



## **Second Quarter Report 2017**

### **Management's Discussion & Analysis**

For the Three and Six Months Ended June 30, 2017 and 2016

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for Imperial Metals Corporation ("Imperial", the "Company", "we", "us" or "our") should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2017 including the notes thereto ("the Interim Financial Statements"), as well as the audited Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2016. This MD&A contains statements that may be considered forward-looking information, and therefore investors are directed to review section "Forward-Looking Statements and Risks Notice" within this MD&A.

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

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

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

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 The Company was incorporated under the British Columbia *Company Act*, which was superseded by the British Columbia *Business Corporations Act* ("BCBCA"), on December 6, 2001 under the name IMI Imperial Metals Inc. Imperial changed its name to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

The Company is listed on The Toronto Stock Exchange and its shares trade under symbol III. As at August 14, 2017 the Company had 93,586,710 common shares outstanding, and on a diluted basis 109,494,361 common shares outstanding.

Additional Company disclosure can be obtained from [imperialmetals.com](http://imperialmetals.com) or [sedar.com](http://sedar.com).

## SIGNIFICANT EVENTS AND LIQUIDITY

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

The August 4, 2014 tailings dam breach at the Mount Polley mine ("Mount Polley Breach") resulted in the loss of full production from the mine, which was the primary source of cash flow for the Company in 2014. The Mount Polley mine restarted operations on August 5, 2015 following receipt of permit amendments on July 5, 2015 and April 29, 2016 which allowed recommencement of the mine using a modified operation plan that included the use of the Springer pit to contain the tailings produced. On June 23, 2016 Mount Polley received the necessary authorizations from the Ministry of Energy and Mines and the Ministry of Environment, to return to normal mine operations, making use of its repaired and buttressed tailings storage facility.

During the 2016 fiscal year the Company completed a number of transactions to improve liquidity. These included a private placement for gross proceeds of \$65.0 million, amendment of the financial covenants under the senior secured revolving credit facility ("Senior Credit Facility"), the sale of the US\$110.0 million cross currency swap for proceeds of \$25.5 million, refinancing some mobile equipment for proceeds of \$7.5 million, and entering into the electricity payment deferral plan with the British Columbia Hydro and Power Authority ("BC Hydro").

In May 2016 the Company announced it had extended the maturity date of the Senior Credit Facility from October 1, 2016 to March 15, 2018 and amended certain of its terms and conditions, including financial covenants. The amount of the facility has not changed and remains at \$200.0 million. Concurrently, the Company announced it had extended the maturity date of the second lien secured revolving credit facility from April 1, 2017 to August 15, 2018 and amended certain of its terms and conditions, including financial covenants. The amount of this facility is also unchanged and remains at \$50.0 million.

On February 15, 2017, the Company announced it had entered into a Letter of Intent to sell the Sterling gold mine property and related assets, completing the sale on May 30, 2017.

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

On April 7, 2017, Huckleberry Mines Ltd. (“Huckleberry”) exercised its right of first refusal to purchase for cancellation all the shares of Huckleberry held by a syndicate of Japanese companies in exchange for cash consideration of \$2.0 million. The acquisition of Huckleberry closed on April 28, 2017 with Huckleberry becoming a wholly owned subsidiary of the Company as of that date.

At June 30, 2017, the Company had cash of \$8.7 million, \$5.2 million undrawn on the Senior Credit Facility and a working capital deficiency of \$910.8 million, which includes \$842.5 million of current portion debt.

Based on the results of operations for the second quarter of 2017 the Company met three of four financial covenants contained in its Senior Credit Facility. But for the waiver referred to below, the Company would not have been in compliance with one of the financial covenants of the facility. The Senior Credit Facility matures on March 15, 2018 and has been classified as a current liability since March 15, 2017.

The Company has obtained a waiver from the Senior Credit Facility lenders such that no event of default has occurred under the facility. The waiver covers the period to September 30, 2017 and requires the Company to deliver a financing plan to the Senior Credit Facility lenders for their approval prior to September 30, 2017.

International Accounting Standard 1 requires all debt to be classified as a current liability where the Company does not have an unconditional right to defer settlement of the debt for at least twelve months after the relevant reporting period. Accordingly, even though no present event of default exists, all debt, which could, under any circumstances, be accelerated due to any potential action which could be taken by lenders prior to twelve months from June 30, 2017 must be classified as a current liability. Consequently, the second lien secured revolving credit facility, the senior unsecured notes, the convertible debentures, the junior credit facility and certain equipment loans are required to be classified as current liabilities as of June 30, 2017.

The Company is reviewing its mine plans and its capital requirements as a result of lower than expected metal production in the first half of 2017. This review may require the Company to secure additional financing or request extension of the maturity dates of some of its debt. There can be no assurance that adequate additional financing will be available on terms acceptable to the Company or at all or that the holders of the Company’s debt will agree to extend maturity dates. This creates a material uncertainty that could have an adverse impact on the Company’s financial condition and results of operations, and may cast significant doubt on the Company’s ability to continue as a going concern.

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

On July 31, 2017 the Company closed a \$20.0 million bridge loan financing (“Bridge Loan”) with affiliates of its two major shareholders. The Bridge Loan matures on the earlier of October 15, 2017 or the date the Company secures additional financing.

## **QUARTER HIGHLIGHTS**

### **FINANCIAL**

Revenues decreased to \$106.7 million in the June 2017 quarter compared to \$116.2 million in the 2016 comparative quarter, a decrease of \$9.5 million or 8%.

Revenue from the Red Chris mine in the June 2017 quarter was \$62.3 million compared to \$92.0 million in the 2016 comparative quarter. This decrease was attributable to lower grade ore processed and lower recoveries in the 2017 quarter compared to the 2016 quarter.

Revenue from the Mount Polley mine in the June 2017 quarter was \$44.1 million compared to \$24.0 million in the 2016 comparative quarter. This increase was primarily due a higher quantity of copper sold along with an increased quantity of gold by-product sold as the mine had not returned to normal operations for the entire June 2016 quarter.

In the June 2017 quarter, there were 3.5 concentrate shipments from Red Chris mine (2016-5.0 concentrate shipments) and 1.3 concentrate shipments from Mount Polley mine (2016-1.0 concentrate shipment). Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date.

The London Metals Exchange cash settlement copper price per pound averaged US\$2.57 in the June 2017 quarter compared to US\$2.14 in the 2016 comparative quarter. The London Metals Exchange cash settlement gold price per troy ounce averaged US\$1,257 in the June 2017 quarter compared to US\$1,259 in the June 2016 quarter. The average CDN/US\$ Dollar exchange rate was 1.345 in the June 2017 quarter, 4.3% higher than the exchange rate of 1.289 in the June 2016 quarter. In CDN Dollar terms the average copper price in the June 2017 quarter was CDN\$3.46 per pound compared to CDN\$2.76 per pound in the 2016 comparative quarter and the average gold price in the June 2017 quarter was CDN\$1,691 per ounce compared to CDN\$1,623 per ounce in the 2016 comparative quarter.

Revenue in the June 2017 quarter was decreased by \$0.5 million negative revenue revaluation compared to \$0.3 million positive revenue revaluation in the 2016 comparative quarter. Revenue revaluations are the result of the copper price on the settlement date and/or the current period balance sheet date being higher or lower than when the revenue was initially recorded or the copper price at the last balance sheet date.

Net income for the June 2017 quarter was \$64.1 million (\$0.68 per share) compared to net loss of \$4.2 million (\$0.05 per share) in the 2016 comparative quarter. The increase in net income of \$68.3 million was primarily due to the following factors:

- Income/loss from mine operations went from income of \$20.2 million in June 2016 to a loss of \$5.9 million in June 2017, a decrease in net income of \$26.1 million.
- Foreign exchange gains/losses on current and non-current debt went from a loss of \$1.6 million in June 2016 to a gain of \$12.4 million in June 2017, an increase in net income of \$14.0 million.
- The Company's equity loss in Huckleberry went from loss of \$1.7 million in June 2016 to income of \$1.0 million in June 2017, an increase in net income of \$2.7 million.
- Tax expense went from \$2.5 million in June 2016 to a recovery of \$3.5 million in June 2017, an increase in net income of \$6.0 million.
- The Company recorded an increase in net income in the June 2017 quarter of \$74.8 million as a result of the gain on bargain purchase for the additional 50% share of Huckleberry.

