IMPERIAL METALS CORPORATION

Discover Develop Operate

2003 ANNUAL REPORT

Imperial Metals

Discover Develop Operate

Our mission statement
Discover Develop Operate
reflects Imperial's business objectives and mindset, borne from a proven track record in exploration, mine development and operations.

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Cover photo: Geologist Lee Ferreira taken by Steve Robertson, Imperial's Senior Geologist at Mount Polley Mine

2003 HIGHLIGHTS

- discovery of high grade copper-gold Northeast Zone at Mount Polley
- share price increases from $0.31 to over $7.00
- $12.4 million raised for exploration
- 144 Zone expanded and additional ground acquired at Sterling
- Nak drill program confirms copper mineralization

2003 FINANCIAL HIGHLIGHTS

Revenue	$47.2 million
Cash flow from operating activities	$2.6 million
Cash flow per share from operating activities	$0.12
Net earnings	$3.4 million
Earnings per share	$0.16
Capital expenditures	$5.3 million
Cash and cash equivalents at year-end	$11.2 million

Mount Polley team on the Northeast Zone discovery area; Pierre Lebel-Chairman, Art Frye-Senior Mine Engineer, Patrick McAndless-VP Exploration, Brian Kynoch-President

LETTER TO THE SHAREHOLDERS

We are pleased to report on a year of outstanding achievement at Imperial Metals Corporation.

The year began with the implementation of the plan presented in last year's annual report. With assets realigned, efforts were focused on projects that had the highest potential for generating shareholder value. This strategy paid off. We were rewarded with the Northeast Zone discovery which has been significant not only for our shareholders, but also for the exploration industry in British Columbia.

The mineral wealth discovered at Mount Polley in 2003 together with increases in copper and gold prices had a strong positive impact on Imperial's share price. With renewed investor interest we raised $12.4 million, most of this by way of a bought deal private placement. These funds will allow us to continue expanding on our recent discoveries well into 2004.

In addition to exploration aimed at expanding the Northeast Zone, we also drilled beneath both the Bell and Springer deposits to augment resources contained in these zones. At Springer we have clearly demonstrated the mineralized zone continues to depth. Drill hole SD03-01, a vertical hole at the south end of the zone, intercepted 267 metres grading 0.61% copper and 0.49 g/t gold *below the level of previous drilling*, doubling the known depth of the deposit at this location.

Drilling continues at Mount Polley with three active rigs as we proceed with the search for additional resources in the Northeast, Bell and Springer zones, as well as conducting property wide exploration for new deposits.

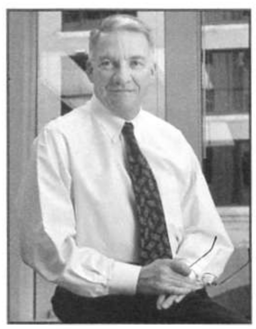
Our goals in 2004 are to put Mount Polley back in production and continue finding additional high value mineral resources to turn this mine into a solid cash flow producing asset for years to come.

Imperial is committed to *discovering, developing and operating* base and precious metal mines in North America. The development and operations history of Imperial at the Mount Polley, Huckleberry and Goldstream mines in British Columbia, and the Sterling mine in Nevada, and the Company's successful and ongoing search for new mineral resources at Mount Polley, Sterling, Nak and other projects, highlight Imperial's strengths in exploration, mine development and operations.

We thank our hard working and capable employees for the remarkable results achieved in 2003. We acknowledge the significant contribution and guidance of our Board of Directors and as always, we recognize the loyal and interested support of our shareholders. Together we look forward to completing Imperial's transition to that of a profitable, low cost copper-gold production company.

Pierre Lebel
Chairman

J. Brian Kynoch
President



Exploration and Operations

MOUNT POLLEY

The wholly owned Mount Polley open pit copper-gold mine is located in central British Columbia, 56 kilometres northeast of Williams Lake. The property consists of a mineral lease and mineral claims encompassing approximately 9,000 hectares. The mine was commissioned in 1997 and built at a capital cost of $115 million. With a capacity of 20,000 tonnes of ore per day, it produced 133 million pounds of copper and 370,000 ounces of gold from 27.7 million tonnes of ore mined from the Cariboo and Bell pits before being idled September 2001 due to low metal prices. At that time there remained an estimated 31.9 million tonnes grading 0.36% copper and 0.34 grams per tonne gold in the Bell and as yet unmined Springer deposits for processing upon restart of mine operations.

The Mount Polley deposit was discovered in the mid-1960's by follow-up prospecting of an aeromagnetic anomaly. The deposit occurs in an alkalic intrusive complex featuring a variety of breccias related to monzonitic intrusions along a northerly trending structure within Nicola Group volcanics of late Triassic to early Jurassic age. This fault separates the overall deposit into the Cariboo, Bell, Northeast and Springer deposits, each with distinctive mineralization, alteration and breccia characteristics.

Northeast Zone

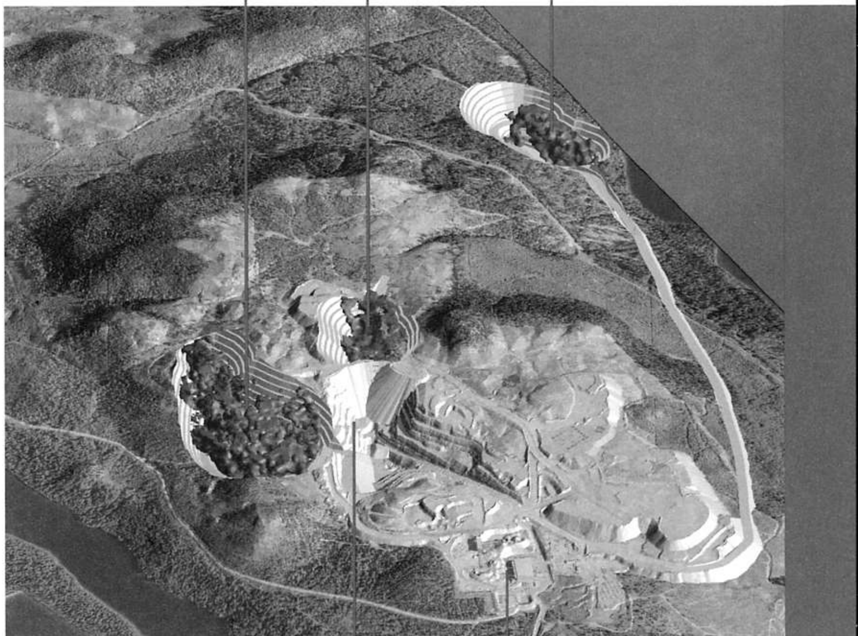
In August 2003 a discovery was made while prospecting along a logging road in a previously underexplored area in the northeast section of the Mount Polley property. Subsequent trenching and drilling outlined a deposit of high grade copper, gold and silver. Located 1.5 kilometres northeast of the Bell Pit, the *Northeast Zone* discovery was the exploration highlight of the year for Imperial.

Extensive trenching combined with the results of 52 drill holes totaling 11,742 metres have so far outlined a hydrothermal breccia which makes up the zone for a strike length of 325 metres. Some of the best intercepts drilled at Mount Polley are in the Northeast Zone including WB03-03 which intersected 193.5 metres grading 1.33% copper, 0.44 g/t gold and 10.60 ppm silver. Shorter, higher grade intervals are often present in this zone, an example being WB04-30 which intercepted 25.8 metres at 3.51% copper, 0.96 g/t gold and 26.84 ppm silver.

Preliminary metallurgical test work conducted on the Northeast Zone ore is confirming that metal recoveries will be good. Rougher flotation tests on a sample from the zone have yielded the following:

	Copper	Gold	Silver
Head grade	1.28% Cu	0.51 g/t Au	8.23 g/t Ag
Rougher concentrate grade	7.11% Cu	2.74 g/t Au	44.32 g/t Ag
Metal recovery to rougher concentrate	95.06%	91.86%	91.94%

All previous exploration at Mount Polley was focused on magnetic anomalies. But unlike the Cariboo, Bell and Springer deposits, the Northeast Zone is not magnetic, a finding which has lead to an extensive and ongoing re-evaluation of the entire property with induced polarization (IP) survey technology.



Modern core logging facility at Mount Polley

IP coverage over the Northeast Zone and along the eastern flank of the property correlates well to the mineralization in the Northeast Zone. Other IP anomalies have opened up the potential for similar mineralization as well as possible extensions to the mineralization in the Northeast Zone.

In March 2004 an updated reserve estimate, mining plan, and an application for a permit amendment to include mining of the Northeast Zone were initiated. The mining plan is scheduled to be completed in the second quarter of 2004 and will provide the basis for the re-opening of Mount Polley mine.

With grades of about 1% sulphide copper, together with significant gold and silver values, we expect the Northeast Zone will soon transform Mount Polley into a highly profitable low cost copper, gold and silver producer.

Bell Zone

The Bell deposit is fully permitted for mining and will likely be the first zone mined upon a restart of operations while final preparation and permitting are completed for mining the Northeast Zone.

Upon suspension of mining in September 2001 the remaining probable reserves in the Bell Zone were estimated at 5.16 million tonnes grading 0.311% copper and 0.338 g/t gold, representing approximately nine months of millfeed. Results from a recently completed a 30 hole drill program totaling 5,981 metres confirmed the presence of a higher grade zone in this deposit and extended the zone to depth. An updated reserve estimate and mining plan are in preparation.

Springer Zone

Ongoing deep drilling at the Springer Zone has confirmed the presence of a significant body of copper-gold mineralization beneath the reserve outlined by previous drilling. Evidence that mineralization persisted at depth was revealed by the first hole in this program, SD03-01 which was drilled vertically, intersecting 267 metres grading 0.61% copper and 0.49 g/t gold *below the previously known mineralization.*

The Springer Zone is fully permitted for mining and is expected to provide long term millfeed upon completion of mining at the Bell and Northeast zones.

Near surface copper mineralization at Springer is highly oxidized and cannot be processed by conventional sulphide flotation methods. Testing of an innovative method to recover copper from this oxidized material continues. In the third of successively larger tests, four 20 foot high columns installed in the mill building are successfully recovering copper from high oxide Springer Zone mineralization. The results of this testing will be incorporated into a pre-feasibility study of this process expected to be completed this summer.

Test columns for oxide copper leaching

Exploration

STERLING

Imperial's wholly owned Sterling property is located near Beatty, Nevada, 115 miles northwest of Las Vegas. Sterling operated both as an underground and open pit mine commencing in 1980, and through 2000 produced 194,996 troy ounces from 941,341 short tons of ore with an average grade of 0.217 ounces per ton gold (oz/t) (7.44 grams per tonne (g/t)). The Sterling project claims and mine site cover approximately 3,700 acres (approximately 1,500 hectares). The claims are subject to a 2.25% Net Smelter Return.

Imperial initiated an exploration program in 2000 involving regional geochemical sampling and gravity geophysics aimed at finding gold anomalies or prospective stratigraphy worthy of follow up drill testing. In 2001 the discovery of a deep, high grade gold zone, in a setting which exhibits many of the hallmarks of the structurally controlled Carlin type deposits, represented a totally new setting for gold deposition on this property.

