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TGS → Huckleberry

2004 Ann. Rpt

Bear

Discovered in 1972, the Bear property hosts significant molybdenum/copper mineralization. Imperial completed a drill program on this property in July 2004. All five holes returned long intercepts of molybdenum/copper mineralization. Results confirmed potential for the property to host the tonnage and the grade necessary for an economic deposit. The mineralized body remains open for expansion, both laterally and to depth.

The best results were from BD04-18 which returned 295.9 metres grading 0.059% molybdenum and 0.27% copper, or 0.56% copper equivalent (based on Gross Metal Value using long-term estimate prices of US$5.00/lb molybdenum and US$1.00/lb copper). Mineralization was continuous starting at the top of the bedrock. Hole BD04-17 was also well mineralized with 351.0 metres of 0.047% molybdenum and 0.21% copper or 0.44% copper equivalent. Both holes were still mineralized at the completed depth. Data will be compiled and analyzed in preparation for a 2005 summer program.

Infrastructure in the area is excellent with nearby rail, roads, power and airstrips. With the outlook for a sustained strong molybdenum market, Imperial is well positioned to move the Bear project forward quickly through the next stage of exploration, and further if warranted. The property is located 140 kilometres north of Smithers, British Columbia.

Huckleberry

Imperial holds a 50% interest Huckleberry Mines Ltd., which owns the Huckleberry copper/molybdenum open pit mine located approximately 123 kilometres southwest of Houston, British Columbia.

An exploration program completed in late 2004 identified a new potential deposit on the 1,825 hectare Huckleberry property. The new copper/molybdenum zone, referred to as the Northwest Target, is directly north of Huckleberry's Main Zone Pit and is easily accessible from the minesite. Drill highlights included 210.5 metres in hole 04-306 grading 0.50% copper and 0.004 molybdenum, 165.0 metres in hole 04-308 grading 0.35% copper and 0.043 molybdenum and 265.0 metres in hole 04-314 grading 0.54% copper and 0.006 molybdenum. Exploration will continue in 2005 to further expand the Northwest Target.

Mine production statistics for the current year ended December 31, 2004 and for 2003 are as follows.

The Huckleberry mine was commissioned in 1997 and built at a capital cost of approximately $142 million. Ore is mined with standard open-pit truck and shovel equipment, and processed through a SAG/ball mill circuit producing copper and molybdenum concentrates. The mill has a processing capacity of 21,000 tonnes of ore per day. The current reserves at Huckleberry have an estimated mine life of 3.5 years.

	2004	2003
Ore milled (tonnes)	6,867,153	6,999,077
Ore milled per calendar day (tonnes)	18,763	19,176
Ore milled per operating day (tonnes)	20,543	20,771
Grade (%) – Copper	0.454	0.542
Grade (%) – Molybdenum	0.014	0.012
Recovery (%) – Copper	85.87	86.48
Recovery (%) – Molybdenum	20.41	17.61
Copper produced (lbs)	62,924,920	72,269,310
Molybdenum produced (lbs)	426,658	316,890

Management's Discussion and Analysis

Overview

During the year ended December 31, 2004 the Company continued to focus its exploration activities on Mount Polley while preparing the mine for a restart of operations. Major activities for the restart of the Mount Polley mine included acquisition of additional mobile mine equipment, mill refurbishment, financing and concentrate sales arrangements.

The management of Huckleberry Mines Ltd. ("Huckleberry") was restructured on December 1, 2003, whereby Imperial relinquished certain elements of joint control and this resulted in a change in the method of accounting for Huckleberry, from the proportionate consolidation basis to the equity basis. This improved the Company's balance sheet by eliminating the large debt associated with 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, balance sheets after December 1, 2003 record the Company's investment in Huckleberry as a single line item under Share of Deficit of Huckleberry.

The Statement of Income for the year ended December 31, 2003 includes Huckleberry on the proportionate consolidation basis to November 30, 2003 and on the equity basis thereafter. This change in method of accounting for Huckleberry results in large variances between the years 2004 and 2003 and markedly affects comparison of financial position, operations and cash flow.