The June 2017 quarter net income included foreign exchange gain related to changes in CDN/US Dollar exchange rate of \$12.4 million compared to foreign exchange loss of \$2.1 million in the 2016 comparative quarter. The \$12.4 million foreign exchange gain is comprised of a \$11.1 million gain on the senior notes, a \$0.3 million gain on long term equipment loans, and a \$1.0 million gain on short-term debt and operational items. The average CDN/US Dollar exchange rate in the June 2017 quarter was 1.345 compared to an average of 1.289 in the 2016 comparative quarter.

Cash flow was \$12.3 million in the June 2017 quarter compared to cash flow of \$40.3 million in the 2016 comparative quarter. Cash flow is a measure used by the Company to evaluate its performance, however, it is not a term recognized under IFRS. The Company believes Cash flow is useful to investors and it is one of the measures used by management to assess the financial performance of the Company.

Capital expenditures were \$28.8 million in the June 2017 quarter, up from \$24.2 million in the 2016 comparative quarter. The June 2017 expenditures included \$8.4 million for tailings dam construction, \$10.8 million for component changes on mobile equipment, \$2.8 million for mobile equipment and \$6.8 million relating to non-cash consideration received by the Company in the Sterling gold mine sale in the form of a Net Smelter Royalty ("NSR") and Net Operating Profit ("NOP") which have been included in mineral properties for the quarter. Further discussion on the Sterling sale can be found under the heading Sterling Mine.

## **OPERATIONS**

Due to weaker than expected results in the second quarter as previously announced, the production target for the year for the Red Chris and Mount Polley mines were adjusted to 102-107 million pounds copper compared to the initial target of 110-118 million pounds copper.

At June 30, 2017, the Company has not hedged any copper, gold or CDN/US Dollar exchange. Quarterly revenues will fluctuate depending on copper and gold prices, the CDN/US Dollar exchange rate, and the timing of concentrate sales, which is dependent on concentrate production and the availability and scheduling of transportation.

## Red Chris Mine

Metal production for the June 2017 quarter was 15.4 million pounds copper and 6,159 ounces gold. These results were weaker than targeted and similar to the production levels achieved in the March 2017 quarter. Copper recovery was 75.79%, down from the 78.34% achieved in the June 2016 quarter, while treating substantially lower copper grades of 0.341% compared to 0.587% treated in the June 2016 quarter. The mill achieved average throughput of 29,707 tonnes per calendar day for the June 2017 quarter which was 99% of design and up 3% from the comparable quarter in 2016. We have continued to make progress with throughput and operating time and in July throughput averaged 32,303 tonnes per calendar day, setting a new record for monthly average mill throughput at Red Chris.

Mining the upper benches of the Phase 3 pushback is still yielding significant volumes of high clay ore. Mill throughput is being maximized, while treating this softer ore, to offset the lower recoveries achieved while treating these ores. In late May 2017 the installation of a seventh rougher cell was completed and began operation.

<b>Red Chris Production</b>	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Ore milled - tonnes	2,703,363	2,636,332	5,106,864	4,780,129
Ore milled per calendar day - tonnes	29,707	28,971	28,215	26,264
Grade % - copper	0.341	0.587	0.363	0.606
Grade g/t - gold	0.192	0.400	0.196	0.391
Recovery % - copper	75.79	78.34	77.64	78.78
Recovery % - gold	36.92	53.77	37.27	54.49
Copper – 000's pounds	15,423	26,737	31,751	50,242
Gold – ounces	6,159	18,213	11,971	32,772
Silver – ounces	26,875	66,054	54,827	122,435

Exploration, development and capital expenditures were \$18.7 million in the June 2017 quarter compared to \$11.0 million in the comparative 2016 quarter.

## Mount Polley Mine

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

Metal production for the June 2017 quarter was 5.6 million pounds copper and 13,958 ounces gold, up 5% for copper and 47% for gold respectively from the June 2016 quarter metal production. Throughput was up 13% averaging 19,544 tonnes per day and the gold grade was up 20% for the June 2017 quarter compared to the June 2016 quarter. Production in the third quarter will be impacted by the two weeks of operating time lost due to the Evacuation Order.

<b>Mount Polley Production</b>	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Ore milled - tonnes	1,779,403	1,573,542	3,472,164	3,282,690
Ore milled per calendar day - tonnes	19,554	17,292	19,183	18,037
Grade % - copper	0.212	0.224	0.209	0.268
Grade g/t - gold	0.334	0.277	0.344	0.304
Recovery % - copper	67.33	68.33	69.23	69.52
Recovery % - gold	73.15	67.62	72.35	69.82
Copper – 000's pounds	5,606	5,314	11,067	13,493
Gold – ounces	13,958	9,476	27,769	22,389
Silver – ounces	10,537	17,104	21,414	52,135

Exploration, development and capital expenditures were \$3.1 million in the June 2017 quarter compared to \$13.2 million in the comparative 2016 quarter.

The 2016/2017 Martel drilling program was successful in expanding the understanding of the geology and economic potential for the Martel zone. A new resource has been completed from the drill program results, as provided in the following table:

### **Martel Zone Resource Estimate**

	Cut-off	\$MHV	Tonnes	\$MHV	Copper %	Gold g/t	Silver g/t
Measured	>=	30	6,417,850	53.86	0.92	0.28	5.83
Indicated	>=	30	390,953	49.58	0.77	0.38	5.16
Inferred	>=	30	635,620	87.92	1.29	0.59	8.32
M&I	>=	30	6,808,804	53.62	0.91	0.28	5.79

The Company's Qualified Person (as defined by National Instrument 43-101) for the drill program is Chris Rees, Ph.D., P.Geol., and for the resource estimate is Greg Gillstrom, P.Eng.

### **Huckleberry Mine**

The Huckleberry open pit copper mine, currently on care and maintenance, is located 88 kilometres from Houston in west central British Columbia. The Huckleberry property consists of two mining leases covering 2,422 hectares and 39 mineral claims encompassing approximately 17,358 hectares.

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

The Company had a 50% interest in Huckleberry that was accounted for on the equity basis of accounting. The Company has accounted for the acquisition of the remaining 50% interest in Huckleberry as a business combination whereby the net assets acquired are recorded at fair value. The fair values disclosed at June 30, 2017 are provisional estimates because the acquisition only occurred on April 28, 2017, and due to a number of factors, including the complexity of valuing mineral property interests at various stages of development, further work will be required to confirm the final fair values. The finalization of the fair values of the assets and liabilities acquired is expected to be reported no later than the Company's December 31, 2017 financial statements, the final fair values may be materially different than the provisional fair values outlined below.

The Company has provisionally estimated the acquisition date fair values of the acquired assets and liabilities of Huckleberry and the fair value of the Company's previously held 50% interest in Huckleberry by reference to their pre-acquisition carrying values, a level 3 fair value measurement. These pre-acquisition carrying values had been subject to normal impairment assessment pre and post-acquisition with no impairment charges recorded.

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

expressed in thousands of dollars

#### ***Assets Relinquished***

Accrued receivable due to the Company	\$1,009
Fair value of the Company's initial 50% investment in Huckleberry	77,832
	<u>\$78,841</u>

#### ***Identifiable Assets Acquired and Liabilities Assumed***

Cash	\$18,440
Reclamation bonds	14,135
Prepaid and other receivables	648
Inventory	7,941
Mineral properties	164,265
Trade and other payables	(1,668)
Deferred trade payables	(4,925)
Future site reclamation provisions	(45,171)
	<u>\$153,665</u>
Gain on bargain purchase of Huckleberry	<u>\$74,824</u>

From the date of acquisition on April 28, 2017 to June 30, 2017, Huckleberry incurred idle mine costs comprised of \$1.0 million in operating costs and \$0.9 million in depreciation expense.

## Sterling Mine

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

A summary of the transaction is as follows:

expressed in thousands of dollars

### *Assets sold*

Inventory and supplies	\$102
Prepaid expenses and deposits	16
Mineral properties	22,111
Reclamation bonds	4,412
	<hr/>
	26,641

### *Liabilities released*

Future site reclamation provisions	(5,078)
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Net assets sold	\$21,563

### *Consideration received*

Cash	\$9,158
Cash to be received from refund of reclamation bonds	4,412
Marketable securities	1,267
Net smelter royalty	2,251
Net profits interest	4,595
Transaction costs	(40)
	<hr/>
	\$21,643
	<hr/>
Gain on sale of Sterling gold mine	\$80

The Company has a right to receive additional marketable securities, which, if received, will be recorded as a gain on sale when received. This contingent asset has not been recognized as at June 30, 2017.

