



First Quarter Report 2018

Condensed Consolidated Interim Financial Statements (unaudited)

For the Three Months Ended March 31, 2018 and 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at March 31, 2018 and December 31, 2017

expressed in thousands of Canadian dollars

	Notes	March 31 2018	December 31 2017
ASSETS			
Current Assets			
Cash		\$6,540	\$51,895
Marketable securities		3,109	2,270
Trade and other receivables	3	12,018	24,447
Inventory	4	57,408	50,187
Prepaid expenses and deposits		2,850	3,879
		<u>81,925</u>	<u>132,678</u>
Mineral Properties	6	1,528,995	1,545,860
Deferred Income Tax Asset		3,962	-
Other Assets	7	47,646	45,230
		<u>\$1,662,528</u>	<u>\$1,723,768</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	8	\$78,527	\$110,043
Taxes payable		2,707	2,205
Provision for rehabilitation costs	18	3,399	3,651
Current portion of debt	11	696,616	213,874
Current portion of other obligations	9	43,632	41,034
Current portion of future site reclamation provisions	12	140	140
		<u>825,021</u>	<u>370,947</u>
Provision for rehabilitation costs	18	1,684	1,684
Non-Current Debt	11	133,082	638,504
Other Obligations	9	28,251	31,476
Future Site Reclamation Provisions	12	98,059	98,202
Deferred Income Tax Liabilities		72,503	69,454
		<u>1,158,600</u>	<u>1,210,267</u>
EQUITY			
Share Capital	13	296,413	290,201
Share Option Reserve	13	18,786	18,582
Warrant Reserve	13	689	689
Equity Component of Convertible Debentures	11	25,534	25,534
Currency Translation Adjustment		7,714	7,537
Retained Earnings		154,792	170,958
		<u>503,928</u>	<u>513,501</u>
		<u>\$1,662,528</u>	<u>\$1,723,768</u>
Commitments and Pledges	4, 6, 26		
Contingent Liabilities	27		

See accompanying notes to these consolidated financial statements.

Approved by the Board and authorized for issue on May 10, 2018

/s/ Larry G. Moeller

Director

/s/ J. Brian Kynoch

Director

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

For the Three Months Ended March 31, 2018 and 2017

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

		Three Months Ended March 31	
	Notes	2018	2017
Revenue		\$117,912	\$115,749
Cost of Sales	14	(100,342)	(121,497)
Income (Loss) from Mine Operations		17,570	(5,748)
General and Administration	15	(1,606)	(1,255)
Idle Mine Costs	5	(1,351)	-
Interest Expense	16	(18,992)	(18,158)
Other Finance (Expense) Income	17	(11,218)	3,001
Other (Expense) Income		(603)	2
Share of Equity Loss in Huckleberry	5	-	(1,589)
Loss before Taxes		(16,200)	(23,747)
Income and Mining Tax Recovery	19	34	4,995
Net Loss		(16,166)	(18,752)
Other Comprehensive Income (Loss)			
Items that may be subsequently reclassified to profit or loss			
Currency translation adjustment		177	(181)
Total Comprehensive Loss		\$(15,989)	\$(18,933)
Loss Per Share			
Basic	20	\$(0.14)	\$(0.20)
Diluted	20	\$(0.14)	\$(0.20)
Weighted Average Number of Common Shares Outstanding			
Basic	20	116,858,528	93,586,710
Diluted	20	116,858,528	93,586,710

See accompanying notes to these condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Three Months Ended March 31, 2018 and 2017

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

	Share Capital		Share Option Reserve	Warrant Reserve	Equity Component of Convertible Debentures	Currency Translation Adjustment	Retained Earnings	Total
	Number of Shares	Amount						
Balance December 31, 2016	93,586,710	\$243,525	\$17,477	\$ -	\$25,534	\$8,242	\$93,845	\$388,623
Share based compensation expense	-	-	270	-	-	-	-	270
Total comprehensive loss	-	-	-	-	-	(181)	(18,752)	(18,933)
Balance March 31, 2017	93,586,710	\$243,525	\$17,747	\$ -	\$25,534	\$8,061	\$75,093	\$369,960
Balance December 31, 2017	114,505,472	\$290,201	\$18,582	\$689	\$25,534	\$7,537	\$170,958	\$513,501
Issued for payment of interest on debt	2,353,274	6,212	-	-	-	-	-	6,212
Share based compensation expense	-	-	204	-	-	-	-	204
Total comprehensive (loss) income	-	-	-	-	-	177	(16,166)	(15,989)
Balance March 31, 2018	116,858,746	\$296,413	\$18,786	\$689	\$25,534	\$7,714	\$154,792	\$503,928

See accompanying notes to these consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended March 31, 2018 and 2017