Discovery hole 01-7A was drilled as a test of the area beneath hole 89-144 drilled in 1989 that intersected 225 feet grading 0.044 oz/t (69 metres grading 1.51 g/t). Hole 01-7A returned grades of 0.15 oz/t gold over 110 feet including 0.25 oz/t gold over 30 feet (5.14 g/t over 33.5 metres including 0.57 g/t over 9.14 metres). A follow up hole 01-9 returned 0.57 oz/t gold over 45 feet including 1.0 oz/t gold over 20 feet (19.54 g/t over 13.5 metres including 34.29 g/t over 6.1 metres). The gold mineralization in both holes was encountered in silty carbonates at the contact between the Bonanza King dolomite and the Carrara limestone. The depth of these intercepts is approximately 700 feet (213 metres) below surface and some 300 feet (91 metres) below the lower most underground workings at Sterling.

In 2002 a surface rotary and diamond drill program further tested the target area. This work was followed by a geophysical survey using Natural Source Audio-Frequency Tellurics to detect low and high-angle discontinuities as well as alteration mineralogy associated with brecciation and gold mineralization in the 144 Zone. Results were used to focus exploration efforts aimed at expanding the 144 Zone and discovering additional zones of the same type.

In 2003, 30 holes totaling 9,000 feet (2,743 metres) were completed. All holes which penetrated the zone intersected elevated gold values enlarging the 144 Zone to 500 feet by 750 feet (152 metres by 228 metres).

Exploration highlights included hole 03-24 which intersected 139 feet grading 0.26 oz/t gold (42.4 metres grading 9.06 g/t), which included an 83 foot section grading 0.39 oz/t (25.3 metres grading13.36 g/t). Hole 03-28 intersected 45 feet grading 0.25 oz/t including a 20 foot section grading 0.50 oz/t (13.7 metres grading 8.72 g/t including a 6.1 metre section grading 17.14 g/t). High grade intercepts were also encountered in hole 03-41 which intersected 30 feet grading 0.12 oz/t including 10 feet grading 0.22 oz/t (9.1 metres grading 4.28 g/t including 3.0 metres grading 7.66 g/t) and in hole 03-52 which intersected 65 feet grading 0.10 oz/t including 10 feet grading 0.23 oz/t (19.8 metres grading 3.39 g/t including 3.0 metres grading 8.03 g/t).

Also in 2003, an additional 29 claims were acquired under lease to secure the potential northerly extension of the 144 Zone gold bearing structure. Planning and permitting of an underground exploration program are underway. This program will include a 3,840 foot (1,170 metre) ramp down to the 144 Zone followed by 20,000 feet (6,098 metres) of definition and exploration drilling.

Diamond drilling on the 144 Zone

Exploration

NAK

Imperial staked the Nak property in 2002. The property is located approximately 75 kilometres southeast of Atlin in northwest British Columbia. Nak lies adjacent to the Joss'alun showing, covering the on-strike extension of favourable stratigraphy hosting high grade copper mineralization. Additional claims were subsequently added to the Nak property package under option from Copper Ridge Explorations Inc. and Tenajon Resources Corp.

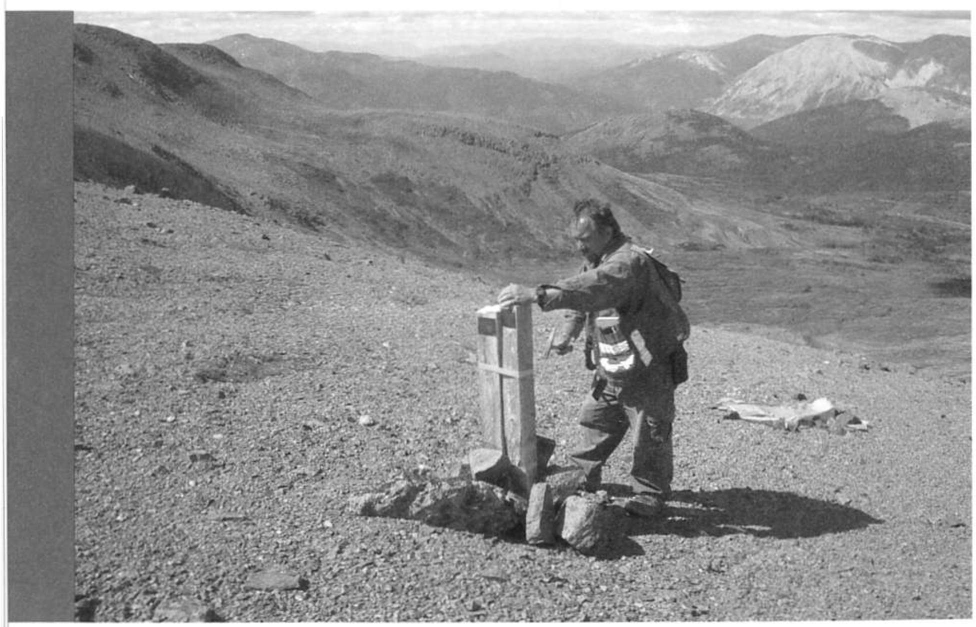
A geophysical (Max-Min) study was completed in early 2003 and identified areas of potential buried massive sulphide horizons. During the summer months, geologic mapping, prospecting and soil geochemistry were undertaken resulting in the discovery of the BOR showing.

BOR is located 2.3 kilometres to the northwest of the Joss'alun and Box Lake showings, approximately 2.0 kilometres to the east southeast of Joss'alun. Several smaller copper showings were identified along the corridor stretching between the two larger showings. Grab samples at BOR returned grades ranging up to 5.11% copper. Gabbro hosting the BOR mineralization lies immediately adjacent to the volcanic package which hosts the bulk of the copper mineralization discovered to date. Future exploration of the BOR will investigate the possibility that it is feeder style copper mineralization related to the overlying showings.

The Box Lake discovery lies within the same mafic volcanic unit that contains the Joss'alun mineralization. Most copper sulphides at Box Lake have only been observed in float as the cliff forming volcanics are not easily accessed. One grab sample from outcrop returned a grade of 1.45% copper. Further work will be completed in the Box Lake area before making a decision on drilling this zone.

Early in 2004 Imperial relinquished its option on the Copper Ridge and Tenajon claims. Termination of the option reduced the size of Imperial's Nak land package from 62 units (1,550 hectares) to 48 units (1,200 hectares).

The volcanic stratigraphy at Nak has good potential for hosting a viable massive sulphide deposit. Exploration on a number of untested targets will continue in future programs.



Contract prospector, Craig Lynes

Operations

HUCKLEBERRY MINE

Imperial holds a 50% interest in the Huckleberry copper/molybdenum open pit mine located approximately 123 kilometres southwest of Houston, British Columbia. The mine was commissioned in 1997 and built at a capital cost of approximately $142 million. Huckleberry has a processing capacity of 21,000 tonnes of ore per day.

Production statistics for 2002/2003 representing 100% of the mine production, 50% of which is allocable to Imperial, are as follows:

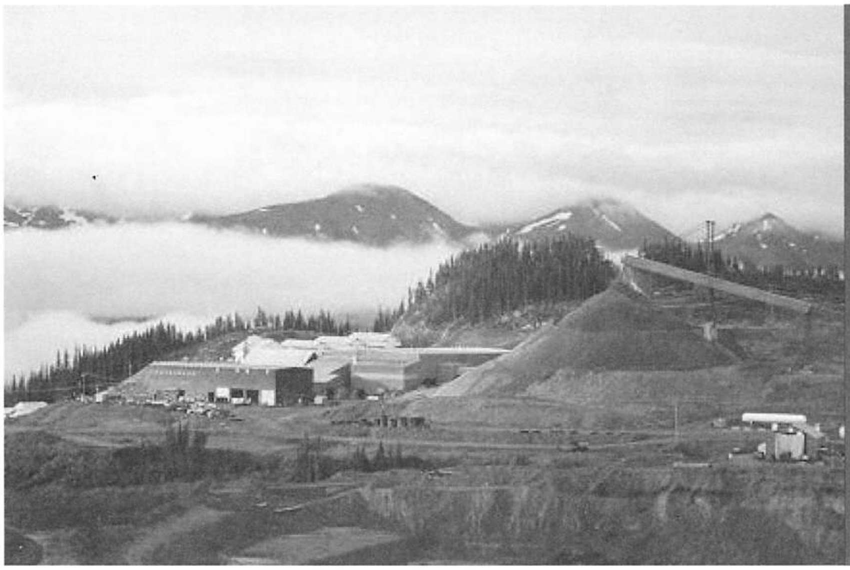
	For the Years Ended	
	Dec 31/03	Dec 31/02
Ore milled (tonnes)	6,999,077	7,421,715
Ore milled per calendar day (tonnes)	19,176	20,334
Ore milled per operating day (tonnes)	20,771	21,689
Grade (%) – Copper	0.542	0.534
Grade (%) – Molybdenum	0.012	0.014
Recovery (%) – Copper	86.48	88.38
Recovery (%) – Molybdenum	17.61	47.54
Copper produced (lbs)	72,269,310	77,233,795
Molybdenum produced (lbs)	316,890	1,118,696

Probable reserves at December 31, 2003, prepared under the supervision of Kent Christensen, P.Eng., an employee of Huckleberry designated as a Qualified Person, are as follows:

Cut Off	0.26% Cu
Ore	25,018,000 tonnes
Copper	0.507% Cu
Molybdenum	0.014% Mo
Gold	0.059 g/t
Silver	2.969 g/t
Strip Ratio	0.37

An exploration budget of up to $1.3 million has been approved for 2004. The work will be aimed at extending the mine life beyond the currently estimated 3.5 years. The program will include ten drill holes on the northeast side of the property and six drill holes on the northwest. If successful, additional drilling will be carried out.

In December 2003 the management of Huckleberry was transferred to Huckleberry Mines Ltd., the joint venture company in which Imperial retains its a 50% equity ownership. This restructuring allowed Imperial to deconsolidate Huckleberry's debt, significantly improving Imperial's balance sheet. Imperial continues to have significant influence on Huckleberry acting in an advisory capacity on mine operations.



Huckleberry Mine

Overview

The Company began the year 2003 focused on selective mineral exploration targets while maintaining its key mining asset, the Mount Polley mine, on standby pending a recovery in metals prices. The discovery of a new zone at Mount Polley and the rapid rise in the price of copper and gold during the latter half of 2003 provided ideal conditions for the Company to access equity markets to finance its exploration and property development activities. The restructuring of the management of Huckleberry Mines Ltd. ("Huckleberry") on December 1, 2003, whereby the Company ceased to be the operator of the Huckleberry mine, provided management the opportunity to concentrate its efforts on the significant exploration opportunities identified at Mount Polley during the year.

The change in basis of accounting for Huckleberry, from proportionate consolidation basis to equity basis, resulted in a substantial improvement in the Company's Balance Sheet due to the high debt load carried by Huckleberry. All of the assets and liabilities of Huckleberry previously recorded on a line by line basis were removed from Imperial's consolidated balance sheet. Instead, the balance sheet at December 31, 2003 records the Company's investment in Huckleberry as a single line item under Share of Deficit and Advances to Huckleberry. The statement of income for the year 2003 includes eleven months of Huckleberry on the proportionate consolidation basis and one month on the equity basis.