The net smelter royalties apply at the rate of 2% over all mineral properties sold that are not burdened by an existing royalty. The net profits interest is a 50% interest in the operations of certain patented bioleaching technology on the existing heap leach pads at Sterling.



## EARNINGS AND CASH FLOW

### Select Quarter Financial Information

expressed in thousands, except share and per share amounts

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Total revenues	\$106,741	\$116,200	\$222,490	\$252,985
Net income (loss)	\$64,080	\$(4,160)	\$45,328	\$13,569
Net income (loss) per share	\$0.68	\$(0.05)	\$0.48	\$0.17
Diluted income (loss) per share	\$0.68	\$(0.05)	\$0.48	\$0.17
Adjusted net loss <sup>(1)</sup>	\$(22,250)	\$(1,214)	\$(44,546)	\$(15)
Adjusted net loss per share <sup>(1)</sup>	\$(0.24)	\$(0.01)	\$(0.48)	\$(0.00)
Adjusted EBITDA <sup>(1)</sup>	\$12,851	\$40,488	\$28,039	\$90,339
Total assets	\$1,611,646	\$1,446,200	\$1,611,646	\$1,446,200
Total debt (including current portion)	\$849,917	\$835,214	\$849,917	\$835,214
Cash flow <sup>(1)(2)</sup>	\$12,341	\$40,327	\$27,406	\$89,752
Cash flow per share <sup>(1)(2)</sup>	\$0.13	\$0.49	\$0.29	\$1.10

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

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

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

expressed in thousands

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income (loss) before undernoted items	\$(10,768)	\$11,415	(\$17,844)	\$21,925
Interest expense	(13,518)	(12,664)	(26,955)	(24,904)
Foreign exchange gain (loss) on debt, net of gains on cross currency swap	12,430	(1,214)	15,780	22,221
Gain on bargain purchase of Huckleberry	74,824	-	74,824	-
Gain on sale of Sterling	80	-	80	-
Share of income (loss) in Huckleberry	1,032	(1,697)	(557)	(5,673)
Net income (loss)	\$64,080	\$(4,160)	\$45,328	\$13,569

## NON-IFRS FINANCIAL MEASURES

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

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

### Adjusted Net Loss and Adjusted Net Loss per Share

Adjusted net loss in the June 2017 quarter was \$22.3 million (\$0.24 per share) compared to an adjusted net loss of \$1.2 million (\$0.01 per share) in the 2016 comparative quarter. Adjusted net income or loss reflects the financial results excluding the effect of items not settling in the current period and non-recurring items. Adjusted net income or loss is calculated by removing the gains or losses, resulting from mark to market revaluation of derivative instruments not related to the current period, net of tax, unrealized foreign exchange gains or losses on non-current debt, net of tax, as further detailed in the following table.

#### Calculation of Adjusted Net Income (Loss)

expressed in thousands, except share and per share amounts

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income (loss) reported	\$64,080	\$(4,160)	\$45,328	\$13,569
Realized and unrealized (gain) loss on derivative instruments related to cross currency swaps, net of tax <sup>(a)</sup>	-	(319)	-	11,294
Unrealized foreign exchange (gain) loss on non-current debt, net of tax <sup>(b)</sup>	(11,426)	3,265	(14,970)	(24,878)
Gain on bargain purchase of Huckleberry <sup>(c)</sup>	(74,824)		(74,824)	
Gain on sale of Sterling <sup>(c)</sup>	(80)	-	(80)	-
<b>Adjusted net loss</b>	<b>\$(22,250)</b>	<b>\$(1,214)</b>	<b>\$(44,546)</b>	<b>\$(15)</b>
Basic weighted average number of common shares outstanding	93,586,710	81,761,028	93,586,710	81,761,028
<b>Adjusted net loss per share</b>	<b>\$(0.24)</b>	<b>\$(0.01)</b>	<b>\$(0.48)</b>	<b>\$(0.00)</b>

(a) Derivative financial instruments related to foreign currency swaps are recorded at fair value on the Company's Statement of Financial Position, with changes in the fair value, net of taxes flowing through net income. The amounts ultimately realized may be materially different than reflected in the financial statements due to changes in value of the underlying foreign currency hedged.

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

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

## Adjusted EBITDA

Adjusted EBITDA in the June 2017 quarter was \$12.9 million compared to \$40.5 million in the 2016 comparative quarter. We define Adjusted EBITDA as net income (loss) before interest expense, taxes, depletion and depreciation, and as adjusted for certain other items described in the reconciliation table below.

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

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

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

expressed in thousands	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016 <sup>(a)</sup>	2017	2016
Net income (loss)	\$64,080	\$(4,160)	\$45,328	\$13,569
Adjustments:				
Income and mining tax (recovery) expense	(3,520)	2,505	(8,515)	5,504
Interest expense	18,268	17,114	36,426	33,654
Depletion and depreciation	21,375	20,799	43,061	45,558
Accretion of future site reclamation provisions	586	227	939	458
Unrealized losses on derivative instruments	-	(366)	-	12,982
Share based compensation	313	690	583	1,438
Foreign exchange (gain) loss	(12,509)	2,121	(15,640)	(28,383)
Revaluation losses on marketable securities	(81)	(107)	(71)	(127)
Loss on sale of mineral properties	-	(32)	-	(32)
Write down of mineral properties	-	-	-	45
Share of (income) loss from Huckleberry	(1,032)	1,697	557	5,673
Gain on bargain purchase of Huckleberry	(74,824)	-	(74,824)	-
Gain on sale of Sterling	(80)	-	(80)	-
Other	275	-	275	-
Adjusted EBITDA	\$12,851	\$40,488	\$28,039	\$90,339

(a) The 2016 EBITDA has been adjusted to conform to the presentation adopted for the year ended December 31, 2016.

## Cash Flow and Cash Flow Per Share

Cash flow in the June 2017 quarter was \$12.3 million compared to \$40.3 million in the 2016 comparative quarter. Cash flow per share was \$0.13 in the June 2017 quarter compared to \$0.49 in the 2016 comparative quarter.

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

expressed in thousands, except per share and per share amounts	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Income (Loss) before taxes	\$60,560	\$(1,655)	\$36,813	\$19,073
Items not affecting cash flows				
Equity (income) loss in Huckleberry	(1,032)	1,697	557	5,673
Depletion and depreciation	21,375	20,799	43,061	45,558
Share based compensation	313	690	583	1,438
Accretion of future site reclamation provisions	586	227	939	458
Unrealized foreign exchange (gain) loss	(12,744)	1,963	(15,998)	(28,966)
Unrealized losses on derivative instruments	-	(366)	-	12,982
Interest expense	18,268	17,114	36,426	33,654
Gain on bargain purchase of Huckleberry	(74,824)	-	(74,824)	-
Gain on sale of Sterling	(80)	-	(80)	-
Other	(81)	(142)	(71)	(118)
<b>Cash flow</b>	<b>\$12,341</b>	<b>\$40,327</b>	<b>\$27,406</b>	<b>\$89,752</b>
Basic weighted average number of common shares outstanding	93,586,710	81,761,028	93,586,710	\$81,761,028
Cash flow per share	\$0.13	\$0.49	\$0.29	\$1.10

### Cash Cost Per Pound of Copper Produced

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

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

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

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

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

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

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

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US\$ for the three months ended June 30, 2017 and 2016.

