a fair value hierarchy that classifies financial instruments according to the relative reliability of the inputs used to estimate their fair values. The impact of this amendment resulted in additional disclosures included in Note 18 of the Company’s consolidated financial statements.
- (c) EIC-173 Credit risk and the fair value of financial assets and financial liabilities considers whether an entity’s own credit risk and the credit risk of its counterparties should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, for presentation and disclosure purposes. This mandatory interpretation applies for interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC-173 did not result in a material impact on the Company’s consolidated financial statements.
- (d) In March 2009 the CICA issued EIC Abstract 174 “Mining Exploration Costs” (“EIC-174”) which supersedes EIC Abstract 126 – Accounting by Mining Enterprises for Exploration Costs, to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. The adoption of EIC-174 did not result in a material impact on the Company’s consolidated financial statements.

3. INVENTORY

	2009	2008
Concentrate	\$ 18,990	\$ 7,585
Supplies	9,963	9,242
	\$ 28,953	\$ 16,827

Inventory recognized as expenses during the year exclusive of inventory write downs	\$ 120,192	\$ 132,835
(Reversal of) write downs on concentrate and supplies included in expense during the year. The reversal of the write down of concentrate inventory is due to the higher sale prices for copper and lower production costs per pound of copper since December 31, 2008. The reversal of the write down for the supplies inventory in 2009 is due to use of the supplies and reassessment of the obsolescence of the supplies.	\$ (3,057)	\$ 4,509

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4. ACQUISITION OF SELKIRK METALS CORP.

At December 31, 2008 the Company had acquired a 2% interest in Selkirk Metals Corp. ("Selkirk"), which had a number of exploration properties in British Columbia. The Company carried the shares of Selkirk in marketable securities and in accordance with its accounting policy for marketable securities revalued the Selkirk shares to fair value at each balance sheet date through the income statement. In 2009 the Company purchased the balance of the shares of Selkirk via a Plan of Arrangement.

This transaction has been accounted for as an asset purchase. The consideration paid has been allocated to the acquired assets based on their fair value at the date of acquisition. The consolidated financial statements of the Company include Selkirk commencing on the date of acquisition on November 4, 2009. The allocation of the purchase price of Selkirk is summarized in the following table.

Purchase price			
Cash, including acquisition costs of \$170		\$	2,567
2,200,000 common shares of the Company at \$5.96 per share (November 4, 2009 closing price)			13,112
Marketable securities at fair value on November 4, 2009			253
		\$	15,932
Net assets acquired			
Current assets, including cash of \$1,248		\$	3,802
Mineral properties (Ruddock Creek, Catface and other exploration properties Note 5)			12,598
Other assets			68
Current liabilities			(270)
Future site reclamation costs			(266)
Future income taxes			-
		\$	15,932

5. MINERAL PROPERTIES

	2009			2008		
	Cost	Accumulated Depletion, Depreciation & Writedowns	Net Book Value	Cost	Accumulated Depletion, Depreciation & Writedowns	Net Book Value
Mineral properties	\$ 263,078	\$ 68,344	\$ 194,734	\$ 231,918	\$ 62,756	\$ 169,162
Plant and equipment	275,836	223,317	52,519	269,904	214,431	55,473
	\$ 538,914	\$ 291,661	\$ 247,253	\$ 501,822	\$ 277,187	\$ 224,635

A summary by property of the net book value is as follows:

	Mineral Properties			Plant and Equipment		
	Depletable	Non-Depletable	Total		2009	2008
Mount Polley	\$ 52,924	\$ 9,333	\$ 62,257	\$ 46,729	\$ 108,986	\$ 112,590
Huckleberry (Note 16)	944	882	1,826	5,100	6,926	882
Red Chris	-	100,460	100,460	-	100,460	95,124
Sterling	-	13,299	13,299	690	13,989	12,022
Ruddock Creek	-	10,870	10,870	-	10,870	-
Catface	-	896	896	-	896	-
Other	-	5,126	5,126	-	5,126	4,017
	\$ 53,868	\$ 140,866	\$ 194,734	\$ 52,519	\$ 247,253	\$ 224,635

Mount Polley

The Company owns 100% of the Mount Polley open pit copper/gold mine located 56 kilometres northeast of Williams Lake in central British Columbia. The Mount Polley property consists of five mining leases and 42 mineral claims.

Huckleberry

The Company owns 50% of the Huckleberry open pit copper/molybdenum mine located 123 kilometres southwest of Houston in central British Columbia. The Huckleberry property consists of a mining lease covering approximately 1,911 hectares, and 9 mineral claims encompassing approximately 4,207 hectares. The impairment charge of \$15,804 in the year ended December 31, 2008 against

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mineral properties was due to a decrease in anticipated net cash flows resulting from lower copper prices. In accordance with the Company's accounting policies the net recoverable amount was determined based on estimated discounted cash flows.

Red Chris

The Company owns a net 88% interest in the Red Chris copper/gold deposit situated 18 kilometres southeast of the village of Iskut in northwest British Columbia. The remaining net 12% of the Red Chris project is held by the minority interests in ABML (Notes 1 and 21 (b)). Pursuant to a joint venture agreement between the Company and ABML, the Company is funding 100% of costs until commencement of commercial production. The development of the Red Chris project into a mine is dependant upon a number of factors including the construction of a power line to service the northwest portion of British Columbia and resolution of the status of the Federal environmental assessment of the Red Chris project (Note 21(a)).