At December 31, 2003 the financial position of the Company was healthy with $11.0 million in working capital, including $11.0 million in cash, resulting from the $10.0 million private placement bought deal financing completed in early December 2003. The Company is investing these funds in exploration and preparing the Mount Polley mine for resumption of operations. The Company is also actively assessing other opportunities for growth through exploration and development.

Selected Annual Financial Information		**Year Ended December 31, 2003**		**Year Ended December 31, 2002**		**Year Ended December 31, 2001** *Proforma (Note)*
Total Revenues	$	47,170,785	$	47,238,743	$	111,153,748
Net Income (Loss)	$	3,375,550	$	(22,968,083)	$	(20,240,573)
Net Income (Loss) per share	$	0.16	$	(1.46)	$	(2.51)
Diluted Income (Loss) per share	$	0.16	$	(1.46)	$	(2.51)
Working Capital (Deficiency)	$	11,036,075	$	(31,585,636)	$	(28,585,913)
Total Assets	$	25,292,236	$	72,017,155	$	92,256,697
Total Long Term Debt (including current portion of long term debt)	$	5,891,809	$	79,705,614	$	80,544,403
Cash dividends declared per common share	$	0.00	$	0.00	$	0.00

Note: Proforma amounts are based on the historical financial information of the mining business formerly part of IEI Energy Inc. prior to its acquisition by the Company effective January 1, 2002.

The reporting currency of the Company is the Canadian Dollar. The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles.

Forward Looking Statements

This Management Discussion and Analysis is based on a review of the Company's operations, financial position and plans for the future based on facts and circumstances as of March 31, 2004. Except for statements of fact relating to the Company certain information contained herein constitutes forward looking statements. Forward looking statements are based on the opinions, plans and estimates of management at the date the statements are made and are subject to a variety of risks, uncertainties and other factors that could eause the actual results to differ materially from those projected by such statements. The primary risk factors affecting the Company are discussed further under the heading "Risk Factors" below. The Company undertakes no obligation to update forward looking statements if circumstances or management's estimates, plans or opinions should change. The reader is cautioned not to place undue reliance on forward looking statements.

Developments During 2003

Exploration and General

The Company maintains a balanced approach to exploration and development of its mineral projects. The Company started the year 2003 with the $1.2 million cash received from the sale of the Silvertip project in 2002 and raised a net total of $12.0 million from three financings.

A portion of these funds were used for exploration at Sterling from the $1.3 million rights offering completed in February 2003. Exploration results were positive with further drilling planned for 2004 and early 2005 inclnding US$2.0 million budgeted for a decline ramp to access the 144 Zone discovery.

Funding from a $1.5 million flow through share issue in early August initiated a significant exploration program to expand the resources at the Mount Polley mine and to test targets at the Nak property in northern British Columbia. Drilling at the Mount Polley property in central British Columbia provided very encouraging results, including discovery of a new zone, resulting in a greatly expanded drilling program in 2004. Exploration results from the Nak property were not sufficiently encouraging to maintain the claims under option however the Company is reviewing plans for further work in the 2004 field season on its 100% owned claims.

In December the Company completed a $10.0 million bought deal private placement financing to continue the exploration at Mount Polley and Sterling and for general working capital purposes.

With the change in basis of accounting for Huckleberry the Company's revenues and expenses will be reduced significantly. Until the Company's mineral properties become revenue producers, property holding and other operating and administration costs are expected to exceed revenues. The Company will also record its 50% share of equity income from Huckleberry which, depending on the copper price and the US/Cdn Dollar exchange rate, will be a significant determinant of income. The strengthening of the Cdn Dollar against the US Dollar during 2003 has reduced the cost of repaying the long term debt due by Huckleberry. However, the decline in the exchange rate has detrimentally affected Huckleberry's revenues and operating margin and negated a portion of the recent improvement in the price of copper.

Further studies on the Mount Polley mine oxide material during 2003 provided further encouragement to proceed with larger scale testing of new heap leach technology to improve copper recoveries. The results of this larger scale test work and other prefeasibility studies are important factors to consider in the reopening of the Mount Polley mine. The Company has budgeted $0.3 million for these studies for the year 2004.

Huckleberry Mines Ltd.

The net income of the Company is primarily dependent on the results of Huckleberry, the Company's 50% equity accounted operating mine. Note 12 to the consolidated financial statements of the Company discloses the impact of Huckleberry on the financial position and results of operations of Imperial. Although the Company owns 50% of Huckleberry all the debt and other obligations of Huckleberry are non recourse to Imperial with Imperial's financial exposure limited to its $2.5 million loan to Huckleberry.

At the end of 2002 it was estimated that Huckleberry would have a mine life that would end in late 2007. During the year 2003 Huckleberry's mine life was further reduced and is now expected to end in early 2007 or about 10 to 12 months sooner.

Huckleberry continues to face challenges in generating sufficient cash flow to meet loan interest and principal payments of approximately $87.0 million due on June 30, 2004 based on exchange rates and interest rates at December 31, 2003. The lenders have been extending the due date of these loans since January 1, 2002. During the extended period of low copper prices since startup of the mine in 1997 Huckleberry was not able to meet scheduled loan payments on its construction loans. Although the recent increase in copper prices is having a positive impact on cash flow, the accumulated debt paymertt obligations and compound interest on overdue loans will take time to rectify.

Huckleberry was not able to eomplete a restructuring of its loan payment schedule in 2003 and continues to discuss a revised payment schedule with its lenders. The outcome of these negotiations continues to be uncertain and could result in Imperial losing its interest in Huckleberry. The ongoing operations of the Company would not be materially affected if Imperial lost its 50% interest in Huckleberry. Note 4 to the consolidated financial statements of the Company provides further information on the financial position of Huckleberry.

Risk Factors

Exploration programs, development prospects and mining operations are affected by a number of factors that can significantly impact the operations and financial position of the Company.

The Company explores for and produces base and precious metals. Exploration and development prospects for these metals are affected by their price, with copper and gold prices being of primary importance to the Company. Exploration and development requires significant amounts of capital and even if the funds were available, the outcome is dependent on finding sufficient quantities of minerals, permitting the project, constructing the processing and ancillary facilities and starting commercial production. This process takes time and many factors, including commodity prices and economic conditions, may change, affecting the viability of the project. The Company has expertise in managing these risks and will conduct its exploration and development activities to maximize returns for its shareholders.

The price of copper is a key determinant of revenues from mining operations as the Huckleberry mine is primarily a copper producer. Copper is sold in US Dollars and therefore the US/Cdn Dollar exchange rate is also a key factor in determination of revenue. Most of the debt of Huckleberry is denominated in US Dollars and this affects the interest paid in Cdn Dollars as well as the ultimate repayment amount of the debt. Huckleberry interest expense is based on floating rates, which vary with a number of factors, including international economic and political events. In addition, mining operations face various operating risks, including environmental risks. Operating risks include accuracy of mining plans, ore grade, milling and recovery issues and others. The Company minimizes risks from mine operations through prudent operating practices, using well trained and knowledgeable staff, obtaining insurance for certain risks, and hedging copper production and exchange rates from time to time.

Critical Accounting Policies

The critical accounting policies adopted by the Company and used in preparation of its consolidated financial statements include the following:

(a) Mineral Properties

Producing mining property, plant and equipment is carried at cost less accumulated depletion and depreciation. All costs related to acquisition, exploration and development of mineral exploration properties are capitalized by property. Capitalized costs include interest and financing costs for amounts borrowed for mine development and plant construction, and operating costs, net of revenues, prior to the commencement of commercial production. On the commencement of commercial production, net costs are charged to operations on the unit-of-production method by property based upon estimated recoverable reserves excluding certain assets which are depreciated on a straight line basis over periods ranging from three to ten years.

The Company evaluates the carrying value of its mineral properties on a regular basis using various methods depending on the state of development of the property. If it is determined that the anticipated fair value based on future cash flows from its mineral properties or other measurement are less than the carrying value based on information and conditions at the date of assessment, then a writedown to the estimated fair value is made.

(b) Depreciation, Depletion and Amortization

Described in (a) above are the methods and rates used by the Company to determine the depreciation, depletion and amortization of its producing mineral properties. The majority of capitalized costs are depreciated, depleted or amortized on a unit-of-production basis. This method relies on management's estimate of the ultimate amount of recoverable reserves, an amount that is dependant on a number of factors including the extent and grade of the ore, commodity prices, capital, mining, processing and reclamation costs, and success of exploration activities identifying additional mineral reserves.

(c) Future Site Reclamation Costs

Management's estimate of the costs for reclamation of producing mineral properties are accrued and charged to operations over commercial production based upon total estimated reclamation costs and recoverable reserves. The estimated costs for reclamation of non-producing mineral properties are accrued as liabilities when the costs of site clean-up and reclamation can be reasonably estimated. The Company's activities are governed by various laws and regulations for protection of the environment. Generally, these laws and regulations are continually changing and becoming more restrictive and the Company must comply with these changes.

Changes in Accounting Policies

The Company will be adopting a number of new accounting standards in 2004 that will impact its financial results. These include:

(a) Future Site Reclamation Costs

New accounting recommendations from the Canadian Institute of Chartered Accountants for future site reclamation costs will be adopted by the Company effective January 1, 2004. Prior to January 1, 2004 future site reclamation costs were accrued and charged to operations over the estimated life of each mine. The new accounting recommendation requires that the Company initially recognize the future site reclamation costs at its fair value in the period in which it is incurred, with a corresponding addition to the related asset for these costs. The cost of the asset is amortized over the life of the asset as an expense based on the Company's accounting policy for depreciation, depletion and amortization. Following the initial recognition of the future site reclamation costs, the liability will be increased each period to reflect the interest element included in the initial measurement of their fair value. Adjustments to the future site reclamation cost liability will also be made in each period for changes in the estimated amount, timing and cost of the work to be carried out.

The Company has determined that the adoption of this new standard will primarily affect the income from its 50% accounted for equity affiliate, Huckleberry. Huckleberry has not yet determined the impact of this new standard and therefore the Company cannot reasonably estimate the effect at this time. The future site reclamation costs recorded on the Company's balance sheet at December 31, 2003 are for the Mount Polley and the Sterling properties. Management believes that the amounts shown are a reasonable estimate of the nltimate cost of the expenditures to be incurred to complete the site reclamation work.

(b) Share Based Compensation

The Company will adopt the new recommendations of the Canadian Institute of Chartered Accountants for share based compensation effective January 1, 2004. The Company's reporting has been in accordance with the new recommendations except that the Company has only been providing the information in a note to its financial statements (Note 9) and not recording the effects in its consolidated financial statements. The new recommendation requires that the fair value of the options at the date of grant be accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

The Company will adopt this new recommendation on January 1, 2004 on a retroactive basis without restatement whereby the Company will record a charge of $175,455 to deficit for accumulated share based compensation costs to December 31, 2003 with an offsetting increase in contributed surplus.

(c) Hedging Relationships

The Canadian Institute of Chartered Accountants has issued new accounting recommendations for the treatment of certain derivative financial instruments which establishes new criteria for hedge accounting. These must be applied effective January 1, 2004. The new guideline requires the Company to document hedging transactions and explicitly demonstrate the effectiveness of the hedges in order to qualify for certain accounting treatment for hedges utilizing financial derivatives. Derivative financial instruments that do not qualify for hedge accounting are required to be marked to market each period with changes in the fair value of the derivative instruments recorded in operations as unrealized gains or losses.