### Cash Cost Per Pound of Copper Produced

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

	Three Months Ended June 30, 2017						
	Huckleberry		Red	Mount	Sterling &	Total per	Composite
	100%	50%	Chris	Polley	Corporate	Financial Statements	
	A	B	C			D=A+B+C	
Cost of sales	\$ -	\$ -	\$69,267	\$42,954	\$371	\$112,592	\$112,221
Less:							
Depletion and depreciation	-	-	(12,366)	(8,014)	(56)	(20,436)	(20,380)
Share based compensation	-	-	(94)	(7)	-	(101)	(101)
Cash costs before adjustment to production basis	-	-	56,807	34,933	\$315	\$92,055	91,740
Adjust for inventory change	-	-	(6,083)	(2,170)			(8,253)
Adjust transportation and offsite costs	-	-	(694)	438			(256)
Treatment, refining and royalty costs	-	-	7,235	2,352			9,587
By-product and other revenues	-	-	(9,689)	(22,429)			(32,118)
Cash cost of copper produced in Cdn\$	\$ -	\$ -	\$47,576	\$13,124			\$60,700
US\$ to Cdn\$ exchange rate	-	-	1.3450	1.3450			1.3450
Cash cost of copper produced in US\$	\$ -	\$ -	\$35,372	\$9,758			\$45,130
<i>Copper produced – pounds</i>	-	-	15,423	5,606			21,029
Cash cost per lb copper produced in US\$	\$ -	\$ -	\$2.29	\$1.74			\$2.15

	Three Months Ended June 30, 2016						
	Huckleberry		Red	Mount	Sterling &	Total per	Composite
	100%	50%	Chris	Polley	Corporate	Financial Statements	
	A	B	C			D=A+B+C	
Cost of sales	\$18,403	\$9,202	\$63,030	\$32,521	\$498	\$96,049	\$104,753
Less:							
Depletion and depreciation	(5,285)	(2,643)	(14,666)	(5,945)	(105)	(20,716)	(23,254)
Share based compensation	-	-	(162)	(103)	-	(265)	(265)
Management fees paid by Huckleberry*	(143)	(72)	-	-	-	-	(72)
Cash costs before adjustment to production basis	12,975	6,487	48,202	26,473	\$393	\$75,068	81,162
Adjust for inventory change	3,531	1,766	348	5,405			7,519
Adjust transportation and offsite costs	555	277	414	169			860
Treatment, refining and royalty costs	3,392	1,696	10,250	2,018			13,964
By-product and other revenues	(2,008)	(1,004)	(29,354)	(15,320)			(45,678)
Cash cost of copper produced in Cdn\$	\$18,445	\$9,222	\$29,860	\$18,745			\$57,827
US\$ to Cdn\$ exchange rate	1.2885	1.2885	1.2885	1.2885			1.2885
Cash cost of copper produced in US\$	\$14,315	\$7,157	\$23,174	\$14,548			\$44,879
<i>Copper produced – pounds</i>	7,713	3,857	26,737	5,314			35,908
Cash cost per lb copper produced in US\$	\$1.86	\$1.86	\$0.87	\$2.74			\$1.25

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

The following tables reconcile cost of sales as shown on the consolidated statement of comprehensive income to the cash cost per pound of copper produced in US\$ for the six months ended June 30, 2017 and 2016.

### Cash Cost Per Pound of Copper Produced

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

	Six Months Ended June 30, 2017						
	Huckleberry		Red	Mount	Sterling &	Total per	Composite
	100%	50%	Chris	Polley	Corporate	Financial Statements	
	A	B	C			D=A+B+C	
Cost of sales	\$ -	\$ -	\$128,299	\$104,854	\$936	\$234,089	\$233,153
Less:							
Depletion and depreciation	-	-	(22,799)	(19,141)	(150)	(42,090)	(41,940)
Share based compensation	-	-	(162)	(12)	-	(174)	(174)
Cash costs before adjustment to production basis	-	-	105,338	85,701	\$786	\$191,825	191,039
Adjust for inventory change	-	-	80	(17,670)			(17,590)
Adjust transportation and offsite costs	-	-	(520)	(670)			(1,190)
Treatment, refining and royalty costs	-	-	13,597	4,496			18,093
By-product and other revenues	-	-	(18,407)	(44,377)			(62,784)
Cash cost of copper produced in Cdn\$	\$ -	\$ -	\$100,088	\$27,480			\$127,568
US\$ to Cdn\$ exchange rate	-	-	1.3340	1.3340			1.3340
Cash cost of copper produced in US\$	\$ -	\$ -	\$75,028	\$20,600			\$95,628
Copper produced – pounds	-	-	31,751	11,067			42,818
Cash cost per lb copper produced in US\$	\$ -	\$ -	\$2.36	\$1.86			\$2.23

	Six Months Ended June 30, 2016						
	Huckleberry		Red	Mount	Sterling &	Total per	Composite
	100%	50%	Chris	Polley	Corporate	Financial Statements	
	A	B	C			D=A+B+C	
Cost of sales	\$54,754	\$27,377	\$131,221	\$80,095	\$1,170	\$212,486	\$238,693
Less:							
Depletion and depreciation	(13,584)	(6,792)	(29,050)	(16,005)	(240)	(45,295)	(51,847)
Share based compensation	-	-	(349)	(205)	-	(554)	(554)
Management fees paid by Huckleberry*	(292)	(146)	-	-	-	-	(146)
Cash costs before adjustment to production basis	40,878	20,439	101,822	63,885	\$930	\$166,637	186,146
Adjust for inventory change	(5,972)	(2,986)	(6,770)	(1,812)			(11,568)
Adjust transportation and offsite costs	469	235	(100)	(228)			(93)
Treatment, refining and royalty costs	7,231	3,616	19,788	5,300			28,704
By-product and other revenues	(4,068)	(2,034)	(52,848)	(36,410)			(91,292)
Cash cost of copper produced in Cdn\$	\$38,538	\$19,270	\$61,892	\$30,735			\$111,897
US\$ to Cdn\$ exchange rate	1.3317	1.3317	1.3317	1.3317			1.3317
Cash cost of copper produced in US\$	\$28,939	\$14,470	\$46,476	\$23,080			\$84,026
Copper produced – pounds	15,991	7,995	50,242	13,493			71,730
Cash cost per lb copper produced in US\$	\$1.81	\$1.81	\$0.93	\$1.71			\$1.17

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

## RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2017 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2016

### Overview

Revenues decreased to \$106.7 million in the June 2017 quarter compared to \$116.2 million in the 2016 comparative quarter. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date.

The Company had a loss from mine operations of \$5.9 million in the June 2017 quarter compared to income of \$20.2 million in the 2016 comparative quarter.

Net income for the June 2017 quarter was \$64.1 million (\$0.68 per share) compared to a net loss of \$4.2 million (\$0.05 per share) in the 2016 comparative quarter.

### Revenue

expressed in thousands of dollars, except quantity amounts

	Three Months Ended June 30	
	2017	2016
Revenue before revaluation	\$107,228	\$115,868
Revenue revaluation	(487)	332
	<u>\$106,741</u>	<u>\$116,200</u>

expressed in thousands of dollars, except quantity amounts

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

expressed in thousands of dollars, except quantity amounts

	Three Months Ended June 30, 2016			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
Sales				
Copper – 000's pounds	25,799	4,784	-	30,583
Gold – ounces	17,310	7,742	-	25,052
Silver – ounces	67,051	18,373	-	85,424
Revenue				
Copper	\$61,657	\$10,711	\$ -	\$72,368
Gold	28,766	12,866	-	41,632
Silver	1,605	451	-	2,056
	<u>92,028</u>	<u>24,028</u>	<u>-</u>	<u>116,056</u>
Corporate	-	-	-	144
Total Revenue	<u>\$92,028</u>	<u>\$24,028</u>	<u>\$ -</u>	<u>\$116,200</u>

During the June 2017 quarter the Company sold 23.1 million pounds copper and 22.7 ounces gold compared to 30.6 million pounds copper and 25,052 ounces gold in the 2016 comparative quarter.

During the June 2017 quarter there were 3.5 concentrate shipments from Red Chris mine (2016–5.0 concentrate shipments) and 1.3 concentrate shipments from Mount Polley mine (2016–1.0 concentrate shipment).

During the June 2017 quarter the Company's revenue was derived primarily from the sale of copper and gold in concentrate from the Red Chris and Mount Polley mines. The Red Chris mine accounted for 58% and Mount Polley mine accounted for 41% of the Company's revenue in the period. Copper accounted for 65% and gold accounted for 34% of the Company's revenue in the period.

### Cost of Sales

expressed in thousands of dollars

	Three Months Ended June 30	
	2017	2016
Operating expenses	\$67,430	\$57,010
Salaries, wages and benefits	24,625	18,058
Depletion and depreciation	20,436	20,716
Share based compensation	101	265
	<u>\$112,592</u>	<u>\$96,049</u>

Cost of sales for the June 2017 quarter reflects primarily the operations at the Red Chris and Mount Polley mines.