Sterling

The Company owns 100% of the Sterling gold mine near Beatty, Nevada. The Sterling mine operated as both an underground and open pit mine from 1980 to suspension of mining operations in 1997. Certain parts of the Sterling property have been reclaimed. The Sterling property consists of 272 lode mining claims plus one water well site. Net smelter royalties of 2.25% are payable on production with minimum advance royalties on a small portion of these claims.

Ruddock Creek

The Company owns 100% of the Ruddock Creek zinc deposit located approximately 155 kilometres northeast of Kamloops in south central British Columbia. The Ruddock Creek property consists of 20 mineral claims.

Catface

The Company owns 97.4% of the Catface copper/gold property located 13 kilometres from Tofino on the west coast of Vancouver Island (subject to a 9% Net Proceeds of Production Royalty). The Catface property consists of 135 mineral claims. Xstrata Canada Corporation retains a back-in right for a 50.1% interest or a 9% Net Proceeds of Production Royalty upon a production notice being given.

Other Exploration Properties

The Company has interests in various other early stage exploration properties located primarily in Canada. These properties have been acquired primarily by staking and the cost to maintain ownership of these properties is not significant. The potential for success on various early stage exploration properties was considered remote and therefore an impairment charge of \$383 was recorded in the year ended December 31, 2008 on these properties.

6. SHORT TERM DEBT

	2009	2008
Concentrate advances of US\$5,426 (2008-\$Nil) from a purchaser of concentrate from the Mount Polley mine repayable from the sale of concentrate with interest at three month Libor plus 2% and secured by a first charge on concentrate from the Mount Polley mine.	\$ 5,679	\$ -

7. LONG TERM DEBT

	Note	2009	2008
Mount Polley Mine Construction Loan	(a)	\$ 584	\$ 1,750
Mount Polley Finance Contract	(b)	1,068	1,551
Mount Polley Finance Contract	(c)	1,004	-
Mount Polley Bank Term Loan	(d)	-	1,347
		2,656	4,648
Less portion due within one year		(1,436)	(2,977)
		\$ 1,220	\$ 1,671
Repayments are due as follows:			
Year ending December 31, 2010		\$ 1,436	
Year ending December 31, 2011		933	
Year ending December 31, 2012		287	
		\$ 2,656	

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(a) Mount Polley Mine Construction Loan in the amount of \$584 (2008-\$1,750) secured solely by and limited in recourse to the Company's interest in the mining lease and other assets of the Mount Polley mine.

	2009	2008
Payments due in sixty monthly installments of \$117 limited to a maximum of ten installments per year. Monthly installments are payable only if the mine and mill are in operation during the month. If the Company has not paid the sum of \$7,000 by December 31, 2010 as a result of postponements of monthly payments on the basis described above, the obligation to make payments will cease on that date.	\$ 584	\$ 1,750
	584	1,750
Less portion due within one year	(584)	(1,167)
	\$ -	\$ 583

The obligation was originally recorded on a present value basis with deemed interest calculated at 7% per annum under the original repayment terms.

(b) Finance contract aggregating \$1,068 (2008-\$1,551) repayable in monthly installments of \$44 until August 2011 including interest at Bank Prime Rate plus 1% (3.25% at December 31, 2009) and secured by mobile mining equipment at the Mount Polley mine. Monthly repayments are subject to adjustment for interest rate movements.

(c) Finance contract aggregating US\$959 (2008-\$Nil) repayable in monthly installments of US\$31 until August 2012 including interest at 4.85% and secured by certain mobile mining equipment at the Mount Polley mine.

(d) Bank term loans aggregating \$Nil (2008-\$1,347) repayable in blended monthly installments of \$232 until May 2009 and varying monthly amounts thereafter until July 2009 including interest at 6.15%, and secured by certain mobile mining equipment at the Mount Polley mine.

8. CONVERTIBLE DEBENTURES

On March 9, 2005, the Company issued subordinated unsecured convertible debentures with a face value of \$20,000 that mature on March 10, 2010, \$9,750 of which were issued to a significant shareholder and directors. The net proceeds, after deduction of issue expenses of \$918, totalled \$19,082. The debentures are subordinated to all senior security holders and bear interest at 6% per year with interest payable semi-annually on June 30 and December 31, and are convertible into common shares of the Company at the option of the holder at any time prior to maturity at a conversion price of \$8.65 per common share.

The net proceeds of the debentures have been allocated between the debt and equity components based on the prorata allocation of the estimated fair values of each component on the date the convertible debentures were issued. The estimated fair value of the debt component was calculated as the present value of the future payments of principal and interest on the debentures, discounted at the prevailing rate for similar obligations without a conversion right. The estimated fair value of the equity component, the conversion right, was calculated based on a Black-Scholes Model. The financial liability component, representing the value allocated to the liability at inception, is recorded as a long term liability. The remaining component, representing the value ascribed to the holders' option to convert the principal balance into common shares of the Company, is classified as "Equity Component of Convertible Debentures" in shareholders' equity.

At the date of issue on March 9, 2005, the components of the convertible debentures were:

Debt component	\$ 12,790
Equity component (net of financing costs of \$332)	\$ 6,879

The debt component of the convertible debenture will be accreted to the face value of \$20,000 through the recording of additional interest expense over the term of the convertible debenture. Due to conversions prior to 2009, the remaining debentures will be accreted to \$13,980, which is face value at December 31, 2009.

