Tom Schroeter
May 26/05

[discover develop operate]

Imperial Metals Corporation

2004 Annual Report

Imperial Metals

[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 - Daniel Henshaw

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Operations Review

Mount Polley

Idled in September 2001 due to low metal prices, the wholly owned Mount Polley open pit copper-gold mine has been the focus of continuous exploration since August 2003, when the Northeast Zone was discovered.

Following approval by the Province of British Columbia in October 2004 of an Amended Mine Plan to allow development of an open pit (the "Wight Pit") in the Northeast Zone, work began on the restart of the Mount Polley mine. This work included the acquisition, delivery and erection of an expanded fleet of mining equipment, logging of the Wight Pit area, construction of the Wight Pit access road, stripping of waste in the Bell Pit, added capacity in the flotation and concentrate dewatering portions of the mill, recommissioning of the concentrator, and an additional lift on the tailings dam.

Operations restarted in March 2005, with initial feed coming from the Bell Pit and low grade stockpiles. Ore from the Wight Pit is scheduled for delivery to the mill commencing in July 2005.

In conjunction with all these activities, we also continued to recruit staff required to operate the Mount Polley mine, and by year end 100 of our expected total complement of 225 people were hired.

The current reserve and resource estimate based on drilling to December 15, 2004 is 44 million tonnes proven and probable grading 0.45% copper and 0.30 g/t gold in the Wight, Bell and Springer open pits. This reserve, sufficient to provide a mine life of about six years, contains approximately 438 million pounds of copper and 433 thousand ounces of gold.

The current open pit reserve estimate for the Wight Pit is 9.1 million tonnes grading 0.88% copper, 0.29 g/t gold and 6.4 g/t silver. Measured and indicated resources, which are additional to this open pit reserve are 15.7 million tonnes grading 0.61% copper, 0.19 g/t gold and 4.40 g/t silver. Drilling has continued to expand reserves and resources in the Northeast Zone.

Between May and December 2004 reserves in the Northeast Zone grew

Northeast Zone

- Pit Design
- Copper Equivalent (+0.3%) Grade Shell

Springer Zone

- Pit Design
- Copper Equivalent (+0.3%) Grade Shell

Pierre Lebel

J. Brian Kynoch

in the Springer Zone and identifying new targets, especially on recently acquired ground in the vicinity of Mount Polley. We believe that Mount Polley could become a long term foundational asset for Imperial Metals Corporation.

We have made it an additional objective for the latter part of 2005 to revisit the 144 Zone underground gold discovery at our wholly owned Sterling mine near Beatty, Nevada. We have a clear sense of what needs to be done at Sterling: delineate the 144 Zone deposit by driving a 1,200 metre ramp to the zone and drill it from underground; at the same time, drill the newly acquired and adjacent Mary and Goldspar claims. Dependant on the success of these activities, reestablish Sterling as our third producing mine.

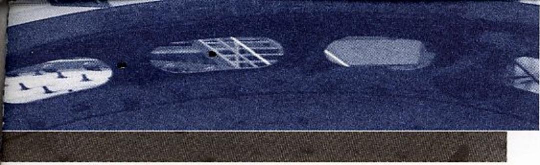
With higher metal prices in 2004 our 50% owned Huckleberry copper molybdenum mine enjoyed good financial results contributing $8.1 million of equity income to Imperial. Also in 2004, Huckleberry paid back a $2.5 million loan to Imperial and discovered a potential new deposit directly north of the Huckleberry Main Zone Pit. Huckleberry will undertake further exploration in 2005 aimed at expanding resources for a longer mine life.

We thank all of our employees for their many and varied contributions in 2004, and welcome our new employees at Mount Polley, Sterling and at our corporate head office. We acknowledge the expert and faithful guidance and support of our Board of Directors. We take special pride in the remarkable efforts of our exploration team that lead to the discovery of the Northeast Zone, a find that was also recognized for its positive impact on exploration in British Columbia when the BC and Yukon Chamber of Mines awarded the 2004 Spud Huestis Award for Excellence in Prospecting and Mineral Exploration to our friend and colleague, Vice President Exploration, Pat McAndless.

We look forward to 2005 as year of building momentum toward the emergence of Imperial as a low cost, long term producer of base and precious metals.

