

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, 2011



Andre Deepwell
Chief Financial Officer

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 balance sheets as at December 31, 2010 and 2009, and the consolidated statements of income (loss) and comprehensive income (loss), shareholders' equity and 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 Canadian generally accepted accounting principles, 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

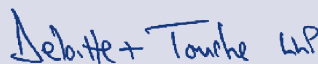
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain 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, 2010 and 2009 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
March 29, 2011
Vancouver, B.C.

CONSOLIDATED BALANCE SHEETS

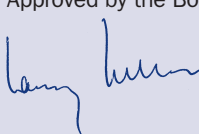
December 31, 2010 and 2009

[expressed in thousands of Canadian dollars]

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Note 15)	\$ 28,818	\$ 23,854
Short term investments	1,500	-
Marketable securities	384	216
Accounts receivable	55,168	42,188
Taxes receivable	-	2,751
Inventory (Note 2)	41,620	28,953
Derivative instrument assets and margin deposits (Note 12)	5,229	5,846
Future income taxes (Note 11)	4,586	3,808
	137,305	107,616
Derivative Instrument Assets and Margin Deposits (Note 12)	8,625	4,524
Mineral Properties (Note 4)	271,102	247,253
Future Site Reclamation Deposits (Note 16)	7,929	6,456
Future Income Taxes (Note 11)	14,796	6,874
Other Assets	284	348
	\$ 440,041	\$ 373,071
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 24,324	\$ 20,456
Taxes payable	3,921	6,325
Short term debt (Note 5)	10,439	5,679
Derivative instrument liabilities (Note 12)	20,103	14,026
Current portion of share based compensation liability (Notes 9 & 10)	-	9,411
Current portion of long term debt (Note 6)	1,461	1,436
Current portion of debt component of convertible debentures (Note 7)	-	13,746
Current portion of future site reclamation costs (Note 8)	982	1,070
Future income taxes (Note 11)	10,486	7,413
	71,716	79,562
Derivative Instrument Liabilities (Note 12)	2,064	4,339
Long Term Debt (Note 6)	1,054	1,220
Future Site Reclamation Costs (Note 8)	14,744	13,438
Share Based Compensation Liability (Notes 9 & 10)	-	732
Future Income Taxes (Note 11)	41,657	39,668
	131,235	138,959
SHAREHOLDERS' EQUITY		
Share Capital (Note 10)	113,026	76,225
Contributed Surplus	8,296	918
Equity Component of Convertible Debentures (Note 7)	-	4,808
Retained Earnings	187,484	152,161
	308,806	234,112
	\$ 440,041	\$ 373,071

See accompanying notes to these financial statements.
 Commitments, Contingencies and Pledges (Note 16)
 Contingent Liabilities (Note 20) and Subsequent Event (Note 21)

Approved by the Board:



Larry G. Moeller
Director



J. Brian Kynoch
Director

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

Years Ended December 31, 2010 and 2009

[expressed in thousands of Canadian dollars, except share amounts]

	2010	2009
REVENUES		
Mineral sales	\$ 244,308	\$ 200,404
Interest income	580	236
Other	1,963	497
	<u>246,851</u>	<u>201,137</u>
EXPENSES		
Mineral production and transportation costs	152,730	136,777
Mineral property holding costs	1,659	1,206
Accretion of future site restoration costs (Note 8)	1,128	1,070
Depletion and depreciation	24,124	14,807
General and administration	4,249	2,955
Share based compensation (Notes 9 & 10)	9,208	10,468
Interest on long term debt	258	922
Other interest	324	187
Interest accretion on short and long term debt	215	1,174
Foreign exchange loss	2,321	7,436
Future site restoration recovery	(757)	(675)
	<u>195,459</u>	<u>176,327</u>
INCOME FROM OPERATIONS	<u>51,392</u>	<u>24,810</u>
OTHER INCOME (EXPENSES)		
Realized (losses) gains on derivative instruments (Note 12)	(10,056)	19,696
Unrealized losses on derivative instruments (Note 12)	(1,101)	(62,435)
Other	245	(455)
	<u>(10,912)</u>	<u>(43,194)</u>
INCOME (LOSS) BEFORE TAXES	<u>40,480</u>	<u>(18,384)</u>
Income and mining taxes (recovery) (Note 11)	5,157	(5,625)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	<u>\$ 35,323</u>	<u>\$ (12,759)</u>
Income (Loss) Per Share (Note 13)		
Basic	\$ 0.98	\$ (0.39)
Diluted	\$ 0.96	\$ (0.39)
Weighted Average Number of Common Shares Outstanding (Note 13)		
Basic	36,145,881	32,454,691
Diluted	36,636,234	32,454,691

See accompanying notes to these financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2010 and 2009

[expressed in thousands of Canadian dollars, except share amounts]