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

	Notes	Three Months Ended March 31	
		2018	2017
OPERATING ACTIVITIES			
Loss before taxes		\$(16,200)	\$(23,747)
Items not affecting cash flows			
Depletion and depreciation		21,657	21,686
Share based compensation		204	270
Accretion of future site reclamation provisions		787	353
Unrealized foreign exchange losses (gains)		11,357	(3,254)
Interest expense		18,992	18,158
Share of equity loss in Huckleberry		-	1,589
Other		(839)	10
		<u>35,958</u>	<u>15,065</u>
Net change in non-cash operating working capital balances	21	(12,501)	20,172
Income and mining taxes paid		(320)	-
Income and mining taxes refunded		137	56
Interest paid		<u>(18,965)</u>	<u>(22,910)</u>
Cash provided by operating activities		<u>4,309</u>	<u>12,383</u>
FINANCING ACTIVITIES			
Proceeds of short term debt		41,777	71,749
Repayment of short term debt		(41,782)	(79,545)
Proceeds of non-current debt		14,294	46,450
Repayment of non-current debt		<u>(50,760)</u>	<u>(28,230)</u>
Cash (used in) provided by financing activities		<u>(36,471)</u>	<u>10,424</u>
INVESTING ACTIVITIES			
Acquisition and development of mineral properties		(8,991)	(16,763)
Net change in non-cash investing working capital balances	21	(4,257)	(11,548)
Payment of Northwest Transmission Line payable	9	-	(3,575)
Non-refundable deposit received		-	1,993
Cash used in investing activities		<u>(13,248)</u>	<u>(29,893)</u>
EFFECT OF FOREIGN EXCHANGE ON CASH		55	30
DECREASE IN CASH		<u>(45,355)</u>	<u>(7,056)</u>
CASH, BEGINNING OF PERIOD		<u>51,895</u>	<u>14,251</u>
CASH, END OF PERIOD		<u>\$6,540</u>	<u>\$7,195</u>

See accompanying notes to these condensed consolidated interim financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

1. NATURE OF OPERATIONS

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

The Company's key projects are:

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

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

At March 31, 2018, the Company had cash of \$6,540, available capacity of \$36,039 for future draws under the senior secured revolving credit facility (Note 11(a)), \$10,000 undrawn on the 2018 LOC Loan Facility (Note 11(i)), and a working capital deficiency of \$743,096. The working capital deficiency is primarily due to debt of \$696,616 related to the Senior Credit Facility and the Second Lien Credit Facility, both of which mature in the fourth quarter of 2018, and the Senior Unsecured Notes which mature in March 2019.

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

Cash balances on hand, the projected cash flow from the Red Chris and Mount Polley mines, as well as the available credit facilities are expected to be sufficient to fund the working capital deficiency and the Company’s obligations as they come due assuming the Company is able to successfully extend or refinance the Senior Credit Facility and the Second Lien Credit Facility prior to their maturity in the fourth quarter of 2018 and the Senior Unsecured Notes which mature in the first quarter of 2019. In addition, there are inherent risks related to the operation of the Company’s mines which could require additional sources of financing. There can be no assurance that the Company will be able to successfully extend or renegotiate this debt, and that adequate additional financing will be available on terms acceptable to the Company or at all, which creates a material uncertainty that could have an adverse impact on the Company’s financial condition and results of operations and may cast significant doubt on the Company’s ability to continue as a going concern.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (IAS 34).

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2017. These condensed interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual financial statements, except for those policies disclosed below.

Summary of Significant Accounting Policies

The following are significant accounting policies that have been amended as a result of the adoption of IFRS 15, Revenue from Contracts with Customers and IFRS 9, Financial Instruments. All other significant accounting policies are consistent with those reported in the Company's annual consolidated financial statements for the year ended 31 December 2017.

Financial Instruments

Financial Liability

Debt is initially recorded at fair value, less transaction costs. Debt is subsequently measured at amortized cost, calculated using the effective interest rate method. If the contractual cash flows of a financial liability are renegotiated or otherwise modified and the renegotiation or modification does not result in the de-recognition of that financial liability, the Company recalculates the gross carrying amount of the financial liability and recognizes a modification gain or loss in the statement of income (loss).

New Standards, Interpretations and Amendments Adopted by the Company

IFRS 15, Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied.

IFRS 15 also requires enhanced disclosures about revenue to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Company adopted IFRS 15 using the full retrospective method of adoption.

The Company has concluded that revenue from the sale of concentrate should be recognized at the point in time when control of the concentrate passes to the customer which generally occurs when title transfer to the customer and on the date of shipment.