### General and Administration Costs

expressed in thousands of dollars

	Three Months Ended June 30	
	2017	2016
Administration	\$962	\$669
Share based compensation - corporate	212	425
Depreciation – corporate assets	32	82
Foreign exchange (income) loss - operations, excluding debt	(77)	541
	<u>\$1,129</u>	<u>\$1,717</u>

General and administration costs were \$1.1 million in the June 2017 quarter compared to \$1.7 million in the 2016 comparative quarter. Administration costs increased in the June 2017 quarter primarily as a result of higher professional services costs.

The average CDN/US Dollar exchange rate for the June 2017 quarter was 1.345 compared to 1.289 in the 2016 comparative quarter. Foreign exchange losses are attributable to holding US Dollar denominated cash, accounts receivable, and accounts payable. These net US Dollar asset and liability balances are primarily the result of the activities at the Red Chris and Mount Polley mines.

### Interest Expense

expressed in thousands of dollars

	Three Months Ended June 30	
	2017	2016
Interest on non-current debt	\$16,771	\$16,325
Other interest	1,497	789
	<u>\$18,268</u>	<u>\$17,114</u>

Interest expense increased to \$18.3 million in the June 2017 quarter from \$17.1 million in the 2016 comparative quarter. The interest expense increased primarily as a result of the following: interest expense on non-current debt increased from \$16.3 million in the June 2016 quarter to \$16.8 million in the June 2017 quarter, an increase of \$0.5 million related primarily to higher rates paid on the Senior Credit Facility. Other interest expense increased from \$0.8 million in 2016 to \$1.5 million in 2017 an increase of \$0.7 million. This increase was primarily due to the additional interest expense on other obligations in 2017 compared to 2016. The average balances outstanding during 2017 were also higher than in 2016, which resulted to higher interest expense. Interest expense is determined by a variety of factors including levels of non-current debt, levels of short term debt on concentrate advances, the interest rate on the debt and foreign exchange rates on interest incurred on US denominated debt.



## Other Finance Income (Expense)

expressed in thousands of dollars

	Three Months Ended June 30	
	2017	2016
Accretion of future site reclamation provisions	\$(586)	\$(227)
Foreign exchange gain (loss) on debt	12,430	(1,580)
Fair value adjustment to marketable securities	81	107
Unrealized gain on derivative instruments	-	366
	11,925	(1,334)
Interest income	47	24
Other finance income	\$11,972	\$(1,310)

Other finance income totaled \$12.0 million in the June 2017 quarter compared to expense of \$1.3 million in the 2016 comparative quarter with the income and expense resulting from a combination of factors as discussed below.

At June 30, 2017, the Company had US Dollar denominated debt of US\$331.9 million compared to US\$345.6 million at December 31, 2016. Foreign exchange gains and losses attributable to US denominated short and non-current debt reflect the foreign currency movement during the three months ended June 30, 2017 and resulted in a \$11.1 million gain on the senior notes and \$0.3 million gain on equipment loans.

## RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2017 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2016

### Overview

Revenues decreased to \$222.5 million in the June 2017 period compared to \$253.0 million in the 2016 comparative period. Variations in revenue are impacted by the timing and quantity of concentrate shipments, metal prices and exchange rates, and period end revaluations of revenue attributed to concentrate shipments where copper and gold prices will settle at a future date.

The Company had a loss from mine operations of \$11.6 million in the June 2017 period compared to income of \$40.5 million in the 2016 comparative period.

Net income for the June 2017 period was \$45.3 million (\$0.48 per share) compared to a net income of \$13.6 million (\$0.17 per share) in the 2016 comparative period.

### Revenue

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30	
	2017	2016
Revenue before revaluation	\$217,879	\$247,431
Revenue revaluation	4,611	5,554
	<u>\$222,490</u>	<u>\$252,985</u>

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30, 2017			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
Sales				
Copper – 000's pounds	31,874	14,926	-	46,800
Gold – ounces	11,671	36,501	200	48,372
Silver – ounces	57,758	29,357	-	87,115
Revenue				
Copper	\$98,004	\$46,281	\$ -	\$144,285
Gold	18,509	58,234	336	77,079
Silver	345	631	-	976
	<u>116,858</u>	<u>105,146</u>	<u>336</u>	<u>222,340</u>
Corporate	-	-	-	150
Total Revenue	<u>\$116,858</u>	<u>\$105,146</u>	<u>\$336</u>	<u>\$222,490</u>

expressed in thousands of dollars, except quantity amounts

	Six Months Ended June 30, 2016			
	Red Chris Mine	Mount Polley Mine	Sterling Mine	Total
Sales				
Copper – 000's pounds	51,311	14,219	-	65,530
Gold – ounces	32,383	24,610	109	57,102
Silver – ounces	124,567	51,457	-	176,024
Revenue				
Copper	\$123,464	\$33,915	\$ -	\$157,379
Gold	50,986	40,697	175	91,858
Silver	2,439	1,015	-	3,454
	<u>176,889</u>	<u>75,627</u>	<u>175</u>	<u>252,691</u>
Corporate	-	-	-	294
Total Revenue	<u>\$176,889</u>	<u>\$75,627</u>	<u>\$175</u>	<u>\$252,985</u>

During the June 2017 period the Company sold 46.8 million pounds copper and 48.4 ounces gold compared to 65.5 million pounds copper and 57,102 ounces gold in the 2016 comparative period.

During the June 2017 period the Company's revenue was derived primarily from the sale of copper and gold in concentrate from the Red Chris and Mount Polley mines. The Red Chris mine accounted for 53% and Mount Polley mine accounted for 47% of the Company's revenue in the period. Copper accounted for 65% and gold accounted for 35% of the Company's revenue in the period.

### Cost of Sales

expressed in thousands of dollars

	Six Months Ended June 30	
	2017	2016
Operating expenses	\$138,054	\$123,218
Salaries, wages and benefits	53,771	43,419
Depletion and depreciation	42,090	45,295
Share based compensation	174	554
	<u>\$234,089</u>	<u>\$212,486</u>

Cost of sales for the June 2017 period reflects primarily the operations at the Red Chris and Mount Polley mines.

### General and Administration Costs

expressed in thousands of dollars

	Six Months Ended June 30	
	2017	2016
Administration	\$1,770	\$2,086
Share based compensation - corporate	409	884
Depreciation – corporate assets	64	262
Foreign exchange loss – operations, excluding debt	141	779
	<u>\$2,384</u>	<u>\$4,011</u>

General and administration costs were \$2.4 million in the June 2017 period compared to \$4.0 million in the 2016 comparative period.

The average CDN/US Dollar exchange rate for the June 2017 period was 1.334 compared to 1.332 in the 2016 comparative period. Foreign exchange losses are attributable to holding US Dollar denominated cash, accounts receivable, and accounts payable. These net US Dollar asset and liability balances are primarily the result of the activities at the Red Chris and Mount Polley mines.

### Interest Expense

expressed in thousands of dollars

	Six Months Ended June 30	
	2017	2016
Interest on non-current debt	\$33,550	\$32,688
Other interest	2,876	966
	<u>\$36,426</u>	<u>\$33,654</u>

Interest expense increased to \$36.4 million in the June 2017 period from \$33.7 million in the 2016 comparative period. The interest expense increased primarily as a result of the following: interest expense on non-current debt increased from \$32.7 million in the June 2016 period to \$33.6 million in the June 2017 period, an increase of \$0.9 million related primarily to higher interest rates paid on the Senior Credit Facility, including facility renewal fees. Other interest expense increased from \$1.0 million in 2016 to \$2.9 million in 2017 an increase of \$1.9 million. This increase was primarily due to the additional interest expense on other obligations in 2017 compared to 2016. The average balances outstanding during 2017 were also higher than in 2016, which resulted to higher interest expense. Interest expense is determined by a variety of factors including levels of non-current debt, levels of short term debt on concentrate advances, the interest rate on the debt and foreign exchange rates on interest incurred on US denominated debt.