	Number of Shares	Share Capital Amount	Contributed Surplus	Equity Component of Convertible Debentures	Retained Earnings	Total
Balance December 31, 2008	32,128,985	\$ 63,225	\$ 918	\$ 4,808	\$ 165,197	\$ 234,148
Purchase of common shares for cancellation pursuant to normal course issuer bid (Note 10 (c))	(88,300)	(173)	-	-	(277)	(450)
Issued on exercise of options	5,833	61	-	-	-	61
Issued for acquisition of Selkirk (Note 3)	2,200,000	13,112	-	-	-	13,112
Net loss	-	-	-	-	(12,759)	(12,759)
Balance December 31, 2009	34,246,518	76,225	918	4,808	152,161	234,112
Transfer of liability on change in share option plans (Notes 9 and 10(b))	-	-	14,075	-	-	14,075
Issued on exercise of options	1,020,667	18,032	(8,464)	-	-	9,568
Share based compensation	-	-	1,767	-	-	1,767
Issued on conversion of debentures (Note 7)	1,616,173	18,769	-	(4,808)	-	13,961
Net income	-	-	-	-	35,323	35,323
Balance December 31, 2010	36,883,358	\$ 113,026	\$ 8,296	\$ -	\$ 187,484	\$ 308,806

See accompanying notes to these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2010 and 2009

[expressed in thousands of Canadian dollars, except share amounts]

	2010	2009
OPERATING ACTIVITIES		
Net income (loss)	\$ 35,323	\$ (12,759)
Items not affecting cash flows		
Depletion and depreciation	24,124	14,807
Share based compensation, net of cash paid	8,063	10,166
Accretion of debt and future site restoration costs	1,343	2,244
Unrealized foreign exchange loss	749	2,908
Future income taxes	(3,638)	(24,952)
Unrealized losses on derivative instruments	1,101	62,435
Future site restoration recovery	(757)	(675)
Other	(790)	378
	65,518	54,552
Net change in non-cash operating working capital balances (Note 18)	(20,185)	(43,775)
Cash provided by operating activities	45,333	10,777
FINANCING ACTIVITIES		
Proceeds of short term debt	269,822	59,123
Repayment of short term debt	(264,538)	(53,577)
Repayment of long term debt	(1,759)	(3,081)
Issue of share capital	7,204	38
Purchase of common shares for cancellation (Note 10(c))	-	(450)
Cash provided by financing activities	10,729	2,053
INVESTING ACTIVITIES		
(Increase) decrease in short term investments	(1,500)	27,320
Acquisition, exploration and development of mineral properties	(46,851)	(26,706)
Acquisition of investment in Selkirk, net of cash acquired of \$1,248	-	(1,319)
Increase in future site reclamation deposits	(1,610)	(98)
Other	177	599
Cash used in investing activities	(49,784)	(204)
EFFECT OF FOREIGN EXCHANGE ON CASH AND CASH EQUIVALENTS	(1,314)	(2,815)
INCREASE IN CASH AND CASH EQUIVALENTS	4,964	9,811
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,854	14,043
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 28,818	\$ 23,854

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Years Ended December 31, 2010 and 2009

[expressed in thousands of Canadian dollars, except share amounts]

	2010	2009
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:		
Cash	\$ 28,818	\$ 23,854
OPERATING ACTIVITIES		
Interest expense paid	\$ 602	\$ 1,094
Income and mining taxes paid	\$ 8,543	\$ 7,645

SUPPLEMENTAL INFORMATION ON NON-CASH FINANCING AND INVESTING ACTIVITIES

During the year ended December 31, 2010

- (a) the Company purchased mobile mining equipment at a cost of \$1,659 which was financed by long term debt and is repayable at \$50 per month over a three year term at Bank Prime Rate plus 2%.
- (b) all the outstanding convertible debentures with a face value of \$13,980 were converted into 1,616,173 common shares (Note 7).

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 3).
- (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.

See accompanying notes to these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

[expressed in thousands of Canadian 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 reconstituted with the Company effective May 22, 2008. The balances at the date of reconstituted and at December 31, 2010 were not material (Notes 20 and 21).

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 4.

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, 2010 and 2009
[expressed in thousands of Canadian dollars, except share amounts]

Resource value and exploration potential value is noted as non-depletable mineral properties in Note 4. 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 direct costs, other than general and administration, 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, 2010 the balance of deferred stripping charges was \$21,833 (2009-\$29,236). During the year ended December 31, 2010 the Company capitalized \$1,892 (2009-\$1,905) of deferred stripping costs and recorded depletion expense thereon of \$9,295 (2009-\$5,757).

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, 2010 and 2009
[expressed in thousands of Canadian 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. 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 is 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 four reportable segments: Mount Polley mine and related exploration activities, Huckleberry mine and related exploration activities, Red Chris 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, derivative instrument assets and margin deposits, and future site reclamation deposits are classified as held for trading and recorded at fair value. Short term investments are classified as available for sale. Accounts receivable are classified as loans and receivables. Marketable securities are classified as 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

[expressed in thousands of Canadian dollars, except share amounts]

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

Until May 18, 2010 the Company had stock option plans that provided 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 was accounted for using the intrinsic value method. Under this method, the Company accrued 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 was 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.