Based on management's analysis, the timing and amount of our revenue from product sales did not change under IFRS 15.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments (“IFRS 9”) replaced IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

We have assessed the classification and measurement of our financial assets and financial liabilities under IFRS 9 and concluded that the adoption of IFRS 9 did not affect the current classification of Company’s financial assets and financial liabilities.

The Company has determined that the new measurement requirements under IFRS 9 have impact on the certain financial liabilities (debt) held by the Company as a result of modification to those debt instruments. Under IFRS 9, when the contractual cash flows of a financial liability are renegotiated or otherwise modified and the renegotiation or modification does not result in the de-recognition of that financial liability, the Company recalculates the gross carrying amount of the financial liability and recognizes a modification gain or loss in the statement of income (loss). Previously, under IAS 39, the Company did not recognize a gain or loss at the date of modification of a financial liability.

Based on management’s detailed review and analysis the effect of adopting of IFRS 9 had trivial effect on the opening retained earnings as at January 1, 2018.

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

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

The Company has not early adopted any other standard, interpretation or amendment that have been issued but is not yet effective.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

3. TRADE AND OTHER RECEIVABLES

	March 31 2018	December 31 2017
Trade receivables	\$11,928	\$24,231
Taxes receivable	90	216
	<u>\$12,018</u>	<u>\$24,447</u>

4. INVENTORY

	March 31 2018	December 31 2017
Stockpile ore	\$23,047	\$22,450
Concentrate	15,917	9,761
Supplies	51,246	48,335
Total inventories	90,210	80,546
Less non-current inventories included in other assets (Note 7)	(32,802)	(30,359)
Total current inventories	<u>\$57,408</u>	<u>\$50,187</u>

During the three month period ended March 31, 2018 inventory of \$92,714 was recognized in cost of sales (March 31, 2017-\$111,999) and an impairment charge of \$1,760 (March 31, 2017-\$3,983) on stockpile ore and concentrate was included in cost of sales.

As at March 31, 2018, the Company had \$90,210 (December 31, 2017-\$80,546) of inventory pledged as security for debt.

5. INVESTMENT IN HUCKLEBERRY MINES LTD.

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

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

	Three Months Ended March 31 2018	Year Ended December 31 2017
Balance, beginning of period	\$ -	\$78,389
Share of loss for the period	-	(557)
Revaluation of 50% interest to its fair value at the date of acquisition	-	16,497
Consolidation on acquisition of additional 50% interest in Huckleberry	-	(94,329)
Balance, end of period	<u>\$ -</u>	<u>\$ -</u>

During the reporting period, Huckleberry incurred idle mine costs comprised of \$992 in operating costs and \$359 in depreciation expense (March 31, 2017 - \$nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

6. MINERAL PROPERTIES

Cost	Mineral Properties being Depleted	Mineral Properties not being Depleted			Total
		Projects not in Production	Exploration & Evaluation Assets	Plant & Equipment	
Balance December 31, 2016	\$342,520	\$56,168	\$49,503	\$1,264,259	\$1,712,450
Additions	38,249	713	7,352	83,862	130,176
Sale of Sterling	-	-	(34,014)	(2,118)	(36,132)
Acquisition of Huckleberry	82,662	-	79,934	23,438	186,034
Disposals	-	-	(2)	(603)	(605)
Foreign exchange movement	-	-	(608)	(60)	(668)
Balance December 31, 2017	463,431	56,881	102,165	1,368,778	1,991,255
Additions	(930)	40	61	9,041	8,212
Reclass to non-current inventory	-	-	-	(2,434)	(2,434)
Reclassification	14,157	(14,157)	-	-	-
Foreign Exchange movement	-	-	177	22	199
Balance March 31, 2018	\$476,658	\$42,764	\$102,403	\$1,375,407	\$1,997,232

Accumulated depletion & depreciation & impairment losses	Mineral Properties being Depleted	Mineral Properties not being Depleted			Total
		Projects not in Production	Exploration & Evaluation Assets	Plant & Equipment	
Balance December 31, 2016	\$139,228	\$ -	\$8,570	\$232,629	\$380,427
Depletion and depreciation	22,625	-	-	57,078	79,703
Disposals	-	-	-	(525)	(525)
Foreign exchange movement	-	-	22	(288)	(266)
Sale of Sterling	-	-	(6,947)	(6,997)	(13,944)
Balance December 31, 2017	161,853	-	1,645	281,897	445,395
Depletion and depreciation	7,190	-	-	15,630	22,820
Foreign exchange movement	-	-	-	22	22
Balance March 31, 2018	\$169,043	\$ -	\$1,645	\$297,549	\$468,237
<i>Carrying Amount</i>					
Balance December 31, 2016	\$203,292	\$56,168	\$40,933	\$1,031,630	\$1,332,023
Balance December 31, 2017	\$301,578	\$56,881	\$100,520	\$1,086,881	\$1,545,860
Balance March 31, 2018	\$307,615	\$42,764	\$100,758	\$1,077,858	\$1,528,995

Additions to Mineral Properties being Depleted includes a net change in estimates of future site reclamation provisions of (\$930) for three months ended March 31, 2018 (year ended December 31, 2018-\$37,182).