## Other Finance Income (Expense)

expressed in thousands of dollars

	Six Months Ended June 30	
	2017	2016
Accretion of future site reclamation provisions	\$(939)	\$(458)
Foreign exchange gain on debt	15,780	29,162
Fair value adjustment to marketable securities	71	127
Realized gain on derivative instruments	-	6,041
Unrealized loss on derivative instruments	-	(12,982)
	14,912	21,890
Interest income	61	35
Other finance income	\$14,973	\$21,925

Other finance income totaled \$15.0 million in the June 2017 period compared to income of \$22.0 million in the 2016 comparative period with the income and expense resulting from a combination of factors as discussed below.

At June 30, 2017, the Company had US Dollar denominated debt of US\$331.9 million compared to US\$345.6 million at December 31, 2016. Foreign exchange gains and losses attributable to US denominated short and non-current debt reflect the foreign currency movement during the six months ended June 30, 2017 and resulted in a \$14.5 million gain on the senior notes and \$0.5 million gain on equipment loans.

## CAPITAL RISK MANAGEMENT

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

The capital structure of the Company consists of short term debt, credit facilities, including credit facilities with counterparties related to derivative instruments (provisionally priced contracts), non-current debt, and equity attributable to common shareholders, comprised of share capital, share option reserve, warrant reserve, equity component of convertible debentures, currency translation adjustment and retained earnings.

## LIQUIDITY & CAPITAL RESOURCES AND COVENANT WAIVER

At June 30, 2017, the Company had cash of \$8.7 million, \$5.2 million undrawn on the Senior Credit Facility and a working capital deficiency of \$910.8 million, which includes \$842.5 million current portion debt. Refer to discussion under the heading Significant Events and Liquidity and Debt and Other Obligations.

On July 31, 2017 the Company closed a \$20.0 million bridge loan financing ("Bridge Loan") with affiliates of its two major shareholders. The Bridge Loan matures on the earlier of October 15, 2017 or the date the Company secures additional financing.

## Credit Risk

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

The Company sells to a limited number of 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.

From time to time the Company enters into derivative instruments with a number of counterparties. The credit risks associated with these counterparties is considered to be minimal because of their strong capital base, diversity and multinational operations. In addition, to reduce risk related to derivative instruments the Company utilizes multiple counterparties.

## Liquidity Risk

The Company has in place a rigorous planning and budgeting process to help determine on an ongoing basis the funds required to support the Company's normal operating requirements and its planned capital expenditures. This process incorporates multiple sources of funding, including cash on hand, committed credit facilities, advance payment facilities with its customers and additional sources of new financings that are expected to provide the funds necessary to meet projected cash requirements.

At June 30, 2017, the Company's primary sources of credit are the long term financing arrangements comprised of a \$200.0 million Senior Credit Facility, a \$50.0 million second lien secured revolving credit facility, US\$325.0 million senior unsecured notes, \$145.0 million face value of unsecured convertible debentures, a \$75.0 million unsecured junior credit facility, and \$30.0 million in secured equipment loans.

The Company holds investments in mineral properties and marketable securities. While these may be convertible to cash they are not considered when assessing the Company's liquidity as they are long term strategic holdings and only convertible to cash over a longer period of time. Therefore, as part of the Company's planning, budgeting and liquidity analysis process, these items are not relied upon to provide operational liquidity.

The Senior Credit Facility matures on March 15, 2018. Overall liquidity risk of the Company has increased since late 2016 as a result of weaker than expected metal production in the second quarter, the non-compliance with one covenant of the Senior Credit Facility at June 30, 2017 and the expectation that additional financing may be required by the Company. Improved copper prices in CDN dollar terms contribute to a reduction of liquidity risk, however this is mitigated somewhat by the requirement to repay the deferred trade payables in the future as copper prices increase.

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

The Company had the following contractual obligations with respect to financial instruments as of June 30, 2017:

expressed in thousands of dollars

	Within					
	1 Year	2 Years	3 Years	4 Years	5 Years	Total
Trade and other payables	\$109,014	\$ -	\$ -	\$ -	\$ -	\$109,014
Other obligations	35,464	14,300	14,300	5,958	-	70,022
Short term debt	-	-	-	-	-	-
Current portion of non-current debt	174,226	-	-	-	-	174,226
Non-current debt reclassified to current	693,708	-	-	-	-	693,708
Non-current debt	-	5,107	2,204	93	-	7,404
	1,012,412	19,407	16,504	6,051	-	1,054,374
Less future accretion and unamortized finance cost on non-current debt	(25,421)	-	-	-	-	(25,421)
Total	\$986,991	\$19,407	\$16,504	\$6,051	\$ -	\$1,028,953

## Liquidity Enhancements

### *Electricity Payment Deferral Plan*

In January 2016 the Government of British Columbia announced that it would provide assistance to copper and coal mines during the current low commodity price environment. The mechanism for this assistance was completed in March 2016 when BC Hydro received approval from the British Columbia Utilities Commission for a tariff supplement that allows a mining customer to defer payment on up to 75% of the monthly electricity billing (the "Payment Plan") depending on the average London Metals Exchange ("LME") settlement copper price converted to CDN dollars at the Bank of Canada's daily average closing exchange rate. The period for calculating the copper price in CDN dollars is the 30-day period prior to the billing date on the 15<sup>th</sup> of each month.

Interest on the deferred payment amounts is charged and added to the deferred payment balance at Bank Prime Rate plus 5%, except for the Huckleberry mine, which has a fixed interest rate of 12%.

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

Participation in the Payment Plan does not change mine operating costs and increases interest expense, however, it does provide the Company with increased liquidity when copper prices are below CDN\$3.40 per pound. Payment of any balance under the Payment Plan is due at the end of the five year term.

Joining the Payment Plan was optional and in March 2016 the Red Chris, Mount Polley and Huckleberry mines joined the Payment Plan with the resulting payment deferral plan being effective for the March 2016 electricity billings onwards. At the maximum discount or maximum repayment of 75% the estimated monthly payment deferral or repayment for the Red Chris, Mount Polley and Huckleberry mines would be approximately \$1.8 million. Due to the CDN\$ copper prices being higher than CDN\$3.40 per pound during the June 30, 2017 quarter, the deferred trade payables balance declined related to the Red Chris and Mount Polley mines but increased as a result of the acquisition of the Huckleberry mine. The combined balance rose from \$17.9 million at December 31, 2016 to \$21.2 million at June 30, 2017.

### **Currency Risk**

Financial instruments that impact the Company's net income and comprehensive income due to currency fluctuations include US dollar denominated cash, accounts receivable, derivative instrument assets, reclamation deposits, trade and other payables, derivative instrument liabilities, and debt. If the US Dollar had been 10% higher/lower and all other variables were held constant, net income and comprehensive income for the June 2017 quarter would have been higher/lower by \$33.2 million.

### **Cash Flow**

Cash flow was \$12.3 million in the June 2017 quarter compared to cash flow of \$40.3 million in the 2016 comparative quarter.

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

### **Working Capital**

At June 30, 2017, the Company had cash of \$8.7 million, \$5.2 million undrawn on the Senior Credit Facility and a working capital deficiency of \$910.8 million, which includes \$842.5 million current portion debt. As a result of not meeting one financial covenant under the Senior Credit Facility for the three months ending June 30, 2017, certain portions of the Company's non-current debt has been classified as current at June 30, 2017. Refer to discussion under the heading Significant Events and Liquidity and Debt and Other Obligations.

## Acquisition and Development of Mineral Properties

Acquisition and development of mineral properties totaled \$28.8 million in the June 2017 quarter compared to \$24.2 million in the comparative 2016 quarter.

expressed in thousands of dollars

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2017	2016	2017	2016
Capital and Development Expenditures				
Red Chris	\$18,698	\$13,984	\$29,649	\$17,889
Mount Polley	3,021	12,920	15,399	16,415
Sterling	6,966	-	6,966	-
Other	3	13	3	13
	<u>28,688</u>	<u>23,993</u>	<u>52,017</u>	<u>34,317</u>
Exploration Expenditures				
Red Chris	1	10	1	15
Mount Polley	42	236	637	253
Sterling	50	(3)	61	15
Other	57	64	91	92
	<u>150</u>	<u>307</u>	<u>790</u>	<u>375</u>
	<u>\$28,838</u>	<u>\$24,224</u>	<u>\$52,807</u>	<u>\$34,692</u>

## Contingent Liabilities

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

On August 4, 2014 the tailings dam at the Mount Polley mine near Likely, BC was breached, and at June 30, 2017 the Company has a provision of \$0.7 million for future rehabilitation activities related to the Mount Polley Breach. The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required and is subject to revision in the future as further information becomes available to the Company.