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No convertible debentures were converted into common shares during the years ended December 31, 2009 and December 31, 2008. The face value of the convertible debentures outstanding at December 31, 2009 is \$13,980 (2008-\$13,980), which if converted at the conversion ratio of one common share per each \$8.65 of face value, would result in the issuance of 1,616,173 (2008-1,616,173) common shares.

	2009	2008
Balance, beginning of year	\$ 12,572	\$ 11,495
Accretion	1,174	1,077
Balance, end of year	\$ 13,746	\$ 12,572

Subsequent to December 31, 2009 all the convertible debentures were converted into common shares (Note 22(a)).

9. FUTURE SITE RECLAMATION COSTS

	2009	2008
Balance, beginning of year	\$ 14,322	\$ 17,848
Accretion	1,070	1,140
Costs incurred during the year	(423)	(385)
Change in estimates of future costs and effect of translation of foreign currencies	(727)	(4,281)
Acquisition of Selkirk (Note 4)	266	-
Balance, end of year	14,508	14,322
Less portion due within one year	(1,070)	(934)
	\$ 13,438	\$ 13,388

The total undiscounted amount of estimated cash flows required to settle the obligations is \$50,100 (2008-\$49,212) which has been discounted using credit adjusted risk free rates of 7% to 10% (2008-7% to 10%).

The obligations are expected to be settled primarily in the years 2010 through 2020 with the obligations of Huckleberry extending to the year 2150.

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. Assets with a fair value of \$7,827 (2008-\$8,148) are legally restricted for the purposes of settling asset retirement obligations (Note 17).

10. SHARE BASED COMPENSATION

The Company recognizes a liability for the potential cash settlements under its Share Option Plans (Note 11). The current portion represents the maximum amount of the liability payable within the next twelve month period if all vested options are surrendered for cash settlement.

	2009	2008
Balance, beginning of year	\$ -	\$ 5,019
Share based compensation	10,468	(5,000)
Current period payment for options exercised	(302)	(19)
Transferred to share capital on issuance of common shares	(23)	-
Balance, end of year	10,143	-
Less portion due within one year	(9,411)	-
	\$ 732	\$ -

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11. SHARE CAPITAL

(a) Share Capital

Authorized

- 50,000,000 First Preferred shares without par value with special rights and restrictions to be determined by the directors (outstanding – nil)
- 50,000,000 Second Preferred shares without par value with rights and restrictions to be determined by the directors (outstanding – nil)
- Unlimited number of Common Shares without par value

The 2002 Plan of Arrangement creating the Company contained a time limit for exchange of shares of the Company’s predecessor. During the year ended December 31, 2008 holders of 82,516 common shares forfeited their rights to receive common shares of the Company as they did not submit their shares for exchange within the required time limit.

(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, 2009, 1,194,151 common shares remain available for grant under the plans. Under the plans, the exercise price of each option equals 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 year period.

In June 2007 the Company amended its outstanding Share Option Plans providing all option holders the right, in lieu of receiving common shares, to receive a cash payment from the Company equal to the difference between the exercise price of each stock option and the market price of the Company’s common shares on the date of exercise. As a result of this change to the Share Option Plans, generally accepted accounting principles result in a liability being recorded for the intrinsic value of the stock options (Note 10).

A summary of the status of the Company’s Share Option Plans as of December 31, 2009 and changes during the year is presented below:

	2009		2008	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,976,667	\$ 7.91	1,261,667	\$ 7.38
Granted	342,251	\$ 12.37	725,000	\$ 8.82
Exercised	(64,000)	\$ 7.93	(5,000)	\$ 6.60
Forfeited	(24,417)	\$ 10.26	(5,000)	\$ 8.82
Outstanding at end of year	2,230,501	\$ 8.56	1,976,667	\$ 7.91
Options exercisable at end of year	1,397,501	\$ 7.80	1,053,335	\$ 6.91

The following table summarizes information about the share options outstanding at December 31, 2009:

Exercise Price	Options Outstanding		Options Exercisable
	Number Outstanding	Weighted Average Remaining Contractual Life	Number Exercisable
\$5.30	133,334	2.0 years	133,334
\$6.60	888,333	0.9 years	888,333
\$6.60	35,001	3.7 years	35,001
\$7.50	34,334	0.8 years	34,334
\$8.82	704,000	9.0 years	136,000
\$9.10	37,000	2.0 years	37,000
\$10.90	60,000	3.0 years	40,000
\$11.85	215,000	10.0 years	-
\$13.26	40,000	4.0 years	26,666
\$14.30	50,000	4.0 years	33,334
\$24.00	11,000	1.3 years	11,000
\$34.20	22,499	2.5 years	22,499
	2,230,501	4.3 years	1,397,501

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(c) Normal Course Issuer Bid ("NCIB")

During the year ended December 31, 2009 the Company had two NCIB's. The first NCIB, the 2008/2009 bid, covered the period September 23, 2008 to September 22, 2009. Pursuant to the 2008/2009 NCIB, the Company was authorized by the Toronto Stock Exchange ("TSX") to purchase up to 1,297,834 common shares of the Company with daily purchases not to exceed 3,381 common shares, subject to certain prescribed exceptions.

On September 21, 2009 the TSX accepted for filing the Company's Notice for its 2009/2010 NCIB to be transacted through the facilities of the TSX.