At March 31, 2018, the carrying value of the deferred stripping costs was \$50,316 (December 31, 2017-\$54,237) and is included in mineral properties.

At March 31, 2018, the Company had \$6,594 of contractual commitments (December 31, 2017-\$6,674) for the expenditures on property, plant and equipment.

At March 31, 2018, leased mobile equipment at a cost of \$144 (December 31, 2017-\$nil) and accumulated depreciation of \$nil (December 31, 2017-\$nil) was included with plant and equipment.

At March 31, 2018, the Company had provided \$28,370 of security for reclamation bonding obligations by securing certain plant and equipment (Notes 26(b) and (c)).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

Red Chris Mine

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

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

Mount Polley Mine

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

Huckleberry Mine

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

Other Exploration Properties

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

7. OTHER ASSETS

	March 31 2018	December 31 2017
Future site reclamation deposits	\$14,319	\$14,319
Non-current inventory - ore stockpiles	18,584	17,545
Non-current inventory - supplies	10,058	7,730
Non-current inventory – critical spare parts	4,160	5,084
Other	525	552
	<u>\$47,646</u>	<u>\$45,230</u>

8. TRADE AND OTHER PAYABLES

	March 31 2018	December 31 2017
Trade payables	49,477	\$68,307
Accrued liabilities	29,050	41,736
	<u>\$78,527</u>	<u>\$110,043</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

9. OTHER OBLIGATIONS

	March 31 2018	December 31 2017
Deferred trade payables	\$20,991	\$22,121
Northwest Transmission Line payable	50,892	50,389
	71,883	72,510
Less portion due within one year	(43,632)	(41,034)
	<u>\$28,251</u>	<u>\$31,476</u>

(a) Deferred Trade Payable

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

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

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

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

(b) Northwest Transmission Line Payable

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

10. SHORT TERM DEBT

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

	Three Months Ended March 31 2018	Year Ended December 31 2017
Balance, beginning of period	\$ -	\$13,277
Amounts advanced	41,777	345,297
Bridge loan reclassified to non-current debt (Note 11 (a))	-	(20,000)
Amounts repaid	(41,782)	(337,630)
Foreign exchange gains (losses)	5	(944)
Balance, end of period	<u>\$ -</u>	<u>\$ -</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

11. DEBT

Amounts due for non-current debt are:

		March 31 2018	December 31 2017
Senior secured revolving credit facility, net of issue costs	(a)	\$120,052	\$151,628
Second lien secured revolving credit facility, net of issue costs	(b)	49,840	49,945
Senior unsecured notes, net of issue costs	(c)	416,725	404,841
Junior credit facility	(d)	75,000	75,000
Convertible debentures - 2014	(e)	102,398	101,198
Convertible debentures - 2015	(f)	26,011	25,744
Bridge loan	(g)	26,000	26,000
Equipment loans	(h)	13,532	18,022
2017 LOC loan facility	(i)	-	-
Equipment lease	(j)	140	-
		<u>829,698</u>	<u>852,378</u>
Less portion due within one year		<u>(696,616)</u>	<u>(213,874)</u>
		<u>\$133,082</u>	<u>\$638,504</u>

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

		Three Months Ended March 31 2018	Year Ended December 31 2017
Balance, beginning of period		\$852,378	\$822,088
Amounts advanced, net of issue costs		14,294	84,490
Finance lease		144	-
Bridge loan reclassified from short term debt (Note 10)		-	20,000
Foreign exchange losses (gains)		11,410	(29,280)
Accretion of debt issue costs		765	2,970
Accretion of interest on convertible debentures		1,467	5,781
Amounts repaid		<u>(50,760)</u>	<u>(53,671)</u>
Balance, end of period		829,698	852,378
Less portion due within one year		<u>(696,616)</u>	<u>(213,874)</u>
		<u>\$133,082</u>	<u>\$638,504</u>

The Company has the following debt facilities:

(a) Senior Credit Facility

Senior secured revolving credit facility from a syndicate of banks aggregating \$200,000 (December 31, 2017-\$200,000) due on October 1, 2018. The facility is secured by trade and other receivables, inventory, shares of all material subsidiaries and a floating charge on certain assets of the Company. Of this facility, \$42,961 (December 31, 2017-\$42,091) has been utilized for letters of credit pledged for settlement of future site reclamation provisions (Note 26(b)).

