

## 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.



Brian Kynoch,  
President

March 21, 2003



André H. Deepwell,  
Chief Financial Officer

## Auditors' Report

To the Shareholders of Imperial Metals Corporation

We have audited the consolidated balance sheet of Imperial Metals Corporation as at December 31, 2002 and the consolidated statements of loss and deficit and of cash flows for the year 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, 2002 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants

Vancouver, British Columbia  
March 21, 2003

## CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001	2002	2001 (Unaudited Proforma - Note 17)
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 2,591,585	\$ 2,696,509
Marketable securities [Market value – \$1,538,705 (2001 - \$ nil)]	1,056,152	–
Accounts receivable	2,481,264	4,074,460
Inventory (Note 5)	8,002,762	6,908,209
	<u>14,131,763</u>	<u>13,679,178</u>
Mineral Properties (Notes 4 and 6)	49,140,467	69,464,188
Future Site Reclamation Deposits	7,352,584	7,665,075
Other Assets (Note 7)	1,392,341	1,448,256
	<u>\$ 72,017,155</u>	<u>\$ 92,256,697</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 7,920,064	\$ 10,757,315
Current portion of limited recourse long term debt (Notes 4 and 8)	37,797,335	31,507,776
	<u>45,717,399</u>	<u>42,265,091</u>
Limited Recourse Long Term Debt and Accrued Interest (Notes 4 and 8)	41,908,279	46,036,627
Other Long Term Debt (Notes 1 and 8)	–	3,000,000
Convertible Debentures (Note 9)	–	2,692,717
Future Site Reclamation Costs	8,646,811	8,781,881
	<u>96,272,489</u>	<u>102,776,316</u>
<b>CAPITAL DEFICIENCY</b>		
Share Capital (Note 10)	2,755,182	–
Deficit	(27,010,516)	–
Net Deficiency of the Mining Business	–	(10,519,619)
	<u>(24,255,334)</u>	<u>(10,519,619)</u>
	<u>\$ 72,017,155</u>	<u>\$ 92,256,697</u>

Continuing Operations and Contingent Liabilities (Notes 1 and 13)

Approved by the Board:



Larry G.J. Moeller  
Director



Brian Kynoch  
Director

See accompanying notes to these financial statements.

## CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

Years Ended December 31, 2002 and 2001	2002	2001 (Unaudited Proforma - Note 17)
<b>REVENUES</b>		
Mineral, net of royalties	\$ 46,603,195	\$ 109,960,191
Other	635,548	1,193,557
	<u>47,238,743</u>	<u>111,153,748</u>
<b>EXPENSES</b>		
Mineral production, treatment and transportation	44,653,877	100,045,139
Depletion, depreciation and amortization	8,658,453	13,165,643
Administration	933,268	755,944
Capital taxes	47,007	164,627
Interest on long term debt	3,256,466	5,593,566
Other interest	227,147	1,191,840
Foreign exchange (gain) loss on long term debt	(495,085)	3,492,758
Other foreign exchange loss	114,824	736,446
	<u>57,395,957</u>	<u>125,145,963</u>
<b>OPERATING LOSS</b>	<u>10,157,214</u>	<u>13,992,215</u>
Deduct (Add)		
Writedown of mineral exploration properties	4,816,514	2,777,354
Writedown of mining property, plant and equipment	8,354,000	3,138,390
Other	(526,583)	(143,367)
	<u>12,643,931</u>	<u>5,772,377</u>
<b>LOSS BEFORE TAXES</b>	22,801,145	19,764,592
Income and mining taxes (Note 11)	166,938	475,981
<b>NET LOSS</b>	22,968,083	<u>\$ 20,240,573</u>
Deficit, Beginning of Year		
	-	
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	<u>\$ 27,010,516</u>	
Loss Per Share (Note 12)	\$ 1.46	\$ 2.51