Pursuant to the 2009/2010 NCIB, the Company may purchase up to 1,285,159 common shares, which represents approximately 4% of the total 32,128,985 common shares of the Company issued and outstanding as of September 9, 2009. Purchases will be made, at the discretion of the Company at prevailing market prices, commencing September 23, 2009 and ending September 22, 2010. Pursuant to TSX policies, daily purchases made by the Company will not exceed 5,088 common shares or 25% of the Company's average daily trading volume of 20,350 common shares on the TSX, subject to certain prescribed exceptions. The shares acquired under the 2009/2010 NCIB will either be cancelled or used to satisfy the Company's obligations under its Non-Management Directors' Plan. The funding for any purchase pursuant to the 2009/2010 NCIB will be financed out of the working capital of the Company.

In the year ended December 31, 2009 the Company repurchased 90,000 common shares at an average price of \$5.10 pursuant to the NCIB's at a cost of \$450. A total of 1,700 common shares have been allocated to the Company's obligation under the Non-Management Directors Plan and 88,300 common shares were cancelled. The excess of the purchase price over the average stated value of shares purchased for cancellation of \$277 was charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter.

(d) Warrants

In conjunction with advances on a \$30,000 revolving Line of Credit facility entered into in the first quarter of 2008, the Company issued 600,000 share purchase warrants. Each warrant entitles the holder to purchase one common share of the Company at \$10.00 per share to July 31, 2009.

The revolving Line of Credit facility was from a syndicate of lenders, including a company controlled by a significant shareholder and a company controlled by a director (Note 15), was payable on demand with interest at 10% per annum, payable monthly, and due on February 15, 2009. The credit facility was secured by a floating charge on all the assets of the Company plus guarantees from the Company's wholly owned subsidiaries Mount Polley Mining Corporation and Red Chris Development Company Ltd. In consideration of the facility, the lenders were to be granted one warrant for each \$25 advanced under the facility such that warrants to purchase up to 1,200,000 common shares of the Company at \$10.00 per share, exercisable until July 31, 2009 could be granted. A maximum of 1,200,000 warrants would have been issued if the facility were fully drawn. An arrangement fee of \$225 was paid to the lenders. To December 31, 2008 a total of 600,000 warrants were issued in connection with this facility. No funds were advanced under the facility in the period January 1 to February 15, 2009 and the facility expired.

The fair value of \$918 of the warrants issued for the Line of Credit facility were estimated at the date of issue using the Black-Scholes pricing model, based on the following terms and assumptions:

Number of warrants	600,000
Exercise price	\$10.00
Dividend yield	0%
Risk free interest rate	3.08%
Expected life	1.43 years
Expected volatility	46%
Grant date fair value per warrant	\$1.53

The determination of expected volatility contained in the Black-Scholes pricing model is based on subjective assumptions which can materially affect the fair value estimate of the warrants at the date of grant.

These warrants were not exercised before the expiry date of July 31, 2009 and therefore expired on July 31, 2009. The Company had no warrants outstanding at December 31, 2009.

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12. (RECOVERY OF) INCOME AND MINING TAXES

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

	2009		2008	
	Amount	%	Amount	%
(Loss) income before taxes	\$ (18,384)	100.0	\$ 80,876	100.0
Income tax (recovery) expense thereon at the basic statutory rates	\$ (5,515)	(30.0)	\$ 25,072	31.0
Increase (decrease) resulting from:				
Change in valuation allowance	(3,195)	(17.4)	(750)	(0.9)
Impact of future statutory income tax rates	(796)	(4.3)	(3,827)	(4.7)
Non-deductible (non-taxable) share based compensation	3,043	16.6	(668)	(0.8)
B.C. mineral taxes	1,330	7.2	1,105	1.4
Other	(492)	(2.7)	327	0.3
(Recovery of) income and mining taxes	\$ (5,625)	(30.6)	\$ 21,259	26.3
Current income and mining taxes	\$ 19,327		\$ 134	
(Recovery of) future income and mining taxes	(24,952)		21,125	
	\$ (5,625)		\$ 21,259	

Future income and mining tax assets and liabilities are as follows:

	2009	2008
Future income and mining tax assets		
Mineral properties – mineral taxes	\$ 7,342	\$ 13,898
Mineral properties	7,895	-
Net operating tax losses carried forward	6,645	12,324
Derivative instruments	4,509	-
Other	1,920	2,900
Future tax assets	28,311	29,122
Less valuation allowance	(17,629)	(18,784)
	10,682	10,338
Future income and mining tax liabilities		
Mineral properties	39,667	37,251
Timing of partnership items	5,988	18,721
Derivative instruments	-	13,620
Other	1,426	157
	47,081	69,749
Net future income and mining tax liabilities	\$ (36,399)	\$ (59,411)

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As at December 31, 2009 the Company had net operating tax loss carry forwards in Canada of approximately \$3,197 which can be applied to reduce future Canadian taxable income and will expire in 2014 to 2029. In addition, the Company had net operating tax loss carry forwards in the United States of approximately US\$15,548 which can be applied to reduce future US taxable income and will expire in 2010 to 2029. A valuation allowance has been applied to \$3,197 of net operating tax loss carry forwards in Canada and to US\$6,195 of net operating tax loss carry forwards in the United States. The tax benefit of these amounts has not been recognized in these financial statements.

13. DERIVATIVE INSTRUMENTS AND MARGIN DEPOSITS

	2009	2008
Assets		
Current		
Copper contracts	\$ 3,603	\$ 49,644
Foreign currency contracts	2,243	145
	<u>\$ 5,846</u>	<u>\$ 49,789</u>
Non-current		
Security deposits with counterparties	\$ 2,627	\$ 4,218
Copper contracts	1,897	7,594
	<u>\$ 4,524</u>	<u>\$ 11,812</u>
Liabilities		
Current		
Copper contracts	\$ 10,248	\$ 299
Foreign currency contracts	3,778	1,833
	<u>\$ 14,026</u>	<u>\$ 2,132</u>
Non Current		
Copper contracts	\$ 4,339	-

Security deposits required to be paid by the Company to counterparties are calculated based on the fair value of the derivative instrument on each trading date, net of the credit facility provided by the counterparties.

