



FULL YEAR AND FOURTH QUARTER REPORT

Financial Statements and MD&A

December 31st, 2018 and 2017

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Copper Mountain Mining Corporation

Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017



Independent auditor's report

To the Shareholders of Copper Mountain Mining Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Copper Mountain Mining Corporation and its subsidiaries, (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of (loss) income and comprehensive (loss) income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis of Copper Mountain Mining Corporation for the year ended December 31, 2018.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Platt.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Vancouver, British Columbia
February 14, 2019

Copper Mountain Mining Corporation

Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	December 31, 2018 \$	December 31, 2017 \$
Assets		
Current assets		
Cash and cash equivalents	46,123	45,133
Accounts receivable and prepaid expenses (note 5)	18,923	29,314
Inventory (note 6)	55,801	68,135
	120,847	142,582
Deferred acquisition costs (note 4)	-	1,121
Reclamation bonds (note 10)	8,752	8,228
Deferred tax assets (note 18)	13,980	10,956
Property, plant and equipment (note 7)	448,237	414,041
Low grade stockpile (note 6)	109,846	91,021
	701,662	667,949
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	37,494	42,122
Amounts payable to related parties (note 16)	69,026	43,633
Current portion of long-term debt (note 9)	52,956	48,649
Current tax liability	622	1,285
	160,098	135,689
Provisions (note 10)	6,571	6,521
Interest rate swap liability (note 9)	601	2,081
Long-term debt (note 9)	229,001	258,373
Deferred tax liability	2,135	-
	398,406	402,664
Equity		
Attributable to shareholders of the Company:		
Share capital (note 11)	263,822	195,670
Contributed surplus	17,378	15,724
Accumulated other comprehensive loss	(1,655)	-
Accumulated deficit	(48,030)	(25,693)
	231,515	185,701
Non-controlling interest	71,741	79,584
Total equity	303,256	265,285
	701,662	667,949

Approved on behalf of the Board of Directors

(signed) Gil Clausen Director

(signed) Bruce Auger Director

Copper Mountain Mining Corporation

Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income
For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except for number of and earnings per share)

	2018 \$	2017 \$
Revenue (note 13)	296,019	304,080
Cost of sales (note 14)	(270,713)	(244,985)
Gross profit	25,306	59,095
General and administration (note 14)	(10,990)	(6,757)
Property investigation	-	(35)
Share based compensation (note 12)	(1,605)	(2,152)
Income from operations	12,711	50,151
Finance income	582	319
Finance expense (note 15)	(15,564)	(13,070)
Unrealized gain (loss) on interest rate swap	716	(87)
Foreign exchange (loss) gain	(23,788)	20,949
(Loss) income before tax	(25,343)	58,262
Current resource tax expense	(1,217)	(1,879)
Deferred income and resource tax (expense) recovery	(316)	10,956
Net (loss) income	(26,876)	67,339
Other comprehensive loss		
Foreign currency translation adjustment	(1,655)	-
Total comprehensive (loss) income	(28,531)	67,339
Net (loss) income and comprehensive (loss) income attributable to:		
Shareholders of the Company	(22,337)	47,963
Non-controlling interest	(4,539)	19,376
	(26,876)	67,339
(Loss) income per share:		
Basic	\$(0.13)	\$0.36
Diluted	\$(0.13)	\$0.35
Weighted average shares outstanding, basic	172,201,295	133,301,425
Weighted average shares outstanding, diluted	172,201,295	136,893,439
Shares outstanding at end of the year	188,170,359	134,285,192

The accompanying notes are an integral part of these consolidated financial statements.

Copper Mountain Mining Corporation

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars)

	2018 \$	2017 \$
Cash flows from operating activities		
Net (loss) income for the year	(26,876)	67,339
Adjustments for:		
Depreciation	51,046	51,491
Loss on disposal of fixed assets	-	(25)
Unrealized foreign exchange loss (gain)	17,601	(20,155)
Unrealized (gain) loss on interest rate swap	(716)	87
Deferred income and resource tax expense (recovery)	310	(10,956)
Finance expense	15,564	13,070
Share based compensation	1,327	1,945
	58,256	102,796
Net changes in working capital items (note 17)	(6,990)	(45,522)
Net cash from operating activities	51,266	57,274
Cash flows from investing activities		
Cash acquired in acquisition of Altona	29,115	-
Transaction costs for Altona transaction	(2,291)	-
Share issue costs for Altona transaction	(364)	-
Deferred stripping activities	(20,185)	(1,485)
Deferred acquisition costs	-	(1,121)
Development of property, plant and equipment	(21,537)	(3,779)
Purchase of reclamation bond	(396)	-
Proceeds on disposal of fixed asset	-	52
Net cash used in investing activities	(15,658)	(6,333)
Cash flows from financing activities		
Proceeds on exercise of options and warrants	224	1,179
Contributions from non-controlling interest	28,412	21,618
Payments made to non-controlling interest	(3,304)	-
Loan principal paid	(44,074)	(37,361)
Interest paid	(12,122)	(12,521)
Finance lease payments	(6,511)	(8,218)
Net cash used in financing activities	(37,375)	(35,303)
Effect of foreign exchange rate changes on cash and cash equivalents	2,757	(1,914)
Increase in cash and cash equivalents	990	13,724
Cash and cash equivalents - Beginning of year	45,133	31,409
Cash and cash equivalents - End of year	46,123	45,133
Supplementary cash flow disclosures (note 17)		

The accompanying notes are an integral part of these consolidated financial statements.

Copper Mountain Mining Corporation
Consolidated Statements of Changes in Equity
(In thousands of Canadian dollars, except for number of shares)

Attributable to equity owners of the company

	Number of Shares	Amount \$	Contributed surplus \$	Accumulated other comprehensive loss	Deficit \$	Total \$	Non- controlling interest \$	Total equity \$
Balance January 1, 2017	132,650,927	194,208	14,773	-	(73,656)	135,325	60,208	195,533
Shares issued on exercise of options	184,515	91	-	-	-	91	-	91
Shares issued on exercise of warrants	1,449,750	1,088	-	-	-	1,088	-	1,088
Fair value of options exercised	-	44	(44)	-	-	-	-	-
Fair value of warrants exercised	-	239	(239)	-	-	-	-	-
Share based compensation	-	-	1,234	-	-	1,234	-	1,234
Income for the year	-	-	-	-	47,963	47,963	19,376	67,339
Balance December 31, 2017	134,285,192	195,670	15,724	-	(25,693)	185,701	79,584	265,285
Shares issued on acquisition of Altona	53,538,984	66,650	-	-	-	66,650	-	66,650
Shares issued on exercise of options	156,183	82	-	-	-	82	-	82
Shares issued on exercise of warrants	190,000	143	-	-	-	143	-	143
Tax effect on share issue costs	-	1,200	-	-	-	1,200	-	1,200
Fair value of options exercised	-	46	(46)	-	-	-	-	-
Fair value of warrants exercised	-	31	(31)	-	-	-	-	-
Share based compensation	-	-	1,731	-	-	1,731	-	1,731
Payments to non-controlling interests	-	-	-	-	-	-	(3,304)	(3,304)
Loss for the year	-	-	-	-	(22,337)	(22,337)	(4,539)	(26,876)
Foreign currency translation	-	-	-	(1,655)	-	(1,655)	-	(1,655)
Balance December 31, 2018	188,170,359	263,822	17,378	(1,655)	(48,030)	231,515	71,741	303,256

The accompanying notes are an integral part of these consolidated financial statements.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

1 Nature of operations and liquidity

Copper Mountain Mining Corporation (“the Company”) was incorporated under the provisions of the British Columbia Business Corporations Act on April 20, 2006 and is a Canadian development and operating mining company. The Company maintains its head office at Suite 1700 – 700 West Pender Street, Vancouver, British Columbia. The Company, through a subsidiary, owns 75% of the Copper Mountain Mine while Mitsubishi Materials Corporation (“MMC”) owns the other 25% interest in the Copper Mountain Mine.

As at December 31, 2018, the Company had negative working capital of \$39.3 million compared to working capital of \$6.9 million at December 31, 2017. Included in working capital is \$69.0 million due to MMC (Note 16 (c)) and is not expected to be repaid within the next twelve months. The Company has no future material commitments for capital expenditures at the Copper Mountain Mine as of December 31, 2018.

In the next twelve months the Company has contractual obligations which are due in US dollars including senior credit facility and term loan payments of approximately US\$37.3 million, which the Company expects to be able to fund through cash on hand and cash flows from operations. However, the current commodity price and exchange rate environment can be volatile and accordingly could have an impact on the Company’s cash flows. The Company continues to review its near term operating plans and continues to take steps to reduce costs and maximize cash flow from operations, while still maintaining copper output levels. The Company remains vigilant for ongoing opportunities to reduce costs and improve net cash generation.

Management has received an extension of the required funding of the debt service and capex reserve accounts relating to the Company’s Senior Credit Facility by providing corporate guarantees (Note 9). The extension expires June 30, 2019 and although such extensions have been obtained in the past there are no guarantees they will continue to be obtained in the future.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

2 Basis of presentation

- a. The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements were approved for issue on February 13, 2019, by the Board of Directors.
- b. Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. Transactions in currencies other than the functional currency are recorded at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rate prevailing at each reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. Foreign currency translation gains or losses are recognized in profit or loss. The determination of functional currency requires the use of judgement as the Company has transactions in Canadian, US and Australian dollars.

- c. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year.

The Company’s management reviews these estimates and underlying assumptions on an ongoing basis. Estimates are based on historical experience and other factors, including the expectation of future events considered to be reasonable under the circumstances. However, actual results may differ from these estimates. Revisions to accounting estimates are recognized prospectively in the period in which the estimates are revised and any future periods affected. The estimates and judgements used in the preparation of these consolidated financial statements are included in the notes to these consolidated financial statements with those items which could have a material effect on these consolidated financial statements outlined below.

Impairment review

The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, production budgets and forecasts, and life of-mine estimates. The determination of fair value less costs to sell and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, mineral reserves, operating costs, taxes, close down and restoration costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the estimate of recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be impaired with the impact recorded in the consolidated statements of loss.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

Mineral reserve estimates

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 *Standards for Disclosure of Mineral Projects* (NI 43-101). Reserves are used in the calculation of depreciation, impairment assessment and for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs. There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates could have a material affect in the future of the Company's financial position and results of operation.

Inventory valuation

Stockpiled ore and concentrate inventory are valued at the lower of average cost and net realizable value. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and future metal prices less estimated future production costs to convert the inventory into saleable form and associated selling costs. The determination of future sales price, production and selling costs requires assumptions that may impact the stated value of inventory. Because the low grade inventory measurement involves discounting, any significant changes in the projected timing of processing of the stockpile could result in significant impairment charges or reversal.

Decommissioning and restoration provisions

Accounting for restoration provisions requires management to make estimates of the future costs the Company will incur to complete the restoration and remediation work required to comply with its permits, existing laws and regulations. Actual costs incurred may differ from those amounts estimated. In addition, future changes to environmental laws and regulations could increase the extent of restoration work required to be performed by the Company. Increases in future costs could materially impact the provision for restoration. The provision represents management's best estimate of the present value of the future restoration and remediation costs.

Current and deferred taxes

Judgment is required in determining whether deferred tax assets are recognized on the balance sheet. Deferred tax assets, including those arising from unutilized tax losses require management to assess the probability that the Company and its subsidiaries will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. Based on current forecasts, the Company expects to generate taxable earnings in future periods, and has recognized a deferred tax asset for Canada.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

3 Significant accounting policies

a. Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the derivative financial instruments, which are stated at fair value. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

b. Consolidation

The financial statements of the Company consolidate the accounts of Copper Mountain Mining Corporation and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The significant subsidiary entities of Copper Mountain are listed below. Each of the entities has a December 31 year end.

Subsidiary	Location	Ownership Interest	Status	Functional Currency
Copper Mountain Mine (BC) Ltd.	Canada	75%	Consolidated	Canadian dollar
Copper Mountain Operating Company	Canada	100%	Consolidated	Canadian dollar
Princeton GP Ltd.	Canada	75%	Consolidated	Canadian dollar
Similco Finance Ltd.	Canada	75%	Consolidated	US dollar
Copper Mountain Mining Australia Pty Ltd.	Australia	100%	Consolidated	Australian dollar

c. Non-controlling interest

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. The non-controlling interests' share of net income and comprehensive income is presented separately in the statement of loss and comprehensive loss directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

d. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, reclamation bonds, accounts payable and accrued liabilities, debt and interest rate swap liabilities.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

Cash and cash equivalents and reclamation bonds

Cash and cash equivalents comprise of cash in bank accounts and on hand and other short-term investments with initial maturities of less than 90 days. Cash subject to restrictions is excluded.

Cash and cash equivalents, restricted cash and reclamation bonds have been classified as loans and receivables and are recorded at amortized cost.

Accounts receivable

Trade accounts receivable are classified as loans and receivables and accordingly are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest rate method. Included in accounts receivable are provisionally priced receivables recorded at fair value through profit and loss.

Derivatives

The Company periodically enters into derivative instruments to mitigate risk. The Company does not apply hedge accounting. Derivative financial instruments are measured at fair value. Changes in fair value of derivative instruments are recorded in profit or loss.

Accounts payable and accrued liabilities and debt

Accounts payable and accrued liabilities and debt are classified as other financial liabilities and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption amount is recognized in net earnings over the period to maturity using the effective interest rate method.

Changes in accounting policies for financial instruments arising from the adoption of IFRS 9 are set out in section (n) below.

e. Inventory

Concentrate and ore stockpile inventories are valued at the lower of average cost and net realizable value. Ore stockpiles include materials extracted from the mine and stockpiled before and after the crushing process. Concentrate inventories include concentrates located at the mine, port facility or in transit. Ore stockpiles not expected to be processed in the next twelve months, are included in non-current inventory. Ore stockpiles and concentrate inventory costs include all direct costs incurred in production including direct labour and materials, freight, depreciation and amortization, and directly attributable overhead costs. When inventories have been written down to net realizable value, a new assessment of net realizable value is made in each subsequent period. If the circumstances that caused the write-down no longer exist, the amount of the write-down is reversed.