See accompanying notes to these financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001	2002	2001 (Unaudited Proforma - Note 17)
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (22,968,083)	\$ (20,240,573)
Items not affecting cash flows		
Depletion, depreciation and amortization	8,658,453	13,165,643
Writedown of mineral exploration properties	4,816,514	2,777,354
Writedown of mining property, plant and equipment	8,354,000	3,138,390
Foreign exchange (gain) loss on long term debt	(495,085)	3,492,758
Accrued interest on long term debt	2,890,845	4,574,100
Other	(220,623)	1,313,676
	<u>1,036,021</u>	<u>8,221,348</u>
Net change in non-cash operating balances (Note 16)	2,029,448	4,974,057
Cash provided by operating activities	<u>3,065,469</u>	<u>13,195,405</u>
<b>FINANCING ACTIVITIES</b>		
Repayment of long term debt	(565,929)	(10,068,009)
Increase in long term debt	-	4,100,000
Convertible debentures, net of issue costs of \$82,301 (Note 9)	-	4,587,699
Decrease in other long term liabilities	-	(1,753,665)
Cash used in financing activities	<u>(565,929)</u>	<u>(3,133,975)</u>
<b>INVESTMENT ACTIVITIES</b>		
Acquisition and development of properties	(3,755,813)	(7,468,786)
Proceeds on sale of mineral properties	2,207,936	488,161
Decrease (increase) in future site reclamation deposits	111,491	(2,133,829)
Other	94,647	(10,659)
Cash used in investment activities	<u>(1,341,739)</u>	<u>(9,125,113)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,157,801	<u>\$ 936,317</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	-	
<b>CASH AND CASH EQUIVALENTS ACQUIRED ON ACQUISITION OF THE MINING BUSINESS (Note 3)</b>	1,433,784	
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,591,585</u>	

See accompanying notes to these financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 31, 2002 and 2001	2002	2001 (Unaudited Proforma - Note 17)
<b>OPERATING ACTIVITIES</b>		
Interest expense paid	\$ 414,203	\$ 1,457,560
Income and mining taxes paid	\$ 352,020	\$ 330,482

### SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING AND FINANCING ACTIVITIES

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

During the year ended December 31, 2002

- (a) 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.
- (b) 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.
- (c) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001

(Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

## 1. BASIS OF PRESENTATION AND CONTINUING OPERATIONS

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 are summarized in Note 3.

Imperial had no operations prior to January 1, 2002. For comparative purposes the Company has provided unaudited proforma comparative financial information based on the historical financial information of the Mining Business formerly part of Energy. Details of the assumptions and basis of presentation used to prepare the comparative proforma financial information are described in Note 17.

These financial statements are presented on the basis of a going concern which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the year the Company incurred a net loss of \$22,968,083 of which \$16,176,138 represents its share of loss from joint venture operations (Note 14).

The continuation of the Company is dependent on its ability to generate positive cash flow from its operations, the ability to obtain additional financing from shareholders or third parties to meet obligations as they come due and ultimately the achievement of profitable operations.

The consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

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.

**Mineral Properties**

*Producing Mining Property, Plant and Equipment*

Producing 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 \$7,176,097 (2001 - \$11,301,613) 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.

The Company recognizes writedowns for impairment where the carrying values of producing mining property, plant and equipment exceeds its estimated long term net recoverable value.

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

**Future Site Reclamation Costs**

The estimated costs for reclamation of producing resource 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 resource 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.

**Debt Issue Costs**

Debt issue costs are capitalized and amortized over the term of the debt to which they relate.

**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 is 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 related 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

**Stock Based Compensation**

Effective January 1, 2002 the Company adopted the recommendations of the Canadian Institute of Chartered Accountants for stock based compensation and other stock based payments. The new recommendations require that stock based payments to non employees be accounted for using a fair value based method of accounting. The recommendations encourage, but do not require, the use of a fair value based method to account for stock based compensation to employees and directors. 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 the stock based compensation on its financial results. 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:

<b>Working Capital</b>	
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)
	<u>(24,973,485)</u>
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)
	<u>\$ 2,755,181</u>
Net Assets acquired before change in accounting policies noted below	
Consideration for the purchase of the mining business of Energy:	
Issue of 15,769,410 common shares of Imperial	<u>\$ 2,755,181</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

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, resulted in an increase in the amount of inventory and mineral properties and a decrease in accounts receivable, deferred foreign exchange, accounts payable and accrued liabilities at January 1, 2002 of \$2,060,138 (December 31, 2001 - \$2,499,971), \$378,698 (2001 - \$nil), \$2,541,316 (2001- \$3,356,714), \$4,172,805 (2001 - \$2,469,637) and \$232,852 (2001 - \$419,784) respectively, and a charge to the deficit of \$4,042,433 as at January 1, 2002 (January 1, 2001 - \$2,906,596).