At December 31, 2009 the Company had entered into various contracts to protect the cash flow from Mount Polley and Huckleberry against a decline in the price of copper and to changes in the US Dollar/CDN Dollar exchange rate. These contracts do not qualify for hedge accounting and therefore the Company accounts for these contracts as investments and records changes in the unrealized gains or losses on these contracts in the statement of income each period and records the fair value of these derivative instruments as a current asset or current liability at each balance sheet date. The fair value of these financial instruments has been recorded as either an asset or a liability as of December 31, 2009 depending on the attributes of the contracts.

(a) Balances at December 31, 2009

From time to time the Company purchases put options, sells call options, and enters into forward sales contracts to manage its exposure to changes in copper prices and the US Dollar/CDN Dollar exchange rate.

All of the Company's derivative instrument contracts are settled on a financial basis. No physical sale or transfer of copper or US Dollars will take place pursuant to the contracts.

Option contracts outstanding at December 31, 2009 for copper are as follows:

Contract Period	Weighted Average		Put Options Purchased	Call Options Sold (Boiught)
	Minimum Price US\$/lb	Maximum Price US\$/lb		
2010	\$ 3.05	\$ 3.36	lbs of copper 28,054,000	lbs of copper 19,842,000
2010	\$ 3.00	\$ -	-	(1,819,000)
2011	\$ 2.10	\$ -	2,205,000	-
2011	\$ 3.00	\$ -	-	(2,425,000)

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

Forward sales contracts for copper, all related to Huckleberry production, outstanding at December 31, 2009 are as follows:

	Price US\$/lb	Forward Sales
Contract Period		lbs of copper
2010	\$ 2.67	4,519,000
2011	\$ 2.27	3,748,000

The Company will receive/pay the counterparty the difference between the monthly average cash settlement price of copper on the London Metals Exchange and the forward copper price specified in the contract.

Option contracts outstanding at December 31, 2009 for US Dollar/CDN Dollar exchange rate are all related to Huckleberry production. The net US Dollar/CDN Dollar and the exercise price under option contracts are as follows:

	Weighted Average		Put Options Purchased	Call Options Sold
	Minimum US Dollar/CDN Dollar Exchange Rate	Maximum US Dollar/CDN Dollar Exchange Rate		
Contract Period			US Dollars	US Dollars
2010	\$ 1.25	\$ 1.32	\$ 7,500,000	\$ 7,500,000

The Company will receive/pay the counterparty the difference between the US Dollar spot market rate on a specified date and the US Dollar rate specified in the put/call option contract.

Forward sales contracts for US Dollars, all related to Huckleberry production, outstanding at December 31, 2009 are as follows:

	US/CDN Dollar Exchange Rate	Forward Sales US Dollars
2010	\$ 1.15	\$ 6,750,000

(b) Transactions Subsequent to December 31, 2009

From January 1 to March 29, 2010 the Company purchased put options, sold call options and entered into forward sales contracts to manage its exposure to changes in copper prices.

	Weighted Average		Put Options Purchased (Sold)	Call Options Sold (Bought)
	Minimum Price US\$/lb	Maximum Price US\$/lb		
Contract Period			lbs of copper	lbs of copper
2010	\$ 3.62	\$ 4.10	2,150,000	2,150,000
2011	\$ 2.80	\$ 3.99	3,803,000	3,803,000

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

	Price US\$/lb	Forward Sales
Contract Period		lbs of copper
2010	\$ 2.90	1,268,000

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(c) Counterparty Default on Derivative Instruments

During the year ended December 31, 2008, a portion of the Company's derivative instruments were with Lehman Brothers Commodity Services Inc. ("LBCS"), a subsidiary of Lehman Brothers Holdings Inc. ("Lehman"). Both Lehman and LBCS filed for bankruptcy protection. As a result of the bankruptcy filing of LBCS and Lehman, the uncertainty regarding the timing of, and the ultimate recovery of the LBCS derivatives, the Company made a provision of \$28,306 in 2008, this being the full amount of the LBCS derivatives.

In October 2008 the Company gave notice of default and termination of the derivative instruments to LBCS. The LBCS derivatives consisted of puts purchased by the Company which were financed by the sale of calls with no net cash outlay by the Company. The net impact on the financial statements of the Company resulting from the loss of the LBCS derivatives is the same as if the Company had never entered into the derivative instruments with LBCS.

14. (LOSS) INCOME PER SHARE

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

	2009	2008
Numerator:		
Net (Loss) Income	\$ (12,759)	\$ 59,617
Denominator:		
Basic weighted-average number of common shares outstanding	32,454,691	32,529,596
Effect of dilutive securities:		
Stock options	-	12,845
Diluted potential common shares	-	12,845
Diluted weighted-average number of common shares outstanding	32,454,691	32,542,441
Basic net (loss) income per common share	\$ (0.39)	\$ 1.83
Diluted net (loss) income per common share	\$ (0.39)	\$ 1.83

Excluded from the calculation of diluted net (loss) income per common share for the year ended December 31, 2009 were 1,840,190 shares (2008-1,843,333 shares) related to stock options, 1,616,173 shares (2008-1,616,173 shares) related to the convertible debentures and nil shares (2008-600,000) related to the warrants because their effect was anti-dilutive.