Pierre Lebel
Director & Chairman

J. Brian Kynoch
Director & President

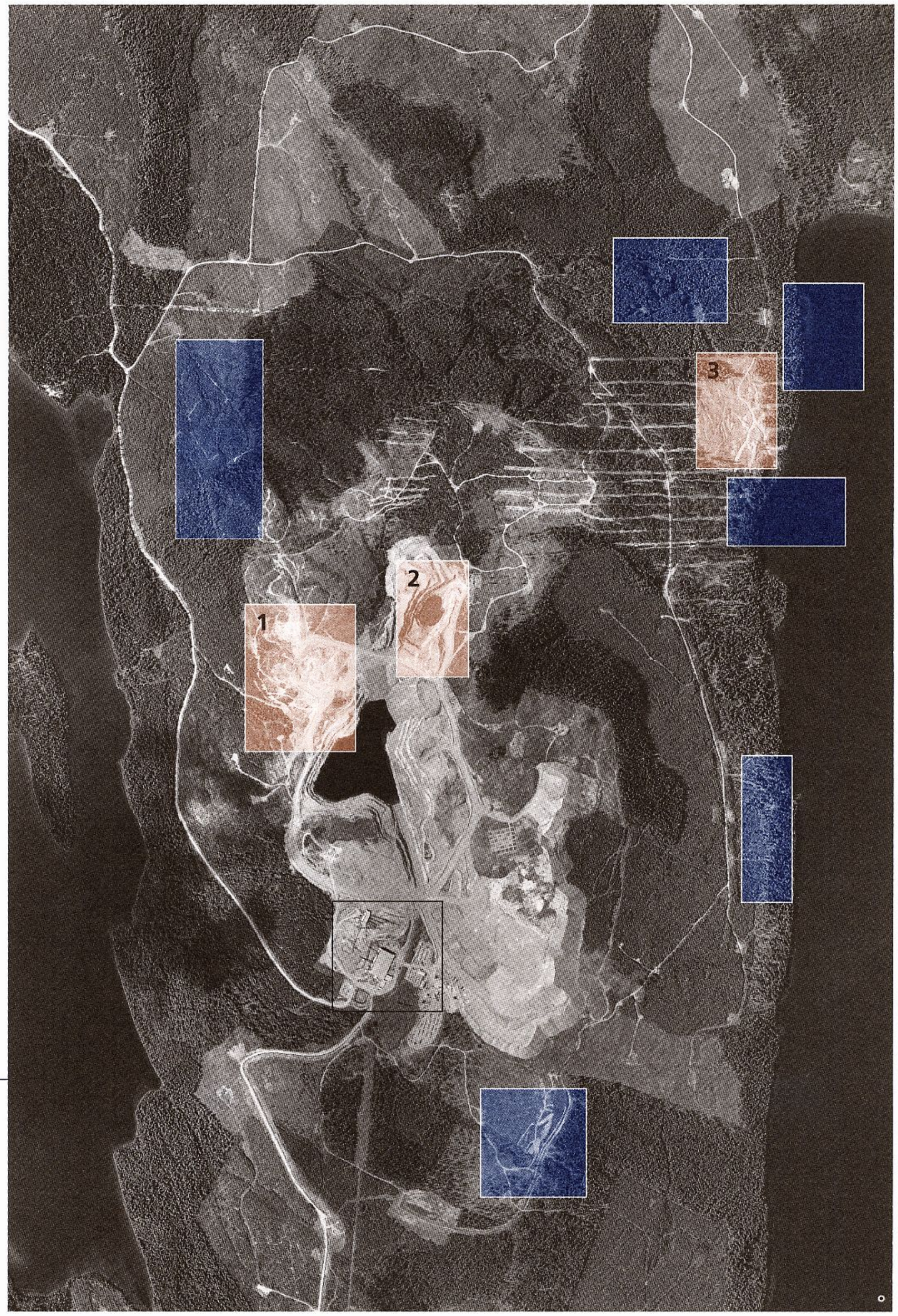


50% while resources grew 300%, and the inferred resource in the Springer Zone increased from 10.9 million to 23.1 million tonnes providing further confirmation that the mineralization at Mount Polley, particularly in the Northeast and Springer Zones, has not yet been fully outlined.

From August 2003 to February 2005, 247 holes totaling 75,671 metres were drilled on the Mount Polley property, including 187 holes totaling 50,392 metres at the Northeast Zone.

Exploration in 2005 will include intensive drilling of the Northeast Zone, especially in the recently discovered very high grade Green Zone. Intersections in the Green Zone so far include 25.1 metres grading 4.43% copper, 1.28 g/t gold and 26.92 g/t silver in hole WB04-161, 15 metres grading 5.86% copper, 3.13 g/t gold and 39.06 g/t silver in hole WB04-179 and 10.6 metres grading 5.43% copper, 3.08 g/t gold and 30.22 g/t silver in hole WB04-158. These intersections are a strong indication that the Northeast Zone deposit has grades that could support underground mining.