#### 4. CONTINUING OPERATIONS OF 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"). The Company accounts for Huckleberry as an incorporated joint venture and recognizes its proportionate share of the assets, liabilities, revenues and expenses of Huckleberry in these financial statements.

As a result of the depressed metal prices in 1998, Huckleberry could not meet its scheduled obligations at December 31, 1998 for payment of interest on long term debt with its lenders (the "Lenders") (Notes 8(b) and (c)). As a result, Huckleberry negotiated a financial restructuring package, which among other provisions, resulted in a deferral of all principal and interest payments on the Huckleberry Mine Construction Loan and the Huckleberry Mine Infrastructure Loan. For the years 1999 through to 2002, payments of principal and interest were dependent on available cash. At December 31, 2002, Huckleberry's aggregate long term debt and accrued interest amounted to \$150,669,600 of which the Company's share is \$75,334,800.

On December 31, 2002 Huckleberry was obligated to repay the portion of the Huckleberry Mine Construction Loan and all accrued unpaid interest thereon aggregating \$58.8 million (US\$37.2 million) which was deferred as part of the financial restructuring package. The repayment date on the Huckleberry Mine Construction Loan was subsequently extended to June 30, 2003. The remaining principal and interest owing by Huckleberry on June 30, 2003 is estimated to be approximately \$31.6 million (US\$20.0 million) and \$32.2 million (US\$20.4 million), respectively. Huckleberry's ability to meet or renegotiate this obligation as it comes 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 the Company's share of Huckleberry's carrying value of assets and liabilities in the amount of \$49,414,211 and \$81,672,201, respectively, and the balance sheet classifications used. Such adjustments would not have a material effect on the ongoing operations of the Company excluding its interest in Huckleberry as disclosed in Note 14. Huckleberry is continuing to negotiate with the Lenders to restructure the loan, however there is no assurance that the negotiations will be successfully concluded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

5. INVENTORY

	2002	2001 (Unaudited Proforma - Note 17)
Concentrate and bullion work in process	\$ 3,559,438	\$ 2,423,873
Supplies	4,443,324	4,484,336
	<u>\$ 8,002,762</u>	<u>\$ 6,908,209</u>

6. MINERAL PROPERTIES

	2002			2001 (Unaudited Proforma - Note 17)
	Cost	Accumulated Depletion, Depreciation & Writedowns	Net Book Value	Net Book Value
Producing mining property, plant and equipment				
Mineral properties	\$ 27,276,405	\$ 24,739,005	\$ 2,537,400	\$ 3,415,731
Buildings, machinery and equipment	96,150,868	74,423,374	21,727,494	30,601,467
Tailings and reclaim facilities	43,620,339	25,842,227	17,778,112	21,130,099
Mobile mine equipment and vehicles	13,896,922	10,671,560	3,225,362	4,208,047
Land	70,490	-	70,490	70,490
	<u>181,015,024</u>	<u>135,676,166</u>	<u>45,338,858</u>	<u>59,425,834</u>
Exploration Properties				
Acquisition and exploration costs	3,801,609	-	3,801,609	10,038,354
	<u>\$ 184,816,633</u>	<u>\$ 135,676,166</u>	<u>\$ 49,140,467</u>	<u>\$ 69,464,188</u>

7. OTHER ASSETS

	2002	2001 (Unaudited Proforma - Note 17)
Loan receivable	\$ 1,250,000	\$ 1,250,000
Equipment and leasehold improvements	142,341	161,699
Debt issue costs	-	36,557
	<u>\$ 1,392,341</u>	<u>\$ 1,448,256</u>

The loan receivable represents the other venturers' share of a credit facility provided by the Company to its 50% investee, Huckleberry. Interest on the loan is calculated at bank prime rate plus 1.2% and the loan is 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. Based on expected cash flows for the year 2003 none of this loan has been classified as current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