(b) Second Lien Credit Facility

Second lien secured revolving credit facility aggregating \$50,000 (December 31, 2017-\$50,000) due on December 1, 2018. The facility is secured by trade and other receivables, inventory, shares of all material subsidiaries and a floating charge on certain assets of the Company, subject to the priority interests held on those assets by the senior credit facility syndicate. This facility has been guaranteed by a related party (Note 22).

(c) Senior Unsecured Notes

Senior unsecured notes (the "Notes") due March 15, 2019 aggregating US\$325,000 with interest at 7% per annum payable each March 15 and September 15. The Notes, net of transaction costs, are accounted for at amortized cost using the effective interest method. The indenture governing the Notes places certain transaction-based restrictions on the Company's ability to incur

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

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

(d) Junior Credit Facility

The junior credit facility is from a related party (Note 22). It aggregates \$75,000 (December 31, 2017-\$75,000) and is unsecured with interest payable quarterly at 10% per annum. The facility is due on March 15, 2019, however the facility must be repaid upon (i) receipt of proceeds from specific sources as described in the agreement, (ii) the debt ratio in the senior credit facility permitting repayment of the debt. Interest payments during the period October 31, 2017 to January 1, 2019 are payable in common shares of the Company based on the volume weighted average share price of the Company on the Toronto Stock Exchange (Note 28).

(e) Convertible Debentures - 2014

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

(f) Convertible Debentures - 2015

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

(g) Bridge loan

Bridge loan of \$26,000 (December 31, 2017-\$26,000) maturing on January 5, 2019, of which 50% is provided by a related party, is secured by all assets of the Company and is subordinated to the Senior Credit Facility and Second Lien Credit Facility lenders. Interest on the Bridge loan is payable monthly at the rate of 8% per annum.

(h) Equipment Loans

At March 31, 2018, the Company had equipment loans outstanding denominated in US Dollars totalling US\$3,436 or \$4,430 (December 31, 2017- US\$5,716; \$7,171) at a weighted average interest rate of 2.60% with monthly payments of US\$771 or \$994. The Company also had equipment loans outstanding denominated in CDN Dollars totalling \$9,102 (December 31, 2017-\$10,851) at a weighted average interest rate of 5.23% with monthly payments of \$354. All equipment loans are secured by the financed equipment.

(i) 2017 LOC Loan Facility

Unsecured loan facility of \$10,000 (December 31, 2017 - \$10,000) from a related party (note 22) with interest at 12% payable on the last day of each calendar quarter. The loan matures on January 5, 2019. This facility remains undrawn at March 31, 2018.

(j) Equipment Lease

Equipment lease for \$140 (December 31, 2017 - \$nil) at an interest rate of 6.25% with monthly lease payments of \$4.

At March 31, 2018 the Company was in full compliance under its debt agreements with all financial covenants that existed at that time.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

12. FUTURE SITE RECLAMATION PROVISIONS

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

Changes to the future site reclamation provisions are:

	Three Months Ended March 31 2018	Year Ended December 31 2017
Balance, beginning of period	\$98,342	\$42,381
Accretion (Note 17)	787	2,310
Costs incurred during the period	-	(495)
Liability assumed at fair value at acquisition of Huckleberry (Note 5)	-	22,042
Change in estimates of future costs, discount rate and effect of translation of foreign currencies	(930)	37,182
Sale of Sterling	-	(5,078)
Balance, end of period	98,199	98,342
Less portion due within one year	(140)	(140)
	<u>\$98,059</u>	<u>\$98,202</u>

The total undiscounted amount of estimated future cash flows required to settle the obligations is \$173,474 (December 31, 2017-\$173,348). The estimated future cash flows were then adjusted using a 2.0% (December 31, 2017-2.0%) rate of inflation. The estimated future cash flows have been discounted using a rate of 3.25% (December 31, 2017-3.2%) except for obligations related to Mount Polley and Huckleberry beyond 2046 that are discounted using a rate of 4.25%. Obligations in amount of \$86,253 are expected to be settled in the years 2018 through 2046.

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

13. SHARE CAPITAL

(a) Share Capital

Authorized

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

50,000,000 Second Preferred shares without par value with rights and restrictions to be determined by the directors (issued and outstanding – nil)

An unlimited number of Common Shares without par value

(b) Share Option Plans

Under the Share Option Plans, the Company may grant options to its directors, officers and employees not to exceed 10% of the issued common shares of the Company. At March 31, 2018, a total of 8,252,975 common share options remain available for grant under the plans. Under the plans, the exercise price of each option cannot be greater than the market price of the Company's shares on the date of grant and an option's maximum term is 10 years. Options are granted from time to time by the Board of Directors and vest over a three or five year period.