The Company has determined that the adoption of this new accounting standard will primarily affect the income from its 50% accounted for equity affiliate, Huckleberry. Huckleberry has not yet determined the impact of this new standard and therefore the Company cannot reasonably estimate the effect at this time. The Company, exclusive of Huckleberry, does not have any financial derivatives at this time however this may change depending on management's plans for the future, specifically, the possible reopening of the Mount Polley mine. Prior to entering into any financial derivatives the Company will review the new accounting standard and consider whether it should be adopted.

Results of Operations for the Year 2003 Compared to the Year 2002

This review of the results of operations should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2003.

Financial Results

Overview

Operating revenues were the same in both years at $47.2 million even though the year 2003 only included eleven months of revenue for the Huckleberry mine in 2003 due to the change in basis of accounting effective December 1, 2003. Consolidated revenues reported by the Company from Huckleberry would have been approximately $6.4 million higher if Huckleberry had been consolidated for the full year 2003.

In the year ended December 31, 2003 Imperial recorded net income of $3.4 million ($0.16 per share) compared to a net loss of $23.0 million ($1.46 per share) in the prior year, owing primarily to the income from foreign exchange rate movements on Huckleberry debt and lower mineral property writedowns.

The financial results of the Company are closely tied to those of the Huckleberry mine. The Company's share of Huckleberry's income, including equity income, totaled $5.8 million in 2003 compared to a loss of $16.2 million in 2002. The 2003 income from Huckleberry included a $11.3 million foreign exchange gain on long term debt. Mineral exploration property writedowns totaled $1.5 million in 2003 compared to $4.8 million in 2002. The balance of expenses included in earnings for the year were comprised of holding costs for properties on care and maintenance and corporate administration costs, net of other revenues.

The Company, exclusive of equity income from Huckleberry, does not expect to return to profitable operations in 2004 as the Company has property holding and general and administration costs in excess of its revenues.

Imperial expects to record $3.6 million in equity losses from Huckleberry Mines Ltd. during 2004 based on a copper price of US$1.20 per pound, a US/Cdn Dollar exchange rate of $1.30 and the current mine plan for the Huckleberry mine. Imperial's share of equity income from Huckleberry for the year 2004 would change for key indicators as follows:

If the Copper price changes by US$0.01 per pound	$ 370,000
If the Gold price changes by US$10 per ounce	$ 59,000
If the US/Cdn Dollar Exchange Rate changes by US$0.01	$ 519,000
If the LIBOR rate changes by 1%	$ 538,000
If the Bank Prime Rate changes by 1%	$ 148,000

The financial future of Huckleberry is at the discretion of its lenders who continue to work with Huckleberry and its shareholders to find a way to meet Huckleberry's obligations to all its stakeholders.

Mineral Operations

Mineral revenues remained steady at $46.5 million in 2003 compared to $46.6 million in the prior year. The average price of copper in Cdn Dollars realized from the Huckleberry mine was slightly lower in the eleven months ended November 30, 2003 when compared to the full year 2002. Gains made in the copper price in US Dollars were substantially reduced by unfavourable US/Cdn exchange rate movements. After deduction of mineral production, treatment and transportation costs but before financing charges, depletion and depreciation, the contribution margin from Imperial's mining operations was $1.9 million in both the year 2003 and the year 2002. Higher copper prices in the eleven months ended November 30, 2003 compared to the prior year were offset by a number of factors including the higher net costs associated with maintaining mines on standby and increased operating costs at the Huckleberry mine. Huckleberry realized a $1.1 million gain from foreign exchange currency hedges in 2003 compared to a slight loss in 2002, resulting in an overall improvement in the contribution margin from mining activities for the year 2003.

Interest Expense

Interest expense on long term debt decreased to $2.9 million in 2003 from $3.3 million in 2002. Interest costs on long term debt were lower in 2003 due to lower interest rates in 2003 on Huckleberry mine debt. Interest expense on short term debt decreased as a result of lower average levels of short term debt.

Foreign Exchange on Long Term Debt

Foreign exchange movements on US Dollar denominated long term debt of Huckleberry resulted in a gain of $11.3 million in the year 2003 compared to $0.5 million in the prior year as the Cdn Dollar strengthened significantly against the US Dollar.

Writedown of Mineral Exploration Properties

The Company evaluates the carrying value of its mineral exploration property holdings on a regular basis. In 2003 the Company recorded a writedown of $1.5 million on an exploration property to reflect market conditions for the underlying product to be produced from this property. During 2002 the Company wrote down the carrying value of one of its exploration properties by $4.8 million to adjust the carrying value to market conditions. In late 2002 the Company sold the exploration property for proceeds of $1.8 million.

Writedown of Mining Property, Plant and Equipment

The Company also regularly evaluates the carrying value of its producing property, plant and equipment. At December 31, 2002 the weakness in the price of copper, uncertainty regarding the timing of a marked increase in the price of copper and the trend in the appreciation of the Cdn Dollar versus the US Dollar, impacted the future mining plans at the Huckleberry mine, resulting in a shortening of the expected life of the Huckleberry mine. These estimates showed that the Huckleberry mine was expected to close in the latter part of 2007 if no new sources of ore are found. As a result of these factors the recorded value of the Huckleberry mine had a carrying value in excess of its expected recoverable amount as at December 31, 2002, requiring the Company to record an $8.4 million writedown in the year 2002 to reduce the carrying value to the recoverable value.

Taxes

In both 2003 and 2002 the effective tax recovery rate was significantly less than the expected tax rate of 37.6% in 2003 and 39.6% in 2002 due to a valuation allowance provided against tax recoveries originating from operating loss carry forwards as well as the recording of mineral and large corporation tax expense.

Liquidity & Capital Resources

Cash Flow from Operations

The Company recorded net income of $3.4 million in 2003 compared to a net loss of $23.0 million in 2002. Cash flow from operations improved to $2.6 million in 2003 from $1.0 million in the prior year primarily on the improved contribution from the Huckleberry mine and reduction of costs in certain areas.

Working Capital

Working capital at December 31, 2003 was greatly improved at $11.0 million from the working capital deficiency of $31.6 million in the prior year. The working capital deficit at December 31, 2002 included current portion of long term debt of Huckleberry totaling $37.8 million. The improvement in the working capital position of the Company was primarily the result of the deconsolidation of Huckleberry and the bought deal private placement financing completed in December 2003 that netted the treasury $9.3 million.

Property Expenditures and Other Investment Activities

Property acquisition and development expenditures totaled $4.2 million in 2003 versus $3.2 million in 2002. The expenditures in 2003 were primarily for Huckleberry mine ongoing capital projects totaling $4.0 million compared to $3.2 million in 2002. Since Huckleberry is no longer consolidated with the accounts of the Company and until the decision is made to restart operations at the Mount Polley mine, capital expenditures on mining property, plant and equipment is expected to be minimal.

Exploration expenditures were $2.5 million in 2003 compared to $0.6 million in 2002. Increased expenditures in 2003 were primarily to expand on the discovery at Mount Polley. Expenditures in 2002 were primarily for drilling at the Sterling exploration project in Nevada. Expenditures on exploration projects for the year 2004 is expected to be in excess of $7.0 million, with $5.0 million budgeted for exploration and development work at Mount Polley, $2.0 million for a decline ramp at Sterling and the balance for Nak and other exploration properties.

During 2003 the Company continued to reduce its holdings of projects it does not consider key to its future. In February 2003 the Company sold the Similco mine which ceased operations in 1996. Certain property, plant and equipment and real estate assets associated with the Similco mine were retained by the Company for use in its other mining operations or future sale, significantly increasing the cash expected to be realized from the sale of the Similco mine. During the year 2002 the Company sold the Goldstream mine which had been on care and maintenance since 1996.

Proceeds from the sale of Similco and surplus mine equipment assets totaled $1.6 million in 2003. Proceeds from the sale of the Goldstream mine and mineral properties and mining equipment other than the Silvertip project totaled $1.5 million in 2002.

Debt and Other Obligations

All of the Company's long term project debt is non recourse to the Company as it is secured only by the mining properties on which the funds were invested. Payments on the current portion of long term debt, all due by Huckleberry, was nil during the year 2003 compared to $0.6 million during the year ended December 31, 2002.

Payments on Mount Polley's $6.3 million non interest bearing long term debt are only due when the mine and mill are in operation. Payments are limited to $117,000 per month, to a maximum of $1,167,000 per year. As such, this debt is more in the nature of a capped royalty on operations. This debt is non recourse to Imperial.

In 2003 the Company improved its working capital by securitizing certain assets at the Mount Polley mine thereby releasing $1.4 million of cash from future site reclamation deposits to pay $1.4 million in overdue property taxes for the Mount Polley mine. These unpaid property taxes were acquired by the Company as part of the restructuring that created the Company in 2002.

The Company has the following contractual obligations as of December 31, 2003:

	2004	2005	2006	2007	2008	2009 +	Total
Long term debt	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Capital leases	-	-	-	-	-	-	-
Operating leases	$ 112,000	$ 102,000	$ 94,000	$ 78,000	-	-	$ 386,000
Capital expenditures	-	-	-	-	-	-	-
Mineral properties [2]	$ 51,000	$ 47,000	$ 71,000	$ 57,000	$ 90,000	$ 93,000	$ 409,000
Total [3]	$ 163,000	$ 149,000	$ 165,000	$ 135,000	$ 90,000	$ 93,000	$ 795,000

(1) *Payment dates of total long term debt of $6.3 million is not determinable as it is dependent on if the Mount Polley mine and mill are in operation.*

(2) *Mineral property commitments are payments required to keep the claims or option agreements in good standing. Total for 2009 is for year 2009 requirements only.*

(3) *Excluding long term debt.*

Ongoing exploration expenditures, project holding costs, and general corporate costs will be financed from existing cash resources, sale of assets, joint venture arrangements and equity financings, when appropriate.