Consumable stores inventories are valued at the lower of weighted average cost and net realizable value. Cost includes acquisition, freight, and other directly attributable costs.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

f. Property, plant and equipment

Exploration and evaluation

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized as exploration and evaluation assets and classified as a component of property, plant and equipment. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Development

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to development and construction are capitalized as construction-in progress and classified as a component of property, plant and equipment. Costs associated with the commissioning of new assets incurred in the period before they are operating in the manner intended by management, are capitalized.

The Company determines the date for commencement of production based on consideration of sustained operating levels and production of saleable concentrate.

The costs of removing waste and overburden (stripping costs) to access ore prior to the commencement of mine operations are capitalized as pre-production stripping costs and classified as a component of property, plant and equipment.

Stripping costs after the commencement of operations are incurred both in relation to the production of inventory of that period and also for improved access to ore to be mined in the future. Stripping costs incurred relating to current ore production are included as part of inventory, while stripping costs incurred relating to improved access and future development are capitalized as a stripping activity asset.

Stripping costs benefiting future periods are identified by reference to the waste to ore stripping ratio. In periods when the life of a mining phase stripping ratio exceeds the average expected stripping ratio, the excess costs over the mine stripping ratio expected costs are capitalized as stripping activity assets.

Stripping activity assets are amortized on a unit of production basis over the proven and probable reserves over the remaining life of each mining phase to which they relate.

Property, plant and equipment

Plant and equipment are recorded at cost less accumulated amortization. Costs for facilities under construction include all expenditures incurred directly in connection with project development.

Mobile mining equipment is recorded at cost and amortized over its estimated useful economic life based on operating hours. Repairs and maintenance costs are expensed during the period in which they are incurred. Other equipment and buildings are recorded at cost and amortized over their estimated useful lives on a straight-line basis between 5 to 16 years. Resource property assets are amortized on a

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

units of production basis over proven and probable reserves. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

The following table outline the methods used to amortized property, plant and equipment:

Assets	Depreciation Method
Buildings	Straight line
Mobile mining equipment	Hours of operation
Light duty vehicles	Straight line
Plant and equipment	Units of production
Resource property	Units of production
Stripping activity assets	Units of production

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of income in the period in which they are incurred.

Impairment of property, plant and equipment

The carrying amounts of property, plant and equipment are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong. Cash-generating units are individual operating mines or exploration and development projects. The recoverable amount of an asset is determined as the higher of its fair value less costs of disposal and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In assessing fair value less costs of disposal, fair value is the price that would be received from selling an asset in an orderly transaction between market participants at the measurement date. For mining assets fair value less costs of disposal is typically estimated using a discounted cash flow approach. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying value, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. When an impairment loss exists it is recorded as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

The Company reviews the carrying value of assets at the end of each reporting period for indicators of impairment using both internal and external sources of information. As a result of the Company's impairment assessment processes, there were no impairment charges recorded for the Company's property, plant, and equipment for the year ended December 31, 2018.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

Leases

Assets financed by leasing agreements that give rights approximating ownership (finance leases) are capitalized at fair value. The capital elements of future obligations under finance leases are included as liabilities in the balance sheet and the interest element is charged to the income statement. Annual payments under other lease arrangements, known as operating leases, are charged to the income statement on a straight-line basis.

g. Decommissioning and restoration provisions

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a risk free rate. The restoration provision is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free discount rate.

The restoration provision is also accreted to full value over time through periodic charges to income. The amount of the restoration provision initially recognized is capitalized as part of the related asset's carrying value and amortized to earnings. The method of amortization follows that of the underlying asset. The costs related to a restoration provision are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit. A revision in estimates or a new disturbance will result in an adjustment to the liability with an offsetting adjustment to the related asset.

h. Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

i. Revenue

Sales of metal in concentrates are recognized on a provisional pricing basis when title transfers and the rights and obligations of ownership pass to the customer, which occurs upon shipment. Final pricing for concentrates sold is not determined at that time as it is contractually linked to market prices at a subsequent date. These pricing arrangements have the characteristics of a derivative instrument as the value of the accounts receivable will vary as prices for the underlying commodities vary in the metal markets. These price adjustments result in gains in a rising price environment and losses in a declining price environment and are recorded as adjustments to revenues.

The updated accounting policy for revenue arising from the adoption of IFRS 15 is set out in section (n) below.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

j. Current and deferred income and resource taxes

Income tax expense comprises current and deferred income and resource tax. The Company records B.C. Mineral Tax as an income tax. Income tax expense is recognized in the statement of income (loss) except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same entity or entities where there is an intention to settle balances on a net basis.

k. Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and are recorded over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to contributed surplus.

Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital. Charges for options that are forfeited before vesting are reversed.

Share-based compensation expense relating to deferred share units and restricted shares units are accrued over the vesting period of the units based on the quoted market price. As these awards can be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

l. Share capital

The Company records proceeds from share issuances net of issue costs. Common shares issued for consideration other than cash are valued based on their market value at the date the agreement to issue shares is concluded.

m. Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding in the period.

Diluted earnings per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In periods of loss basic and diluted earnings per share are the same as dilutive instruments have an anti-dilutive effect.

n. New Accounting Pronouncements

The Company adopted the following IFRS standards effective January 1, 2018.

IFRS 15 – Revenue from contracts with customers

IFRS 15 addresses revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The Company has concluded there were no significant measurement changes in the accounting for concentrate sales as a result of the transition to IFRS 15.

The following is the new accounting policy for revenue recognition under IFRS 15:

Revenue Recognition

Revenue consists of sales of copper concentrates. Our performance obligations relate primarily to the delivery of these products to our customers with each separate shipment representing a separate performance obligation.

Revenue is recognized at the point in time when the customer obtains control of the product. Control is achieved when a product is delivered to the customer, we have a present right to payment for the product, significant risks and rewards of ownership have transferred to the customer according to contract terms and there is no unfulfilled obligation that could affect the customer's acceptance of the product.

For copper concentrates, control of the product generally transfers to the customer when an individual shipment is loaded onto a vessel accepted by the customer. We sell our concentrates on commercial

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

terms where we are responsible for providing freight services after the date at which control of the product passes to the customer.

Copper concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. For these sales, revenue is recorded based on the estimated consideration to be received at the date of sale with reference to relevant commodity market prices. Adjustments are made to settlement receivables in subsequent periods based on movements in quoted commodity prices up to the date of final pricing. This adjustment mechanism has the characteristics of a derivative and accordingly, the changes in value of the settlement receivables are not considered to be revenue from contracts with customers. The changes in fair value of settlement receivables are recorded as a separate component of revenue.

Copper concentrate sales are billed based on provisional weights and assays upon the passage of control to the customer. The first provisional invoice is billed to the customer at the time of transfer of control. As final prices, weights and assays are received additional invoices are issued and collected. Consideration is promptly collected from our customer.

IFRS 9 – Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss, at fair value through other comprehensive income, and at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings.

The requirements in IAS 39 for classification and measurement were carried forward to IFRS 9 and the Company's accounting policy with respect to financial liabilities remains unchanged.

The following is the new accounting policy for accounts receivable under IFRS 9. All other aspects of our accounting policies for financial instruments as disclosed in note 3.d are unaffected:

Settlement receivables

Settlement receivables arise from concentrate sales contracts where amounts receivable vary based on underlying commodity prices. Settlement receivables are classified as fair value through profit or loss and are recorded at fair value at each reporting period based on quoted commodity prices up to the date of final pricing. The changes in fair value are recorded as a separate component of revenue.

The adoption of IFRS 9 did not impact the carrying value of any financial assets on the transition date, January 1, 2018.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

The following standards and pronouncements have been issued by the IASB and have not yet been adopted by the Company.

IFRS 16 – Leases

IFRS 16 establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17, Leases, and related Interpretations. IFRS 16 is effective from January 1, 2019 though a company can choose to apply IFRS 16 before that date but only in conjunction with IFRS 15 Revenue from Contracts with Customers. The Company has completed its preliminary assessment and does not expect material changes from implementing IFRS 16.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

4 Acquisition of Altona Mining Ltd.

On November 19, 2017 the Company announced the intent to acquire all of the issued and outstanding common shares of Altona Mining Limited (“Altona”), a company based in Australia. Under the terms of the transaction, the Company issued 53,538,984 Copper Mountain common shares for 100% of Altona (the “Transaction”). The Transaction closed on April 18, 2018, at which time Altona became a wholly owned subsidiary of the Company.

The transaction has been accounted for as an asset acquisition because it lacks the necessary inputs, processes and outputs to constitute a business under IFRS 3, Business Combinations.

The purchase price allocation is as follows:

	\$
Consideration paid - 53,538,984 common shares of the Company at \$1.25 per share	67,015
Transaction costs	3,413
	<u>70,428</u>
Net assets acquired:	
Cash and cash equivalents	29,115
Accounts receivables and prepaids	526
Reclamation bond	121
Property, plant and equipment	45
Exploration and evaluation assets	41,076
Current liabilities	(455)
	<u>70,428</u>

These consolidated financial statements include Altona’s results from April 18, 2018 to December 31, 2018.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

5 Accounts receivable and prepaid expenses

	2018	2017
	\$	\$
Amounts due from concentrate sales	15,737	15,348
Pricing adjustments on concentrate sales	(888)	10,691
GST and other receivables	1,684	1,890
Prepaid expenses	2,390	1,385
	18,923	29,314

6 Inventory

	2018	2017
	\$	\$
Supplies	18,811	16,971
Ore stockpile	24,313	37,443
Crushed ore stockpile	3,225	2,415
Copper Concentrate	9,452	11,306
	55,801	68,135
	109,846	91,021

Inventory expensed during the period ended December 31, 2018 totaled \$256,954 (2017 – \$230,930).

During the year ended December 31, 2018, the Company recorded a write-down of \$6,293 (2017 – \$10,812) to the low grade stockpile. These adjustments were necessary to record the low grade stockpile at net realizable value.

¹ Stockpile of inventory that is not expected to be processed until towards the end of the mine life

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

7 Property, plant and equipment

Cost	Plant and equipment \$	Exploration and evaluation assets \$	Mineral properties and mine development costs \$	Total \$
As at January 1, 2017	530,515	6,702	159,757	696,974
Additions	9,759	61	1,613	11,433
Disposals	(39)	-	-	(39)
Restoration provision	-	-	43	43
As at December 31, 2017	540,235	6,763	161,413	708,411
Additions	13,580	49,033	25,354	87,967
Restoration provision	-	-	65	65
Currency translation adjustment	(153)	(833)	-	(986)
As at December 31, 2018	553,662	54,963	186,832	795,457

Accumulated depreciation	Plant and equipment \$	Exploration and evaluation asset \$	Mineral properties and mine development costs \$	Total \$
As at January 1, 2017	(170,434)	-	(63,460)	(233,894)
Depreciation charge	(40,746)	-	(19,730)	(60,476)
As at December 31, 2017	(211,180)	-	(83,190)	(294,370)
Depreciation charge	(36,606)	-	(16,244)	(52,850)
As at December 31, 2018	(247,786)	-	(99,434)	(347,220)

Net book value				
As at December 31, 2017	329,056	6,763	78,223	414,041
As at December 31, 2018	305,876	54,963	87,398	448,237

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

8 Accounts payable and accrued liabilities

	2018	2017
	\$	\$
Trade accounts payable	20,252	23,882
Accrued liabilities	16,246	16,635
Current portion of interest rate swap liability (note 9(b))	600	1,040
Deferred Share Units liability	87	291
Restricted Share Units liability	309	273
	37,494	42,122

9 Long-term debt

	2018	2017
	\$	\$
Senior credit facility (b) in US\$	88,553	102,624
Term loan (c) in US\$	103,490	122,222
Total US\$ long term debt in US\$	192,043	224,846
Total US\$ long term debt in CAD\$	261,983	282,067
Subordinated loan (a)	13,547	12,978
Leases (d)	6,427	11,977
Total	281,957	307,022
Less: current portion	(52,956)	(48,649)
	229,001	258,373

a) Subordinated loan

In April 2010, the Company entered into a loan agreement with a subsidiary of MMC for \$9,600. The loan bears interest at a fixed rate of 4.8%. The loan principal and accumulated interest matures on June 30, 2023 and is pre-payable at any time without penalty. The loan and accumulated interest is subordinate to the senior credit facility.

b) Senior credit facility

The Company has a senior credit facility (“the SCF”) with a consortium of Japanese banks.

The maximum amount available under the SCF was US\$162 million which was fully drawn in 2011. The SCF carries a variable interest rate of LIBOR plus 2% and matures on June 15, 2023. The SCF is repayable in twenty four semi-annual instalments which commenced December 15, 2011, with 40% of the principal balance due in the final two years before maturity. The instalments are payable on a fixed schedule, subject to mandatory prepayment based on cash flows relating to the Copper Mountain Mine. As at December 31, 2018 the Company has repaid a total of US\$71.3 million in principal and paid a total of US\$26.1 million in interest on the SCF.

Under the terms of the SCF, the Company is required to maintain certain balances up to a total of US \$12 million in the debt service reserve account (“DSRA”) and the capex reserve account (“CXRA”) by

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

June 30, 2012. Since this date, the Company and MMC have jointly guaranteed to June 30, 2019 the amounts owing to the DSRA and the CXRA, and as a result no funds were required to be placed on deposit in either of the accounts.

As at December 31, 2018 the SCF has a principal amount outstanding of \$123,760 (US\$91 million). The outstanding amount of \$120,804 is net of issue costs of \$2,956 which are amortized over the life of the loan.