On May 19, 2010 the Company amended its outstanding share option plans removing the right of all option holders, 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 the reversal of the liability that was recorded for the intrinsic value of the stock options (Note 10(b)).

Effective from the May 19, 2010 amendment to the stock option plans the Company has reverted to using the Black-Scholes option pricing model for any options granted subsequent to that date.

The determination of expected volatility contained in the option pricing model is based on subjective assumptions, which can materially affect the fair value estimate of the options at the date of grant.

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

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 is 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, 2010 and 2009
[expressed in thousands of Canadian dollars, except share amounts]

2. INVENTORY

	2010	2009
Stockpile ore	\$ 3,657	\$ -
Concentrate	26,104	18,990
Supplies	11,859	9,963
	<u>\$ 41,620</u>	<u>\$ 28,953</u>
Inventory recognized as expenses during the year exclusive of inventory write downs	\$ 136,620	\$ 120,192
Reversal of inventory write downs on concentrate included in expense during the year. The reversal of the write down of concentrate inventory in the year ended December 31, 2009 is due to the higher sale prices for copper and lower production costs per pound of copper since December 31, 2008.	\$ -	\$ (3,057)

3. ACQUISITION OF SELKIRK METALS CORP.

At December 31, 2008 the Company owned 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
	<u>\$</u>	<u>15,932</u>
Net assets acquired		
Current assets, including cash of \$1,248	\$	3,802
Mineral properties (Ruddock Creek, Catface and other exploration properties Note 4)		12,598
Other assets		68
Current liabilities		(270)
Future site reclamation costs		(266)
	<u>\$</u>	<u>15,932</u>

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4. MINERAL PROPERTIES

	2010			2009		
	Cost	Accumulated Depletion, Depreciation & Writedowns	Net Book Value	Cost	Accumulated Depletion, Depreciation & Writedowns	Net Book Value
Mineral properties	\$ 294,204	\$ 83,351	\$ 210,853	\$ 263,078	\$ 68,344	\$ 194,734
Plant and equipment	293,518	233,269	60,249	275,836	223,317	52,519
	<u>\$ 587,722</u>	<u>\$ 316,620</u>	<u>\$ 271,102</u>	<u>\$ 538,914</u>	<u>\$ 291,661</u>	<u>\$ 247,253</u>

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

	Mineral Properties					
	Depletable	Non-Depletable	Total	Plant and Equipment	2010	2009
Mount Polley	\$ 44,510	\$ 13,352	\$ 57,862	\$ 52,327	\$ 110,189	\$ 108,986
Huckleberry (Note 15)	1,012	882	1,894	6,205	8,099	6,926
Red Chris	–	117,914	117,914	–	117,914	100,460
Sterling	–	14,957	14,957	448	15,405	13,989
Ruddock Creek	–	10,838	10,838	–	10,838	10,870
Catface	–	2,124	2,124	–	2,124	896
Other	–	5,264	5,264	1,269	6,533	5,126
	<u>\$ 45,522</u>	<u>\$ 165,331</u>	<u>\$ 210,853</u>	<u>\$ 60,249</u>	<u>\$ 271,102</u>	<u>\$ 247,253</u>

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 43 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 37 mineral claims encompassing approximately 19,366 hectares.

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, 20 and 21). 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.

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. Itochu Corporation and Mitsui Mining and Smelting Co. Ltd. have an option to earn 50% of the Company's interest in the Ruddock Creek property by funding the next \$20,000 of exploration expenditures on the property over a maximum three year period. A 35% interest in the Ruddock Creek property will be earned by Itochu/Mitsui upon completion of \$14,000 in expenditures. To December 31, 2010 approximately \$4,000 had been spent by Itochu/Mitsui pursuant to the option.

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Catface

The Company owns 100% (2009-97.4%) 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.

5. SHORT TERM DEBT

	2010	2009
(a) Concentrate advances of US\$10,000 (2009-\$5,426) 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.	\$ 9,946	\$ 5,679
(b) Revolving bank loan facility of \$493 (2009-\$nil) due on demand with interest at Bank Prime Rate plus 1% secured by accounts receivable and inventory. The facility is subject to maintenance of certain financial covenants.	493	–
	\$ 10,439	\$ 5,679

During the year 2010 the Company utilized significant additional short term bank loan facilities for a short period of time to restructure intercompany debt with its subsidiaries.

6. LONG TERM DEBT

	Note	2010	2009
Mount Polley Finance Contract	(a)	\$ 567	\$ 1,068
Mount Polley Finance Contract	(b)	622	1,004
Mount Polley Finance Contract	(c)	608	–
Mount Polley Finance Contract	(d)	718	–
Mount Polley Mine Construction Loan	(e)	–	584
		2,515	2,656
Less portion due within one year		(1,461)	(1,436)
		\$ 1,054	\$ 1,220
Repayments are due as follows:			
Year ending December 31, 2011		\$ 1,461	
Year ending December 31, 2012		846	
Year ending December 31, 2013		208	
		\$ 2,515	

(a) Finance contract aggregating \$567 (2009-\$1,068) repayable in monthly installments of \$44 until August 2011 including interest at Bank Prime Rate plus 1% (4% at December 31, 2010) and secured by mobile mining equipment at the Mount Polley mine. Monthly repayments are subject to adjustment for interest rate movements.