Selected Quarterly Financial Information

2003	Three Months Ended March 31	June 30	September 30	December 31
Total Revenues [1]	$ 13,376,342	$ 10,870,260	$ 13,338,499	$ 9,585,684
Foreign exchange gain (loss) on debt [2]	$ 4,403,428	$ 4,712,718	$ 72,122	$ 2,355,946
Writedown of mineral properties	-	-	$ (1,525,937)	-
Equity Income from Huckleberry	-	-	-	$ 1,016,986
Net Income (Loss)	$ 938,838	$ 1,730,943	$ (2,736,229)	$ 3,441,998
Net Income (Loss) per share	$ 0.05	$ 0.09	$ (0.13)	$ 0.15
Diluted Income (Loss) per share	$ 0.05	$ 0.09	$ (0.13)	$ 0.14
Cash Flow [3]	$ (576,280)	$ (24,170)	$ 1,755,349	$ 1,405,599
Cash Flow per share [3] [4]	$ (0.03)	$ 0.00	$ 0.08	$ 0.06
Average LME cash settlement copper price/lb in US$	$ 0.755	$ 0.744	$ 0.795	$ 0.934
Average US/Cdn $ exchange rate	1.510	1.398	1.380	1.316
Period end US/Cdn $ exchange rate	1.469	1.355	1.350	1.292

(1) *Total revenues for the three months ended December 31 include only two months of revenue from Huckleberry due to the change in basis for accounting for Huckleberry effective December 1, 2003.*

(2) *In order to provide the reader with a better understanding of the effect of changes in the US/Cdn Dollar on the net income of the Company, foreign exchange gain (loss) on debt shown above includes the amounts from Huckleberry recorded on both the proportionate consolidation basis to November 30 and on the equity basis for the month of December.*

(3) *Cash Flow and Cash Flow per share are measures used by the Company to evaluate its performance, however they are not terms recognized under generally accepted accounting principles. Cash Flow is defined as cash flow from operations before net change in working capital balances and Cash Flow per Share is the same measure divided by the weighted average number of common shares outstanding during the period.*

(4) *The sum of the quarterly Cash Flow per share does not equal the annual total due to timing of share issuances during the year.*

2002	Three Months Ended March 31	June 30	September 30	December 31
Total Revenues	$ 13,378,186	$ 13,049,027	$ 11,806,455	$ 9,005,075
Foreign exchange gain (loss) on debt	$ (35,043)	$ 2,918,308	$ (2,630,002)	$ 241,822
Writedown of mineral properties	-	-	$ (5,053,885)	$ (8,116,629)
Net Income (Loss)	$ (2,748,485)	$ 374,074	$(10,121,168)	$(10,472,504)
Net Income (Loss) per share	$ (0.17)	$ 0.02	$ (0.64)	$ (0.67)
Diluted Income (Loss) per share	$ (0.17)	$ 0.02	$ (0.64)	$ (0.67)
Cash Flow [(3)]	$ 9,100	$ (447,702)	$ 585,764	$ 888,859
Cash Flow per share [(3)]	$ 0.00	$ (0.03)	$ 0.04	$ 0.06
Average LME cash settlement copper price/lb in US$	$ 0.706	$ 0.731	$ 0.688	$ 0.705
Average US/Cdn $ exchange rate	1.594	1.554	1.563	1.570
Period end US/Cdn $ exchange rate	1.587	1.519	1.586	1.580

Fourth Quarter Results

Net income was $3.4 million in the fourth quarter of 2003 ($0.15 per share) compared to a loss of $10.5 million in the prior years quarter ($0.67 per share). The improvement in the 2003 quarter was the result of improved operating margins at Huckleberry led by higher copper prices, a large foreign exchange gain on US Dollar denominated debt due to the strengthening Cdn Dollar and the absence of a writedown in mineral properties. The 2002 period loss included an $8.1 million writedown of mineral properties. Cash flow for the December quarter increased from $0.9 million in 2002 to $1.4 million in 2003 as a result of improved operating income from Huckleberry even though the 2003 quarter only included two months of Huckleberry on the proportionate consolidation basis compared to three months in the 2002 quarter. Cash flow for the Company is not affected as a result of reporting income from Huckleberry on the equity basis.

Related Party Transactions

All related party transactions are as a result of the Company's 50% ownership of Huckleberry and the fact that the owners of the other 50% of Huckleberry (the "Japan Group") are also lenders to, and the purchasers of, substantially all of the production from the Huckleberry mine under a life of mine contract. Transactions with the Japan Group are on commercial terms and conditions and disclosed in Note 12 to the consolidated financial statements.

Until the restructuring of the management of Huckleberry on December 1, 2003 and termination of the operator agreement with Huckleberry, Imperial was the operator of the Huckleberry mine and received management fees for operating the Huckleberry mine with management staff provided by Imperial. Effective December 1, 2003 Imperial receives consulting fees for its services pursuant to a new consulting agreement, however there is no obligation to provide any staff, as mine operations are now managed totally by Huckleberry.

The Company has a $2.5 million loan receivable from Huckleberry originating from the 1999 financial restructuring of Huckleberry. At December 31, 2003 all interest due on the loan had been paid. Future payments of interest and principal are based on the cash flow of Huckleberry.

During 2002 and 2003 Huckleberry rented certain mobile mining equipment from the Company on commercial terms and conditions. During 2003 and 2004 Huckleberry acquired mobile mining equipment to replace the equipment rented from the Company and therefore rentals will cease in early 2004. Rental revenue earned by the Company from Huckleberry was $0.7 million in 2003 and $1.4 million in 2002. These transactions, net of eliminations on consolidation, are included in the amounts reported in Notes 12 and 13 to the consolidated financial statements.

Other

Additional information about the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

As of April 8, 2004 the Company had 25,618,889 common shares outstanding. On a diluted basis the Company had 27,761,264 common shares outstanding.

Outlook

For the year 2004 the Company is focused on the goal of identifying the extent of the new discovery at Mount Polley with a view to restarting operations. The Company has committed a minimum of $8.2 million in funding for drilling, exploration and other pre-development expenditures to achieve this objective. Additional staff have been employed to undertake the work required to obtain permits and bring this new zone into production.

In addition to this major objective for 2004 the Company will also follow up on the discovery made at Sterling with a US$2.0 million budget that includes an underground ramp to access the area of the new discovery and further surface and underground drilling to test the extent of the mineralization. This work is to commence in mid 2004 and is expected to take about 12-16 months to complete.

In early 2004 Huckleberry approved a budget of $0.5 million to explore for additional ore near the existing Huckleberry mine in an effort to extend the mine life beyond early 2007.

The Company continues to evaluate exploration opportunities both on currently owned properties and on new prospects. In March 2004 the Company optioned an exploration property in northern British Columbia on which it plans to spend a portion of the $0.3 million budget to drill test prospective targets.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and all information in the annual report are the responsibility of management. These consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates of the outcome of events and transactions. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records properly maintained to provide reliable information for preparation of financial statements. Deloitte & Touche LLP, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent Annual General Meeting, to examine the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provide an independent professional opinion. Their report is presented with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee, which is comprised of a majority of non management Directors, meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the consolidated financial statements before they are presented to the Board of Directors for approval. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

J. Brian Kynoch	Andre Deepwell
President	Chief Financial Officer

April 6, 2004

AUDITORS' REPORT

To the Shareholders of Imperial Metals Corporation

We have audited the consolidated balance sheets of Imperial Metals Corporation as at December 31, 2003 and 2002 and the consolidated statements of income and deficit and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Vancouver, British Columbia
April 6, 2004

CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2002

	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 11,188,135	$ 2,591,585
Marketable securities [Market value – $561,454 (2002 - $1,538,705)]	358,754	1,056,152
Accounts receivable	529,940	2,481,264
Inventory (Note 5)	9,352	8,002,762
	12,086,181	14,131,763
Mineral Properties (Note 6)	10,954,868	49,140,467
Future Site Reclamation Deposits	2,106,561	7,352,584
Other Assets (Note 7)	144,626	1,392,341
	$ 25,292,236	$ 72,017,155
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,050,106	$ 7,920,064
Current portion of limited recourse long term debt (Note 8)	-	37,797,335
	1,050,106	45,717,399
Limited Recourse Long Term Debt and Accrued Interest (Note 8)	5,891,809	41,908,279
Future Site Reclamation Costs	3,607,988	8,646,811
Share of Deficit and Advances to Huckleberry Mines Ltd. (Note 4)	23,949,840	-
	34,499,743	96,272,489
CAPITAL DEFICIENCY		
Share Capital (Note 9)	14,427,459	2,755,182
Deficit	(23,634,966)	(27,010,516)
	(9,207,507)	(24,255,334)
	$ 25,292,236	$ 72,017,155

Approved by the Board:

Larry G. J. Moeller
Director

J. Brian Kynoch
Director

See accompanying notes to these financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

Years Ended December 31, 2003 and 2002

	2003	2002
REVENUES		
Mineral, net of royalties	$ 46,513,146	$ 46,603,195
Other	657,639	635,548
	47,170,785	47,238,743
EXPENSES		
Mineral production, treatment and transportation	44,676,939	44,653,877
Depletion, depreciation and amortization	8,487,760	8,658,453
Administration	932,410	933,268
Capital taxes	247	47,007
Interest on long term debt	2,861,024	3,256,466
Other interest	10,864	227,147
Foreign exchange gain on long term debt	(11,344,625)	(495,085)
Other foreign exchange (gain) loss	(1,046,035)	114,824
	44,578,584	57,395,957
INCOME (LOSS) BEFORE UNDERNOTED	2,592,201	(10,157,214)
Add (Deduct)		
Equity income in Huckleberry Mines Ltd. (Note 4)	1,016,986	-
Writedown of mineral exploration properties	(1,525,937)	(4,816,514)
Writedown of mining property, plant and equipment	-	(8,354,000)
Gain on sale of subsidiaries	489,697	222,332
Other	495,942	304,251
	476,688	(12,643,931)
INCOME (LOSS) BEFORE TAXES	3,068,889	(22,801,145)
(Recovery of) income and mining taxes (Note 10)	(306,661)	166,938
NET INCOME (LOSS)	3,375,550	(22,968,083)
Deficit, Beginning of Year	(27,010,516)	-
Adjustment to conform the accounting policies of the Mining Business acquired from Old Imperial to the accounting policies of the Company (Notes 1 and 3)	-	(4,042,433)
Deficit, End of Year	$ (23,634,966)	$ (27,010,516)
Basic and Diluted Income (Loss) Per Share (Note 11)	$ 0.16	$ (1.46)

See accompanying notes to these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003 and 2002

	2003	2002
OPERATING ACTIVITIES		
Net income (loss)	$ 3,375,550	$ (22,968,083)
Items not affecting cash flows		
Depletion, depreciation and amortization	8,487,760	8,658,453
Equity income in Huckleberry Mines Ltd.	(1,016,986)	-
Writedown of mineral exploration properties	1,525,937	4,816,514
Writedown of mining property, plant and equipment	-	8,354,000
Foreign exchange gain on long term debt	(11,344,625)	(495,085)
Accrued interest on long term debt	2,590,029	2,890,845
Gain on sale of subsidiaries	(489,697)	(222,332)
Future income taxes	(507,734)	-
Other	(59,736)	1,709
	2,560,498	1,036,021
Reduction in cash on change in method of accounting for Huckleberry Mines Ltd. (Note 4)	(815,654)	-
Net change in non-cash operating balances (Note 16)	(1,708,233)	2,029,448
Cash provided by operating activities	36,611	3,065,469
FINANCING ACTIVITIES		
Repayment of long term debt	-	(565,929)
Issue of share capital	12,168,636	-
Cash provided by (used in) financing activities	12,168,636	(565,929)
INVESTMENT ACTIVITIES		
Acquisition and development of mineral properties	(5,336,741)	(3,755,813)
Proceeds on sale of mineral properties	357,830	2,207,936
Decrease in future site reclamation deposits	1,158,599	111,491
Other	211,615	94,647
Cash used in investment activities	(3,608,697)	(1,341,739)
INCREASE IN CASH AND CASH EQUIVALENTS	8,596,550	1,157,801
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,591,585	-
CASH AND CASH EQUIVALENTS ACQUIRED ON ACQUISITION OF THE MINING BUSINESS (Note 3)	-	1,433,784
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,188,135	$ 2,591,585

See accompanying notes to these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2003 and 2002

	2003	2002
OPERATING ACTIVITIES		
Interest expense paid	$ 10,864	$ 414,203
Income and mining taxes paid	$ 376,310	$ 352,020

SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING AND FINANCING ACTIVITIES

During the year ended December 31, 2003 the Company issued 25,000 common shares with a value of $11,375 in connection with the acquisition of a mineral property.