The SCF is collateralized by all the assets of the Copper Mountain Mine and is insured by Nippon Export and Investment Insurance.

Minimum principal repayments of the amounts outstanding under the SCF are as follows:

	<u>US\$ '000</u>
2019	11,745
2020	9,315
2021	21,060
2022-2023	48,600
	<u>90,720</u>

Under the terms of the SCF, the Company was required to complete an interest rate swap on 70% of the principal amount of the facility. The Company swapped a LIBOR variable rate interest payment stream for a 3.565% fixed rate interest payment stream on US\$74 million of the principal. The interest rate swaps mature on December 15, 2020.

As at December 31, 2018 the swap had an unrealized fair value loss of \$1,201 (2017 - \$3,121). The current portion of \$600 is included in accounts payable and accrued liabilities.

As at December 31, 2018 the Company is in compliance with all covenants which may result in the event of default of the senior credit facility.

c) Term loan

In July 2010, the Company entered into a term loan (“the Term Loan”) with the Japan Bank for International Cooperation.

The maximum amount available under the Term Loan was US\$160 million which was fully drawn in 2011. The Term Loan carries a variable interest rate of LIBOR plus 0.551% and matures on February 15, 2022. As at December 31, 2018 the Term Loan has a principal amount outstanding of \$144,060 (US\$106 million). The outstanding amount of \$141,181 is net of issue costs of \$2,878 which are amortized over the life of the loan. The Term Loan is guaranteed by MMC in exchange for a fee of 0.2% per annum.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

The Term Loan is unsecured and repayable in increasing instalments every six months commencing February 2012, with the majority of the loan falling due in the last six instalments. As at December 31, 2018 the Company has repaid a total of US\$54 million in principal and paid a total of US\$14 million in interest on the Term Loan.

Principal repayment amounts outstanding under the Term Loan are as follows:

	<u>US\$</u>
2019	25,600
2020	32,000
2021	32,000
2022	16,000
	<u>105,600</u>

The Company is subject to certain debt covenants on the Term Loan. As at December 31, 2018 the Company is in compliance with all of those covenants.

d) Leases

The Company has a number of leases related to mobile mining equipment. The mobile equipment is security for the respective lease obligations.

During 2017 the Company entered into a finance lease agreement with one of its equipment suppliers for haul trucks. The leases are payable in 36 monthly instalments which commenced in April 2017 and will end in March 2020 with interest at a fixed rate of 4.00% per annum.

Gross finance lease liability and minimum lease payments	2018	2017
	\$	\$
Within one year	3,053	6,799
Between two and four years	3,733	5,863
	6,786	12,663
Future interest	(359)	(685)
Present value of finance lease liability	<u>6,427</u>	<u>11,977</u>

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

10 Provisions

	Decommissioning and restoration provision \$	Share-based payment obligations \$	Total \$
Balance, January 1, 2018	6,260	825	7,085
Share-based payment recovery	-	(125)	(125)
Changes in estimate costs and timing	65	-	65
Unwinding of discount on restoration provision	221	-	221
Payments during the period	-	(279)	(279)
Balance, December 31, 2018	6,546	421	6,967
<i>Less: Current portion of share-based payment obligations included within accounts payable (Note 8)</i>	-	(396)	(396)
Total provision – Non-current	6,546	25	6,571
Balance, January 1, 2017	6,312	116	6,428
Share-based payment expense	-	916	916
Changes in estimate costs and timing	(95)	-	(95)
Unwinding of discount on restoration provision	43	-	43
Payments during the year	-	(207)	(207)
Balance, December 31, 2017	6,260	825	7,085
<i>Less: Current portion of share-based payment obligations included within accounts payable (Note 8)</i>	-	(564)	(564)
Total provision – Non-current	6,260	261	6,521

The Company has a liability for remediation of current and past disturbances associated with mining activities at the Copper Mountain property. At December 31, 2018 the Company used an inflation rate of 1.50% (2017 – 1.30%) and a discount rate of 2.18% (2017 – 2.26%) in calculating the estimated obligation. The decommissioning obligations will be accreted as a finance expense over the life of the mine. The liability for retirement and remediation on an undiscounted basis is \$7,005 (2017 - \$6,954). The expected timing of payment of the cash flows commences in 2028.

The Company has on deposit \$8,228 with the Government of British Columbia in support of reclamation liabilities at the Copper Mountain mine site. The Company receives interest on these bonds.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

11 Share capital

Authorized - Unlimited number of common shares without par value.

12 Share based compensation

a. Stock options

The Company has a stock option plan whereby it can grant up to 17,876,184 stock options exercisable for a period of up to ten years from the grant date. As at December 31, 2018, the Company had 11,308,469 options outstanding as follows:

	Number of shares	Weighted average exercised price
		\$
Opening balance	7,964,235	1.23
Granted	4,575,000	1.11
Exercised	(156,183)	0.52
Forfeited	(1,074,583)	1.39
December 31, 2018	11,308,469	1.21

Date of stock option grant	Number of options	Exercise price \$	Expiry date
Feb. 20, 2014	2,850,000	1.92	Feb. 20, 2019
Sep. 18, 2015	520,000	0.59	Sep. 18, 2020
Jan. 26, 2016	1,826,802	0.39	Jan. 26, 2021
June 30, 2016	66,667	0.50	June 30, 2021
Jan. 13, 2017	1,590,000	1.18	Jan. 13, 2021
Apr. 24, 2017	35,000	0.93	Apr. 24, 2022
February 22, 2018	1,935,000	1.28	Feb. 22, 2023
April 26, 2018	100,000	1.37	Apr. 26, 2023
June 1, 2018	1,000,000	1.07	June 1, 2023
June 7, 2018	100,000	1.26	June 7, 2023
June 20, 2018	100,000	1.26	June 20, 2023
July 5, 2018	80,000	1.16	July 5, 2023
August 13, 2018	750,000	1.14	Aug 13, 2023
November 2, 2018	355,000	1.00	Nov. 2, 2023
	11,308,469		

The weighted average exercise price of granted options at year end is \$1.21 (2017 - \$1.23).

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

As at December 31, 2018 the following options were both outstanding and exercisable:

Date of stock option grant	Number of options	Exercise price \$	Expiry date
Feb. 20, 2014	2,850,000	1.92	Feb. 20, 2019
Sep. 18, 2015	520,000	0.59	Sep. 18, 2020
Jan. 26, 2016	1,186,733	0.39	Jan. 26, 2021
June 30, 2016	66,667	0.50	June 30, 2021
Jan. 13, 2017	795,000	1.18	Jan. 13, 2021
Apr. 24, 2017	17,500	0.93	Apr. 24, 2022
February 22, 2018	483,750	1.28	Feb. 22, 2023
April 26, 2018	25,000	1.37	Apr. 26, 2023
June 7, 2018	25,000	1.26	June 7, 2023
June 20, 2018	25,000	1.26	June 20, 2023
	5,994,650		

The weighted average exercise price of exercisable options at year end is \$1.33 (2017 - \$1.52).

During the year ended December 31, 2018, the total fair value of stock options vesting was \$1,706 (2017 - \$1,236) and had a weighted average grant-date fair value of \$0.51 (2017 - \$0.66) per option. The fair values of the stock options granted were estimated on the grant date using the Black-Scholes option pricing model. Volatility was determined using a historical daily volatility over the expected life of the options.

Weighted average assumptions used in calculating the fair value of options granted during the period are as follows:

	December 31, 2018	December 31, 2017
Risk free interest rate	2.14%	1.16%
Expected dividend yield	Nil	Nil
Expected share price volatility	64.7%	65.7%
Expected forfeiture rate	3.3%	3.3%
Expected life	5.0 years	4.7 years

b. Deferred Share Unit and Restricted Share Unit Plans

The Company has other share-based compensation plans in the form of Deferred Share Units (“DSU”), and Restricted Share Units (“RSU”). Units granted under these share-based compensation plans are recorded at fair value on the grant date and are adjusted for changes in fair value each reporting period and until settled. The expense, and any changes which arise from fluctuations in the fair value of the grants, is recognized in share-based compensation in the statement of income with the corresponding liability recorded on the balance sheet in provisions (Note 10).

Deferred Share Unit Plan

The Company established a DSU plan that allows participants, which includes directors and executive employees to receive incentive compensation in the form of DSUs. Participants can elect to receive

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

common shares or cash upon exercise of DSUs. Certain DSUs issued to directors may only be exercised when the holder ceases to be a director while other DSUs are exercisable as they vest. Vesting terms of the DSUs are established by the directors at the time the DSUs are granted.

Compensation expense related to DSUs is recorded on issue and is adjusted at each reporting period to reflect the change in quoted market value of the Company's common shares.

Restricted Share Unit Plan

The Company established an RSU plan that allows executive employees to receive long term incentive compensation in the form of RSUs. Under the plan, each RSU entitles the employee to receive a cash payment, typically at the end of a three year vesting period, equal to the number of RSUs granted, multiplied by the quoted market value of the Company's common shares over the vesting period.

Compensation expense related to RSUs is recorded over the vesting period and is adjusted at each reporting period to reflect the change in quoted market value of the Company's common shares.

The continuity of deferred share units granted and outstanding is as follows:

	DSUs	RSUs
Outstanding, January 1, 2017	4,611,985	512,500
Granted	-	235,000
Forfeited	-	(25,000)
Settled	-	(195,000)
Outstanding, December 31, 2017	<u>4,611,985</u>	<u>527,500</u>
Granted	-	-
Forfeited	-	(85,000)
Settled	-	(195,000)
Outstanding, December 31, 2018	<u>4,611,985</u>	<u>247,500</u>

During the year ended December 31, 2018, the Company recorded share-based compensation recovery of \$125 (2017 - expense of \$916) related to DSUs and RSUs.

During the year ended December 31, 2018, the total fair value of DSUs and RSUs granted was \$Nil (2017 - \$263) and had a weighted average grant date fair value of \$Nil (2017 - \$1.12) per unit.

13 Revenue

	2018	2017
	\$	\$
Copper in concentrate	272,724	283,780
Gold in concentrate	42,474	38,116
Silver in concentrate	4,885	5,588
Treatment and refining charges	(24,064)	(23,404)
	<u>296,019</u>	<u>304,080</u>

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

Total mark-to-market and final adjustments from provisional pricing on concentrate sales in 2018 was a decrease of \$20,059 (2017 – increase of \$26,691) to revenues.

Revenues recognized in the reporting period include the following mark-to-market provisional pricing changes on concentrate sales not yet finalized at year end.

	2018	2017
	\$	\$
Copper in concentrate	(2,648)	10,245
Gold in concentrate	3	36
Silver in concentrate	1,757	410
	(888)	10,691

14 Expenses by nature

	2018	2017
	\$	\$
Direct mining and milling costs	161,777	136,677
Employee compensation and benefits	44,132	42,762
Depreciation	51,046	51,491
Transportation costs	13,758	14,055
Cost of sales	270,713	244,985
General and administration:		
Corporate employee compensation and benefits	5,493	3,141
Corporate and mine site administrative expenses	5,497	3,616
	10,990	6,757
	281,703	251,742

Cost of sales consists of direct mining and milling costs (which include operating waste stripping costs, maintenance and repair costs, operating supplies, and external services), employee compensation and benefits, depreciation, transportation costs and changes in the inventory balance.

15 Finance expense

	2018	2017
	\$	\$
Interest on loans	13,667	11,454
Amortization of financing fees	1,375	1,371
Loan guarantee fee	301	340
Unwinding of discount on restoration provision	221	(95)
	15,564	13,070

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

16 Related party transactions

All transactions with related parties have occurred in the normal course of the Company's operations.

- a. During the year ended December 31, 2018 the Company sold copper concentrates to MMC with revenues totalling \$296,019 (2017 – \$304,080) including pricing adjustments.
- b. During the year ended December 31, 2018 the Company accrued interest on the subordinated loan with MMC totalling \$467 (2017 - \$467).
- c. As at December 31, 2018 the Company accrued to MMC a guarantee fee related to the Term Loan of \$3,486 (2017 - \$2,919). The Company also received funding advances from MMC totalling \$62,879 (2017 - \$39,035). These advances bear interest at 2.88% to 4.80% with total accrued interest of \$1,735 (2017 - \$901).
- d. A company controlled by a director of the Company agreed to purchase in 2015 642 acres of land adjoining the mine site for future expansion opportunities. Under the terms of the put/call agreement the Company had the irrevocable right to call the land from the company controlled by the director at any time for the same price as the company controlled by the director paid for the land. Similarly, the company controlled by the director had the irrevocable right to put the land to the Company at any time after January 16, 2016. The Company completed the purchase of the land for a total of \$1.72 million inclusive of interest and out of pocket expenses during the year ended December 31, 2018.
- e. Compensation of key management:

Key management includes the Company's directors and officers. Compensation awarded to key management includes:

	2018	2017
	\$	\$
Salaries and short-term employee benefits	3,764	2,480
Share based compensation	1,582	1,640
	<u>5,346</u>	<u>4,120</u>

17 Supplementary cash flow disclosures

- a. As at December 31, 2018, cash and cash equivalents consists of guaranteed investment certificates of \$81 (2017 – \$1,958) and \$46,042 in cash (2017 – \$43,175) held in bank accounts.
- b. A reconciliation of net changes in working capital items is as follows:

	2018	2017
	\$	\$
Change in accounts receivable and prepaid expenses	11,450	(2,802)
Change in inventory	(8,322)	(30,792)
Change in tax liability	(662)	127

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

Change in accounts payable and accrued liabilities	(9,456)	(12,055)
	(6,990)	(45,522)

- c. During the year ended December 31, 2018, the Company paid B.C. Mineral tax of \$1,208 (2017 - \$1,752).

18 Income tax

The Company and its subsidiaries are subject to Canadian federal and provincial tax for the estimated assessable profit for the years ended December 31, 2018 and 2017 at a rate of 27.00% and 26.00% respectively.