(b) Finance contract aggregating US\$625 (2009-US\$959) 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.

(c) Finance contract aggregating \$608 (2009-\$nil) repayable in monthly installments of \$25 until January 2013 including interest at Bank Prime Rate plus 2% (5% at December 31, 2010) and secured by certain mobile mining equipment at the Mount Polley mine. Monthly repayments are subject to adjustment for interest rate movements.

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- (d) Finance contract aggregating \$718 (2009-\$nil) repayable in monthly installments of \$25 until July 2013 including interest at Bank Prime Rate plus 2% (5% at December 31, 2010) and secured by certain mobile mining equipment at the Mount Polley mine. Monthly repayments are subject to adjustment for interest rate movements.
- (e) Mount Polley Mine Construction Loan in the amount of \$nil (2009-\$584) secured solely by and limited in recourse to the Company's interest in the mining lease and other assets of the Mount Polley mine with monthly payments of \$117 per month.

7. CONVERTIBLE DEBENTURES

On March 9, 2005, the Company issued subordinated unsecured convertible debentures with a face value of \$20,000 that matured 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 were subordinated to all senior security holders and had interest at 6% per year with interest payable semi-annually on June 30 and December 31, and were 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 were 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 was accreted to the face value of \$20,000 through the recording of additional interest expense over the term of the convertible debenture. Some of the convertible debentures were converted in 2005 and 2006 with the balance converted into 1,616,173 common shares prior to maturity in 2010.

	2010	2009
Balance, beginning of year	\$ 13,746	\$ 12,572
Accretion	215	1,174
Conversion	(13,961)	–
Balance, end of year	\$ –	\$ 13,746

8. FUTURE SITE RECLAMATION COSTS

	2010	2009
Balance, beginning of year	\$ 14,508	\$ 14,322
Accretion	1,128	1,070
Costs incurred during the year	(633)	(423)
Change in estimates of future costs and effect of translation of foreign currencies	723	(727)
Acquisition of Selkirk (Note 3)	–	266
Balance, end of year	15,726	14,508
Less portion due within one year	(982)	(1,070)
	\$ 14,744	\$ 13,438

The total undiscounted amount of estimated cash flows required to settle the obligations is \$51,109 (2009-\$50,100) which has been discounted using credit adjusted risk free rates of 7% to 10% (2009-7% 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 2157.

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 \$9,299 (2009-\$7,826) are legally restricted for the purposes of settling asset retirement obligations (Note 16).

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9. SHARE BASED COMPENSATION

Prior to May 19, 2010 the Company recognized a liability for the potential cash settlements under its Share Option Plans (Note 10(b)). The current portion represented the maximum amount of the liability payable within the next twelve month period if all vested options were surrendered for cash settlement.

As further described in Note 10(b) the Company amended its Share Option Plans to remove the cash settlement option effective May 19, 2010 resulting in the de-recognition of the liability as of that date.

	2010	2009
Balance, beginning of period	\$ 10,143	\$ –
Share based compensation	7,441	10,468
Current period payment for options exercised	(1,145)	(302)
Transferred to share capital on issuance of common shares	(2,364)	(23)
Transfer to contributed surplus on de-recognition of liability on amendment of stock option plans	(14,075)	–
Balance, end of period	–	10,143
Less portion due within one year	–	(9,411)
	\$ –	\$ 732

10. 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

(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, 2010 a total of 1,821,502 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 or five year period.

Until May 18, 2010 all option holders had 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 (Note 9).

On May 19, 2010 the Company amended its outstanding Share Option Plans removing the right of all option holders, 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 the reversal of the liability that was recorded for the intrinsic value of the stock options (Note 9).

Effective from the May 19, 2010 amendment to the Stock Option Plans the Company will revert to using the Black-Scholes option pricing model for any options granted subsequent to that date.

Prior to May 14, 2010 the Company granted an officer options to purchase 80,000 common shares of the Company.

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Subsequent to May 18, 2010 the Company granted its directors, officers and employees options to purchase 725,000 common shares of the Company. The fair value of the share options issued on the date noted below was estimated at the date of grant using the Black-Scholes option pricing model, based on the following terms and assumptions:

Date options issued	October 15, 2010
Number of options	725,000
Exercise price	\$23.10
Estimated fair value per share	\$11.82
Dividend yield	0%
Risk free interest rate	1.76%
Expected life	3.94 years
Expected volatility	67.4%

The determination of expected volatility and to a lesser degree, expected life, contained in the option pricing model is based on subjective assumptions which can materially affect the fair value estimate of the options at the date of grant.