During the year ended December 31, 2002:

(a) the Company acquired, pursuant to the Plan (Note 1), the mining business from its parent company effective January 1, 2002 in consideration for common shares of the Company (Note 3) with a book value of $2,755,181.

(b) the Company sold its wholly owned subsidiary that owned the shutdown Goldstream Mine. Concurrent with the sale, the Company paid $400,000 to purchase 800,000 common shares of the purchaser, Orphan Boy Resources Inc.

(c) the Company sold an interest in a mineral property and received part of the proceeds in common shares of the purchaser valued at $50,000, the market value of the shares received.

(d) the Company sold a mineral property and received part of the proceeds in common shares of the purchaser valued at $605,000, the market value of the shares received.

See accompanying notes to these financial statements.

December 31, 2003 and 2002

1. BASIS OF PRESENTATION

Imperial Metals Corporation ("Imperial" or the "Company"), formerly IMI Imperial Metals Inc., was incorporated in December 2001.

In April 2002, IEI Energy Inc. ("Energy"), formerly Imperial Metals Corporation ("Old Imperial"), was reorganized under a Plan of Arrangement (the "Plan") pursuant to the Company Act of British Columbia and the Companies' Creditors Arrangement Act. The Plan was approved by the creditors and shareholders of Old Imperial on March 7, 2002 and by the Supreme Court of British Columbia on March 8, 2002, and implemented in April 2002.

Under the Plan, Old Imperial divided its operations into two distinct businesses, one focused on oil and natural gas and the other focused on mining. All of Old Imperial's existing oil and natural gas and investment assets (the "Energy Business") were retained in Old Imperial, which was renamed IEI Energy Inc. All of Old Imperial's mining assets and related liabilities (the "Mining Business") including the name "Imperial Metals Corporation" were transferred to the Company that was then renamed Imperial Metals Corporation.

The acquisition of the Mining Business by Imperial was recorded in the accounts of Imperial as of January 1, 2002 as the reorganization occurred with entities under common control. Details of the assets and liabilities acquired and the adjustment to conform the accounting policies of the Mining Business to those of the Company can be found in Note 3.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assume the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a significant net loss in the year 2002, its first year of operation, and recorded a small net income in the year 2003. Property holding and operating costs, and exploration and administration costs are expected to be in excess of revenues until the restart of the Mount Polley mine or until the Company achieves commercial production from its other mineral properties. In the interim, the Company's ability to continue as a going concern is dependent on its ability to obtain the necessary financing to meet its obligations and pay its liabilities when they become due. At December 31, 2003 the Company had substantial cash resources however additional financing will be required to develop its mineral properties to commercial production and to finance operations of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Company, all its wholly owned subsidiaries and its proportionate share of joint ventures.

Cash and Cash Equivalents

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

Marketable Securities

Marketable securities are carried at the lower of cost and market value.

Inventory

Gold, copper and molybdenum concentrates are valued at the lower of production cost to produce saleable metal and net realizable value. Stores and supplies inventories are valued at the lower of cost and replacement cost.

Investments

Investments in corporations in which the Company exercises significant influence are accounted for using the equity method, whereby the investment is initially recorded at cost and is adjusted to recognize the Company's share of earnings or losses and reduced by dividends and distributions received.

Other investments are accounted for using the cost method.

Investments are written down when a permanent and significant decline in their value has occurred.

Mineral Properties

Mining Property, Plant and Equipment

Mining property, plant and equipment is carried at cost less accumulated depletion and depreciation. Depletion and depreciation are computed primarily by property on the unit-of-production method based upon estimated recoverable reserves excluding certain assets at a cost of nil (2002 - $7,176,097) which are depreciated on a straight line basis as follows:

Mobile mine equipment and vehicles	3-8 years
Office, computer and communications equipment	3-10 years

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

Pre-production and Exploration Properties

The Company follows the method of accounting for its mineral properties whereby all costs related to acquisition, exploration and development are capitalized by property. Capitalized costs include interest and financing costs for amounts borrowed for mine development and plant construction, and operating costs, net of revenues, prior to the commencement of commercial production. On the commencement of commercial production, net costs are charged to operations on the unit-of-production method by property based upon estimated recoverable reserves.

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

Assessment of Impairment

Management reviews the carrying value of mineral properties at least quarterly for evidence of impairment. This review is generally made with reference to the timing of exploration work, work programs proposed, exploration results achieved by the Company and by others in the related area of interest and, in the case of producing mining property, plant and equipment estimates of future cash flows to be realized from production. When the results of this review indicate that an impairment exists, the Company estimates the net recoverable amount of pre production properties by reference to the potential for success of further exploration activity and/or the likely proceeds to be received from sale or assignment of rights. The net recoverable amount of producing mining property, plant and equipment is determined based on undiscounted estimates of future cash flows. When the carrying values of mineral properties are estimated to exceed their net recoverable amounts, a provision is made for the decline in the value.

Future Site Reclamation Costs

The estimated costs for reclamation of producing mineral properties are accrued and charged to operations over commercial production based upon total estimated reclamation costs and recoverable reserves. The estimated costs for reclamation of non-producing mineral properties are accrued as liabilities when the costs of site clean-up and reclamation can be reasonably estimated.

Income Taxes

The Company accounts for income taxes using the asset and liability method of accounting. Under this method future income tax liabilities and future income tax assets are recorded based on temporary differences between the financial reporting basis of the Company's assets and liabilities and their corresponding tax basis. The future benefits of income tax assets, including unused tax losses, are recognized subject to a valuation allowance, to the extent that it is more likely than not that such losses will be ultimately utilized. These future income tax assets and liabilities are measured using substantially enacted tax rates and laws that are expected to apply when the tax liabilities or assets are to be either settled or realized.

The tax deduction for the expenditures incurred related to flow through share financings has been assigned to the related shareholders, resulting in a future income tax liability which has been recorded as a charge to share capital. Any change in the valuation allowance relating to this future income tax liability is recorded as a future income tax recovery in the statement of income.

Revenue Recognition

Estimated mineral revenue, based upon prevailing metal prices, is recorded in the financial statements when title to the concentrate transfers to the customer. The estimated revenue is subject to adjustment upon final settlement, which is usually four to five months after the date of shipment.

These adjustments reflect changes in metal prices, changes in currency rates and changes in quantities arising from final weight and assay calculations.

Hedge Contracts

The Company may enter into contracts as a hedge against currency and commodity price fluctuations for a portion of anticipated revenue and production. Any gains or losses on these contracts are recorded in sales when revenues from the hedged production is recognized.

Joint Ventures

A portion of the Company's exploration and operating activities was conducted jointly with others and accordingly these financial statements reflect only the Company's proportionate interest in such activities.

Foreign Currency Translation

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

Segmented Information

The Company operates substantially in Canada and in one segment, the mining industry.

Stock Based Compensation

Stock based payments to non employees are accounted for using a fair value based method of accounting. The Company has elected to not use the fair value based method to account for stock based compensation to employees and directors, however it has disclosed the proforma effect of using a fair value based method for such stock based compensation in the notes to its financial statements. Compensation expense is determined when stock options are issued to non-employees and non-directors and is recognized over the vesting period of the option. The compensation expense is determined as the fair value of the option at the date of grant using an option pricing model.

Earnings Per Share

Diluted earnings per share are computed using the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares consist of the incremental common shares exercisable upon the exercise of stock options and are excluded from the computation if their effect is anti-dilutive.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

3. ACQUISITION OF THE MINING BUSINESS

The assets and liabilities of the Mining Business were acquired by Imperial effective January 1, 2002 in exchange for 15,769,410 common shares of the Company and were recorded at Energy's book values at that date. Details of the net assets acquired are as follows:

Working Capital	
Cash	$ 1,433,784
Accounts Receivable	6,615,777
Inventory	4,848,071
Accounts payable and accrued liabilities	(6,363,341)
Current portion of limited recourse long term debt	(31,507,776)
	(24,973,485)
Mineral properties	69,085,490
Future site reclamation deposits	7,665,075
Other assets	5,796,609
Limited recourse long term debt and accrued interest	(46,036,627)
Future site reclamation costs	(8,781,881)
Net Assets acquired before change in accounting policies noted below	$ 2,755,181
Consideration for the purchase of the mining business of Energy:	
Issue of 15,769,410 common shares of Imperial	$ 2,755,181

Effective January 1, 2002 the Company adopted the new accounting recommendations of the Canadian Institute of Chartered Accountants whereby foreign exchange gains and losses on translation of long term monetary items are now recognized when incurred. Previously such translation gains and losses in Old Imperial were deferred and recognized over the term of the related monetary item. Also, the Company has a different accounting policy for revenue recognition than that of Old Imperial. The Company's accounting policy is to record mineral sales when title to the concentrate transfers to the customer. Old Imperial recognized mineral sales when concentrate is loaded onto trucks at the mine site and therefore, revenue as recorded by Old Imperial had to be adjusted to conform with the accounting policy of the Company.

These adjustments, which are not incorporated in the book values of assets and liabilities acquired from Energy at January 1, 2002 are as follows:

	Increase (Decrease)
Accounts Receivable	$ (2,541,316)
Inventory	$ 2,060,138
Mineral properties	$ 378,698
Deferred foreign exchange	$ (4,172,805)
Accounts payable and accrued liabilities	$ (232,852)
Deficit	$ 4,042,433

4. SHARE OF DEFICIT AND ADVANCES TO HUCKLEBERRY MINES LTD.

The Company has a 50% interest in Huckleberry Mines Ltd. ("Huckleberry") which is engaged in copper mining operations in British Columbia ("Huckleberry Mine"). Prior to December 1, 2003 the Company had joint control of Huckleberry and accounted for Huckleberry as an incorporated joint venture and recognized its proportionate share of the assets, liabilities, revenues and expenses of Huckleberry in these financial statements (Note 12).

Pursuant to an agreement dated December 1, 2003, the Company and the shareholders of Huckleberry restructured the management of the Huckleberry Mine such that the mine is now operated by Huckleberry and Imperial has relinquished certain elements of joint control and been released from all liability under the terms of a prior management agreement between Huckleberry and Imperial. As a result of this restructuring, the Company on December 1, 2003 ceased recording the results of operations and financial position of Huckleberry on a proportionate consolidation basis and commenced accounting for its interest in Huckleberry using the equity method. The effect of this change was the recognition of the Company's share of Huckleberry's deficit in the amount of $27,466,826 as a deferred credit in the Company's balance sheet. This deferred credit will be realized if the Company sells its interest in Huckleberry or to the extent that any subsequent equity earnings of Huckleberry reduce the Company's share of this deficit. The Company continues to have significant influence on Huckleberry and acts in an advisory capacity on mine operations.