Four drills are now in operation. Further drilling will also be carried out on the Springer Zone and on numerous other geological targets within the Mount Polley property.



Mount Polley Property

- ■ Exploration Targets

Pit Areas
- ■ 1. Springer
- ■ 2. Bell
- ■ 3. Wight

- □ Mill Facility

Mount Polley continued

The Mount Polley mineral claims now encompass 18,910 hectares with the acquisition in January 2005 of an additional 10,660 hectares using the new "paper" staking facilities introduced by the Ministry of Energy and Mines of British Columbia on January 12, 2005. This additional ground will undergo geological mapping in the summer of 2005, with a focus on discovering additional northeast zone type mineralization.

The Mount Polley open pit copper-gold mine is located in central British Columbia, 56 kilometres northeast of Williams Lake. Commissioned in 1997 and built at a capital cost of $115 million, it has a processing capacity of 20,000 tonnes of ore per day. Before it was idled in September 2001, 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.

Sterling

The deep, high grade 144 Zone at the Sterling gold property was discovered in 2001 in a setting which exhibits many of the hallmarks of the structurally controlled Carlin type deposits. 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.

144 Zone drilling in 2001 totaled 8,600 feet (2,621 m) in 11 holes, 4,828 feet (1,472 m) in 6 holes in 2002 and 9,000 feet (2,743 m) in 30 holes in 2003. The 144 Zone measures 500 feet by 750 feet. No drilling was conducted in 2004.

In November 2004, 62 claims covering 1,282 acres (519 hectares) were staked. The Sterling property now consists of 211 lode mining claims plus 1 mill site which cover approximately 4,381 acres (approximately 1,773 hectares). An additional claims 29 claims (the Mary and Goldspar claims) were acquired under lease in 2003 to secure the potential northerly extension of the 144 Zone structure. These claims cover approximately 599 acres (242 hectares).

Exploration plans for this project include the driving of a 1,200 metre ramp to access the 144 Zone area for an underground diamond drilling program and potential future mining, and the surface drill testing of additional target areas located on the Mary and Goldspar claims.

The exploration will follow completion of the reclamation and permitting work that is now underway. The reclamation and permitting work is expected to be complete in mid-2005.

The Sterling property is located about 115 miles northwest of Las Vegas and 15 miles southeast of the town of Beatty, Nevada. The Sterling mine operated both as an underground and open pit mine from 1980 to 1997. The property and mine are wholly owned by Imperial through Sterling Gold Mining Corporation. All claims with the exception of the Mary and Goldspar claims, are subject to a 2.25% NSR. The Mary and Goldspar claims are subject to a 2% NSR with some claims at a 5% NSR until reaching a cap.

Feb. 9/05 – Restarted mining
Mar. 8/05 – " milling

Mar. – 1.4 Mt production → 12,600 tpd mill
Apr. – 1.8 " " → 15,000 tpd
mid-Mar. – concentrate shipment started

+ additions to mill to treat Wight pit ore. (eg. lime system, thickener)
end-June 40% of feed from Wight pit