Income tax expense comprises current and deferred income and resource tax. BC mineral taxes meet the definition of an income tax. Income tax expense is recognized in the statement of income (loss) except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or in equity, respectively.

The tax recovery for the Company can be reconciled to the loss for the year per the consolidated statement of income (loss) and comprehensive income (loss) as follows:

	2018	2017
	\$	\$
(Loss) earnings before income taxes	(25,343)	58,262
Statutory tax rate	27.00%	26.00%
Income tax (recovery) expense	(6,842)	15,148
Increase (decrease) due to:		
Non-deductible expenses and other	648	1,937
Non-taxable (deductible) portion of loss	3,845	(3,117)
Taxable income allocated to minority interest	(1,203)	(1,008)
Change in estimates of deferred tax credits	1,216	(10,956)
Losses and temporary differences for which no tax benefit has been recorded	4,235	1,451
Use of losses and temporary differences for which no tax benefit has previously been recorded	(366)	(12,532)
Income tax expense (recovery)	1,533	(9,077)
Income tax expense (recovery) consists of:		
Deferred income tax expense (recovery)	316	(10,956)
Current income tax	8	-
Current BC Mineral tax	1,209	1,879
	1,533	(9,077)

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

- a. Deferred income tax assets reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The significant components of the Company's recognized net deferred income tax asset and deferred income tax liability at December 31, 2018 and 2017 are as follows:

	2018	2017
	\$	\$
Non-capital losses	34,961	38,785
Capital leases	2,345	4,370
Decommissioning and restoration provision	2,388	2,284
Investment tax credits	4,645	4,645
Mineral tax credits	7,448	6,265
Derivatives	324	842
Property, plant and equipment expenditures	(36,054)	(33,726)
Debt issue costs	(1,534)	(1,728)
Inventory	(2,105)	(10,504)
Unrealized foreign exchange gain	(579)	(277)
Deferred tax liability	-	-
Deferred tax asset	11,839	10,956

The significant components of the Company's unrecognized deferred income tax assets at December 31, 2018 and 2017 are as follows:

	2018	2017
	\$	\$
Deferred income tax assets		
Non-capital loss carry-forward	23,263	375
Unrealized foreign exchange loss	11,436	8,189
Other	1,745	1,126
	36,444	9,690

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

- b. As at December 31, 2018 the Company has investment tax credits available for carry forward which may be applied to reduce future year's income taxes. These investment tax credits will expire as follows:

	2018	2017
	\$	\$
2021	83	83
2022	153	153
2023	360	360
2028	608	608
2029	1,748	1,748
2030	1,156	1,156
2031	1,095	1,095
2032	275	275
2033	665	665
	6,143	6,143

As at December 31, 2018, the Company has non-capital losses available for carry forward which may be applied to reduce future year's taxable income. These losses, if not utilized will expire as follows:

	2018	2017
	\$	\$
Expiry date		
December 31, 2026	-	1,156
December 31, 2029	-	395
December 31, 2030	-	357
December 31, 2031	-	-
December 31, 2032	-	8,240
December 31, 2033	-	4,060
December 31, 2034	-	567
December 31, 2035	88,450	89,230
December 31, 2036	41,180	41,287
December 31, 2037	795	795
	130,425	146,087

19 Financial instruments

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of income or comprehensive income. Those categories are: financial assets at amortized cost, financial assets at fair value through profit and loss; and financial liabilities at amortized cost and financial liabilities at fair value through profit and loss.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

The following table shows the carrying values of assets and liabilities for each of these categories at December 31, 2018 and 2017.

	2018	2017
	\$	\$
Financial assets		
<i>Financial assets at amortized cost</i>		
Cash and cash equivalents	46,123	45,133
Reclamation bonds	8,752	8,228
Amounts due from concentrate sales (note 5)	15,737	15,348
<i>Financial assets at fair value through profit and loss</i>		
Pricing adjustments (notes 5 and 13)	(888)	10,691
Financial liabilities		
<i>Financial liabilities at amortized cost</i>		
Accounts payable (note 8)	20,252	23,882
Long-term debt (note 9)	229,001	258,373
<i>Financial liabilities at fair value through profit and loss</i>		
Interest rate swap liability (note 9b)	1,201	3,121

The carrying values of cash and cash equivalents, reclamation bonds, accounts payable and accrued liabilities approximate their fair value. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

- Amounts due from concentrate sales. Copper concentrate is sold under pricing arrangements where final prices are set at a specified future date based on market copper prices. Changes between the prices recorded upon recognition of revenue and the final price due to fluctuations in copper market prices give rise to a derivative instrument in accounts receivable. This derivative is recorded at fair value, with changes in fair value recognized as a component of revenue.
- Long-term debt. The Company's long-term debt carries interest based on specified benchmark interest rates plus a spread (see note 9). The fair values of the Company's debt obligations approximate their carrying amounts due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates except for the SCF. The fair value of the SCF is less than the carrying value due to changes in the Company's credit risk since the inception of the agreement.
- Interest rate swaps liability. The Company's derivative liabilities relate to interest rate swap contracts. The fair values of interest rate swaps are calculated as the net present value of the future cash flows expected to arise on the variable and fixed legs, determined using applicable yield curves at each measurement date. Swap curves, which incorporate credit spreads applicable to large commercial banks, are typically used to calculate expected future cash flows and the present values thereof. Adjustments are also made to reflect the Company's own credit risk and the credit risk of the counterparty, if different from the spread implicit in the swap curve.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

Fair Value hierarchy

The following table classifies financial assets and liabilities that are recognized on the balance sheet at fair value in a hierarchy that is based on significance of the inputs used in making the measurements.

The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table sets forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy as at December 31, 2018:

	Level 1	Level 2	Level 3	Total fair value
	\$	\$	\$	\$
Financial assets				
Pricing adjustments (note 5 and 13)	-	(888)	-	(888)
Financial liabilities				
Interest rate swap liability (note 9b)	-	1,201	-	1,201

Financial risks factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and commodity price risk), credit risk and liquidity risk. Risk management is carried out by management under policies approved by the board of directors. Management identifies and evaluates the financial risks in co-operation with the Company's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Company's overall risk management program seeks to minimize potential adverse effects on the Company's financial performance.

a. Credit risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, reclamation bonds and accounts receivable. The Company deposits cash and cash equivalents with high credit quality financial institutions. The Company's credit risk associated with trade accounts receivable is managed through establishing long-term contractual relationships using industry-standard contract terms. The carrying value of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

b. Market risks

Commodity price risk

The Company is subject to commodity price risk from fluctuations in the market prices of copper, gold and silver. The Company is also exposed to commodity price risk on diesel fuel required for its mining operations.

The Company's commodity price risk related to accounts receivable concerns changes in fair value of derivative in accounts receivable reflecting copper concentrate sales provisionally priced based on the forward price curve at the end of each quarter.

The following table shows the impact on net earnings from changes in the fair values of financial instruments of a 10% change in the copper, gold and silver commodity prices, based on December 31, 2018 prices.

The impact of a 10% movement in commodity prices as of December 31, 2018 is as follows:

	Impact of price change on net earnings	
	10% increase	10% decrease
	\$	\$
Accounts receivable		
Pricing adjustments on concentrate sales	11,987	(11,987)

As at December 31, 2018 the Company had approximately 37.0 million pounds of copper, 13,824 ounces of gold and 132,249 ounces of silver that was provisionally priced at US\$2.72 per pound, US\$1,249 per ounce and US\$14.88 per ounce respectively to be settled at a future date.

Interest rate risk

The Company's interest rate risk arises primarily from the interest received on cash and short-term deposits and interest paid on floating rate borrowings. The floating rate deposits and borrowings expose the Company to cash flow interest rate risk. This risk is managed through the use of interest rate swaps. Deposits are invested on a short-term basis to ensure adequate liquidity for payment of operational and capital expenditures. To date, no interest-rate management products, such as swaps, are used in relation to deposits.

The floating-to-fixed interest rate swaps as at December 31, 2018 covered 32% (2017 – 32%) of the Company's floating rate debt at a rate of 3.565% per annum. The final maturity of the swaps is on December 15, 2020.

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

At December 31, 2018 the impact on a full year net earnings of a 1% change in interest rate would be as follows:

	Impact of interest rate change on net earnings	
	1% increase	1% decrease
	\$	\$
Cash and cash equivalents	87	(87)
Interest rate swap liabilities	(8,804)	8,804
Long-term debt	(1,812)	1,812

Currency risk

The Company incurs expenditures in Canadian and US dollars. The measurement and functional currency of the parent company is Canadian dollars. Foreign exchange risk arises because the amount of the US dollar cash and cash equivalents, receivable, payables and debt will vary in Canadian dollar terms due to changes in exchange rates.

The Company has not hedged its exposure to currency fluctuations. The majority of the Company's debt is denominated in US dollars. The currency risk on debt principal and interest payments are minimized as the Company receives US dollars on the sale of copper concentrate. The net impact of a 10% increase or decrease in the US dollar to the Canadian dollar exchange rate at December 31, 2018 would result in a \$29,592 (2017 - \$30,408) decrease or increase in net income.

Liquidity risk

The Company had the following balances and facilities available to them:

	2018	2017
	\$	\$
Cash and cash equivalents	46,123	45,133
Working capital (deficit) balance	(39,251)	6,893

Maturity analysis of financial liabilities as at December 31, 2018 is as follows:

	Total	< 1 year	2-3 years	4-5 years	Thereafter
	\$	\$	\$	\$	\$
Long-term debt	275,531	49,611	126,074	86,298	13,548
Capital lease	6,427	2,010	4,417	-	-
Decommissioning & restoration provision	6,546	-	-	-	6,546
Trade accounts payable	20,252	20,252	-	-	-

Copper Mountain Mining Corporation

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

(In thousands of Canadian dollars, except where otherwise stated)

20 Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, to provide an adequate return on investment to shareholders and, to the extent possible, maintain a flexible capital structure that optimizes the cost of capital at acceptable risk. There were no changes to the Company's approach to capital management during the year ended December 31, 2018. In the management of capital, the Company includes the components of equity, net of cash and cash equivalents.

21 Segmented information

The Company is engaged in mining, exploration and development of mineral properties, and has an operating mine in Canada and an exploration and evaluation project in Australia. The corporate entities are responsible for the evaluation and acquisition of new mineral properties, regulatory reporting, treasury, finance and corporate administration.

Details on a geographic basis are as follows:

	December 31, 2018	December 31, 2017
Assets by geographic segment, at cost		
Canada		
Current assets	116,402	142,582
Non-current assets	<u>527,779</u>	<u>525,367</u>
	<u>644,181</u>	<u>667,949</u>
Australia		
Current assets	4,445	-
Non-current assets	<u>53,036</u>	<u>-</u>
	<u>57,481</u>	<u>-</u>

The Company sells all of its copper concentrates to MMC smelters in Japan based on quoted market prices in a period. During the year ended December 31, 2018 revenues attributed to the sale of copper concentrate to MMC totaled \$296,019 (2017 - \$304,080).

22 Contingencies and commitments

Minimum Shipping Requirement

During the year ended December 31, 2017, the Company entered into a six year terminal services agreement ("the TSA") with Kinder Morgan Canada Terminals Limited Partnership ("Kinder Morgan") in which Kinder Morgan will provide terminal storage and loading facilities for the Company's concentrate. Under the TSA, there is a minimum shipping tonnage requirement of 130,000 tonnes of concentrate annually. For the year ended December 31, 2018 the Company met this shipping tonnage requirement.



MANAGEMENT'S DISCUSSION AND ANALYSIS OF COPPER MOUNTAIN MINING CORPORATION FOR THE YEAR ENDED DECEMBER 31, 2018

The following Management's Discussion and Analysis ("MD&A") provides information that management believes is relevant to an assessment and understanding of the consolidated financial condition and results of operations of Copper Mountain Mining Corporation and its subsidiaries ("Copper Mountain" or the "Company"). This MD&A should be read in conjunction with Copper Mountain's audited consolidated financial statements for the years ended December 31, 2018 and 2017 and related notes, which are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains forward-looking statements that are subject to risks and uncertainties, as discussed in the cautionary note contained in this MD&A. The reader is cautioned not to place undue reliance on forward-looking statements. All figures in this MD&A are expressed in thousands of **Canadian dollars** except for share, per share, per pound and per ounce amounts, unless otherwise specified. References to "US\$" are to United States dollars. Certain comparative figures have been reclassified to conform to the current year's presentation. This MD&A has been prepared as at February 14, 2019.

About Copper Mountain

Copper Mountain is a Canadian mining company headquartered in Vancouver, British Columbia ("BC") and focused on the production and sale of copper and development of copper assets. The Company, through its subsidiaries, owns 75% of the Copper Mountain mine located in southern BC. The Copper Mountain mine produces about 90 million pounds of copper equivalent per year with a large resource that remains open laterally and at depth. Copper Mountain also has the permitted, development-stage Eva Copper Project in Queensland, Australia and an extensive 397,000 hectare highly prospective land package, also in the Mount Isa area of Queensland, Australia. Copper Mountain trades on the Toronto Stock Exchange under the symbol "CMMC" and Australian Stock Exchange under the symbol "C6C". For further information on Copper Mountain, reference should be made to its public filings (including its most recently filed AIF) which are available on SEDAR at www.sedar.com. Information is also available on the Company's website at www.cumtn.com.