The Company's share of deficit and advances to Huckleberry is comprised of the following:

	2003	2002
Loan receivable with interest calculated at bank prime rate plus 1.2%, secured by a $2.5 million demand fixed and floating charge debenture containing a charge on specific assets and a floating charge on all other assets of Huckleberry. Repayments of principal, and payment of interest, are due June 15th and December 15th of each year and are subject to available cash flow.	$ 2,500,000	$ -
Share of deficit of Huckleberry at December 1, 2003 the date of restructuring of management of Huckleberry	(27,466,826)	-
Equity income since December 1, 2003	1,016,986	-
	$(23,949,840)	$ -

Summarized financial information for Huckleberry is as follows:

Balance Sheet	2003	2002
Current Assets		
Cash	$ 2,888,654	$ 2,598,855
Other current assets	15,892,075	17,143,620
	18,780,729	19,742,475
Mineral property	68,843,419	78,815,498
Future site restoration deposits and other	809,227	236,467
	$ 88,433,375	$ 98,794,440
Current Liabilities		
Accounts payable and other current liabilities	$ 5,856,691	$ 10,345,374
Current portion of long term debt and accrued interest and capital lease obligations	79,579,389	75,594,671
	85,436,080	85,940,045
Long term debt and accrued interest and capital lease obligations	53,456,465	75,074,930
Future site restoration costs and other long term liabilities	2,486,000	2,329,427
	141,378,545	163,344,402
Share Capital	57,595,611	57,595,611
Deficit	(110,540,781)	(122,145,573)
	(52,945,170)	(64,549,962)
	$ 88,433,375	$ 98,794,440
Statement of Income (Loss)		
Revenues	$104,207,363	$ 91,181,074
Expenses	92,602,571	129,341,581
Net Income (Loss)	$ 11,604,792	$ (38,160,507)
Statement of Cash Flows		
Operating activities	$ 8,951,432	$ 8,395,814
Financing activities	-	(1,131,856)
Investment activities	(8,661,633)	(6,964,794)
Increase in cash and cash equivalents	$ 289,799	$ 299,164

Since 1998 Huckleberry has been unable to meet its scheduled obligations for payment of interest and principal on its long term debt and has been operating under a financial restructuring package whereby payments of principal and interest are dependent on available cash. Huckleberry has been receiving quarterly extensions of the repayment date from the debt holders ("Lenders") with the current extension expiring June 30, 2004.

Huckleberry's ability to meet or renegotiate its debt obligations as they become due is dependent on the continued support of the Lenders, the ability to obtain other financing and/or the achievement of sufficient cash flow from operations. If Huckleberry was unable to meet or renegotiate this obligation and the Lenders realized upon their security, then Huckleberry may be unable to continue as a going concern and material adjustments would be required to Huckleberry's carrying value of assets and liabilities. Such adjustments would not have a material effect on the ongoing operations of the Company as the Company is not contingently liable for any share of the Huckleberry debt. Huckleberry is continuing to negotiate with the Lenders to restructure the loan, however there is no assurance that the negotiations will be successfully concluded.

December 31, 2003 and 2002

5. INVENTORY

	2003	2002
Concentrate and bullion work in process	$ -	$ 3,559,438
Supplies	9,352	4,443,324
	$ 9,352	$ 8,002,762

6. MINERAL PROPERTIES

	Cost	Accumulated Depletion, Depreciation, Writedowns and Other	2003 Net Book Value	2002 Net Book Value
Mining property, plant and equipment				
Mineral properties	$ 24,390,518	$ 22,347,625	$ 2,042,893	$ 2,537,400
Buildings, machinery and equipment	49,574,041	43,711,707	5,862,334	26,267,576
Tailings and reclaim facilities	14,579,794	12,973,384	1,606,410	17,778,112
Land	36,093	-	36,093	70,490
	88,580,446	79,032,716	9,547,730	46,653,578
Exploration Properties				
Acquisition and exploration costs	2,933,075	1,525,937	1,407,138	2,486,889
	$ 91,513,521	$ 80,558,653	$ 10,954,868	$ 49,140,467

Proceeds from the sale of Mount Polley mining property, plant and equipment in excess of carrying value is recorded as a reduction of the carrying value of the capitalized cost of the Mount Polley mine until such time as the mine recommences operation.

	December 31 2002	Additions	Depletion, Depreciation & Amortization	Writedowns	Other [1]	December 31 2003
Mount Polley	$ 5,850,147	$ 1,351,771	$ -	$ -	$ -	$ 7,201,918
Sterling	1,334,214	827,333	-	-	-	2,161,547
Nak	13,847	482,833	-	-	-	496,680
Huckleberry	39,407,303	3,984,591	(8,441,429)	-	(34,950,465)	-
Other properties	2,534,956	85,704	-	(1,525,937)	-	1,094,723
	$ 49,140,467	$ 6,732,232	$ (8,441,429)	$ (1,525,937)	$(34,950,465)	$ 10,954,868

[1] *Other consists of the change in basis of accounting for Huckleberry as described in Note 4.*

Mount Polley

The Company owns 100% of the Mount Polley open pit copper-gold mine 56 kilometres northeast of Williams Lake in central British Columbia. The Mount Polley mine is currently on standby as mining and milling operations were suspended in September 2001 because of continuing low metal prices. The Mount Polley property consists of a mineral lease, 25 mineral claims and one fractional claim. Costs of maintaining the Mount Polley mine on standby are expensed in the statement of income. In accordance with the Company's accounting policy for exploration, these costs are capitalized to mineral properties.

Sterling

The Company owns 100% of the Sterling gold mine near Beatty, Nevada. The Sterling mine operated as both an underground and open pit mine from 1980 to suspension of mining operations in 1997. Certain parts of the Sterling property are being reclaimed. The Sterling property consists of 149 lode mining claims plus one water well site. Net smelter royalties of 2.25% are payable on production with minimum advance royalties on a small portion of this total.

During the year 2003 the Company optioned via a lease agreement 29 additional claims adjacent to the Sterling property. Advance royalty payments of US$1,000 per month are payable monthly and the property is subject to a 2% net smelter royalty. A portion of the property is also subject to advance royalty payments of US$400 per month and a 5% royalty to a maximum of US$250,000. The previously noted 2% royalty is not payable on these claims until after the royalty cap has been reached.

Nak

In the year ended December 31, 2002 the Company staked one claim and in 2003 staked an additional two claims comprising the 100% owned Nak property. The Nak property is located 75 kilometres southeast of Atlin, British Columbia. Additionally, in July 2003 the Company acquired via option the Joss'alun claims which are surrounded by the Company's Nak property. Under the terms of the option, the Company could acquire a 100% working interest in the Joss'alun claims by paying $10,000 to the optioners and issuing 100,000 common shares of the Company to the optioners within one year of signing the option agreement. The agreement contained other terms and conditions however in view of the limited exploration success on the Joss'alun claims the Company terminated the Joss'alun option agreement in early 2004 reducing its holdings from 1,550 hectares to 1,200 hectares. The Company will continue to explore the remaining claims owned 100% by the Company.

Other Exploration Properties

The Company has interests in various other early stage exploration properties located primarily in Canada. These properties have primarily been acquired by staking and therefore the cost to maintain ownership of these properties is not significant.

7. OTHER ASSETS

	2003	2002
Loan receivable	$ -	$ 1,250,000
Equipment and leasehold improvements	144,626	142,341
	$ 144,626	$ 1,392,341

The loan receivable represents the other venturers' share of a credit facility provided by the Company to its 50% investee, Huckleberry. At December 31, 2003 this loan in the aggregate amount of $2,500,000 has been included in the share of deficit of Huckleberry (Note 4).

8. LIMITED RECOURSE LONG TERM DEBT AND ACCRUED INTEREST

	Note	2003	2002
Mount Polley Mine Construction Loan	(a)	$ 5,891,809	$ 5,620,814
Huckleberry Mine Construction Loan	(b)	-	47,388,000
Huckleberry Mine Infrastructure Loan	(b)	-	7,248,763
Huckleberry Mine Accrued Interest	(b)	-	19,448,037
		-	74,084,800
		5,891,809	79,705,614
Less portion due within one year		-	(37,797,335)
		$ 5,891,809	$ 41,908,279

(a) **Mount Polley Mine Construction Loan**

Loan from a company related to the former joint venture partner of the Mount Polley mine in the amount of $6,300,000 (2002 - $6,300,000) secured solely by and limited in recourse to the Company's interest in the mining lease and other assets of the Mount Polley mine.

	2003	2002
Payments due in sixty monthly installments of $116,667 limited to a maximum of ten installments per year commencing April 1, 2001. Monthly installments are payable only if the mine and mill are in operation during the month. If the Company has not paid the sum of $7.0 million by December 31, 2010 as a result of postponements of monthly payments on the basis described above, the obligation to make payments will cease on that date.	$ 6,300,000	$ 6,300,000
Less portion representing deemed interest	(408,191)	(679,186)
	5,891,809	5,620,814
Less portion due within one year	-	-
	$ 5,891,809	$ 5,620,814

The obligation was originally recorded on a present value basis with deemed interest calculated at 7% per annum under the original repayment terms. As a result of the suspension of mining and milling operations at the Mount Polley mine during the year ended December 31, 2001 the repayment dates on this debt are not determinable.

(b) **Huckleberry Loans**

The Huckleberry Mine loans and accrued interest at December 31, 2002 represent the Company's 50% interest in long term debt and accrued interest of Huckleberry, are repayable solely by Huckleberry, and have been reclassified due to the change in basis for accounting for Huckleberry (Note 4).

9. SHARE CAPITAL

Authorized

50,000,000	First Preferred shares without par value
50,000,000	Second Preferred shares without par value issuable in series with rights and restrictions to be determined by the directors
100,000,000	Common Shares without par value

Issued and Fully Paid	2003		2002	
	Number of Shares	**Issue Price or Attribnted Value**	**Number of Shares**	**Issue Price or Attributed Value**
Common shares				
Balance, beginning of year	15,769,411	$ 2,755,182	1	$ 1
Issued for cash pursuant to a rights offering, net of issue costs of $130,601	3,942,353	1,249,213	-	-
Issued for cash on the exercise of options	155,000	77,500	-	-
Issued for cash pursuant to private placement flow through share issue, net of issue costs of $34,579	3,000,000	1,465,421	-	-
Future income tax effect of flow through share expenditures	-	(507,734)	-	-
Issued for cash pursuant to private placement bought deal financing, net of issue costs of $713,748	2,353,000	9,286,502		
Issued for cash on exercise of share purchase warrants	250,000	90,000		
Issued for acquisition of mineral property	25,000	11,375	-	-
Issued on acquisition of the mining business of Energy (Note 3)	-	-	15,769,410	2,755,181
Balance, end of year	25,494,764	$ 14,427,459	15,769,411	$ 2,755,182

Share Option Plan

Under the Share Option Plan the Company may grant options to its directors, officers and employees for the purchase of up to 1,500,000 common shares of the Company. No options were outstanding prior to July 22, 2002. Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of grant and an option's maximum term is 10 years. Options are granted from time to time by the Board of Directors and vest over a three year period.

On July 22, 2002 the Company granted to employees and directors options to purchase 1,495,000 shares at an exercise price of $0.50 per share. These share options have a term of five years and expire in 2007. On April 30, 2003 the Company granted to an employee options to purchase 15,000 shares at an exercise price of $0.50 per share. These share options have a term of four years and three months and expire in 2007.