15. RELATED PARTY TRANSACTIONS

Related party transactions and balances with a company controlled by a significant shareholder and directors are as follows:

	2009	2008
Convertible debentures (at face value) (Note 8)	\$ 9,750	\$ 9,750
Interest expense on long term debt	\$ 585	\$ 585
Other interest expense	\$ 26	\$ 498
Financing costs (Note 11(d))	\$ -	\$ 187
Warrants issued for financing costs (Note 11(d))	\$ -	\$ 765

In June 2009 the Company borrowed a total of \$3,000 million from a company controlled by a significant shareholder and a company controlled by a director. These short term advances, which bore interest at 7% per annum, were repaid in July 2009.

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16. JOINT VENTURES

Included in the consolidated financial statements of the Company are the following amounts representing the Company's interests in joint ventures consisting primarily of a 50% joint venture interest in Huckleberry assets, liabilities and results of operations:

	2009 ⁽¹⁾	2008 ⁽¹⁾
Balance Sheet		
Current Assets		
Cash and cash equivalents	\$ 24,062	\$ 9,356
Short term investments	-	8,951
Derivative instrument assets	5,429	30,313
Other current assets	21,681	13,302
	51,172	61,922
Mineral property	8,199	2,035
Other non-current assets	12,578	17,682
	71,949	81,639
Current Liabilities		
Accounts payable and other current liabilities	(14,647)	(13,689)
Concentrate sales repayable	-	(5,223)
Future site reclamation costs and other non-current liabilities	(13,990)	(9,839)
	\$ 43,312	\$ 52,888
Statement of (Loss) Income and Comprehensive (Loss) Income		
Revenues	\$ 67,227	\$ 44,893
Expenses	44,087	56,343
Writedown of mineral properties	-	15,804
Income (loss) before undernoted	23,140	(27,254)
Losses on derivative instruments	(35,561)	(36,855)
(Recovery of) income and mining taxes	(2,835)	1,291
Net (Loss) Income and Comprehensive (Loss) Income	\$ (9,586)	\$ 8,310
Statement of Cash Flows		
Operating activities	\$ 13,324	\$ (5,632)
Financing activities	-	-
Investing activities	2,974	(5,478)
Effect of foreign exchange on cash and cash equivalents	(1,597)	1,633
Increase (decrease) in cash and cash equivalents	\$ 14,701	\$ (9,477)

The cash and cash equivalents and short term investments held by Huckleberry disclosed above are restricted for use by Huckleberry.

(1) Effective May 31, 2007 the Company holds a 35% interest in the Porcher Island Joint Venture whose only asset is the Porcher Island mineral property \$536 (2008-\$531) and only liability is accounts payable \$nil (2008-\$5). There were no operations during the year 2009 or 2008 as the joint venture is currently in the exploration stage. The balances related to the Porcher Island Joint Venture are included in the disclosure above.

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17. COMMITMENTS, CONTINGENCIES AND PLEDGES

At December 31, 2009 the Company is committed to future minimum operating lease payments, including \$283 related to Huckleberry, as follows:

2010	\$	409
2011		261
2012		114
2013		6
	\$	<u>790</u>

As at December 31, 2009 Huckleberry had outstanding copper and foreign exchange derivative contracts with two counterparties. One counterparty did not require any security deposit. For the second counterparty, Huckleberry had both an initial and a mark to market security deposit. If Huckleberry acquires additional derivative instruments then the initial security margin deposit may be required to be increased. Huckleberry is also obligated to provide a mark to market security deposits with the counterparty equal to the net fair value liability owing from Huckleberry to the counterparty in excess of US\$5,000 for any copper and foreign exchange derivative instruments outstanding with a maturity after April 30, 2010. In relation to this security requirement, Huckleberry had a net fair value liability of the copper and foreign exchange derivative instruments due to the counterparty for copper and foreign exchange derivative instruments outstanding with a maturity after April 30, 2010 of US\$7,518 as at December 31, 2009.

The Company has pledged cash deposits of \$6,456 (2008-\$6,778), including \$1,614 (2008-\$1,612) related to Huckleberry, shown as future site reclamation deposits and certain mining equipment and supplies inventory with a pledged value of \$1,370 (2008-\$1,370) as security for future site reclamation obligations (Note 9).

18. FINANCIAL INSTRUMENTS, INTEREST RATE AND CREDIT RISK

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses 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 2008.

The capital structure of the Company consists of short term debt, credit facilities, including credit facilities with counterparties related to derivative instruments, long term debt, convertible debt and equity comprised of share capital, contributed surplus, equity component of convertible debentures and retained earnings.

The Company is in compliance with the debt covenants related to its short term debt, credit facilities with counterparties, and long term debt.

Credit Risk

The Company's credit risk is limited to cash and cash equivalents, short term investments, accounts receivable, future site reclamation deposits and derivative instruments in the ordinary course of business. The credit risk of cash and cash equivalents, short term investments and future site reclamation deposits is mitigated by placing funds in financial institutions with high credit quality.

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

The Company enters into derivative instruments with a number of counterparties. The credit risks associated with these counterparties was previously thought to be minimal because of their strong capital base, diversity and multinational operations. However, the bankruptcy of one of the Company's counterparties, Lehman Brothers Commodity Services Inc. (Note 13(c)) in 2008 has demonstrated that counterparty risk going forward was significantly greater at that time.