Movements in Share Options

The changes in share options were as follows:

	Three Months Ended March 31, 2018		Year Ended December 31, 2017	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of period	3,601,900	\$8.13	3,871,900	\$8.16
Granted	-	\$ -	65,000	\$5.75
Forfeited	(15,000)	\$8.00	(252,000)	\$8.00
Expired	(154,000)	\$8.49	(83,000)	\$8.12
Outstanding at end of period	<u>3,432,900</u>	<u>\$8.12</u>	<u>3,601,900</u>	<u>\$8.13</u>
Options exercisable at end of period	<u>2,473,900</u>	<u>\$8.22</u>	<u>2,627,900</u>	<u>\$8.24</u>

The following table summarizes information about the Company's share options outstanding at March 31, 2018:

Exercise Prices	Options Outstanding		Options Exercisable	
	Options Outstanding	Remaining Contractual Life in Years	Options Outstanding & Exercisable	Remaining Contractual Life in Years
\$4.41	725,900	0.75	725,900	0.75
\$5.75	65,000	9.76	-	-
\$5.93	156,000	1.75	156,000	1.75
\$8.00	1,506,000	7.68	612,000	7.68
\$11.55	980,000	2.55	980,000	2.55
	<u>3,432,900</u>	<u>4.52</u>	<u>2,473,900</u>	<u>3.24</u>

There were no options exercised during the three months ended March 31, 2018.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

14. COST OF SALES

	Three Months Ended March 31	
	2018	2017
Operating expenses	\$56,190	\$70,624
Salaries, wages and benefits	22,836	29,146
Depletion and depreciation	21,266	21,654
Share based compensation	50	73
	<u>\$100,342</u>	<u>\$121,497</u>

Impairment charges related to stockpile ore and concentrate inventory included in cost of sales for the three months ended March 31, 2018 are \$1,760 (March 31, 2017-\$3,983).

15. GENERAL AND ADMINISTRATION COSTS

	Three Months Ended March 31	
	2018	2017
Administration	\$1,036	\$808
Share based compensation	154	197
Depreciation	32	32
Foreign exchange loss	384	218
	<u>\$1,606</u>	<u>\$1,255</u>

16. INTEREST EXPENSE

	Three Months Ended March 31	
	2018	2017
Interest on non-current debt	\$17,042	\$16,779
Other interest	1,950	1,379
	<u>\$18,992</u>	<u>\$18,158</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

17. OTHER FINANCE (EXPENSE) INCOME

	Three Months Ended March 31	
	2018	2017
Accretion of future site reclamation provisions	\$(787)	\$(353)
Foreign exchange gain (loss) on short term debt	5	(194)
Foreign exchange (loss) gain on non-current debt	(11,412)	3,544
Fair value adjustment to marketable securities	839	(10)
	(11,355)	2,987
Interest income	137	14
Other finance (expense) income	\$(11,218)	\$3,001

18. PROVISION FOR REHABILITATION COSTS

On August 4, 2014 the tailings dam at the Mount Polley mine near Likely, British Columbia was breached. At that time the Company charged to expense the estimated rehabilitation costs and during the year ended December 31, 2017 the rehabilitation provision was increased by \$5,840 to reflect assumptions and estimates as of that date.

The provision for rehabilitation contains significant estimates and judgments about the scope, timing and cost of the work that will be required. It is based on assumptions and estimates at March 31, 2018, and is subject to revision in the future as further information becomes available to the Company. Changes in the provision for rehabilitation costs are as follows:

	Three Months Ended	Year Ended
	March 31	December 31
	2018	2017
Balance, beginning of the period	\$5,335	\$2,051
Costs incurred in the period	(252)	(2,556)
Increase in provision	-	5,840
Balance, end of the period	5,083	5,335
Less portion expected to be incurred within one year	(3,399)	(3,651)
	\$1,684	\$1,684

19. INCOME AND MINING TAX RECOVERY

	Three Months Ended March 31	
	2018	2017
Current income and mining taxes	\$(879)	\$(278)
Deferred income and mining taxes	913	5,273
	\$34	\$4,995

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

20. LOSS PER SHARE

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

	Three Months Ended March 31	
	2018	2017
Numerator:		
Net Loss	\$(16,166)	\$(18,752)
Denominator:		
Basic weighted-average number of common shares outstanding	116,858,528	93,586,710
Effect of dilutive securities:		
Stock options, warrants and convertible debentures	-	-
Diluted weighted-average number of common shares outstanding	116,858,528	93,586,710
Basic net loss per common share	\$(0.14)	\$(0.20)
Diluted net loss per common share	\$(0.14)	\$(0.20)

The following common shares that may be issued in relation to the following items have been excluded from the calculation of diluted net income (loss) per common share:

	Three Months Ended March 31	
	2018	2017
Stock options	3,432,900	3,770,900
Warrants	909,091	-
Convertible debentures	12,386,321	12,155,751

21. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended March 31	
	2018	2017
Trade and other receivables	\$13,081	\$(368)
Inventory	(6,043)	7,641
Prepaid expenses and deposits	1,029	883
Trade and other payables	(19,186)	13,544
Deferred trade payables	(1,130)	(911)
Provision for rehabilitation costs	(252)	(617)
	\$(12,501)	\$20,172

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

During the three months ended March 31, 2018 the Company purchased certain mobile equipment at a cost of \$144, which was financed by non-current debt (Note 11(j)). During the three months ended March 31, 2018 the Company issued 2,353,274 common shares at an ascribed value of \$2.64 per share for total amount of \$6,212 in payment of accrued interest on the Junior Credit Facility (Note 11(d)), the 2014 Convertible Debentures (Note 11(e)) and the 2015 Convertible Debenture (Note 11(f)).

During the three months ended March 31, 2017 the Company purchased certain mobile equipment at a cost of \$7,207, which was financed by non-current debt (Note 11(h)).

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

	Three Months Ended March 31	
	2018	2017
Trade and other payables	\$(4,257)	\$(11,548)

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

22. RELATED PARTY TRANSACTIONS

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

Statement of Income

	Three Months Ended March 31	
	2018	2017
Loan guarantee fee for guarantee of second lien credit facility	\$478	\$416
Interest expense	\$4,138	\$3,973

Statement of Financial Position

	March 31	December 31
	2018	2017
Accrued interest on senior unsecured notes, convertible debentures and junior credit facility and Bridge loan	\$2,990	\$5,088
Junior credit facility	\$75,000	\$75,000
Senior unsecured notes (US\$53,300)	\$68,725	\$66,865
Convertible debentures	\$59,000	\$59,000
Bridge loan	\$13,000	\$13,000
Share issue expenses (backstop fees)	\$ -	\$310
Deferred financing fees for debt	\$ -	\$138

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

23. COMPENSATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

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

	Three Months Ended March 31	
	2018	2017
Short term benefits ⁽¹⁾	\$364	\$325
Share based payments ⁽²⁾	\$ -	\$ -

⁽¹⁾ Short term employee benefits include salaries, estimated bonuses payable within the year of the Statement of Financial Position date and other annual employee benefits. Directors and other key personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during three months ended March 31, 2018 and 2017

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

24. REPORTABLE SEGMENTED INFORMATION

The Company operates primarily in Canada. All of the Company's assets are located in Canada, except for assets comprised primarily of the Sterling totalling \$9,541 as at March 31, 2018 (December 31, 2017-\$8,482), which are located in the USA. The Company's reportable segments reflect the internal reporting used by the Company's management to report to the chief operating decision maker.

Reportable Segments

	Three Months Ended March 31, 2018					
	Red Chris	Mount Polley	Huckleberry	Sterling	Corporate	Total
Reportable segmented revenues	\$81,916	\$36,333	\$302	\$ -	\$14	\$118,565
Less inter-segment revenues	(31)	(306)	(302)	-	(14)	(653)
Revenues from external sources	\$81,885	\$36,027	\$ -	\$ -	\$ -	\$117,912
Depletion and depreciation	\$13,860	\$7,406	\$359	\$ -	\$32	\$21,657
Interest (expense) and other finance income (expense)	\$(15,173)	\$(3,676)	\$(143)	\$ -	\$ -	\$(18,992)
Net income (loss)	\$(10,130)	\$(5,888)	\$(1,453)	\$880	\$425	\$(16,166)
Capital expenditures	\$4,854	\$4,227	\$1	\$ -	\$53	\$9,135
Total assets	\$1,080,602	\$312,202	\$228,313	\$9,541	\$31,870	\$1,662,528
Total liabilities	\$859,579	\$231,823	\$63,554	\$11	\$3,633	\$1,158,600

	Three Months Ended March 31, 2017					
	Red Chris	Mount Polley	Huckleberry	Sterling	Corporate	Total
Reportable segmented revenues	\$54,597	\$61,606	\$ -	\$23	\$302	\$116,528
Less inter-segment revenues	(31)	(578)	-	(11)	(159)	(779)
Revenues from external sources	\$54,566	\$61,028	\$ -	\$12	\$143	\$115,749
Depletion and depreciation	\$10,433	\$11,127	\$ -	\$94	\$32	\$21,686
Interest (expense) and other finance income (expense)	\$(12,020)	\$(3,088)	\$ -	\$(41)	\$(8)	\$(15,157)
Share of loss in Huckleberry	\$ -	\$ -	\$(1,589)	\$ -	\$ -	\$(1,589)
Net income (loss)	\$(13,973)	\$(2,134)	\$(1,589)	\$(593)	\$(463)	\$(18,752)
Capital expenditures	\$10,951	\$12,973	\$ -	\$11	\$34	\$23,969
Equity investment	\$ -	\$ -	\$76,800	\$ -	\$ -	\$76,800
Total assets	\$1,075,052	\$312,160	\$76,800	\$26,465	\$20,643	\$1,511,120
Total liabilities	\$856,042	\$264,581	\$ -	\$5,115	\$15,422	\$1,141,160