Cautionary Statement on Forward-Looking Information

The MD&A contains certain statements that may be deemed "forward-looking statements." All statements in this MD&A, other than statements of historical fact, that address exploration drilling, exploitation activities, and events or developments that the Company expects to occur, are forward-looking statements. Estimates regarding the anticipated timing, amount and cost of mining at the Copper Mountain mine are based on assumptions underlying mineral reserve and mineral resource estimates and the probability of realizing such estimates are set out in the Updated Feasibility Study on the Copper Mountain Mine. Capital and operating cost estimates are based on extensive research by the Company, recent estimates of construction and mining costs and other factors that are set out herein and in the Updated Feasibility Study. Production estimates are based on mine plans and production schedules, which have been developed by the Company's personnel and independent consultants. Forward-looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans", "anticipates", "believes", "intends", "estimates", "projects", "potential", "targets" and similar expressions, or that events or conditions "will", "would", "may", "could", or "should" occur. Information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward-looking statements, as it constitutes a prediction of what might be found to be present when

and if a project is actually developed. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in the forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include, but are not limited to: general business, economic, competitive, political and social uncertainties; the limited operating history of the Company; actual results of reclamation activities; conclusions of economic evaluations; fluctuations in the value of the Canadian dollar relative to the United States dollar; fluctuations in the value of the Australian dollar relative to the United States dollar; changes in project parameters as plans continue to be refined; failure of equipment or process to operate as anticipated; changes in labor costs and other costs and availability of equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the mining industry, including but not limited to environmental hazards, cave-ins, pit-wall failures, flooding, rock bursts and other acts of God or unfavorable operating conditions and losses, detrimental events that interfere with transportation of concentrate or the smelters ability to accept concentrate, including declaration of Force Majeure events, insurrection or war; delays in obtaining governmental approvals or revocation of governmental approvals; title risks and Aboriginal land claims; delays or unavailability in financing or in the completion of development or construction activities; failure to comply with restrictions and covenants in senior loan agreements, actual results of current exploration activities; volatility in Company's publicly traded securities; and the factors discussed in the section entitled "Risk Factors" in the Company's annual information form and in the Company's continuous disclosure filings available under its profile on SEDAR at www.sedar.com. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements. Forward-looking statements are based on the beliefs, estimates and opinions of the Company's management on the date the statements are made. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements, except in accordance with applicable securities laws.

Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources. This discussion uses the terms "measured resources" and "indicated resources". The Company advises investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves."

TABLE OF CONTENTS

OVERVIEW	4
HIGHLIGHTS.....	4
CORPORATE DEVELOPMENT	5
PROJECT DEVELOPMENT UPDATE.....	5
EXPLORATION UPDATE	6
OUTLOOK	7
OPERATIONS REVIEW	7
FINANCIAL REVIEW.....	9
SELECTED ANNUAL FINANCIAL INFORMATION	13
SELECTED QUARTERLY FINANCIAL INFORMATION	14
LIQUIDITY AND CAPITAL RESOURCES.....	14
OFF-BALANCE SHEET ARRANGEMENTS.....	17
RELATED PARTY TRANSACTIONS.....	17
ACCOUNTING POLICIES AND ESTIMATES	17
NON-GAAP PERFORMANCE MEASURES	19
DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING ..	22
RISKS AND UNCERTAINTIES	23

OVERVIEW

Copper Mountain Mining Corporation is a mid-tier copper-gold producing company that was incorporated under the provisions of the British Columbia *Company Act* on April 20, 2006. The Company owns 75% of the Copper Mountain mine through a subsidiary and Mitsubishi Materials Corporation (“MMC”) owns the remaining 25%.

The Copper Mountain mine is situated 20 km south of Princeton, British Columbia and 300 km east of the port of Vancouver. Production of copper concentrate from the Copper Mountain Mine commenced during the third quarter of 2011. The property consists of 135 Crown Grants, 156 mineral claims, 14 mining leases, and 12 fee simple properties covering an area of 6,702.1 hectares or 67 square kilometers.

The mine is a conventional open pit, truck and shovel operation. The mill is comprised of one SAG mill, two ball mills, a rougher flotation circuit, regrind mill, a cleaner flotation circuit, a concentrate thickener, and a pressure filter. The mill throughput is approximately 14.6 million tonnes per year. Copper concentrate from the mine is trucked to the port of Vancouver where it is placed in a storage shed for loading onto ocean going vessels for transportation to Japan.

On April 18, 2018 the transaction closed, and the Company issued 53,538,984 Copper Mountain common shares for 100% of Altona (the “Transaction”), at which time Altona became a wholly owned subsidiary of the Company. As a result of the acquisition, Copper Mountain added, to the Copper Mountain Group, 100% of Altona’s assets which included \$29 million in cash, a permitted development copper-gold project in Queensland, Australia named the Eva Copper Project, and an extensive 397,000 hectare highly prospective land package within the Mount Isa area.

HIGHLIGHTS

- Announced robust Preliminary Economic Assessment (PEA) results for New Ingerbelle, which includes an after-tax Net Present Value (NPV) of US\$394 million at an 8% discount rate and 768 million pounds of total copper production over a 12-year mine life.
- Announced positive Feasibility Study results for the Eva Copper Project, which includes an after-tax NPV of US\$256 million at an 8% discount rate and 959 million pounds of total copper production over a 12 year mine life.
- Increased Mineral Reserves at the Copper Mountain mine to 210 million tonnes grading 0.26% copper, 0.08 grams per tonne gold, and 0.89 grams per tonne silver for 1.2 billion pounds of copper, 504,000 ounces of gold and 6.0 million ounces of silver.
- Fourth quarter production was the strongest quarter of the year, with production increasing 9.7% from the prior year to 24.5 million pounds of copper equivalent (comprised of 20.6 million pounds of copper, 8,123 ounces of gold and 62,711 ounces of silver), and full year 2018 production increased 4.6% from the prior year to 92.4 million pounds copper equivalent (comprised of 78.8 million pounds of copper, 28,250 ounces of gold and 273,913 ounces of silver), achieving annual production guidance.
- Revenue for the fourth quarter of 2018 was \$73.1 million from the sale of 19.4 million pounds of copper, 7,475 ounces of gold and 69,761 ounces of silver and revenue for the full year of 2018 was \$296.0 million, from the sale of 79.2 million pounds of copper, 26,799 ounces of gold, and 284,086 ounces of silver, net of pricing adjustments.
- Total operating (C1) cash costs were US\$1.60 per pound of copper produced for the fourth quarter of 2018 and US\$1.77 per pound produced for 2018, reductions of 14% and 4%, respectively, over the respective periods in 2017.
- Adjusted earnings per share was (\$0.01) for the fourth quarter and \$0.02 for the year.
- Cash flow from operations for the fourth quarter of 2018 was \$28.8 million and \$51.3 million for 2018.

Results & Highlights (100%)	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
(In thousands of CDN\$, except for per share amounts)	\$	\$	\$	\$
Financial				
Revenue	73,149	85,687	296,019	304,080
Gross profit	7,896	20,013	25,306	59,095
Gross profit before depreciation ⁽¹⁾	18,089	34,966	76,352	110,586
Net income (loss)	(18,982)	23,538	(26,876)	67,339
Earnings (loss) per share - basic	\$(0.09)	\$0.12	\$(0.13)	\$0.36
Adjusted net income (loss) ⁽¹⁾	(1,400)	25,311	3,337	46,598
Adjusted earnings per share - basic	\$(0.01)	\$0.19	\$0.02	\$0.35
EBITDA ⁽¹⁾	(234)	31,564	40,685	122,504
Adjusted EBITDA	17,348	33,337	85,841	90,692
Cash flow from operations	28,777	17,445	51,266	57,274
Cash and cash equivalents – end of year			46,123	45,133
Production				
Copper (000's lbs)	20,628	19,556	78,847	75,791
Gold (oz)	8,124	5,206	28,250	23,633
Silver (oz)	62,711	70,384	273,913	277,094
Unit costs and prices				
Total operating costs (C1) per pound of copper produced (US\$) ⁽¹⁾⁽²⁾	\$1.60	\$1.85	\$1.77	\$1.84
All-in-sustaining costs per pound of copper produced (US\$) ⁽¹⁾⁽²⁾	\$1.90	\$1.99	\$2.13	\$2.00
Average realized copper price (US\$)	\$2.81	\$3.12	\$2.98	\$2.82

CORPORATE DEVELOPMENT

- On April 18, 2018, the Company completed the acquisition of Altona. As part of the transaction, the Company acquired all issued and outstanding commons shares of Altona by way of a scheme of arrangement. Pursuant to the arrangement, the shareholders of Altona received 53,538,984 common shares of the Company for total consideration of \$67 million.
- On April 27, 2018, the Company announced that President and Chief Executive Officer, James C. O'Rourke would retire. Following the Company's succession plan, Gil Clausen, a mining executive with more than 30 years experience in the areas of management, finance, development and operations in base and precious metals, was selected and assumed the role of President and Chief Executive Officer on June 1, 2018.

PROJECT DEVELOPMENT UPDATE

Copper Mountain Mine, Canada

The Company released an updated Mineral Reserve and Mineral Resource estimate for the Copper Mountain Mine, which demonstrated significantly increased Mineral Reserves when compared to the December 31, 2017 Mineral Reserves. The updated Mineral Reserves for the Copper Mountain Mine totals 210 million tonnes grading 0.26% copper, 0.08 grams per tonne gold, and 0.89 grams per tonne silver for 1.2 billion pounds of copper, 504,000 ounces of gold and 6.0 million ounces of silver.

The Company believes that potential exists to increase production by converting Copper Mountain Mine resources to reserves, increasing resources through exploration in addition to the contribution of potential production from New Ingerbelle, which could thereby extend its mine life far beyond current reserves.

(1) Non-GAAP performance measure. See Page 19 of this MD&A for details.

(2) Copper cash costs have been updated to industry recognized metrics of total operating costs (C1) and with the addition of All in Sustaining Costs per pound of copper produced the Company believes this disclosure will present the full cost of copper production associated with the Copper Mountain mine and take steps in further supporting peer group comparability. See the non-GAAP performance measures section of this MD&A for details of these calculations.

New Ingerbelle, Canada

On September 27, 2018, the Company announced a Mineral Resource and a base case PEA for New Ingerbelle. The PEA results for New Ingerbelle includes an after-tax NPV of US\$394 million at an 8% discount rate and 768 million pounds of total copper production over a 12-year mine life. Work is currently under way to evaluate various operational alternatives for New Ingerbelle which include incorporating New Ingerbelle into the Copper Mountain mine plan using the existing mill and study expanding the mill at Copper Mountain to increase the combined annual production. New Ingerbelle provides the potential for additional low risk, low cost production.

The Company intends to deliver a Technical Report for an integrated Copper Mountain mine production plan, including the New Ingerbelle pit, in the first quarter of 2019.

Eva Copper Project, Australia

In the fourth quarter of 2018, the Company announced positive Feasibility Study results for the Eva Copper Project. The Feasibility Study results include an after-tax NPV of US\$256 million at an 8% discount rate and 959 million pounds of total copper production over a 12-year mine life. Over the first two years of production the Eva Copper Project is expected to produce over 120 million pounds of copper. The Company intends to finance the capital required to build the Eva Copper Project through debt and internal cash flow. Advanced discussions on debt options are currently underway.

EXPLORATION UPDATE

New Ingerbelle, Canada

Phase 2 of the drilling program on the New Ingerbelle deposit was completed and drilling results reported during the year. A total of 10,616 metres were drilled in 29 holes. A new resource estimate was completed with Measured and Indicated Resources exceeding 150Mt grading 0.29% Cu and 0.18g/t gold based on a 0.16% copper cut-off grade, which was the target for the end of Phase 3. A Base Case PEA was also completed which assumes the use of the existing Copper Mountain Mine mill and that the New Ingerbelle mill feed would supplant Copper Mountain Mine ore. The PEA indicated favourable economics and option studies to determine the optimal timing and method of integration of New Ingerbelle into the long-term Copper Mountain mine plan is currently underway. The Company intends to deliver a Technical Report for an integrated Copper Mountain mine production plan, including the New Ingerbelle pit, in the first quarter of 2019.

Copper Mountain Mine, Canada

Drilling was carried out in Pit 3 at the Copper Mountain Mine, which included two geotechnical holes and four exploration holes in the east wall. The geotechnical holes are required for final pit design and the exploration holes were to improve confidence in resource estimates within that area of the pit.

Eva Copper Project, Australia

The Company completed geotechnical investigations required for the final design of the Tailings Management Facility as well as drilling for additional metallurgical test samples from the starter pit area of the Little Eva deposit. Large diameter wells and flow testing were completed and indicated that sufficient water for mine and mill operations is available from a bore field that can be established proximal to the selected mill site.

Cameron Copper Project, Australia

The Company's first round of regional exploration in Australia is nearing completion. Deep penetration, 3-D induced polarization, geophysical surveys were completed on three targets in the Cameron Project and appears to be an effective exploration tool. Over 22,000 soil samples have been collected and analyzed with a portable XRF analyzer; this data complements an already large regional, geochemical database and has outlined some new target areas. A total of 3,800m in 41 holes of exploratory drilling on regional targets have been completed.

For 2018, the Company spent \$5 million in exploration and land management expenditures for Australian projects.

OUTLOOK

Production for the Copper Mountain Mine for the next three years is planned as follows:

Three Year Production Guidance:

Copper Mountain Mine (100% Basis)	2019	2020	2021
Copper equivalent* (000's lbs)	86,000 – 95,000	103,000 – 113,000	95,000 – 105,000
Copper (000's lbs)	72,000 – 80,000	86,000 – 95,000	81,000 – 89,000
Gold (oz)	29,500 – 32,500	31,500 – 35,000	29,500 – 32,500
Silver (oz)	260,000 – 290,000	460,000 – 510,000	263,000 – 291,000

* Copper equivalent was calculated based on a Copper price of US\$3.00/lb, Gold price of US\$1,300/oz, and Silver price of US\$17.00/oz.

The Company expects to produce between 72 and 80 million pounds of copper in 2019, which is slightly lower than 2018 as a result of slightly lower grades expected to be mined. Mined grade recovers strongly in the later years, with production expected to be between 86 to 95 million pounds in 2020 and 81 to 89 million pounds of copper in 2021. The three-year production guidance does not include any production from the New Ingerbelle pit.