The Company's maximum exposure to credit risk at December 31, 2009 is as follows:

		2009		2008
Cash and cash equivalents	\$	23,854	\$	14,043
Short term investments		-		27,320
Accounts receivable		42,188		18,120
Derivative instrument assets and margin deposits		10,370		61,601
Future site reclamation deposits		6,456		6,778
	\$	<u>82,868</u>	\$	<u>127,862</u>

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During 2008 the Company's credit risk changed significantly from the prior year as a result of increased economic uncertainty, related reduction in credit liquidity and increase in counterparty risk.

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 and cash equivalents and short term investment balances there are sufficient committed credit facilities, including the advance payment facilities noted above, to provide the necessary cash to meet projected cash requirements. At December 31, 2009 and 2008 the Company's primary sources of credit are short term debt secured by concentrate inventory and a \$1,000 line of credit with a financial institution. Subsequent to December 31, 2009 the Company obtained a \$12,000 revolving loan facility from a bank to assist with working capital requirements (Note 22 (b)).

The Company also holds derivative instruments, its investment in Huckleberry, mineral property holdings and marketable securities. While these may be convertible to cash they are not considered when assessing the Company's liquidity as they are part of the risk management program of the Company, long term strategic holdings, or are only convertible to cash over a longer time horizon if realizable values exceed management's assessment of fair value, respectively. Therefore, as part of the Company's planning, budgeting and liquidity analysis process, these items are not relied upon to provide operational liquidity. The Company does not hold any asset backed commercial securities.

The Company's overall liquidity risk has improved from 2008 when the rapid drop in the price of copper in the second half of the year significantly reduced cash flow and cash balances. The copper price increased throughout the year 2009 ending the year above the average 2008 copper price. The Company also benefitted from a higher average US Dollar/CDN Dollar exchange rate during 2009 compared to 2008. These changes substantially reversed the decline in operating margins and cash flow experienced in the last quarter of 2008. Liquidity risk is also impacted by credit risk should a counterparty default on its payments to the Company.

At December 31, 2009 the cash balance of the Company, excluding Huckleberry, was an overdraft of \$208 due to the timing of cash receipts and disbursements at December 31, 2009. This overdraft was covered in the first week of January 2010 from the collection of accounts receivable.

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 dependant upon debt and equity financing to carry out its exploration and development plans. There can be no assurance that such financing will be available on terms acceptable to the Company or at all.

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

					2009	2008
	Within 1 Year	2 to 3 Years	4 to 5 Years	Over 5 Years	Total	Total
Accounts payable and accrued liabilities	\$ 20,456	\$ -	\$ -	\$ -	\$ 20,456	\$ 16,860
Concentrate sales repayable	-	-	-	-	-	30,470
Derivative instrument liabilities	14,026	4,339	-	-	18,365	2,132
Short term debt	5,679	-	-	-	5,679	-
Long term debt repayments	1,436	1,220	-	-	2,656	4,648
Convertible debentures (1)	13,980	-	-	-	13,980	13,980
	\$ 55,577	\$ 5,559	\$ -	\$ -	\$ 61,136	\$ 68,090

(1) Presented at face value. Assumes non-conversion of debentures (Notes 8 and 22(a)).

Currency Risk

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US dollar denominated cash and cash equivalents, short term investments, accounts receivable, derivative instrument assets and margin deposits, reclamation deposits, accounts payable, derivative instrument liabilities, and short term debt. If the US Dollar had been 10% higher/lower and all other variables were held constant, net income for these financial instruments for the year ended December 31, 2009 would have been higher/lower by \$1,540. Commencing in the last quarter of 2008, the Company entered into derivative instruments to manage the US Dollar/CDN Dollar exchange rate related to Huckleberry production (Notes 13(b) and (c)).

Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings and short term investments. Presently, the majority of the Company's outstanding borrowings are at fixed 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. The weighted average interest rate paid by the Company in the year ended December 31, 2009 on its outstanding borrowings was 5.1%.

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, 2009 would have increased/decreased by \$44.

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Other Price Risks

The Company is exposed to equity price risk arising from marketable securities and share based compensation liabilities. 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. Share based compensation liabilities arise because the option holders have the right, in lieu of receiving common shares, to receive a cash payment from the Company equal to the difference between the exercise price of each stock option and the market price of the Company's common shares on the date of exercise.

The following sensitivity analyses have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher or lower:

- (a) net income for the year ended December 31, 2009 would have decreased/increased by \$1,002 as a result of the change in equity price of the Company's common shares and the equity prices of marketable securities. Changes in the fair value of the marketable securities and share based compensation have been reflected in net income for the year; and
- (b) other comprehensive income would not have changed as a result of changes in the fair value of marketable securities and share based compensation liabilities.

The Company's sensitivity to equity prices has not changed significantly from the prior year.

Fair Value Estimation

The fair value of financial instruments traded in active markets (such as held for trading securities and share based compensation liabilities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price. The quoted market price used for financial liabilities owed by the Company is the current ask 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 receivables and payables are assumed to approximate their fair values. Management believes that the carrying value of short and long term debt approximates fair value. Although the interest rates and credit spreads have changed since the long term debt was issued the fixed rate portion of the long term debt is close to maturity, will not be refinanced and therefore the carrying value is not materially different from fair value. The debt component of the convertible debentures is estimated to have a fair value of \$13,673 at December 31, 2009 based on the estimated interest rate expected on a similar instrument at December 31, 2009.