The Company's revenue subsequent to December 1, 2003, consists of management fee revenues from Huckleberry, interest income on cash and reclamation bonds, and other miscellaneous revenues. Other revenues fluctuate significantly from one period to another. Equipment rental revenue ceased by March 31, 2004 and other miscellaneous revenue is expected to continue. Mineral revenues will commence upon restart of operations at Mount Polley in 2005.

In March 2005 the Company issued $20 million of unsecured convertible debentures. The convertible debentures bear interest at 6% per annum and each $8.65 of face value is convertible into one common share of the Company at any time until 5 years plus one day from date of issue. This financing provides a substantial portion of the funds required to complete the restart of the Mount Polley mine scheduled for March 2005. The mobile mining equipment required to complete the mining fleet is expected to be financed via lease.

These financial resources will provide for preproduction stripping for the new Wight pit, capital expenditures for concentrate shipping facilities, acquisition and preparation of the new mobile mine equipment and tailings dam construction. Additionally, these funds will be used to complete the refurbishment of the mill and mine equipment, continue exploration activities and provide working capital.

Selected Annual Financial Information	Years Ended December 31		
	2004	2003 (1)	2002 (1)
Total Revenues	$ 1,124,665	$ 36,206,577	$ 35,934,239
Net Income (Loss)	$ 3,639,547	$ 1,780,949	$(23,466,320)
Net Income (Loss) per share	$ 0.14	$ 0.09	$ (1.49)
Diluted Income (Loss) per share	$ 0.13	$ 0.08	$ (1.49)
Working Capital (Deficiency)	$ 1,321,706	$ 11,036,075	$(31,585,636)
Total Assets	$ 48,747,213	$ 25,292,236	$ 72,489,890
Total Long Term Debt (including current portion)	$ 8,623,057	$ 5,891,809	$ 79,705,614
Cash dividends declared per common share	$ 0.00	$ 0.00	$ 0.00

(1) Results for 2003 and 2002 have been restated for the changes in accounting policies and presentation of mineral revenues as noted in the heading "Changes in Accounting Policies".

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 17, 2005. 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 cause 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 2004

General

The Company's primary focus during 2004 was exploration at Mount Polley, securing an amendment to the existing mine permit to allow mining of the new Wight pit, seeking financing for the mine restart, acquisition of additional mobile mine equipment and refurbishment of the mine and mill complex for startup of the mine in 2005.

The copper prices were substantially higher in 2004 than in 2003, averaging about US$1.30 per pound compared to US$0.81 per pound in 2003. The US Dollar fluctuated in a downward trend during 2004 closing weaker at December 31, 2004 compared to December 31, 2003. Even with the decline in the exchange rate the price of copper in CDN Dollar terms was substantially higher averaging C$1.69 per pound in 2004 compared to C$1.13 per pound in 2003. While decreases in the US Dollar/CDN Dollar exchange rate have a negative impact on US Dollar revenues when translated to CDN Dollars, they have a positive impact on US Dollar denominated long term debt in CDN Dollars.

The strong gain in the CDN Dollar against the US Dollar in 2004 along with increases in certain costs resulting from changes in market conditions for such items as concentrate treatment and refining costs and the cost of labour, fuel and other consumables, will impact the profitability of Mount Polley and of resource projects generally. The Company will seek to adopt exploration and development strategies that will mitigate the impact of these new market conditions.

During 2004, larger scale testing of new heap leaching technology confirmed that copper oxide minerals can be recovered from the highly oxided mineralization covering the Springer Zone at Mount Polley. Based on this testwork, a scoping study will be completed in 2005 on the economics of recovering oxide copper from the Springer Zone using this technology.

In July 2004 the Company completed a $0.5 million investment in Fjordland Exploration Inc., a junior mineral exploration company with a promising gold/copper discovery 35 kilometres south of the Mount Polley mine.