Had the Company followed the fair value method of accounting, the Company would have recorded a compensation expense of $115,318 (2002 - $60,137) in respect of these share options. Proforma earnings information determined under the fair value method of accounting for stock options is as follows:

	2003	2002
Net Income (Loss)		
As reported	$ 3,375,550	$ (22,968,083)
Proforma compensation expense	115,318	60,137
Proforma Net Income (Loss)	$ 3,260,232	$ (23,028,220)
Basic and diluted income (loss) per share		
As reported	$ 0.16	$ (1.46)
Proforma	$ 0.16	$ (1.46)

The fair value of the share options issued on July 22, 2002 was estimated to be $0.22 per share option at the date of grant using the Black-Scholes option pricing model, based on the following assumptions:

Dividend yield	0%
Risk free interest rate	4.3%
Expected life	5 years
Expected volatility	55%

The fair value of the share options issued on April 30, 2003 was estimated to be $0.29 per share option at the date of grant using the Black-Scholes option pricing model, based on the following assumption:

Dividend yield	0%
Risk free interest rate	4.09%
Expected life	4.23 years
Expected volatility	75%

Forfeitures of options are accounted for in the period of forfeiture.

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

A summary of the status of the Company's Share Option Plan as of December 31, 2003 and changes during the years is presented below:

	2003		2002	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,495,000	$ 0.50	-	-
Granted	15,000	$ 0.50	1,495,000	$ 0.50
Exercised	(155,000)	$ 0.50	-	-
Lapsed	(290,000)	$ 0.50	-	-
Outstanding at end of year	1,065,000	$ 0.50	1,495,000	$ 0.50
Options exercisable at end of year	653,333	$ 0.50	498,333	$ 0.50

December 31, 2003 and 2002

The following table summarizes information about the share options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.50	1,065,000	3.6 years	$ 0.50	653,333	$ 0.50

Subsequent to December 31, 2003 the Company granted to employees options to purchase 30,000 shares at a price of $6.80 per share. These options have a term of approximately 6 years and expire on December 31, 2009.

Share Purchase Warrants

On December 31, 2003 1,176,500 common share purchase warrants were outstanding. Each warrant entitles the holder to acquire one common share of the Company at a price of $5.50 per share until December 1, 2005. After December 1, 2004 the Company is entitled to accelerate the expiry date of the warrants if the closing price of the common shares of the Company is at or above $8.50 per share for 10 consecutive trading days, by giving the holders of the warrants not less than 30 days notice in writing of such accelerated expiry date.

10. INCOME AND MINING TAXES

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

	2003		2002	
	Amount	%	Amount	%
Income (Loss) before taxes:	$ 3,068,889	100.0	$ (22,801,145)	100.0
Income taxes (recovery) thereon at the basic statutory rates	1,153,902	37.6	(9,029,253)	(39.6)
Increase resulting from:				
Tax losses and future tax assets not recognized in the period they arose	1,011,000	32.9	9,285,887	40.7
Amounts for which no tax asset has been recognized	(626,000)	(20.4)	-	-
Resource allowance and earned depletion	(267,000)	(8.7)	(279,416)	(1.2)
Reduction in valuation allowance	(1,889,000)	(61.6)	-	-
B.C. mineral taxes	118,000	3.9	101,000	0.4
Large corporation taxes	83,000	2.7	74,000	0.3
Other	109,437	3.6	14,721	0.1
Income and mining taxes	$ (306,661)	(10.0)	$ 166,938	0.7
Current taxes	$ 201,073		$ 166,938	
Future income taxes	(507,734)		-	
	$ (306,661)		$ 166,938	

The approximate tax effect of each type of temporary difference that gives rise to the Company's future income tax assets (liabilities) is as follows:

	2003	2002
Mineral properties	$ 23,535,000	$ 49,484,000
Net operating tax losses carried forward	2,490,000	10,909,000
Share of deficit and advances to Huckleberry	7,416,000	-
Other	626,000	556,000
Net future tax asset	34,067,000	60,949,000
Less: valuation allowance	(34,067,000)	(60,949,000)
	$ -	$ -

11. INCOME (LOSS) PER SHARE

Income (loss) per common share is calculated on the basis of the weighted average number of common shares outstanding during the year ended December 31, 2003 of 20,623,985 (2002 – 15,769,411). The effect of the incremental common shares exercisable upon the exercise of stock options and share purchase warrants (Note 9) is not substantial enough to cause a change in the basic income (loss) per share.

12. JOINT VENTURE

The consolidated financial statements of the Company are comprised of the following amounts which include the Company's share of joint venture assets, liabilities and results of operations from Huckleberry up to December 1, 2003, the date the management of Huckleberry was restructured (Note 4):

	2003		
	Huckleberry (50% interest) (11 months)	Imperial (excluding Huckleberry)	Consolidated Total
Statement of Income (loss)			
Revenues	$ 46,154,423	$ 1,016,362	$ 47,170,785
Expenses	(41,363,259)	(3,448,962)	(44,812,221)
Equity income from Huckleberry	-	1,016,986	1,016,986
Net Income (Loss)	$ 4,791,164	$ (1,415,614)	$ 3,375,550
Statement of Cash Flows			
Cash flow from operations	$ 4,477,996	$ (1,917,498)	$ 2,560,498
Net change in non cash operating balances	(696,842)	(1,827,045)	(2,523,887)
Operating activities	3,781,154	(3,744,543)	36,611
Financing activities	-	12,168,636	12,168,636
Investment activities	(4,264,927)	656,230	(3,608,697)
Increase (decrease) in cash and cash equivalents	$ (483,773)	$ 9,080,323	$ 8,596,550

	2002		
	Huckleberry (50% interest) (11 months)	Imperial (excluding Huckleberry)	Consolidated Total
Balance Sheet			
Cash and cash equivalents	$ 1,299,427	$ 1,292,158	$ 2,591,585
Other current assets	8,585,476	2,954,702	11,540,178
Mineral properties	39,424,740	9,715,727	49,140,467
Other assets	104,568	8,640,357	8,744,925
	49,414,211	22,602,944	72,017,155
Accounts payable and accrued charges	(5,172,687)	(2,747,377)	(7,920,064)
Long term debt, including current portion	(75,334,800)	(4,370,814)	(79,705,614)
Other liabilities	(1,164,714)	(7,482,097)	(8,646,811)
Net assets	$ (32,257,990)	$ 8,002,656	$(24,255,334)
Statement of Loss			
Revenues	$ 45,590,537	$ 1,648,206	$ 47,238,743
Expenses	(61,766,675)	(8,440,151)	(70,206,826)
Net Loss	$ (16,176,138)	$ (6,791,945)	$(22,968,083)
Statement of Cash Flows			
Cash flow from operations	$ 3,112,567	$ (2,076,546)	$ 1,036,021
Net change in non cash operating balances	983,175	1,046,273	2,029,448
Operating activities	4,095,742	(1,030,273)	3,065,469
Financing activities	(565,929)	-	(565,929)
Investment activities	(3,380,232)	2,038,493	(1,341,739)
Increase in cash and cash equivalents	$ 149,581	$ 1,008,220	$ 1,157,801

The Company's share of related party transactions and balances with the Company's joint venture partners to November 30, 2003 are as follows:

	2003	2002
Accounts receivable	$ -	$ 972,386
Accounts payable and accrued liabilities	$ -	$ 81,388
Accrued interest on long term debt	$ -	$ 15,152,183
Mineral revenue earned	$ 45,412,981	$ 43,761,806
Mineral production costs incurred	$ 10,964,208	$ 11,304,505
Interest on long term debt	$ 1,711,395	$ 2,058,822

13. RELATED PARTY TRANSACTIONS

Related party transactions and balances by the Company with Huckleberry Mines subsequent to November 30, 2003 are as follows:

	2003	2002
Accounts receivable	$ 43,020	$ -
Other revenue earned	$ 157,177	$ -

14. COMMITMENTS AND GUARANTEES

At December 31, 2003 the Company is committed to future minimum operating lease payments as follows:

2004	$ 112,000
2005	102,000
2006	94,000
2007	78,000
	$ 386,000

At December 31, 2002 the Company had secured the reclamation bond for the Mount Polley mine with a cash deposit. During the year 2003 the cash deposit was reduced by $1,370,567 as a result of the Company pledging to the Province of British Columbia certain mining equipment and supplies inventory at the Mount Polley mine as substitute security for the cash released from the reclamation bond.

15. FINANCIAL INSTRUMENTS, INTEREST RATE AND CREDIT RISK

At December 31, 2003 the carrying value of cash and cash equivalents, accounts receivable, future site reclamation deposits, and accounts payable and accrued liabilities approximates their respective fair values. The payment date and ultimate payment amount of long term debt on the Mount Polley mine (Note 8(a)) is not known and therefore the fair value of this debt is not readily determinable.

Interest rate risk is the risk to the Company's earnings that arises from fluctuations in interest rates and the degree of volatility of these rates. The Company's long term debt bears deemed interest at a fixed rate of 7%. Huckleberry's US Dollar denominated long term debt bears interest at 1.2% above the 6 month Libor rate and the majority of the Cdn Dollar denominated long term debt bears interest at Canadian Bank prime rate plus 4%.

The Company's Canadian mineral revenues have historically been dependent on selling concentrates to one or two smelters. However, as these customers are large, well capitalized and diversified multinationals, credit risk is considered to be minimal.

The Company is exposed to fluctuations in commodity prices and exchange rates and from time to time enters into contracts to hedge or manage its exposure.

16. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL BALANCES

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

	2003	2002
Marketable securities	$ 697,398	$ (1,152)
Accounts receivable	(1,447,550)	1,578,113
Inventory	2,759,042	(1,144,553)
Accounts payable and accrued liabilities	(3,717,123)	1,597,040
	$ (1,708,233)	$ 2,029,448

DIRECTORS

Dr. K. Peter Geib [1,2]
Frankfurt, Germany
Chairman, Novis Investitions GmbH

Larry G.J. Moeller [1,2,3]
Calgary, Alberta
Vice President Finance,
Edco Financial Holdings Ltd.

Pierre Lebel [1,2,3]
Vancouver, British Columbia
Chairman, Imperial Metals Corporation

J. Brian Kynoch [3]
Vancouver, British Columbia
President, Imperial Metals Corporation

(1) Audit Committee
(2) Compensation Committee
(3) Corporate Governance & Nominating Committee

OFFICERS

J. Brian Kynoch
President

Andre Deepwell
Chief Financial Officer & Corporate Secretary

Patrick M. McAndless
Vice President, Exploration

Kelly Findlay
Treasurer

ANNUAL & SPECIAL MEETING

Imperial's Annual & Special Meeting will be held on Wednesday, June 9, 2004 at 2:00pm at the YWCA - Welch Room #1
4th Floor – 535 Hornby Street, Vancouver, BC

A corporate presentation will follow the formal meeting.

CORPORATE INFORMATION

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Investor information such as annual reports, quarter reports, news releases and other information is available on Imperial's website:
www.imperialmetals.com

For additional information contact Investor Relations at 604.488.2657 or by email:
info@imperiametals.com

SHAREHOLDER INQUIRIES

Inquiries with respect to change of address, registration and lost share certificates should be directed to Imperial's transfer agent

Computershare Trust Company of Canada
Shareholder Services
100 University Avenue, 9th Floor
Toronto, ON M5J 2Y1
Tel: 1.800.564.6253 / international 514.982.7555
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STOCK SYMBOL

III

STOCK EXCHANGE LISTING

Toronto Stock Exchange

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Vancouver, British Columbia

LEGAL COUNSEL

Catalyst Corporate Finance Lawyers
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BANKERS

Royal Bank of Canada
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