The status of the Company's Share Option Plan as of December 31, 2010 and changes during the year is presented below:

	2010		2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of period	2,230,501	\$ 8.56	1,976,667	\$ 7.91
Granted	805,000	\$ 22.80	342,251	\$ 12.37
Exercised	(1,144,667)	\$ 7.05	(64,000)	\$ 7.93
Lapsed	(24,000)	\$ 14.38	(24,417)	\$ 10.26
Outstanding at end of period	1,866,834	\$ 15.55	2,230,501	\$ 8.56
Options exercisable at end of period	488,834	\$ 10.80	1,397,501	\$ 7.80

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

During the year ended December 31, 2010 the Company had two NCIB's. The first NCIB, the 2009/2010 bid, covered the period September 23, 2009 to September 22, 2010. Pursuant to the 2009/2010 NCIB, the Company was authorized by the Toronto Stock Exchange ("TSX") to purchase up to 1,285,159 common shares of the Company with daily purchases not to exceed 5,088 common shares, subject to certain prescribed exceptions.

On September 21, 2010 the TSX accepted for filing the Company's Notice for its 2010/2011 NCIB to be transacted through the facilities of the TSX.

Pursuant to the 2010/2011 NCIB, the Company may purchase up to 1,472,290 common shares, which represents approximately 4% of the total 36,807,258 common shares of the Company issued and outstanding as of September 9, 2010. Purchases will be made, at the discretion of the Company at prevailing market prices, commencing September 23, 2010 and ending September 22, 2011. Pursuant to TSX policies, daily purchases made by the Company will not exceed 18,727 common shares or 25% of the Company's average daily trading volume of 74,908 common shares on the TSX, subject to certain prescribed exceptions. The shares acquired under the 2010/2011 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 2010/2011 NCIB will be financed out of the working capital of the Company.

In the year ended December 31, 2010 the Company repurchased 6,000 common shares at an average price of \$18.93 per share pursuant to the NCIB's at a cost of \$114. A total of 6,000 common shares have been allocated to the Company's obligation under the Non-Management Directors Plan. 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.

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11. 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 income before income taxes due to the following reasons:

	2010		2009	
	Amount	%	Amount	%
Income (loss) before taxes	\$ 40,480	100.0	\$ (18,384)	100.0
Income tax expense (recovery) thereon at statutory rates	\$ 11,537	28.5	\$ (5,515)	(30.0)
Increase (decrease) resulting from:				
Change in valuation allowance	(9,220)	(22.8)	(3,195)	(17.4)
Impact of differences in rates	(509)	(1.3)	(796)	(4.3)
Non-deductible share based compensation	2,297	5.7	3,043	16.6
B.C. mineral taxes	1,843	4.6	1,330	7.2
Other	(791)	(2.0)	(492)	(2.7)
Income and mining taxes (recovery)	\$ 5,157	12.7	\$ (5,625)	(30.6)
Current income and mining taxes	\$ 8,795		\$ 19,327	
Future income and mining taxes	(3,638)		(24,952)	
	\$ 5,157		\$ (5,625)	

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

	2010	2009
Future income and mining tax assets		
Mineral properties – mineral taxes	\$ 6,093	\$ 7,342
Mineral properties	6,818	7,895
Net operating tax losses carried forward	7,128	6,645
Derivative instruments	4,656	4,509
Other	1,726	1,920
Future tax assets	26,421	28,311
Less valuation allowance	(7,039)	(17,629)
	19,382	10,682
Future income and mining tax liabilities		
Mineral properties	41,365	39,667
Timing of partnership items	9,497	5,988
Other	1,281	1,426
	52,143	47,081
Net future income and mining tax liabilities	\$ (36,761)	\$ (36,399)

As at December 31, 2010 the Company had net operating tax loss carry forwards in Canada of approximately \$2,454 which can be applied to reduce future Canadian taxable income and will expire in 2012 to 2030. In addition, the Company had net operating tax loss carry forwards in the United States of approximately US\$18,520 which can be applied to reduce future US taxable income and will expire in 2011 to 2030. A valuation allowance has been applied to \$613 of net operating tax loss carry forwards in Canada and to \$6,263 (US\$6,297) 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.

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12. DERIVATIVE INSTRUMENTS AND MARGIN DEPOSITS

	2010	2009
Assets		
Current		
Copper contracts	\$ 5,050	\$ 3,603
Foreign currency contracts	179	2,243
	<u>\$ 5,229</u>	<u>\$ 5,846</u>
Non-current		
Security deposits with counterparties	\$ 7,957	\$ 2,627
Copper contracts	668	1,897
	<u>\$ 8,625</u>	<u>\$ 4,524</u>
Liabilities		
Current		
Copper contracts	\$ 20,103	\$ 10,248
Foreign currency contracts	-	3,778
	<u>\$ 20,103</u>	<u>\$ 14,026</u>
Non Current		
Copper contracts	\$ 2,064	\$ 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, 2010 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, 2010 depending on the attributes of the contracts.