by end-2005 50% of mill feed from Wight pit

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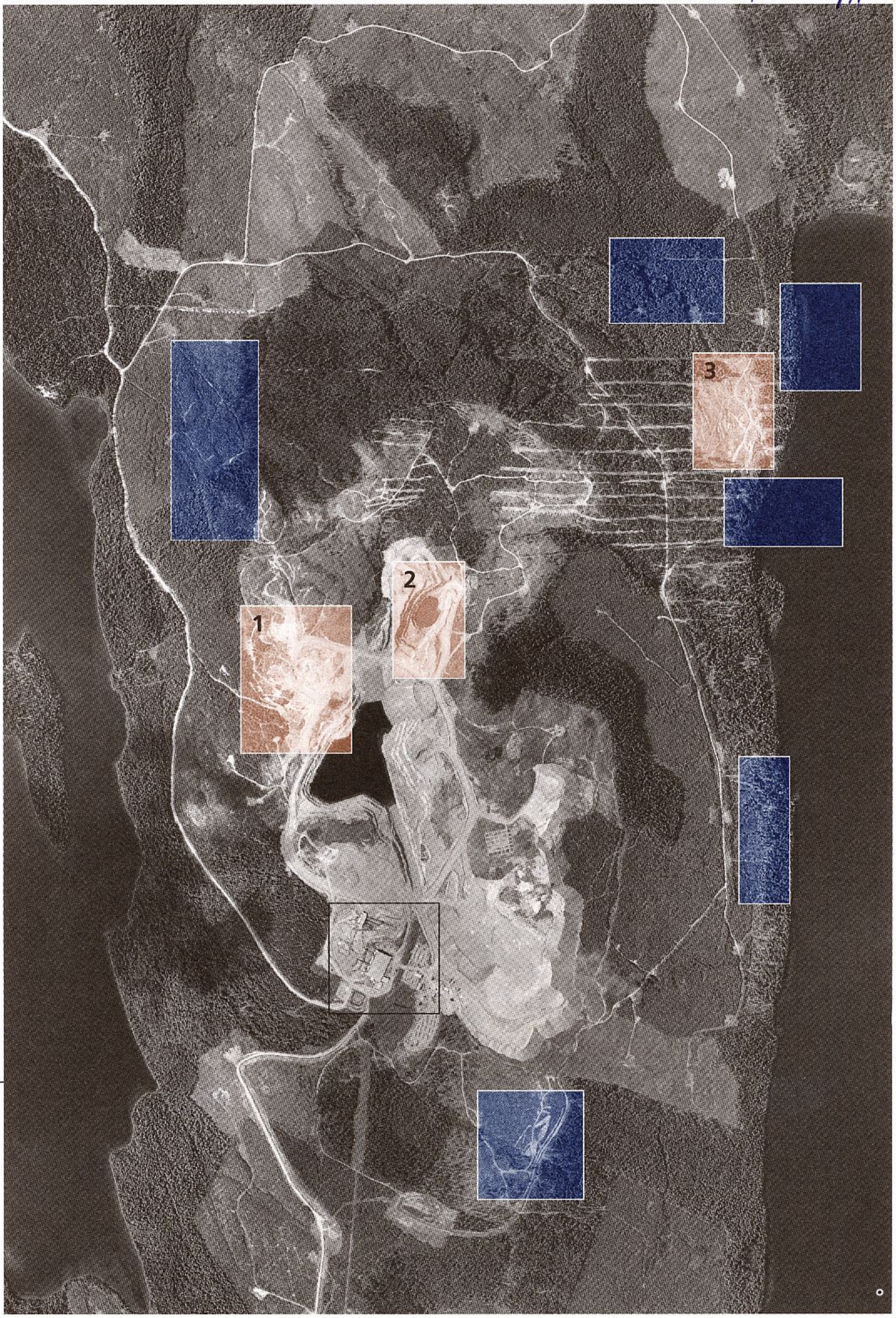

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Expl'n ['05-to date]
Southeast Zone 44 (10,700m)
NE Zone 34 (9,000m)
→ want to develop ~3Mt res. asap (near-surface) [4-5Mt prob.]
- High Au:Cu content
min. extends to depth
Great SLIDE (need to request)
Hole 25 ~10m > .1% Mo
- Boundary Zone
- 92 Zone - 5 ddh (~200m N of NE zone)
- Pond zone (200 W of SE zone)
- Green zone (N/G pot.)
(incl. min. above + below)

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Total '05 expl'n ~ $5-$6M

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

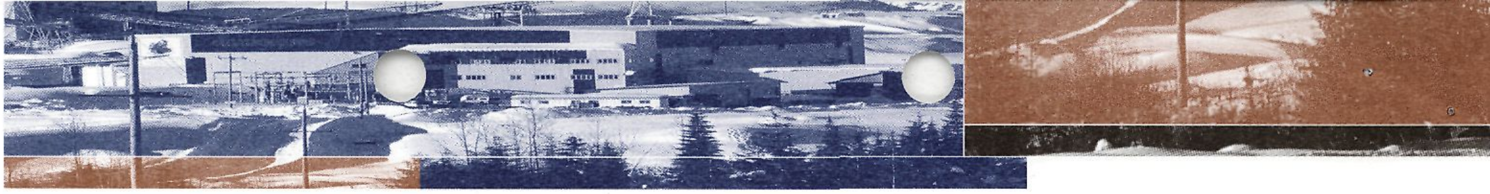
Exploration was focused on the Mount Polley project in 2004, with 135 diamond drill holes totaling 39,143 metres completed in 2004. The focus of exploration in 2005 will again be at Mount Polley with planned expenditures of approximately $5.0 million. The additional ground staked around Mount Polley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