OPERATIONS REVIEW

Mine Production Information:

Copper Mountain Mine (100% Basis)	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2018 Annual	2017 Annual
Mine:							
Total tonnes mined (000's)	19,730	18,503	19,520	16,584	18,998	74,337	72,597
Ore tonnes mined (000's)	4,407	5,612	4,030	6,518	7,370	20,567	26,204
Waste tonnes (000's)	15,323	12,891	15,490	10,066	11,628	53,770	46,393
Stripping ratio	3.48	2.30	3.84	1.54	1.58	2.61	1.77
Mill:							
Tonnes milled (000's)	3,873	3,802	3,368	3,492	3,692	14,535	14,086
Feed Grade (Cu%)	0.30	0.28	0.34	0.33	0.32	0.31	0.32
Recovery (%)	81.0	79.1	80.5	78.7	75.1	79.8	77.2
Operating time (%)	96.0	92.7	89.2	92.5	93.4	92.6	90.3
Tonnes milled (TPD)	42,098	41,326	37,011	38,800	40,130	39,822	38,592
Production:							
Copper (000's lbs)	20,628	18,283	20,030	19,906	19,556	78,847	75,791
Gold (oz)	8,124	7,532	6,524	6,070	5,206	28,250	23,633
Silver (oz)	62,711	64,889	68,404	77,909	70,384	273,913	277,094
Sales:							
Copper (000's lbs)	19,431	17,612	20,411	21,741	18,091	79,195	73,860
Gold (oz)	7,475	6,349	6,484	6,491	5,622	26,799	23,969
Silver (oz)	69,761	62,487	71,269	80,569	67,359	284,086	260,493
Total operating costs (C1) per pound of copper produced (US\$)	\$1.60	\$1.98	\$1.56	\$1.96	\$1.85	\$1.77	\$1.84
All-in-sustaining costs (AISC) per pound of copper produced (US\$)	\$1.90	\$2.26	\$2.27	\$2.14	1.99	\$2.13	\$2.00

Full Year 2018

In 2018, the Copper Mountain Mine achieved annual copper production guidance, producing 78.8 million pounds of copper, 28,250 ounces of gold, and 273,913 ounces of silver compared to 75.8 million pounds of copper, 23,633 ounces of gold, and 277,094 ounces of silver in 2017. This represents an increase of 4% for copper, 19% for gold and a slight 1% decrease in silver production. Increases for copper and gold production as compared to the prior year is a result of improved recoveries and mill throughput, offset slightly by lower grades being milled in 2018.

Improved recoveries in the mill can be attributed to the installation of a flash flotation circuit in the third quarter of 2018. Recoveries contributed to strong annual production results which included an increase of total tonnes milled by 3% to 14,535 (2017 - 14,086).

In 2018, the Copper Mountain Mine moved a total of 74.3 million tonnes including 20.6 million tonnes of ore at a strip ratio of 2.61 as compared to 72.6 million tonnes including 26.2 million tonnes of ore in 2017. During 2018, mining occurred predominantly in the West area of the Pit with additional ore coming from stockpiled ore. With the increased stripping in 2018 approximately 2.1 million tonnes were drawn from ore stockpiles in contrast to the increase of 2.5 million tonnes to ore stockpiles in 2017. The accelerated development stripping in Pit 2 is expected to provide for higher ore grades to be realized in 2020. Total stripping costs of \$23.8 million were capitalized in 2018, a substantial increase over the \$1.8 million capitalized in 2017.

Total C1 costs for 2018 were US\$1.77 per pound of copper produced, 4% lower than the C1 costs for 2017 of US\$1.84. The improvement in costs per pound is a result of higher copper production in 2018 and slightly lower total mine operating costs when compared to 2017, after taking into account cost associated with increased low-grade stockpile inventories in 2017, as required under IFRS. The decrease in C1 costs was also affected by the levels of deferred stripping in the year as these mining costs are treated as capital expenditures and deferred as required under IFRS. Deferred stripping costs are captured in AISC and not included in C1 costs. The total cash value of deferred stripping in 2018 was \$20.2 million, compared to \$1.5 million in 2017.

Fourth Quarter 2018

In Q4 2018, the Copper Mountain mine produced 20.6 million pounds of copper, 8,124 ounces of gold, and 62,711 ounces of silver compared to 19.6 million pounds of copper, 5,206 ounces of gold, and 70,384 ounces of silver in Q4 2017. Increased recoveries for all metals and a 5% increase in tonnes milled resulted in strong production results for Q4 2018 and the strongest quarter for copper and gold production in 2018. Increased gold production can be attributed to the flash flotation circuit installed in the second half of the year.

Total operating costs (C1) for Q4 2018 were US\$1.60 (Q4 2017 - US\$1.85) per pound of copper produced and 13% lower than the C1 costs for Q4 2017. The improvement in costs is related to several factors including 5% higher copper production in the quarter, a 5% decrease in total mine operating costs in Q4 2018 of \$43.6 million (Q4 2017 - \$45.8 million), and a weakening of the Canadian dollar to the United States dollar used when translating C1 costs to United States dollars. Substantially all of the Company's operating costs are priced in Canadian dollars. The decrease in C1 costs is also affected by the levels of deferred stripping in a period as these costs are treated as capital expenditures. Deferred stripping costs are captured in all in sustaining costs (AISC) and not included in C1 costs. The total cash value of deferred stripping in Q4 2018 was \$4.6 million (Q4 2017 - Nil).

FINANCIAL REVIEW

Selected Annual and Quarterly Financial Information

The following annual and quarterly financial information was derived from quarterly and annual financial statements that are prepared in accordance with relevant International Financial Reporting Standards (IFRS). Adjusted net income and adjusted earnings per share are non-GAAP performance measures and do not have standardized meaning prescribed by IFRS. These measures are used internally by management which serves to provide additional information.

Financial Results	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
(In thousands of CDN\$, except for per share amounts)				
Revenue				
Copper	64,486	81,709	272,724	283,780
Gold	13,500	8,452	42,474	38,116
Silver	1,200	1,413	4,885	5,588
Treatment and refining	(6,037)	(5,887)	(24,064)	(23,404)
	73,149	85,687	296,019	304,080
Cost of sales				
Direct mining and milling	(40,051)	(35,360)	(161,777)	(136,677)
Employee compensation	(11,574)	(12,176)	(44,132)	(42,762)
Depreciation	(10,193)	(14,953)	(51,046)	(51,491)
Transportation	(3,435)	(3,185)	(13,758)	(14,055)
Gross profit	7,896	20,013	25,306	59,095
General & administration	(2,765)	(1,110)	(10,990)	(6,757)
Exploration and evaluation	-	-	-	(35)
Share based compensation	(331)	(1,030)	(1,605)	(2,152)
Operating income	4,800	17,873	12,711	50,151
Finance income	106	(41)	582	319
Finance expense	(4,601)	(3,367)	(15,564)	(13,070)
Unrealized gain (loss) on interest rate swap	(481)	610	716	(87)
Foreign exchange gain (loss)	(14,746)	(1,872)	(23,788)	20,949
Income (loss) before tax	(14,922)	13,203	(25,343)	58,262
Current resource tax expense	(609)	(621)	(1,217)	(1,879)
Deferred tax (expense) recovery	(3,451)	10,956	(316)	10,956
Net income (loss)	(18,982)	23,538	(26,876)	67,339
Adjustments:				
Pricing adjustments on concentrate sales	2,355	(10,301)	888	(10,691)
Write-down of low-grade stockpile	-	10,812	6,293	10,812
Unrealized (gain) loss on interest rate swap	481	(610)	(716)	87
Foreign exchange (gain) loss	14,746	1,872	23,788	(20,949)
Adjusted net income⁽¹⁾	(1,400)	25,311	3,377	46,598
Earnings (loss) per share	\$(0.09)	\$0.12	\$(0.13)	\$0.36
Adjusted earnings per share⁽¹⁾	\$(0.01)	\$0.19	\$0.02	\$0.35

The revenue and profit of the Company depend on the prices of the commodities that the Company sells as well as those commodities used in the production of copper concentrates. Commodity prices are influenced globally by macro-economic conditions. The copper, gold, and silver that is produced by the Company is sold at prevailing market prices and as such, the prices for these products can fluctuate significantly and, in this case, have a material effect on the financial results of the Company.

⁽¹⁾ Non-GAAP performance measure. See Page 19 of this MD&A for details.

Gross profit of the Company is made up of revenue less operating expenses including depreciation and amortization. Income and expenses that are not a part of the production of copper concentrate are presented after gross profit. Cost of sales includes all of the expenses required to produce copper concentrate such as labour, energy, operating supplies, marketing and distribution costs incurred on the transportation of copper concentrate to market. Due to the location of the Company's operation, the Company is highly dependent on third parties for the provision of trucking, port and other distribution services. Contractual disputes, demurrage charges, and port capacity issues, availability of vessels, weather problems and other factors can have a material effect on the Company's ability to transport materials.

Copper Mountain's costs are dictated mainly by production volumes, the costs for labour, operating supplies, as well as by strip ratios, haul distances, ore grades, distribution costs, commodity prices, foreign exchange rates, and costs related to non-routine maintenance projects. Production volumes mainly affect variable operating and distribution costs.

Financial Results – Full Year 2018

Summary

The mine shipped and sold 79.2 million pounds of copper, 26,799 ounces of gold, and 284,086 ounces of silver during the year ended December 31, 2018; as compared to 73.9 million pounds of copper, 23,969 ounces of gold and 260,493 ounces of silver during the year ended December 31, 2017. During the period the Company recognized revenues of \$296.0 million, net of pricing adjustments and treatment charges based on an average realized copper price of US\$2.98 per pound; compared to revenues of \$304.1 million net of pricing adjustments and treatment charges at an average realized copper price of US\$2.82 per pound for the year ended December 31, 2017. Gross profit for the year ended December 31, 2018 was \$25.3 million as compared to \$59.1 million for the year ended December 31, 2017. This all resulted in the Company reporting a net loss of \$26.9 million for the year ended December 31, 2018 as compared to a net income of \$67.3 million for the year ended December 31, 2017. The net loss for 2018 from a net income of 2017 was mainly a result of several items including: revenues in 2017 included a positive mark to market adjustment of \$10.7 million as compared to a negative mark to market adjustment of \$0.9 million for 2018; costs of sales increased by \$26 million in small part due to increased diesel fuel, maintenance, and power costs, but primarily due to the change in ore stockpile inventory with a \$13.1 million decrease in 2018 charged to cost of sales as compared to a \$14.0 million increase in 2017 charged to ore stockpile inventory; and, inclusion of a non-cash unrealized foreign exchange loss \$23.8 million as compared to a non-cash unrealized foreign exchange gain of \$20.9 million for the year ended December 31, 2017, a swing of approximately \$45 million, which was primarily related to the Company's debt that is denominated in U.S. dollars.

Revenue

The Company recognized revenue of \$296.0 million in 2018 (2017 - \$304.1 million) representing a decrease of 3% from 2017 on the sale of 146,695 tonnes (2017 - 138,333 tonnes) of copper concentrates net of treatment charges. Included in sales at year-end is an annual mark-to-market adjustment of negative \$0.9 million (2017 - positive \$10.7 million). Under IFRS this mark-to-market adjustment is required and arises because final copper prices are settled three months after the month of arrival at the destination port, for each shipment of copper concentrates. In any given period, the Company will have as many as three unsettled shipments which are then adjusted at period-end, using forward copper prices, on a mark-to-market basis. This mark-to-market adjustment will result in a positive mark-to-market adjustment and increase to revenues in an increasing copper price environment, and conversely a negative mark-to-market adjustment in a decreasing copper market environment. For this reason, the mark-to-market adjustments are removed from Adjusted Net Income and Adjusted EBITDA so as to reflect the average realized copper price and associated revenues in the period. (see non-GAAP Performance Measures on page 19 of this MD&A).

The following table reflects the metal prices realized by the Company and the quantities of metal sold during the period:

	Realized Metal Prices		Quantities of Metal Sold	
	Year ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
Copper⁽¹⁾ – 000's lbs	\$2.98	\$2.82	79,195	73,860
Gold⁽¹⁾ – oz	\$1,273	\$1,259	26,799	23,969
Silver⁽¹⁾ – oz	\$14.48	\$17.06	284,086	260,493

(1) Metal prices stated as US dollars per ounce for gold and silver and US dollars per pound for copper.

Operating Costs

The Company recorded 2018 cost of sales of \$270.7 million (2017 - \$245.0 million). Total cost of sales increased 10% over the prior year while total concentrate sales increased by 6% and an increase in cost of sales with an increase in sales is expected. Inventory balances (other than the low-grade stockpile) decreased by \$12.3 million including a \$13.1 million decrease to the ore stockpile between December 31, 2018 and December 31, 2017. The drawdown of ore stockpile is a result of increased development stripping as the Copper Mountain Mine moves towards higher grade areas of the pit for future years. The drawing down of ore stockpiles resulted in more costs to be absorbed into cost of sales than into inventory in the year.

A review of costs in the Operational Review Section and cash costs calculation show total annual site operating cash costs for 2018 and 2017 of \$184.3 million and \$181.3 million respectively.

Depreciation and Depletion

Depreciation expensed through cost of sales in 2018 was \$51.0 million (2017 - \$51.5 million) and very little change year-over-year. Both 2018 and 2017 had similar tonnes mined and milled resulting in similar depreciation totals year-over-year as a significant amount of depreciation is calculated using the units of production method which would result in similar depreciation levels.

General and Administrative

The Company recorded 2018 general and administrative costs of \$11.0 million (2017 - \$6.8 million). The increase of \$4.2 million is attributable to the increased corporate activity within the Company including the Altona acquisition.