(a) Balances at December 31, 2010

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, 2010 for copper are as follows:

Contract Period	Weighted Average		Put Options Purchased	Call Options Sold (Bought)
	Minimum Price US\$/lb	Maximum Price US\$/lb		
2011	\$ 2.82	\$ 4.35	28,936,000	23,755,000
2011	\$ 3.00	-	-	(1,819,000)
2012	\$ 2.85	\$ 4.47	5,622,000	3,858,000

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.

Forward sales contracts for copper, all related to Huckleberry production, outstanding at December 31, 2010 are as follows:

Contract Period	Price US\$/lb	Forward Sales
		lbs of copper
2011	\$ 2.27	2,811,000

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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 forward copper price specified in the contract.

Forward sales contracts for US Dollars, all related to Huckleberry production, outstanding at December 31, 2010 are as follows:

	US/CDN Dollar Exchange Rate	Forward Sales US Dollars
2011	\$ 1.02	\$ 7,500,000

(b) Transactions Subsequent to December 31, 2010

From January 1 to March 24, 2011 the Company purchased put options, sold call options and entered into forward sales contracts to manage its exposure to changes in copper prices.

Contract Period	Weighted Average		Put Options Purchased lbs of copper	Call Options Sold lbs of copper
	Minimum Price US\$/lb	Maximum Price US\$/lb		
2011	\$ 3.96	\$ 4.86	2,425,000	2,425,000
2012	\$ 3.50	\$ 5.22	7,110,000	7,110,000

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.

(c) Contingent Gain

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 LBCS and Lehman filed for bankruptcy protection and as a result of the uncertainty regarding the timing of, and the ultimate recovery of the LBCS derivatives totaling \$28,306 (US\$21,931), the Company made a provision for the full amount of the LBCS derivatives in 2008.

During the last quarter of 2010 the Company's claims were confirmed by the Trustee for LBCS and Lehman at US\$18,510. The amount ultimately recovered by the Company on the LBCS derivatives will depend on the ability of the Trustee to generate sufficient cash to pay the liabilities of LBCS and Lehman.

13. INCOME (LOSS) PER SHARE

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

	2010	2009
Numerator:		
Net Income (loss)	\$ 35,323	\$ (12,759)
Denominator:		
Basic weighted-average number of common shares outstanding	36,145,881	32,454,691
Effect of dilutive securities:		
Stock options	490,353	–
Diluted potential common shares	490,353	–
Diluted weighted-average number of common shares outstanding	36,636,234	32,454,691
Basic net income (loss) per common share	\$ 0.98	\$ (0.39)
Diluted net income (loss) per common share	\$ 0.96	\$ (0.39)

Excluded from the calculation of diluted net income (loss) per common share for the year ended December 31, 2010 were 833,833 shares (2009–1,139,499 shares) related to stock options, and nil shares (2009–1,616,173 shares) related to the convertible debentures because their effect was anti-dilutive.

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14. RELATED PARTY TRANSACTIONS

Related party transactions and balances with a company controlled by a significant shareholder, a company in which a director is an owner, and directors are as follows:

	2010	2009
Convertible debentures (at face value)	\$ –	\$ 9,750
During the March 31, 2010 quarter all the convertible debentures with a face value of \$9,750 were converted into 1,127,166 common shares of the Company (Note 7)		
Accounts payable and accrued liabilities	\$ 1,789	\$ –
Interest expense on long term debt	\$ 109	\$ 585
Other interest expense	\$ –	\$ 26
Mineral production costs	\$ 35	\$ –
Mineral exploration costs	\$ 3,943	\$ –

Related party transactions are entered into in the normal course of operations, and unless otherwise stated are measured at the exchange amount.

In June 2009 the Company borrowed a total of \$3,000 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.

15. 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:

	2010 ⁽¹⁾	2009 ⁽¹⁾
Balance Sheet		
Current Assets		
Cash and cash equivalents	\$ 28,746	\$ 24,062
Short term investments	1,500	–
Derivative instrument assets	4,624	5,429
Other current assets	21,706	21,681
	56,576	51,172
Mineral property	9,372	8,199
Other non-current assets	20,443	12,578
	86,391	71,949
Current Liabilities		
Accounts payable and other current liabilities	(18,844)	(14,647)
Future site reclamation costs and other non-current liabilities	(11,410)	(13,990)
	\$ 56,137	\$ 43,312
Statement of Income (Loss) and Comprehensive Income (Loss)		
Revenues	\$ 82,010	\$ 67,227
Expenses	46,256	44,087
Income before undernoted	35,754	23,140
Loss on derivative instruments	(8,632)	(35,561)
Income (loss) before taxes	27,122	(12,421)
Income and mining taxes (recovery)	4,298	(2,835)
Net Income (Loss) and Comprehensive Income (Loss)	\$ 22,824	\$ (9,586)
Statement of Cash Flows		
Operating activities	\$ 22,286	\$ 14,915
Investing activities	(6,445)	1,383
Effect of foreign exchange on cash and cash equivalents	(1,157)	(1,597)
Increase in cash and cash equivalents	\$ 14,684	\$ 14,701