During 2009 CICA Handbook Section 3862, Financial Statements – Disclosures was amended to require disclosures about the inputs to fair value measurement, including their classifications within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – in puts 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, 2009 as follows:

	Level 1	Level 2	Total
Financial Assets			
Cash and cash equivalents	\$ 23,854	\$ -	\$ 23,854
Marketable securities	216	-	216
Accounts receivable	42,188	-	42,188
Derivative instruments assets	-	7,743	7,743
	66,258	7,743	74,001
Financial Liabilities			
Accounts payable and accrued liabilities	20,456	-	20,456
Share based compensation liability	10,143	-	10,143
Derivative instrument liabilities	-	18,365	18,365
	30,599	18,365	48,964
	\$ 35,659	\$ (10,622)	\$ 25,037

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19. NET CHANGE IN NON CASH OPERATING WORKING CAPITAL BALANCES

The net change in non cash operating working capital balances consists of the following:

	2009	2008
Accounts receivable	\$ (24,400)	\$ 7,808
Taxes receivable	4,416	(4,772)
Inventory	(11,264)	3,367
Derivative instrument assets and margin deposits	10,038	(6,508)
Accounts payable and accrued liabilities	3,326	(9,321)
Concentrate sales repayable	(30,470)	30,470
Taxes payable	9,587	(6,030)
Derivative instrument liabilities	(6,599)	(1,208)
	\$ (45,366)	\$ 13,806

20. SEGMENTED INFORMATION

The Company operates primarily in Canada and the majority of its assets are located in Canada. The Company's reportable operating segments are summarized in the following table. The two operating mine segments, Mount Polley and Huckleberry, include exploration activities related to those segments. Corporate includes all other properties and related exploration and development activities. Transactions between segments are recorded at fair value.

2009	Mount Polley	Huckleberry	Corporate	Total
Segmented Revenues	\$ 133,713	\$ 67,227	\$ 429	\$ 201,369
Less inter-segment revenues	(143)	-	(89)	(232)
Revenues from external sources	\$ 133,570	\$ 67,227	\$ 340	\$ 201,137
Income (loss) from operations	\$ 12,891	\$ 23,140	\$ (11,221)	\$ 24,810
Depletion and depreciation	\$ 12,805	\$ 1,774	\$ 228	\$ 14,807
Capital Expenditures	\$ 11,106	\$ 7,561	\$ 9,169	\$ 27,836
Total Assets	\$ 160,867	\$ 71,413	\$ 140,791	\$ 373,071
2008	Mount Polley	Huckleberry	Corporate	Total
Segmented Revenues	\$ 184,339	\$ 44,893	\$ 1,569	\$ 230,801
Less inter-segment revenues	(1,006)	-	(50)	(1,056)
Revenues from external sources	\$ 183,333	\$ 44,893	\$ 1,519	\$ 229,745
Income (loss) from operations	\$ 49,488	\$ (27,254)	\$ 3,179	\$ 25,413
Depletion and depreciation	\$ 20,810	\$ 8,354	\$ 35	\$ 29,199
Capital Expenditures	\$ 34,179	\$ 4,526	\$ 8,039	\$ 46,744
Total Assets	\$ 164,993	\$ 81,108	\$ 138,800	\$ 384,901

	2009	2008
Revenue by geographic area		
Japan (including \$66,946 (2008-\$42,152) related to Huckleberry)	\$ 118,149	\$ 151,497
United States	51,499	22,275
Europe (including \$176 (2008-\$1,699) related to Huckleberry)	30,806	53,026
Canada	683	2,947
	\$ 201,137	\$ 229,745

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

In 2009 the Company had four principal customers (2008-five principal customers) with each customer accounting for 26% (2008-10%), 24% (2008-22%), 21% (2008-12%), 15% (2008-22%), and 1% (2008-26%).

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21. 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, these matters will not have a material effect on the Company's consolidated financial position or results of operations.

In 2007 the Company acquired bcMetals Corporation which is a party to a number of legal actions and contingent liabilities pertaining to the Red Chris project. The status of the principal actions is as follows:

(a) Screening Level Review of Red Chris project under the Canadian Environmental Assessment Act.

On January 21, 2010 the Supreme Court of Canada limited the right of Responsible Federal Authorities to make project review scoping decisions under the Canadian Environmental Assessment Act. However, the Court declined to set aside the Federal Government's environmental assessment of the Red Chris project. As such the ruling is prospective and will not impact development of the Red Chris Project. Federal regulatory authorities remain authorized to issue approvals for mine development at Red Chris. Completion of mine development will be subject to compliance with the Metal Mining Effluent Regulations and habitat authorizations under the Fisheries Act.

(b) American Bullion Minerals Ltd. ("ABML")

In 2006 two minority shareholders of ABML (the "Petitioners") commenced action against the Company and others seeking a declaration that the affairs of ABML had been conducted in a manner oppressive to its minority shareholders and asking that the minority shareholder's shares be purchased by the respondents. The Petitioners also sought to have their Petition certified as a class action proceeding. That request was denied by the Court in the first instance and is now under appeal.

22. SUBSEQUENT EVENTS

Subsequent to December 31, 2009:

(a) Convertible debentures with a face value of \$13,980 were converted into 1,616,173 common shares.

(b) The Company obtained a \$12,000 revolving loan facility from a bank secured by accounts receivable and inventory to assist with working capital requirements. The loan bears interest at Bank Prime Rate plus 1%, is due on demand and is subject to maintenance of certain financial covenants.