Finance Expense

The Company recorded 2018 finance expense of \$15.6 million (2017 - \$13.1 million). Finance expense primarily consists of interest on loans and the amortization of loan related financing fees. The increase of \$2.5 million is attributable to the increase in borrowing rates and specifically LIBOR which the Company's long-term variable interest rates are based on. The increase in borrowing rates marginally offsets the impact of the decrease in long-term debt from ongoing debt payments made by the Company during the year.

Foreign Exchange

The Company recorded a 2018 foreign exchange loss of \$23.8 million (2017 - gain of \$20.9 million). Foreign exchange is primarily related to the Company's project debt which is denominated in U.S. dollars. The increase in the loss in the year is a result of a change in the U.S. to Canadian foreign exchange rate from 1.25 to 1.36 as compared to a change from 1.34 to 1.25 in the prior year.

Financial Results – Fourth Quarter 2018

Summary

The mine shipped and sold 19.4 million pounds of copper, 7,475 ounces of gold, and 69,761 ounces of silver during the fourth quarter ended December 31, 2018; compared to 18.1 million pounds of copper, 5,622 ounces of gold and 67,359 ounces of silver for the quarter ended December 31, 2017. During the quarter the Company recognized revenues of \$73.1 million, net of pricing adjustments and treatment charges based on an average realized copper price of US\$2.81 per pound; compared to revenues of \$85.7 million net of pricing adjustments and treatment charges at an average realized copper price of US\$3.12 per pound for the quarter ended December 31, 2017. Gross profit for the quarter ended December 31, 2018 was \$7.9 million as compared to \$20.0 million for the quarter ended December 31, 2017. This all resulted in the Company reporting a net loss of \$19.0 million for the quarter ended December 31, 2018 as compared to a net income of \$23.5 million for the quarter ended December 31, 2017. The increase in net loss for the quarter ended December 31, 2018, as compared to the net income for the quarter ended December 31, 2017, was a result of several items including: Revenues in the fourth quarter of 2017 included a positive mark to mark adjustment of \$10.7 million as compared to a negative mark to market adjustment of \$2.4 million for the quarter ended December 31, 2018; cost of sales includes a change in ore stockpile inventory with a \$4.4 million decrease in 2018 charged to cost of sales as compared to a \$4.3 million increase in 2017 charged to ore stockpile inventory; and the inclusion of a non-cash unrealized foreign exchange loss \$14.7 million as compared to a non-cash unrealized foreign exchange loss of \$1.8 million for the year ended December 31, 2017, a swing of approximately \$12.9 million, which was primarily related to the Company's debt that is denominated in U.S. dollars.

Revenue

The Company recognized revenue of \$73.1 million in Q4 2018 (Q4 2017 - \$85.7 million) for a decrease of 15% from 2017 on the sale of 35,989 tonnes (2017 - 34,896 tonnes) of copper concentrates net of treatment charges. The increase in sales was offset by a 10% lower realized copper price in Q4 2018 as compared to Q4 2017 and a fourth quarter mark-to-market adjustment of negative \$2.4 million in Q4 2018 (Q4 2017 - positive \$10.3 million).

The following table reflects the metal prices realized by the Company and the quantities of metal sold during the period:

	Realized Metal Prices		Quantities of Metal Sold	
	Three months ended December 31,		Three months ended December 31,	
	2018	2017	2018	2017
Copper⁽¹⁾ – 000's lbs	\$2.81	\$3.12	19,431	18,091
Gold⁽¹⁾ – oz	\$1,229	\$1,279	7,475	5,622
Silver⁽¹⁾ – oz	\$14.48	\$16.77	69,761	67,359

(1) Metal prices stated as US dollars per ounce for gold and silver and US dollars per pound for copper.

Operating Costs

The Company recorded Q4 2018 cost of sales of \$65.3 million (Q4 2017 - \$65.7 million). Total cost of sales is similar on a comparative basis even though more concentrate was sold in Q4 2018 than Q4 2017. Q4 2017 cost of sales included an inventory adjustment to the low-grade stockpile. This adjustment increased cost of sales by \$10.8 million. Depreciation costs also decreased in Q4 2018. See the depreciation section of this financial review for details.

A review of costs in the Operational Review Section and cash costs calculation show total site operating cash costs for Q4 2018 and Q4 2017 of \$47.5 million and \$44.3 million respectively.

Depreciation and Depletion

Depreciation expensed through cost of sales in Q4 2018 was \$10.1 million (Q4 2017 - \$14.9 million) a decrease of \$4.8 million over prior years. The difference is primarily a result of the 43-101 resource update for the Copper Mountain Mine released in Q4 2018. The increase to reserves as a result of the update results in a lower depreciation rate over the remaining life of the mine. This update resulted in \$4.6 million less depreciation being recorded in Q4 2018 than would have been recorded with the previously used amounts. A portion of this \$4.6 million decrease has flowed through cost of sales in the quarter and a portion has remained in concentrate inventory. It is anticipated similar results with lower depreciation rates would be expected going forward.

Also contributing to the decrease was total depreciation expense of \$0.7 million (Q4 2017 - Nil) capitalized to deferred stripping and thereby decreasing the amount of depreciation posted to cost of sales.

General and Administrative

The Company recorded Q4 2018 general and administrative costs of \$2.8 million (Q4 2017 - \$1.1 million). The increase of \$1.7 million is attributable to the increased corporate activity within the Company.

Finance Expense

The Company recorded Q4 2018 finance expense of \$4.6 million (Q4 2017 - \$3.4 million). Finance expense primarily consists of interest on loans and the amortization of loan related financing fees. The increase of \$1.2 million is attributable to the increase in borrowing rates and specifically LIBOR which the Company's long-term variable interest rates are based on. The increase in borrowing rates marginally offsets the impact of the decrease in long-term debt from ongoing debt payments made by the Company.

Foreign Exchanges

The Company recorded Q4 2018 foreign exchange loss of \$14.7 million (Q4 2017 - \$1.9 million). Foreign exchange is primarily related to the Company's project debt which is denominated in U.S. dollars. The increase in the loss in the period is a result of a change in the U.S. to Canadian foreign exchange rate from 1.29 to 1.36 as compared to a change from 1.24 to 1.25 in the prior year.

SELECTED ANNUAL FINANCIAL INFORMATION

	Years ended December 31,		
	2018	2017	2016
	\$	\$	\$
Revenue	296,019	304,080	277,996
Net income (loss)	(26,876)	67,339	11,597
Earnings (loss) attributed to shareholders	(22,337)	47,963	7,723
Basic earnings (loss) per share	(0.13)	0.36	0.06
Diluted earnings (loss) per share	(0.13)	0.35	0.06
Total assets	701,662	667,949	647,790
Total non-current liabilities	238,308	266,975	345,544

SELECTED QUARTERLY FINANCIAL INFORMATION

The following table contains selected GAAP and non-GAAP financial information derived from the Company's unaudited quarterly consolidated financial statements for each of the eight most recent quarters and should be read in conjunction with the annual consolidated annual financial statements which are reported under IFRS.

Quarter results (100%) (In thousands of CDN\$, unless otherwise indicated)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	73,149	60,720	84,204	77,946	85,687	77,151	67,146	74,096
Net income (loss)	(18,982)	(5,066)	3,638	(6,466)	23,538	26,573	10,111	7,117
Earnings per share – basic	(0.09)	(0.02)	0.01	(0.04)	0.12	0.15	0.05	0.04
Adjusted net income (loss) ⁽¹⁾	(1,400)	(3,002)	11,095	11,587	25,311	10,011	(123)	328
Adjusted earnings per share – basic	\$(0.01)	\$(0.02)	\$0.06	\$0.09	\$0.19	\$0.08	\$0.00	\$0.00
EBITDA ⁽¹⁾	(234)	6,882	22,552	11,485	31,564	42,934	25,187	22,819
Adjusted EBITDA ⁽¹⁾	17,348	8,946	30,009	29,538	33,337	26,372	14,953	16,030
Cash flow from operations	28,777	(19,650)	40,121	2,018	17,445	11,109	25,870	2,850
Average realized copper price (US\$)	\$2.81	\$2.77	\$3.12	\$3.17	\$3.12	\$2.91	\$2.58	\$2.65
Total operating costs (C1) per pound of copper produced (US\$) ⁽¹⁾	\$1.60	\$1.98	\$1.56	\$1.96	\$1.85	\$1.69	\$1.92	\$1.95
Copper sales (000's lbs)	19,431	17,612	20,411	21,741	18,091	19,250	17,567	18,952

Financial results for the last eight quarters include the impact of the variability of copper prices and foreign exchange rates that impact realized sale prices, and variability in the quarterly sales volumes due to timing of shipments which impacts revenue recognition.

Cash flow from operations and Net Income (Loss) attributable to the shareholders varies from period to period primarily as a result of operational performance discussed in the overview section above, and non-cash items such as; changes in foreign exchange rates, share based compensation charges, inventory write-downs and valuation of the interest rate swap related to a portion of the Company's long-term debt denominated in U.S. dollars.

LIQUIDITY AND CAPITAL RESOURCES

Cash

The Company's cash and cash equivalents at December 31, 2018, were \$46.1 million (2017 - \$45.1 million). During the year ended December 31, 2018 the Company generated \$51.2 million (2017 - \$57.3 million) of positive cash flow from operations as a result of strong operating results at the Copper Mountain mine. The Company also received an additional \$29.1 million in cash resources during the year from the acquisition of Altona.

During the year ended December 31, 2018 the Company used \$15.6 million (2017 - \$6.3 million) in investing activities net of the \$29.1 million cash received from the Altona acquisition. Cash outflows from investing activities is comprised of \$2.6 million on Altona transaction costs, \$20.2 million (2017 - \$1.5 million) of deferred stripping costs, \$8.4 million (2017 - \$3.4 million) on sustaining capital at the Copper Mountain mine and \$13.1 million (2017 - \$0.4 million) on exploration and development, including New Ingerbelle and Eva Copper project advancements.

During the year ended December 31, 2018 the Company used \$37.4 million (2017 - \$35.3 million) in its financing activities. This is comprised primarily of \$3.3 million (2017 - Nil) paid to the MMC interest, \$56.2 million (2017 - \$49.9 million) in debt principal and interest payments, and \$6.5 million (2017 - \$8.2 million) in lease payments on mining equipment. The Company also received \$28.4 million (2017 - \$21.6 million) from MMC, of which the amount was then applied towards principal and interest payments on the Term Loan during the year.

Working Capital

As at December 31, 2018, the Company had working capital of \$29.7 million (excluding the \$69.0 million due to MMC which is not expected to be repaid in the next twelve months) compared with working capital of \$50.5 million at December 31, 2017 (excluding the \$43.6 million due to MMC which is not expected to be repaid in the next twelve months). The decrease in working capital net of MMC notes payable is largely attributable to lower accounts receivable balance \$18.9 million (2017 - \$29.3 million) and inventory balance \$55.8 million (2017 - \$68.1 million). The current liability balance, net of MMC notes payable, is relatively unchanged at \$91.1 million (2017 - \$92.1 million) at December 31, 2018.

Debt

The Company holds debt and financial liabilities in both Canadian and United States dollars and is demonstrated in the following table in both currencies. The Company's net debt position is summarized in the following table:

	December 31, 2018	December 31, 2017	December 31, 2016
(In thousands of CDN\$, except for ratio amounts and where otherwise noted)	\$	\$	\$
Senior credit facility (US\$)	90,720	105,300	119,880
Term loan (US\$)	105,600	124,800	139,200
Subordinated loan (US\$)	9,930	10,345	9,241
Leases	4,711	9,547	10,628
Total debt (US\$ in thousands)	210,961	249,992	278,949
Year-end foreign exchange rate (US\$ to \$CAD)	1.3642	1.2545	1.3427
Canadian \$ equivalent	287,793	313,615	374,545
Less cash balances	(46,123)	(45,133)	(31,409)
Net debt	241,670	268,482	343,136
Net debt to Adjusted EBITDA	3.4x	2.6x	5.4x

Shareholders' Equity

As of December 31, 2018, the Company had 188,170,359 common shares outstanding and shareholders' equity was \$231.5 million at December 31, 2018, compared to \$185.7 million at December 31, 2017. The increase in shareholders' equity is due to the increase in shares outstanding and shareholders' equity from the acquisition of Altona.

Proposed Transactions

None.

Commitments and Contractual Obligations

As at December 31, 2018, the Company had the following consolidated contractual obligations:

	Annual Repayments due from December 31,						Over 5
	Total	2019	2020	2021	2022	2023	years
(In thousands of CDN\$)	\$	\$	\$	\$	\$	\$	\$
Senior credit facility	123,760	16,023	12,707	28,730	44,200	22,100	-
Term loan	144,060	34,924	43,654	43,654	21,828	-	-
Subordinated loan	13,657	-	-	-	-	-	13,657
Lease obligation	6,427	2,010	4,012	405	-	-	-
Mine closure and reclamation	6,546	-	-	-	-	-	6,546
Total contractual obligations	297,450	52,957	60,373	75,789	66,028	22,100	20,203

Capital Resources

As at December 31, 2018, the Company had \$46.1 million in cash and cash equivalents on hand and \$15.7 million in concentrate sales receivables. The Company is expected to meet future cash commitment from existing cash on hand and anticipated cash flows generated from the Copper Mountain mine. The Company continues to review its near-term operating plans and take steps to reduce costs and maximize cash flow from operations, while maintaining copper output levels.

In order to facilitate the management of its capital requirements, the Company prepares annual operating budgets that are approved by the Board of Directors. The Company manages liquidity by continuously monitoring and forecasting cash flows based on changes in operations and economic conditions to facilitate the management of its capital requirements. If required, the Company may adjust the capital structure by issuing new shares, issuing new debt or retiring existing debt. In 2019, the Company intends to allocate its capital resources to debt repayment, development of its mining operations, resource expansion and exploration programs mentioned previously in this MD&A.