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 (2009-\$536). There were no operations during the year 2010 or 2009 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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16. COMMITMENTS, CONTINGENCIES AND PLEDGES

At December 31, 2010 the Company is committed to future minimum operating lease payments, including \$640 related to Huckleberry, as follows:

2011	\$	901
2012		169
2013		58
2014		53
2015		31
		<hr/>
	\$	1,212

As at December 31, 2010 Huckleberry had outstanding copper and foreign exchange derivative contracts with three counterparties all of which require security deposits based on the obligations resulting from the net fair value liability of the derivative instruments. For one counterparty, Huckleberry had both an initial and a mark to market security deposit with the initial deposit remaining fixed until the maturity of the final derivative instrument with the counterparty. Huckleberry is also obligated to provide additional mark to market security deposits to the other counterparties depending on the net fair value liability of the outstanding copper and foreign exchange derivative instruments with that counterparty.

The Company is obligated to increase its reclamation bond funding by \$3,000 by December 15, 2011, \$3,000 by December 15, 2012 and \$3,150 by December 15, 2013, all of which is related to Huckleberry.

At December 31, 2010 the Company has pledged cash deposits of \$7,929 (2009-\$6,456), including \$3,114 (2009-\$1,614) related to Huckleberry, shown as future site reclamation deposits and certain mining equipment and supplies inventory with a pledged value of \$1,370 (2009-\$1,370) as security for future site reclamation obligations (Note 8).

17. FINANCIAL INSTRUMENTS, INTEREST RATE AND CREDIT RISK

At December 31, 2010 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 2009.

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. in 2008 has demonstrated that counterparty risk was significantly greater at that time.

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The Company's maximum exposure to credit risk at December 31, 2010 is as follows:

	2010	2009
Cash and cash equivalents	\$ 28,818	\$ 23,854
Short term investments	1,500	–
Accounts receivable	55,168	42,188
Derivative instrument assets and margin deposits	13,854	10,370
Future site reclamation deposits	7,929	6,456
	<u>\$ 107,269</u>	<u>\$ 82,868</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 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, 2010 the Company's primary sources of credit are short term debt secured by concentrate inventory and a \$25,000 line of credit with a financial institution.

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 2009 on the strength of higher copper prices and resulting increase in cash flow and cash balances. The copper price increased throughout the year 2010 ending the year above the average 2010 copper price. 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:

					2010	2009
	Within 1 Year	2 to 3 Years	4 to 5 Years	Over 5 Years	Total	Total
Accounts payable and accrued liabilities	\$ 24,324	\$ –	\$ –	\$ –	\$ 24,324	\$ 20,456
Derivative instrument liabilities	20,103	2,064	–	–	22,167	18,365
Short term debt	10,439	–	–	–	10,439	5,679
Long term debt	1,461	1,054	–	–	2,515	2,656
Convertible debentures ⁽¹⁾	–	–	–	–	–	13,980
	<u>\$ 56,327</u>	<u>\$ 3,118</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 59,445</u>	<u>\$ 61,136</u>

(1) Presented at face value. Assumed non-conversion of debentures (Note 7)

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, 2010 would have been higher/lower by \$3,124. The impact of the derivative instruments entered into by the Company to manage the US Dollar/CDN Dollar exchange rate related to Huckleberry production (Notes 12(b) and (c)) are not included in this amount.

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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, 2010 on its outstanding borrowings was 4.5%.

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, 2010 would have increased/decreased by \$44.

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.

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, 2010 would have decreased/increased by \$14 as a result of the change in the equity prices of marketable securities. Changes in the fair value of the marketable securities 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.

The Company's sensitivity to equity prices has decreased significantly from the prior year as the Company's income is no longer impacted by mark to market gains or losses on share based compensation.

Fair Value Estimation

The fair value of financial instruments traded in active markets (such as held for trading securities) 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 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.

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 – 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, 2010 as follows:

	Level 1	Level 2	Total
Financial Assets			
Cash and cash equivalents	\$ 28,818	\$ –	\$ 28,818
Short term investments	1,500	–	1,500
Marketable securities	384	–	384
Accounts receivable	36,891	–	36,891
Derivative instruments assets	–	5,897	5,897
	67,593	5,897	73,490
Financial Liabilities			
Derivative instrument liabilities	–	22,167	22,167
	–	22,167	22,167
	\$ 67,593	\$ (16,270)	\$ 51,323

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18. NET CHANGE IN NON CASH OPERATING WORKING CAPITAL BALANCES

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

	2010	2009
Accounts receivable	\$ (12,980)	\$ (24,400)
Taxes receivable	2,751	4,416
Inventory	(10,541)	(11,264)
Derivative instrument assets and margin deposits	(6,377)	11,629
Accounts payable and accrued liabilities	3,868	3,326
Concentrate sales repayable	–	(30,470)
Taxes payable	(2,499)	9,587
Derivative instrument liabilities	5,593	(6,599)
	<u>\$ (20,185)</u>	<u>\$ (43,775)</u>

19. 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.