8. LONG TERM DEBT

	Note	2002	2001 (Unaudited Proforma - Note 17)
Mount Polley Mine Construction Loan	(a)	\$ 5,620,814	\$ 5,289,434
Huckleberry Mine Construction Loan	(b)	47,388,000	47,778,000
Huckleberry Mine Infrastructure Loan	(c)	7,248,763	7,248,763
Huckleberry Mine Conditional Sales Agreement	(d)	–	574,989
Huckleberry Mine Accrued Interest		19,448,037	16,653,217
		<u>74,084,800</u>	<u>72,254,969</u>
Credit facility	(e)	–	3,000,000
		79,705,614	80,544,403
Less portion due within one year		<u>(37,797,335)</u>	<u>(31,507,776)</u>
		<u>\$ 41,908,279</u>	<u>\$ 49,036,627</u>
Total long term debt consists of:			
Limited recourse long term debt and accrued interest		\$ 41,908,279	\$ 77,544,403
Other long term debt		–	3,000,000
		<u>\$ 41,908,279</u>	<u>\$ 80,544,403</u>

The Huckleberry Mine loans and accrued interest represent the Company's 50% interest in long term debt and accrued interest of Huckleberry, are repayable solely by Huckleberry and therefore the Huckleberry long-term debt is non-recourse to the Company.

Minimum principal payments, including accrued interest outstanding at December 31, 2002, due in the next five years and thereafter are as follows:

	US\$ Denominated Loans	Cdn\$ Denominated Loans	Cdn\$ Total
Year ended December 31, 2003	US\$ 18,597,418	Cdn\$ 8,420,854	\$ 37,797,335
Year ended December 31, 2004	2,999,000	1,000,000	5,737,220
Year ended December 31, 2005	2,999,000	1,000,000	5,737,220
Year ended December 31, 2006	4,999,000	1,000,000	8,896,420
Year ended December 31, 2007	4,999,000	123,763	8,020,183
Thereafter	4,999,000	–	7,896,420
Payment date not determinable (Note 8(a))	–	5,620,814	5,620,814
	<u>US\$ 39,592,418</u>	<u>Cdn\$ 17,165,431</u>	<u>\$ 79,705,614</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

(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 (2001 - \$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.

	2002	2001 (Unaudited Proforma - Note 17)
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	(679,186)	(1,010,566)
	<u>5,620,814</u>	<u>5,289,434</u>
Less portion due within one year	-	-
	<u>\$ 5,620,814</u>	<u>\$ 5,289,434</u>

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 Mine Construction Loan

Loan from a consortium of shareholders of Huckleberry in the amount of \$47,388,000 (US\$30,000,000) (2001 - \$47,778,000; US\$30,000,000) with interest at the 6 month Libor rate plus 1.2% (2.63% at December 31, 2002) secured by a first fixed charge on all assets which comprise, are utilized primarily in connection with, or are necessary for the operation of the Huckleberry Mine, except for those components financed by the Huckleberry Mine Infrastructure Loan (Note 8(c)), in which case the Lenders have a second fixed charge. In addition, the Lenders hold a floating charge over all other assets of Huckleberry.

As part of a financial restructuring package for Huckleberry negotiated in 1999, repayments for 1999 and subsequent years were subject to available cash flow with any deferred principal and interest payments to January 1, 2002 due on that date. As a result of a series of extensions this repayment date has been extended to June 30, 2003. The principal and interest due on June 30, 2003 is estimated to amount to \$31.9 million (US\$20.2 million). As discussed in Note 4, Huckleberry is engaged in discussion with the lenders to extend or renegotiate this payment and there is no assurance that Huckleberry will be able to satisfy this payment when it is due.

(c) Huckleberry Mine Infrastructure Loan

Loan in the amount of \$7,248,763 (2001 - \$7,248,763) with interest calculated at a bank prime rate (4.5% at December 31, 2002) until November 3, 1999 and subsequent to that date at bank prime rate plus 4% for any period during which the average London Metal Exchange ("LME") copper price is less than US\$1.20 per lb. and at bank prime rate plus 6% for any period during which the average LME copper price is equal to or greater than US\$1.20 per lb. Collateral for the debt is provided by a specific and first charge over the project components financed by the loan and a floating charge over all other assets of the Huckleberry Mine, subordinated to the claims of the Huckleberry Mine Construction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

Under the restructuring package referred to in Note 8(b) above, the lender of the Huckleberry Mine Infrastructure Loan also agreed to make repayments for 1999 and subsequent years contingent on available cash flow with any deferred principal and interest payments to January 1, 2002 due on that date. As a result of a series of extensions this repayment date has been extended to June 30, 2003. The principal and interest due on June 30, 2003 is estimated to amount to \$9.4 million.