Exploration

Exploration was focused on the Mount Polley project in 2004, with 135 diamond drill holes totaling 39,143 metres completed in 2004. The focus of exploration in 2005 will again be at Mount Polley with planned expenditures of approximately $5.0 million. The additional ground staked around Mount Polley in January 2005 will be explored, with the objective of finding additional "northeast zone" type mineralized zones.

The results of drilling and other exploration activities carried out at the Bear property are being assessed to determine whether additional exploration is warranted in 2005.

At Sterling, reclamation work on the heaps is nearly complete and an exploration program may be conducted in 2005 following a review of all exploration information.

Huckleberry Mines Ltd.

The financial results of Huckleberry have a significant impact on the net income of the Company. Huckleberry benefited from higher copper prices in 2004 and from foreign exchange gains on the revaluation of the US Dollar denominated long term debt. Note 7 to the audited consolidated financial statements of the Company disclose the impact of Huckleberry operations on the financial position and results of Imperial.

At the end of 2004 it was estimated that Huckleberry's mine life would end in early 2007. As a result of the increase in copper prices Huckleberry is reevaluating its reserves to determine how much additional copper can be produced at these higher price levels. The reserves that could be added as a result of this evaluation may not be substantial because of the geometry of the ore body and the topography of the site.

During 2004 Huckleberry increased its exploration efforts with the aim of discovering additional reserves. Exploration in 2004 identified a new potential copper-molybdenum deposit directly north of the Huckleberry Main Zone Pit. Further exploration is planned for 2005.

The Company owns 50% of Huckleberry. All debt and other obligations of Huckleberry are non recourse to Imperial. In December 2004 Huckleberry repaid the $2.5 million of senior ranking debt owed to Imperial.

Since 1998 Huckleberry had been unable to meet its scheduled obligations for payment of interest and principal on its long term debt and had been operating under a financial restructuring package whereby payments of principal and interest were dependent on available cash.

To December 2004 Huckleberry had been receiving quarterly extensions of the repayment date from the debt holders ("Lenders"). Effective November 2004, Huckleberry and its Lenders finalized an amendment to the debt repayment terms, retroactive to January 1, 2003, such that payments during 2003 and subsequent years are subject to available cash. Huckleberry's income in 2004 increased by $3.6 million as a result of the debt restructuring. Minimum principal payments, including accrued interest are based on available cash as defined in the restructuring agreement. The available cash will fluctuate based on metal prices, currency exchange rates, capital expenditure requirements and operating results. Huckleberry has estimated that the available cash to be paid in 2005 is $3.1 million which has been included as a current liability.

At December 31, 2004 Huckleberry's total debt, including accrued interest, was $123.6 million. Huckleberry expects to begin making payments on this debt in accordance with the new loan terms in 2005. However, the repayment of all of Huckleberry's debt will depend on the ability of Huckleberry to generate sufficient cash flow prior to a depletion of its ore reserves. If the Lenders have not been repaid at that time they could enforce their security, resulting 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 7 to the audited consolidated financial statements of the Company provides further information on the financial position of Huckleberry.

Risk Factors

The reader is cautioned that the following description of risks and uncertainties is not all-inclusive as it pertains only to conditions known to management at the time of writing. There can be no guarantee or assurance that other factors will or will not adversely affect the Company.

Risks Inherent in the Mining and Metals Business

The business of exploring for minerals is inherently risky. Few properties that are explored are ultimately developed into producing mines. Mineral properties are often nonproductive for reasons that cannot be anticipated in advance. Even after the commencement of mining operations, such operations may be subject to risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground control problems and flooding. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties and production facilities, personal injuries, environmental damage, delays or interruption of production increases in production costs, monetary losses, legal liability and adverse governmental action. The Company's property, business interruption and liability insurance may not provide sufficient coverage for losses related to these or other hazards. Insurance against certain risks, including certain liabilities for environmental pollution, may not be available to the Company or to other companies within the industry. In addition, insurance coverage may not continue to be available at economically feasible premiums, or at all. Any such event could have a material adverse effect on the Company.