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

Revenue by Geographic Area

	Three Months Ended March 31	
	2018	2017
Korea	\$19,785	\$720
Singapore	(334)	17,082
Switzerland	77,439	79,120
United States	21,022	18,684
Canada	-	143
	<u>\$117,912</u>	<u>\$115,749</u>

Revenues are attributed to geographic area based on country of customer. In the period ended March 31, 2018, the Company had 6 principal customers accounting for 20%, 18%, 18%, 17%, 17% and 10% of revenues (March 31, 2017—four principal customers accounting for 53%, 16%, 16% and 15%). The Company is not reliant on any one customer to continue to operate as a going concern.

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

Revenue by Major Product and Service

	Three Months Ended March 31	
	2018	2017
Copper	\$80,153	\$74,943
Gold	37,562	40,467
Silver	197	196
Other	-	143
	<u>\$117,912</u>	<u>\$115,749</u>

Provisionally Priced Revenues

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

Provisionally priced revenues is comprised of the following:

	March 31 2018	Provisional Price	December 31 2017	Provisional Price
Copper – 000's lbs with provisional price per lb	17,434.2	US\$3.03	17,212.4	US\$3.29
Gold – 000's oz with provisional price per oz	18.6	US\$1,325	24.5	US\$1,309

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

25. FINANCIAL INSTRUMENTS

Fair Value Estimation

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

The carrying value less impairment provision, if necessary, of trade and other receivables and trade and other payables are assumed to approximate their fair values. Except for the Notes (Note 11(c)), management believes that the carrying value of remaining non-current and short term debt approximates fair value. At March 31, 2018, the fair value of the Notes is \$384,483 (December 31, 2017-\$381,211) 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 March 31, 2018 as follows:

	Level 1	Level 2	Total
Financial Assets			
Cash	\$6,540	\$ -	\$6,540
Marketable securities	3,109	-	3,109
Provisionally priced accounts receivables	-	6,362	6,362
Future site reclamation deposits	14,319	-	14,319
	<u>23,968</u>	<u>6,362</u>	<u>30,330</u>
Financial Liabilities			
Amounts owing on provisionally priced receivables included in trade and other payables	-	(856)	(856)
	<u>\$23,968</u>	<u>\$5,506</u>	<u>\$29,474</u>

26. COMMITMENTS AND PLEDGES

(a) At March 31, 2018, the Company is committed to future minimum operating lease payments as follows:

2018	\$316
2019	426
2020	358
2021	330
2022 and beyond	166
	<u>\$1,596</u>

(b) At March 31, 2018, the Company has pledged the following assets for settlement of future site reclamation provisions:

Future site reclamation deposits included with other assets (Note 7)	\$14,319
Mineral property, plant and equipment	28,370
Letters of credit (Note 11(a))	42,961
	<u>\$85,650</u>

(c) The Company is obligated to increase its reclamation bond security by \$1,160 by June 30, 2018. The Company has provided \$28,370 for reclamation bonding obligations by securing certain plant and equipment. This security may be required to be replaced with cash security.

(d) At March 31, 2018, the Company had commitments of \$6,594 expenditures on mineral properties.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three Months Ended March 31, 2018 and 2017

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

27. CONTINGENT LIABILITIES

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

On August 4, 2014 the tailings dam at the Mount Polley mine near Likely, British Columbia was breached and at March 31, 2018 the Company has a provision of \$5,083 for future rehabilitation activities related to the Mount Polley mine tailings dam breach (Note 18). 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 March 31, 2018. However, the Company is of the view that the allegations contained in the Claim are without merit and intends to vigorously defend its position.

28. SUBSEQUENT EVENTS

Subsequent to March 31, 2018 the Company issued 816,414 common shares at an ascribed value of \$2.24 per share for a total of \$1,829 in payment of the interest due on March 31, 2018 on the Junior Credit Facility (Note 11(d)).



Imperial Metals Corporation

200-580 Hornby Street
Vancouver, BC V6C 3B6

imperialmetals.com

604.669.8959 | inquiries@imperialmetals.com

604.488.2657 | investor@imperialmetals.com