2010	Mount Polley	Huckleberry	Red Chris	Corporate	Total
Segmented Revenues	\$ 164,371	\$ 82,010	\$ –	\$ 842	\$ 247,223
Less inter-segment revenues	(280)	–	–	(92)	(372)
Revenues from external sources	\$ 164,091	\$ 82,010	\$ –	\$ 750	\$ 246,851
Income (loss) from operations	\$ 27,190	\$ 35,754	\$ (449)	\$ (11,103)	\$ 51,392
Depletion and depreciation	\$ 21,328	\$ 2,224	\$ –	\$ 572	\$ 24,124
Capital Expenditures ⁽¹⁾	\$ 23,161	\$ 3,444	\$ 17,512	\$ 4,393	\$ 48,510
Total Assets	\$ 191,131	\$ 85,854	\$ 123,935	\$ 39,121	\$ 440,041
2009	Mount Polley	Huckleberry	Red Chris	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	\$ (338)	\$ (10,883)	\$ 24,810
Depletion and depreciation	\$ 12,805	\$ 1,774	\$ –	\$ 228	\$ 14,807
Capital Expenditures ⁽¹⁾	\$ 12,874	\$ 7,561	\$ 4,922	\$ 2,479	\$ 27,836
Total Assets	\$ 160,867	\$ 71,413	\$ 102,588	\$ 38,203	\$ 373,071

(1) Including mobile mining equipment additions financed by long term debt of \$1,659 in 2010 and \$1,130 in 2009.

	2010	2009
Revenue by geographic area		
Japan (including \$80,959 (2009-\$66,946) related to Huckleberry)	\$ 127,477	\$ 118,149
United States	70,072	51,499
Europe (including \$692 (2009-\$176) related to Huckleberry)	47,016	30,806
Canada (including \$359 (2009-\$105) related to Huckleberry)	2,286	683
	<u>\$ 246,851</u>	<u>\$ 201,137</u>

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

In 2010 the Company had four principal customers (2009-four principal customers) with each customer accounting for 28% (2009-26%), 21% (2009-21%), 19% (2009-15%) and 19% (2009-24%).

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20. 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 principal action relates to American Bullion Minerals Ltd ("ABML").

In 2006 two minority shareholders of ABML 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. On November 8, 2010 the Court of Appeal for British Columbia certified the Petition of the two minority shareholders of ABML as a class proceeding. An application has been filed with the Supreme Court of Canada for leave to appeal the certification decision of the Court of Appeal for British Columbia.

21. SUBSEQUENT EVENT

On February 4, 2011 the Company and ABML (the "Parties") signed a definitive agreement under which the Company, subject to ABML shareholder and regulatory approval, will acquire all of the issued and outstanding common shares of ABML not presently owned by the Company (the "Minority Shares"). The Minority Shares represent about 48% of ABML. Under the terms of the Agreement, each holder of Minority Shares (other than holders exercising dissent rights) will receive \$2.25 cash for every Minority Share held. The total consideration payable under the proposed transaction ("Transaction") is approximately \$22,000.

The Parties anticipate that the Transaction will be carried out by way of a statutory Plan of Arrangement (the "Arrangement") whereby the Company will acquire all of the Minority Shares. Completion of the Transaction is subject to a number of conditions, including the approval of the Arrangement by the Supreme Court of British Columbia; approval by the shareholders of ABML at a special meeting (the "Meeting") that was to be held prior to April 21, 2011; and the holders of not more than 10% of the outstanding common shares of ABML exercising their right to dissent to the Transaction.

The Agreement provides for customary deal protections, including a non-solicitation covenant by ABML, a five business day right for the Company to match any superior proposal received by ABML and payment by ABML to the Company of a termination fee of \$675 if the offer is not completed in specified circumstances. The Transaction is not subject to a financing condition.

On February 18, 2011, counsel for the holders of the Minority Shares in an outstanding class action brought by two ABML minority shareholders against the Company, ABML and a former director of ABML (the "Oppression Action") applied to the Supreme Court of British Columbia (the "Court") for directions for the orderly settlement and disposition of the Oppression Action, in light of the Arrangement. The Oppression Action has been seeking an order that the Company buy out the ABML minority shares. At the initial hearing, the Court ordered that any application to the Court in connection with the Arrangement be made in the Oppression Action, and that no communication to the Minority Shareholders be made without the approval of plaintiff's counsel or the Court, pending a full hearing as to how the Arrangement is to proceed in conjunction with a settlement of the Oppression Action. The hearing is presently scheduled for April 13, 2011. The parties to the Arrangement have delayed work on the Information Circular and other documents required to proceed with the Arrangement, pending the outcome of this hearing.