(d) Huckleberry Mine Conditional Sales Agreement

Conditional sales agreement for \$nil (2001 – \$574,989; US\$361,037) repayable in monthly installments of US\$32,022 with interest at 11.667% secured by a registered charge on certain mobile mining equipment.

(e) Credit Facility

The credit facility of \$nil (2001 - \$3,000,000) from a company controlled by a director, repayable on June 30, 2003 with interest at 10% per annum was transferred from the Mining Business to Energy as part of the Plan (Note 1) and therefore no longer a liability of the Mining Business.

9. CONVERTIBLE DEBENTURES

The 8% subordinated secured convertible debentures with a face value of \$nil (2001 - \$4,670,000) were transferred from the Mining Business to Energy as part of the Plan (Note 1) and subsequently settled.

10. 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	2002		2001 (Unaudited)	
	Number of Shares	Issue Price or Attributed Value	Number of Shares	Issue Price or Attributed Value
Common shares				
Balance, beginning of year	1	\$ 1	–	\$ –
Issued on incorporation of the Company	–	–	1	1
Issued on acquisition of the Mining Business of Energy (Note 1)	15,769,410	2,755,181	–	–
Balance, end of year	15,769,411	\$ 2,755,182	1	\$ 1

The Company was incorporated in December 2001.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

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.

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

	Year Ended December 31, 2002
Net Loss	
As reported	\$ 22,968,083
Proforma compensation expense	<u>60,137</u>
Proforma Net Loss	<u>\$ 23,028,220</u>
Basic and diluted loss per share	
As reported	\$ 1.46
Proforma	\$ 1.46

The fair value of the share options 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%

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

A summary of the status of the Company's share option plan as of December 31, 2002 and changes during the years is presented below:

	2002	
	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	—	—
Granted	1,495,000	\$ 0.50
Outstanding at end of year	<u>1,495,000</u>	<u>\$ 0.50</u>
Options exercisable at end of year	<u>498,333</u>	<u>\$ 0.50</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

The following table summarizes information about the share options outstanding at December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.50	1,495,000	4.55 years	\$0.50	498,333	\$0.50

Share Purchase Warrants

On January 1, 2002, 200,000 common share purchase warrants were outstanding to the Mount Polley lender (Note 8(a)). These share purchase warrants were issued as compensation for rescheduling and extending the repayment terms on the Mount Polley Construction Loan during the year ended December 31, 1999. Each share purchase warrant was exercisable at a price of \$12.50 up to December 31, 2002 and they were not exercised and expired at that date.

11. 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:

	2002		2001 (Unaudited Proforma Note 17)	
	Amount	%	Amount	%
Loss before taxes:	\$ (22,801,145)	100.0	\$ (19,764,592)	100.0
Recovery of taxes thereon at the basic statutory rates	(9,029,253)	(39.6)	(8,815,008)	(44.6)
Increase resulting from:				
Tax losses and future tax assets not recognized in the period they arose	9,285,887	40.7	9,868,000	49.9
Resource allowance and earned depletion	(279,416)	(1.2)	(1,054,000)	(5.3)
B.C. mineral taxes	101,000	0.4	306,000	1.5
Large corporation taxes	74,000	0.3	170,000	0.9
Other	14,721	0.1	989	—
Income and mining taxes	\$ 166,938	0.7	\$ 475,981	2.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

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:

	2002	2001 (Unaudited Proforma - Note 17)
Mineral properties	\$ 26,945,000	\$ 40,079,000
Net operating tax losses carried forward	10,909,000	10,239,000
Other	556,000	(122,000)
Net future tax asset	38,410,000	50,196,000
Less: valuation allowance	(38,410,000)	(50,196,000)
	<u>\$ -</u>	<u>\$ -</u>

12. LOSS PER SHARE

Loss per common share is calculated on the basis of the weighted average number of common shares outstanding during the year ended December 31, 2002 of 15,769,411 (2001 - 8,063,134). Incremental common shares exercisable upon the exercise of convertible debentures (Note 9) and stock options (Note 10) have been excluded from the computation of diluted loss per share as their effect is anti-dilutive.