During the third quarter of 2014, a securities class action lawsuit was filed against the Company and certain of its directors, officers and others in the Ontario Superior Court of Justice in Toronto (the "Claim"). The Company has engaged independent legal counsel to advise it on this matter. At this time, the Company cannot predict the outcome of the Claim or determine the amount of any potential losses and accordingly no provision has been made as of June 30, 2017. However, the Company is of the view that the allegations contained in the Claim are without merit and intends to vigorously defend its position.

## DERIVATIVE INSTRUMENTS

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

The Company had no derivative instruments for copper, gold or foreign exchange at June 30, 2017 or at the date of this document.

## DEBT AND OTHER OBLIGATIONS

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

Copies of certain of the debt agreements can be found on [www.sedar.com](http://www.sedar.com).

### Financial Covenants

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

After giving effect to these covenant amendments, the Company has the following financial covenants in the Senior Credit Facility:

- fixed charge coverage ratio of 1.25:1, except for the March, June and September 2017 quarters when a minimum EBITDA test (on a rolling four quarter basis) applies instead. The minimum EBITDA during the March, June and September 2017 quarters is \$100.0 million, \$85.0 million and \$110.0 million, respectively.
- total debt to EBITDA ratio of 7.00:1 for the March 2017 quarter, 9.00:1 for the June 2017 quarter, 7.00:1 for the September 2017 quarter and 4.50:1 for the December 2017 quarter and thereafter.
- secured debt to EBITDA ratio of 2.75:1 for the March 2017 quarter, 3.50:1 for the June 2017 quarter, 3.50:1 for the September 2017 quarter and 2.00:1 for the December 2017 quarter and thereafter.
- tangible net worth must be no less than 80% of tangible net worth as calculated as at December 31, 2015 increasing by 50% of positive quarterly income for each quarter ending on March 31, 2016 and thereafter.

Calculation of the financial covenants is in accordance with the definition of these terms in the Senior Credit Facility.

### Non-Current Debt Reclassified to Current

At June 30, 2017, a total of \$668.3 million, which is net of unamortized deferred financing costs and accretion was reclassified to current:

- the second lien secured revolving credit facility - \$49.8 million
- the unsecured junior credit facility - \$75.0 million
- the senior unsecured notes – \$417.6 million (US\$325.0 million)
- convertible debentures with a face value of \$145.0 million - \$123.9 million
- certain equipment loans - \$2.0 million

For additional details, please refer to the discussion under the heading Significant Events and Liquidity.

### Non-Current Debt

At June 30, 2017, the Company's non-current debt was comprised of certain equipment loans denominated in CDN Dollars and US Dollars of \$7.4 million.

### Interest Rate Risk

The Company is exposed to interest rate risk on its outstanding borrowings. At June 30, 2017, debt of the Company in the amount of \$203.6 million was at floating interest rates compared to \$162.6 million at December 31, 2016. 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.

At June 30, 2017, the Company did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

### Other Price Risks

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



## Fair Value Estimation

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

The carrying value less impairment provision, if necessary, of trade and other receivables and trade and other payables are assumed to approximate their fair values. Except for the Notes, management believes that the carrying value of remaining non-current and short term debt approximates fair value. At June 30, 2017, the fair value of the Notes is \$380.1 million (December 31, 2016-\$416.7 million) based on a quote received from dealers that trade the Notes.

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

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

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

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

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at June 30, 2017 as follows:

expressed in thousands of dollars

Financial Assets	Level 1	Level 2	Total
Cash	\$8,703	\$ -	\$8,703
Marketable securities	1,415	-	1,415
Provisionally priced accounts receivables	-	12,979	12,979
Future site reclamation deposits	14,310	-	14,310
	24,428	12,979	37,407
Financial Liabilities			
Amounts owing on provisionally priced receivables included in trade and other payables	-	(929)	(929)
	\$24,428	\$12,050	\$36,478

## SELECT QUARTER FINANCIAL INFORMATION

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

	Three Months Ended			
	June 30 2017	March 31 2017	December 31 2016	September 30 2016
Total revenues	\$106,741	\$115,749	\$78,125	\$97,108
Equity income (loss) in Huckleberry	\$1,032	\$(1,589)	\$(3,326)	\$(2,346)
Net income (loss)	\$64,080	\$(18,752)	\$(47,060)	\$(20,589)
Basic income (loss) per share <sup>(1)</sup>	\$0.68	\$(0.20)	\$(0.57)	\$(0.25)
Diluted income (loss) per share <sup>(1)</sup>	\$0.68	\$(0.20)	\$(0.57)	\$(0.25)
Adjusted net loss <sup>(2)(3)</sup>	\$(22,250)	\$(22,296)	\$(30,690)	\$(20,038)
Adjusted net loss per share <sup>(1)(2)(3)</sup>	\$(0.24)	\$(0.24)	\$(0.37)	\$(0.25)
Adjusted EBITDA <sup>(2)</sup>	\$12,851	\$15,188	\$(441)	\$16,726
Cash flow <sup>(2)</sup>	\$12,341	\$15,065	\$(405)	\$18,244
Cash flow per share <sup>(1)(2)</sup>	\$0.13	\$0.16	\$0.00	\$0.22
Average LME copper price/lb in US\$	\$2.57	\$2.65	\$2.39	\$2.17
Average LME gold price/troy oz in US\$	\$1,257	\$1,219	\$1,218	\$1,335
Average CDN/US\$ exchange rate	\$1.345	\$1.323	\$1.334	\$1.305
Period end CDN/US\$ exchange rate	\$1.298	\$1.332	\$1.343	\$1.312

  

	June 30	March 31	December 31	September 30
	2016	2016	2015	2015
Total revenues	\$116,200	\$136,785	\$69,514	\$55,928
Equity loss in Huckleberry	\$(1,697)	\$(3,976)	\$(2,269)	\$(800)
Net income (loss)	\$(4,160)	\$17,729	\$(35,877)	\$(29,344)
Basic income (loss) per share <sup>(1)</sup>	\$(0.05)	\$0.22	\$(0.44)	\$(0.37)
Diluted income (loss) per share <sup>(1)</sup>	\$(0.05)	\$0.22	\$(0.44)	\$(0.37)
Adjusted net loss <sup>(2)(3)</sup>	\$(1,214)	\$(4,842)	\$(22,882)	\$(9,764)
Adjusted net loss per share <sup>(1)(2)(3)</sup>	\$(0.01)	\$(0.06)	\$(0.28)	\$(0.12)
Adjusted EBITDA <sup>(2)</sup>	\$40,488	\$49,881	\$3,418	\$14,230
Cash flow <sup>(2)</sup>	\$40,327	\$49,425	\$2,843	\$15,343
Cash flow per share <sup>(1)(2)</sup>	\$0.49	\$0.60	\$0.03	\$0.20
Average LME copper price/lb in US\$	\$2.14	\$2.12	\$2.22	\$2.38
Average LME gold price/troy oz in US\$	\$1,259	\$1,181	\$1,104	\$1,124
Average CDN/US\$ exchange rate	\$1.289	\$1.375	\$1.335	\$1.309
Period end CDN/US\$ exchange rate	\$1.301	\$1.297	\$1.384	\$1.339

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

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

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

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

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

- (a) Fluctuations in revenue are due to the timing of shipping schedules and quantities of copper and gold sold on each ship, production volumes at the mines, changes in the price of copper, gold and the CDN/US Dollar exchange rate.
- (b) Fluctuations in net income are due to the revenue changes described above and realized and unrealized gains/losses on derivative instruments based on movements in the reference item hedged, changes in foreign exchange rates on US Dollar denominated debt, changes in production cost inputs and changes in tax rates.