The Company's investment policy is to invest its cash in highly liquid interest-bearing investments that are readily convertible to known amounts of cash or in cashable Guaranteed Investment Certificates at major Canadian, United States, or Australian banks. There were no changes to the Company's approach to capital management during the year ended December 31, 2018.

As at December 31, 2018 the Company had a total of \$8.2 million on deposit with the Government of British Columbia in support of reclamation liabilities at the Copper Mountain Mine. The Company receives interest from these funds on deposit.

Financial Instruments and Risks

The Company's financial assets and liabilities consist of cash and cash equivalents, accounts receivable, reclamation bonds, accounts payable and accrued liabilities, due to related parties, finance leases, an interest rate swap and long-term debt.

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk, and commodity price risk), credit risk and liquidity risk. Risk management is carried out by management under policies approved by the board of directors. Management identifies and evaluates the financial risks in cooperation with the company's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Company's overall risk management program seeks to minimize potential adverse effects on the company's financial performance.

The financial instruments and risks and the Company's exposure to these risks, is provided Note 19 of the consolidated financial statements. For a discussion on the methods used to value financial instruments, as well as significant assumptions, refer also to Notes 3 and 19 of the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements as at December 31, 2018.

RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of the Company's operations and have been measured at their fair value as determined by management.

- During the year ended December 31, 2018 the Company sold copper concentrates to MMC with revenues totalling \$296,019 (2017 - \$304,080) including pricing adjustments.
- During the year ended December 31, 2018 the Company accrued interest on the subordinated loan with MMC totalling \$467 (2017 - \$467).
- As at December 31, 2018 the Company accrued to MMC a guarantee fee related to the Term Loan of \$3,486 (2017 - \$2,919). The Company has also received aggregate funding advances from MMC totalling \$62,879 (2017 - \$39,035). These advances bear interest at rates of 2.88% to 4.80% with total interest of \$1,735 (2017 - \$901).
- Key management includes the Company's directors and officers. Compensation awarded to key management includes:

	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries and short-term employee benefits	595	376	3,764	2,480
Share based compensation	364	809	1,582	1,640
Total	959	1,185	5,346	4,120

ACCOUNTING POLICIES AND ESTIMATES

Critical accounting estimates

The Company's significant accounting policies are presented in note 3 of the 2018 annual consolidated financial statements. The preparation of consolidated financial statements in accordance with IFRS requires management to establish accounting policies and to make judgement, estimates and assumptions that affect both the amount and timing of assets, liabilities, income and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the significant judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- Mineral reserves and resources;
- Recoverable amount of property, plant, and equipment;

- Depletion and depreciation of property, plant, and equipment;
- Decommissioning obligations;
- Deferred stripping;
- Net realizable value of inventories; and
- Income and resources taxes.

Change in accounting policies

No changes to accounting policies have been made for the year ended December 31, 2018 with the exception of the adoption of *IFRS 9 – Financial Instruments* and *IFRS 15 – Revenue from Contracts with Customers*. The accounting policies adopted in the preparation of the Company’s consolidated financial statements have been prepared based on all IFRS and interpretations effective as at December 31, 2017.

IFRS 9 – Financial Instruments

The Company adopted IFRS 9 effective January 1, 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss, at fair value through other comprehensive income, and at amortized cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than in net earnings.

The requirements in IAS 39 for classification and measurement were carried forward to IFRS 9 and the Company’s accounting policy with respect to financial liabilities remains unchanged. As a result of the adoption of this standard, the Company has changed its accounting policy for financial assets. The change did not impact the carrying value of any financial assets on the transition date, January 1, 2018.

IFRS 15 – Revenue from Contracts with Customers

The Company adopted IFRS 15 effective January 1, 2018. IFRS 15 addresses revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Company has concluded there were no significant changes in the accounting for concentrate sales as a result of the transition to IFRS 15.

New accounting policies not yet adopted

IFRS 16 – Leases

The new standard will replace *IAS 17 Leases* and eliminates the classification of leases as either operating or finance leases by the lessee and will be applied for annual periods beginning on or after January 1, 2019. Classification of leases by the lessor under *IFRS 16* continues as either an operating or a finance lease, as was the treatment under *IAS 17 Leases*. The treatment of leases by the lessee will require capitalization of all leases resulting in accounting treatment similar to finance leases under *IAS 17 Leases*. Exemptions for leases of very low value or short-term leases will be applicable.

The Company has performed a review of contracts and it is expected that due to the low number and low value of leases not already classified and treated as finance leases under IAS 17 there will be minimal impact to the consolidated financial statements in 2019. For those leases that do qualify the introduction of IFRS 16 will result in an increase in assets and liabilities recognized together with an increase in depreciation and finance costs as fewer leases will qualify for expensing to the income statement, as is the case with operating leases under the current standard.

NON-GAAP PERFORMANCE MEASURES

This document includes certain non-GAAP performance measures that do not have a standardized meaning prescribed by IFRS. These measures may differ from those used and may not be comparable to such measures as reported by other issuers. The Company believes that these measures are commonly used by certain investors, in conjunction with conventional IFRS measures, to enhance their understanding of the Company's performance. These measures have been derived from the Company's financial statements and applied on a consistent basis. The calculation and an explanation of these measures is provided below.

Cash Costs Per Pound

Copper cash costs per pound is a key performance measures that management uses to monitor performance. Management uses these statistics to assess how well mining operations are performing and to assess overall efficiency and effectiveness of mining operations. Cash cost is not an IFRS measure and, although it is calculated according to accepted industry practice, the Company's disclosed cash costs may not be directly comparable to other base metal producers. Cash costs per pound produced are calculated by dividing the aggregate of the applicable costs by copper pounds produced. These measures are calculated on a consistent basis for the periods presented.

Total Operating Costs (C1)

Total operating C1 cash costs is a metric representing the cash cost per unit of extracting and processing the Company's principal metal product, copper, to a condition in which it may be delivered to customers net of gold and silver credits from concentrates sold. It is provided in order to support peer group comparability and to provide investors and other stakeholders with additional information about the underlying cash costs of Copper Mountain and the impact of gold and silver credits on the operations' cost structure. Total operating C1 cash costs are relevant to understanding the Company's operating profitability and ability to generate cash flow. When calculating costs associated with producing a pound of copper, the Company deducts gold and silver revenue credits as the production cost is reduced as a result of selling these products.

All-in Sustaining Costs (AISC)

All-in sustaining costs is an extension of total operating costs discussed above and is also a key performance measure used by management to measure performance. Management uses this measure to analyze margins achieved on existing assets while sustaining and maintaining production at current levels. Expansionary capital and certain exploration costs are excluded from this definition as these are costs typically incurred to extend mine life or materially increase the productive capacity of existing assets, or for new operations. As this measure seeks to present a full cost of copper production associated with sustaining current operations, mining costs associated with deferred stripping are included as are certain applicable corporate administration costs and mining equipment lease costs. AISC allows Copper Mountain to assess the ability of mining operations to support sustaining capital expenditures for future production from the generation of operating cash flows.

A reconciliation of site operating costs, total operating costs (C1), and all-in sustaining costs is provided below.

Cash Costs per Pound Produced (100%)	Three months ended		Year ended	
	December 31,		December 31,	
	2018	2017	2018	2017
(In thousands of CDN\$, unless otherwise noted)	\$	\$	\$	\$
Cost of sales	65,253	65,674	270,713	244,985
Adjustments:				
Depreciation and depletion	(10,193)	(14,953)	(51,046)	(51,491)
Change in inventory	(2,828)	7,663	(10,843)	16,721
Transportation costs	(4,764)	(5,530)	(19,580)	(20,400)
Low-grade stockpile write-down	-	(8,559)	(4,985)	(8,559)
Site operating costs	47,468	44,295	184,259	181,256
Adjustments:				
Transportation costs	4,764	5,530	19,580	20,400
Treatment and refining costs	6,037	5,887	24,064	23,404
By-product credits (gold and silver)	(14,700)	(9,865)	(47,359)	(43,704)
Total operating costs (C1)	43,569	45,847	180,544	181,356
Adjustments:				
Cash cost of deferred stripping	4,629	-	20,184	1,485
Sustaining capital	1,624	1,014	8,422	3,779
Lease payments	1,245	1,986	6,511	8,218
Applicable administration	600	581	2,356	2,428
All-in sustaining costs (AISC)	51,667	49,428	218,017	197,266
Average foreign exchange rate (CDN\$ to US\$)	0.7598	0.7874	0.7721	0.7701
Copper production (000's lbs)	20,628	19,556	78,847	75,791
Total operating costs (C1) (US\$)	\$1.60	\$1.85	\$1.77	\$1.84
All-in sustaining costs (AISC) (US\$)	\$1.90	\$1.99	\$2.13	\$2.00
Average realized copper price (US\$)	\$2.81	\$3.12	\$2.98	\$2.82

Adjusted Net Income

Adjusted net income removes the effects of the following transactions from operating income as reported under IFRS:

- Pricing adjustments on concentrate and metal sales;
- Write-down of the low-grade stockpile;
- Unrealized interest rate swap gains/losses;
- Unrealized foreign exchange gains/losses; and
- Non-recurring transactions.

Management believes that these transactions do not reflect the underlying operational performance of the Company's mining operations and are also not indicative of future operating results.

Adjusted Net Income (In thousands of CDN\$, except per share amounts)	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Net income (loss)	(18,982)	23,538	(26,876)	67,339
Adjustments:				
Pricing adjustments on concentrate sales	2,355	(10,301)	888	(10,691)
Write-down of low-grade stockpile	-	10,812	6,293	10,812
Unrealized interest rate swap (gain) loss	481	(610)	(716)	87
Unrealized foreign exchange (gain) loss	14,746	1,872	23,788	(20,949)
Adjusted net income	(1,400)	25,311	3,377	46,598
Adjusted earnings per share	\$(0.01)	\$0.19	\$0.02	\$0.35

EBITDA and Adjusted EBITDA

EBITDA represents net earnings before interest, income taxes, and depreciation. EBITDA is presented because it is an important supplemental measure of our performance and is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the industry, many of which present EBITDA when reporting their results. The Company believes EBITDA is an appropriate supplemental measure of debt service capacity and performance of its operations.

Adjusted EBITDA is presented as a further supplemental measure of the Company's performance and ability to service debt. Adjusted EBITDA is prepared by adjusting EBITDA to eliminate the impact of several items that are not considered indicative of ongoing operating performance.

Adjusted EBITDA is calculated by adding to EBITDA certain items of expense and deducting from EBITDA certain items of income that are not likely to recur or are not indicative of the Company's future operating performance consisting of:

- Pricing adjustments on concentrate and metal sales;
- Write-down of the low-grade stockpile;
- Unrealized interest rate swap gains/losses;
- Unrealized foreign exchange gains/losses; and
- Non-recurring transactions.

While some of the adjustments are recurring, other non-recurring expenses do not reflect the underlying performance of the Company's core mining business and are not necessarily indicative of future results. Furthermore, unrealized gains/losses on derivative instruments, and unrealized foreign currency translation gains/losses are not necessarily reflective of the underlying operating results for the reporting periods presented.

EBITDA and Adjusted EBITDA (In thousands of CDNS)	Three months ended December 31,		Year ended December 31,	
	2018	2017	2018	2017
Net income (loss)	(18,982)	23,538	(26,876)	67,339
Adjustments:				
Finance income	(106)	41	(582)	(319)
Finance expense	4,601	3,367	15,564	13,070
Depreciation	10,193	14,953	51,046	51,491
Current resource tax (recovery) expense	609	621	1,217	1,879
Deferred income and resource tax recovery	3,451	(10,956)	316	(10,956)
EBITDA	(234)	31,564	40,685	122,504
Adjustments:				
Pricing adjustments on concentrate sales	2,355	(10,301)	888	(10,691)
Write-down of low-grade stockpile	-	10,812	6,293	10,812
Unrealized interest rate swap (gain) loss	481	(610)	(716)	87
Unrealized foreign exchange (gain) loss	14,746	1,872	23,788	(20,949)
Adjusted EBITDA	17,348	33,337	70,938	101,763

The Company earned Adjusted EBITDA of \$70.9 million during the year ended December 31, 2018, as compared to an Adjusted EBITDA of \$101.8 million for the period ended December 31, 2017. The reduction in Adjusted EBITDA was mainly a result of several items including: Revenues in 2017 included a positive mark to mark adjustment of \$10.7 million as compared to a negative mark to market adjustment of \$0.9 million for 2018; Costs of sales for 2018 increased by \$25 million as a result of increased costs for diesel fuel, maintenance, and power, in addition to the inclusion of \$11.5 million of low grade stockpile charges into the costs of sales figure as a result processing a portion of the low grade stockpile during the 2018 year.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures. Our 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. Internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect 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 financial statements.

The Company's internal control system over disclosure controls and procedures is designed to provide reasonable assurance that material information relating to the Company is made known to management and disclosed to others and information required to be disclosed by the Company in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation.

Internal controls over financial reporting

Management, including the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting, and used the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our controls in 2018. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at December 31, 2018 and provided a reasonable assurance of the reliability of our financial reporting and preparation of the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial reporting and disclosure.

Changes in internal controls over financial reporting

There have been no changes in our internal control over financial reporting and disclosure controls and procedures during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting and disclosure.

RISKS AND UNCERTAINTIES

The Company's success depends on a number of factors, most of which are beyond the control of the Company. Typical risk factors include copper, gold and silver price fluctuations, foreign currency fluctuations, and operating uncertainties encountered in the mining business. Future government, legal or regulatory changes could affect any aspect of the Company's business, including, among other things, environmental issues, land claims, permitting and taxation costs all of which could adversely affect the ability of the Company to develop the Copper Mountain mine. These risks and uncertainties are managed by experienced managers, advisors and consultants, by maintaining adequate liquidity, and by cost control initiatives.