For purposes of calculating proforma earnings per share for the comparative figures, the weighted average number of outstanding common shares of the Company have been assumed to be the same as those of Energy after giving effect to the 1 for 10 consolidation of the common shares of Energy under the Plan, being 8,063,134 common shares for the year ended December 31, 2001.

13. CONTINGENT LIABILITIES

(a) During 1998 the Company successfully negotiated an economic plan for both the Mount Polley Mine and Huckleberry Mine sponsored by the Job Protection Commission of British Columbia. Under the terms of the arrangements, which were effective in July 1998, both mines realized cost reductions for a period of two years. Certain of the cost reductions are contingently repayable in the event that commodity prices and exchange rates exceed specified levels during each calendar quarter. Assistance has been recorded as a reduction in the related cost where it is not repayable or is contingently repayable as described above. Costs for which only the related payment has been deferred are recorded as expenses in the period they are incurred with the related liability disclosed as current or long term depending on the anticipated date of repayment. The maximum contingency repayable at December 31, 2002 is \$10,170,575 (2001 - \$10,170,575) and the obligation to make payments will cease in July 2003.

(b) Certain of the shareholders of Huckleberry other than the Company have provided letters of credit totaling \$2.0 million on behalf of Huckleberry to secure future site reclamation deposits. If these letters of credit were to be exercised by the holder then Huckleberry would be obligated to reimburse the shareholders for the \$2.0 million paid out by them under the letters of credit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

14. 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:

	2002			2001
	Huckleberry (50% interest)	Imperial (excluding Huckleberry)	Consolidated Total	Unaudited Proforma (Note 17) Huckleberry (50% interest)
<b>Balance Sheet</b>				
Cash and cash equivalents	\$ 1,299,427	\$ 1,292,158	\$ 2,591,585	\$ 1,149,846
Other current assets	8,585,476	2,954,702	11,540,178	8,644,214
Mineral properties	39,424,740	9,715,727	49,140,467	52,937,227
Other assets	104,568	8,640,357	8,744,925	104,794
	49,414,211	22,602,944	72,017,155	62,836,081
Accounts payable and accrued charges	(5,172,687)	(2,747,377)	(7,920,064)	(4,248,249)
Long term debt, including current portion	(75,334,800)	(4,370,814)	(79,705,614)	(73,504,969)
Other liabilities	(1,164,714)	(7,482,097)	(8,646,811)	(1,164,714)
Net assets	\$ (32,257,990)	\$ 8,002,656	\$ (24,255,334)	\$ (16,081,851)
<b>Statement of Loss</b>				
Revenues	\$ 45,590,537	\$ 1,648,206	\$ 47,238,743	\$ 45,565,164
Expenses	61,766,675	8,440,151	70,206,826	55,990,133
Net Loss	\$ (16,176,138)	\$ (6,791,945)	\$ (22,968,083)	\$ (10,424,969)
<b>Statement of Cash Flows</b>				
Cash flow from operations	\$ 3,112,567	\$ (2,076,546)	\$ 1,036,021	\$ 6,095,632
Net change in non cash operating balances	983,175	1,046,273	2,029,448	(676,041)
Operating activities	4,095,742	(1,030,273)	3,065,469	5,419,591
Financing activities	(565,929)	–	(565,929)	(633,917)
Investment activities	(3,380,232)	2,038,493	(1,341,739)	(4,834,139)
Increase (decrease) in cash and cash equivalents	\$ 149,581	\$ 1,008,220	\$ 1,157,801	\$ (48,465)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

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

	2002	2001 (Unaudited Proforma - Note 17)
Accounts receivable	\$ 972,386	\$ 2,239,311
Accounts payable and accrued liabilities	\$ 81,388	\$ 29,768
Accrued interest on long term debt	\$ 15,152,183	\$ 13,256,824
Mineral revenue earned	\$ 43,761,806	\$ 42,428,234
Mineral production costs incurred	\$ 11,304,505	\$ 11,580,434
Interest on long term debt	\$ 2,058,822	\$ 3,659,580
Other interest	\$ -	\$ 220,532

**15. FINANCIAL INSTRUMENTS, INTEREST RATE AND CREDIT RISK**

At December 31, 2002 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.