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

- (a) The large net losses in the September and December 2015 quarters were primarily due to large foreign exchange losses on revaluation of the Company's US Dollar denominated debt, partially offset by earnings from the Red Chris mine as it commenced commercial production on July 1, 2015 and the restart of the Mount Polley mine on August 5, 2015.
- (b) The net income in the June 2016 quarter was primarily due to the continued increase in production at the Red Chris mine and the Mount Polley mine being operated at closer to nameplate capacity and included foreign exchange gains on current and non-current debt of \$30.7 million on revaluation of the Company's US Dollar denominated debt and net unrealized and realized losses of \$7.3 million related to derivative instruments.
- (c) The net loss in the June 2016 quarter was primarily due to an increase in finance costs which were \$18.4 million in the June 2016 quarter compared to finance income of \$6.7 million in the June 2016 quarter and finance income of \$1.7 million in the June 2015 quarter. Lower realized foreign exchange gains and lower amounts of interest expense capitalized in the June 2016 quarter were the primary reasons for the increase in finance costs.
- (d) The primary reason for the increase in net loss in the September 2016 quarter compared to the June and June 2016 quarters was a decrease in income from mine operations due to an increase in costs and decrease in grade leading to lower sales volumes. The Company incurred a loss from mine operations of \$2.1 million in the September 2016 quarter compared to income from mine operations of \$20.2 million in the June 2016 quarter and \$20.3 million in the June 2016 quarter.
- (e) The primary reasons for the increase in net loss in the December 2016 quarter compared to the September and June 2016 quarters was a decrease in revenues, higher costs of sales, higher interest and finance costs and an impairment charge of \$7.3 million on the Sterling mine. Revenues were lower as production was lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore in those periods. Other finance costs were higher as the Company incurred higher foreign exchange losses on its non-current debt in the December quarter compared to the September and June quarters.
- (f) The primary reasons for the large increase in net income in the June 2017 quarter compared to the December 2016 quarter was largely due to the \$74.8 million gain on bargain purchase that was recognized by the Company on the acquisition of the remaining 50% share of Huckleberry. Revenues were lower as production was lower at both Red Chris and Mount Polley mines due to the mining and treatment of lower grade ore in those periods.

## RELATED PARTY TRANSACTIONS

### Corporate

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

### Statement of Income

expressed in thousands of dollars		Three Months Ended June 30		Six Months Ended June 30	
		2017	2016	2017	2016
Loan guarantee fee for guarantee of second lien secured revolving credit facility	(a)	\$421	\$311	\$837	\$561
Interest expense	(f)	\$4,039	\$3,925	\$8,012	\$7,932

### Statement of Financial Position

expressed in thousands of dollars		June 30	December 31
		2017	2016
Accrued interest on junior credit facility, senior unsecured notes, convertible debentures and factored accounts receivables	(f)	\$3,282	\$3,326
Junior credit facility	(b)	\$75,000	\$75,000
Senior Unsecured notes (US\$53,300)	(c)	\$69,167	\$71,556
Convertible debentures	(d)(e)	\$59,000	\$59,000

- (a) The loan guarantee fee is related to the guarantee by Edco of the second lien secured revolving credit facility which provided additional liquidity for the commissioning of the Red Chris mine.
- (b) The \$75.0 million junior credit facility from N. Murray Edwards was used to fund any cost overruns at the Red Chris mine and for general working capital purposes.
- (c) N. Murray Edwards, directors and officers hold US\$53.3 million of the US\$325.0 million senior unsecured notes offering which closed in March 2014 and provided part of the long term financing for the Red Chris mine.
- (d) N. Murray Edwards holds \$40.0 million of the \$115.0 million 2014 convertible debentures which provided funding for completing and commissioning the Red Chris mine, remediating the effects of the Mount Polley Breach, and for ongoing operations.
- (e) Interest expense is related to the senior unsecured notes, the junior credit facility, convertible debentures and on factored accounts receivables.
- (f) N. Murray Edwards and directors hold \$19.0 million of the \$30.0 million 2015 convertible debenture which was issued on August 24, 2015.

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

## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

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

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

## Internal Controls

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

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

There have been no changes in the Company's internal controls over financial reporting and disclosure controls and procedures during the June 30, 2017 period ended that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting and disclosure.

## Limitations

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

## RISK FACTORS

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

## FORWARD-LOOKING STATEMENTS AND RISKS NOTICE

This MD&A is a review of the Company's operations and financial position as at and for the period ended June 30, 2017, and plans for the future based on facts and circumstances as of August 14, 2017. Except for statements of historical fact relating to the Company, including our past 50% interest in Huckleberry, certain information contained herein constitutes forward-looking information which are prospective in nature and reflect the current views and/or expectations of Imperial. Often, but not always, forward-looking information can be identified by the use of statements such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "forecasts", "projects", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such information in this MD&A includes, without limitation, statements regarding: the potential for the Company's review of its mine plans necessitating additional financing or extension of the maturity dates for some of its debt; use of proceeds from financings and credit; the 2017 production targets for the Red Chris and Mount Polley mines; improved recoveries at Red Chris mine as a result of higher grade ore from lower benches in the Main zone pit; mine plans; costs and timing of current and proposed exploration and development; production and marketing; capital expenditures; adequacy of funds for projects and liabilities; the receipt of necessary regulatory permits, approvals or other consents; outcome and impact of litigation; cash flow; working capital requirements; the requirement for additional capital; results of operations, production, revenue, margins and earnings; future prices of copper and gold; future foreign currency exchange rates and impact; future accounting changes; and future prices for marketable securities.

Forward-looking information is not based on historical facts, but rather on then current expectations, beliefs, assumptions, estimates and forecasts about the business and the industry and markets in which the Company operates, including, but not limited to, assumptions that: the Company will be able to advance and complete remaining planned rehabilitation activities within expected timeframes; there will be no significant delay or other material impact on the expected

timeframes or costs for completion of rehabilitation of the Mount Polley mine and implementation of Mount Polley's long term water management plan; the Company's initial rehabilitation activities at Mount Polley will be successful in the long term; all required permits, approvals and arrangements to proceed with planned rehabilitation and Mount Polley's long term water management plan will be obtained in a timely manner; there will be no material operational delays at the Red Chris or Mount Polley mines; equipment will operate as expected; there will not be significant power outages; there will be no material adverse change in the market price of commodities and exchange rates; the Red Chris and Mount Polley mines will achieve expected production outcomes (including with respect to mined grades and mill recoveries); and Imperial will have access to capital as required and satisfy and/or obtain amendments of financial covenants contained in its credit facilities and other loan documents. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. We can give no assurance that the forward-looking information will prove to be accurate.

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

Important risks that could cause Imperial's actual results, revenues, performance or achievements to differ materially from Imperial's expectations include, among other things: that additional financing that may be required may not be available to Imperial on terms acceptable to Imperial or at all; that Imperial may be unable to satisfy and/or obtain amendments of financial covenants contained in its credit facilities and other loan documents; that the Company's lenders may not agree to extend the maturity dates of some of its debt and may thereby create material uncertainty that could have an adverse impact on the Company's financial condition and results of operations casting significant doubt on the Company's ability to continue as a going concern; uncertainty regarding the outcome of sample testing and analysis being conducted on the area affected by the Mount Polley Breach; risks relating to the timely receipt of necessary approvals and consents to proceed with the rehabilitation plans; risks relating to the remaining costs and liabilities and any unforeseen longer-term environmental consequences arising from the Mount Polley Breach; uncertainty as to actual timing of completion of rehabilitation activities and the implementation of Mount Polley's long term water management plan; risks relating to the impact of the Mount Polley Breach on Imperial's reputation; the quantum of claims, fines and penalties that may become payable by Imperial and the risk that current sources of funds are insufficient to fund liabilities; risks that Imperial will be unsuccessful in defending against any legal claims or potential litigation; risks of protesting activity and other civil disobedience restricting access to the Company's properties; failure of plant, equipment or processes to operate in accordance with specifications or expectations; cost escalation, unavailability of materials and equipment, labour unrest, power outages or shortages, and natural phenomena such as weather conditions negatively impacting the operation of the Red Chris mine or the Mount Polley mine; changes in commodity and power prices; changes in market demand for the Company's concentrate; inaccurate geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources); and other hazards and risks disclosed within this Management's Discussion and Analysis for the three and six months ended June 30, 2017 and other public filings which are available on Imperial's profile at [sedar.com](http://sedar.com). For the reasons set forth above, investors should not place undue reliance on forward-looking information. Imperial does not undertake to update any forward-looking information, except in accordance with applicable securities laws.





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Andre Deepwell | Chief Financial Officer & Corporate Secretary

Don Parsons | Chief Operating Officer

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

Sophie Hsia | General Counsel & Vice President Risk

Darb Dhillon | Vice President Finance

Steve Robertson | Vice President Corporate Affairs

Gordon Keevil | Vice President Corporate Development