In view of the uncertainty over the Company's ability to repay the long term debt which relates to the Mount Polley and Huckleberry mines as described in Notes 4 and 8, the fair value of these debts are also 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 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. The Company has a 50% interest in the following contracts held by Huckleberry:

(a) At December 31, 2002, as part of Huckleberry's program to hedge anticipated production revenues, Huckleberry entered into hedge contracts that give Huckleberry the right, but not the obligation, to sell an aggregate US\$3.0 million per month for the period January to September 2003 at an exchange rate of \$1.55 per US\$1. The fair value of these contracts at December 31, 2002 was \$274,470 (US\$173,759).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

(b) At December 31, 2002 Huckleberry entered into a hedge contract that gives Huckleberry the right, but not the obligation, to sell 3.9 million pounds of copper for the month of January 2003 at a minimum price of US\$0.72 per pound. The fair value of this contract at December 31, 2002 was \$122,763 (US\$77,718).

(c) Subsequent to December 31, 2002 Huckleberry entered into hedge contracts that give Huckleberry the right, but not the obligation, to sell 3.9 million pounds of copper for each of the months of May and June 2003 at a minimum price of US\$0.76 per pound.

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

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

	2002	2001 (Unaudited Proforma - Note 17)
Marketable securities	\$ (1,152)	\$ -
Accounts receivable	1,578,113	2,769,410
Inventory	(1,144,553)	2,695,574
Accounts payable and accrued liabilities	1,597,040	(132,927)
Short term debt	-	(358,000)
	<u>\$ 2,029,448</u>	<u>\$ 4,974,057</u>

17. PROFORMA COMPARATIVE FIGURES

The proforma comparative figures represent the assets, liabilities, results of operations and cash flows of the Mining Business of Old Imperial which was acquired by the Company effective January 1, 2002. It has been prepared based on the audited financial position and results of operations of Old Imperial as of and for the year ended December 31, 2001 after the unaudited financial position and results of operations of the Energy Business for the year ended December 31, 2001, which was retained by Old Imperial, had been removed.

The proforma information for the year ended December 31, 2001 includes services to and costs incurred on behalf of the Mining Business by Old Imperial. Direct and indirect costs have been allocated to the Mining Business based on management's best estimate of the portion of the cost attributable to the operations. These proforma amounts also reflect an internal allocation of Old Imperial's interest expense, income tax provision and future income taxes. Interest expense on Old Imperial's corporate indebtedness is included in these financial statements on the basis that it was incurred primarily in respect of the mining operations. Actual results which would have occurred if the Company had been operated as a separate legal entity may differ from these estimates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002 and 2001 (Information as of December 31, 2001 and for the Year Ended December 31, 2001 is Proforma and Unaudited)

Administration costs are allocated 90% to the Mining Business and 10% to the Energy Business based on management's best estimate of time and effort expended on the revenue and expenditure related to each operating unit. Other interest expense, excluding interest related to carrying charges on the marketable securities, investments and oil and natural gas assets owned by Old Imperial, is allocated 100% to the Mining Business because the related interest bearing short and long term debt all relates to the mining operations of the Mining Business. Income, mining and capital taxes are allocated to the Mining Business based on its pretax income, taking into account all adjustments for calculating taxable income under the Income Tax Act, and calculated on a separate company basis.

The proforma comparative figures have also been adjusted to conform the accounting policies of the Mining Business to those of the Company. The nature and effect of these changes on the comparative figures are described in Note 3.

#### 18. SUBSEQUENT EVENTS

Subsequent to year end:

(a) the Company completed a Rights Offering and realized gross proceeds of \$1,379,824 before deduction of costs totaling \$130,559 from the issuance of 3,942,353 common shares, the maximum allotted under the Rights Offering, at \$0.35 per common share.

During the year ended December 31, 2002 the Company entered into a rights advisory and standby agreement with an investment dealer. As consideration for this guarantee the investment dealer received warrants to purchase up to 250,000 common shares of the Company at a price of \$0.36 per share until December 30, 2003.

(b) the Company sold a wholly owned subsidiary for proceeds of \$150,000. Included in accounts payable and accrued liabilities as of December 31, 2002 was a deposit from the purchaser for \$150,000. The Company may receive up to an additional \$150,000 in cash proceeds subject to adjustment for certain costs incurred.