

**INTERNATIONAL MINERALS CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in United States dollars)**

**YEARS ENDED JUNE 30, 2009 And 2008**

## AUDITORS' REPORT

To the Shareholders of  
International Minerals Corporation

We have audited the consolidated balance sheets of International Minerals Corporation as at June 30, 2009 and 2008 and the consolidated statements of operations and deficit and 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 audits 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 June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Accountants

September 4, 2009  
(except as to Note 20 which  
is as of September 24, 2009)



**INTERNATIONAL MINERALS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in United States dollars)  
**AS AT JUNE 30**

	2009	2008
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 43,775,995	\$ 60,447,985
Short term investments (Note 3)	-	1,560,496
Receivables	423,983	140,275
Due from related parties (Note 9)	377,328	124,681
Prepaid expenses and deposits	18,921	22,889
Securities held-for-trading (Note 4)	<u>135,816</u>	<u>254,075</u>
	44,732,043	65,550,401
<b>Long Term</b>		
Due from related party (Note 9)	75,000	-
Property and equipment	582,878	444,453
Investment (Note 6)	31,500	25,000
Investment in joint venture (Note 5)	32,396,735	22,972,335
Resource properties (Note 7)	80,097,809	71,965,109
Environmental bond (Note 8)	<u>68,352</u>	<u>54,819</u>
	\$ 157,984,317	\$ 158,012,117

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable	\$ 376,940	\$ 954,051
Accrued severance and payroll costs	2,274,448	1,189,445
Accrued interest payable on convertible debentures	158,593	181,321
Due to equity partner in joint venture (Note 5)	<u>-</u>	<u>1,870,533</u>
	2,809,981	4,195,350
<b>Long term</b>		
Convertible debentures (Note 10)	<u>31,756,199</u>	<u>35,122,555</u>
	<u>34,566,180</u>	<u>39,317,905</u>
<b>Shareholders' equity</b>		
Capital stock (Note 11)	125,678,141	129,850,285
Contributed surplus (Note 11)	5,326,188	5,101,104
Equity component of convertible debentures (Note 10)	4,945,008	4,945,008
Deficit	<u>(12,531,200)</u>	<u>(21,202,185)</u>
	<u>123,418,137</u>	<u>118,694,212</u>
	\$ 157,984,317	\$ 158,012,117

**Nature and continuance of operations** (Note 1)

**Contingency** (Note 17)

**Subsequent events** (Note 20)

**On behalf of the Board:**

<u>“Stephen J. Kay”</u> Stephen J. Kay	Director	<u>“W. Michael Smith”</u> W. Michael Smith	Director
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The accompanying notes are an integral part of these consolidated financial statements.

**INTERNATIONAL MINERALS CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in United States dollars)  
YEAR ENDED JUNE 30

	2009	2008
<b>EXPENSES</b>		
Amortization	\$ 164,912	\$ 23,324
General exploration	185,781	41,170
Interest and financing costs	3,033,149	3,564,049
Investor relations	375,921	689,676
Office and general	321,226	258,019
Professional fees	845,243	881,757
Salaries and benefits	853,999	801,115
Salary charge-outs (Note 9)	(119,622)	(146,806)
Stock-based compensation (Note 11)	2,146,211	1,745,510
Transfer agent and listing fees	93,118	109,645
Travel	<u>162,590</u>	<u>115,013</u>
	<u>(8,062,528)</u>	<u>(8,082,472)</u>
<b>OTHER ITEMS</b>		
Foreign exchange gain (loss)	4,613,264	(1,081,606)
Unrealized gain (loss) on securities held-for-trading (Note 4)	(108,406)	130,377
Management fee income (Note 9)	371,570	400,885
Interest income	970,219	2,828,050
Write-off of resource properties (Note 7)	(637,618)	(4,833,850)
Write-down of investment (Note 6)	<u>(7,500)</u>	<u>-</u>
	<u>5,201,529</u>	<u>(2,556,144)</u>
<b>INCOME FROM JOINT VENTURE (Note 5)</b>		
Equity income from joint venture	8,210,385	4,199,616
Equity gain on capital contributions in joint venture	4,226,000	6,270,237
Amortization of non-reimbursable costs	<u>(904,401)</u>	<u>-</u>
	<u>11,531,984</u>	<u>10,469,853</u>
<b>Net income (loss) for the year</b>	8,670,985	(168,763)
<b>Deficit, beginning of year</b>	<u>(21,202,185)</u>	<u>(21,033,422)</u>
<b>Deficit, end of year</b>	<u>\$ (12,531,200)</u>	<u>\$ (21,202,185)</u>
<b>Earnings (loss) per common share – basic and fully diluted</b>	<u>\$ 0.092</u>	<u>\$ (0.002)</u>
<b>Weighted average number of common shares outstanding</b>	<u>94,497,855</u>	<u>95,667,196</u>

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

**INTERNATIONAL MINERALS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Expressed in United States dollars)  
YEAR ENDED JUNE 30

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the year	\$ 8,670,985	\$ (168,763)
Add non-cash items:		
Amortization	164,912	23,324
Stock-based compensation	2,146,211	1,745,510
Unrealized foreign exchange (gain) loss	(4,547,318)	1,689,781
Unrealized loss (gain) on securities held-for-trading	108,406	(130,377)
Write-off of resource properties	637,618	4,833,850
Interest and financing costs	1,168,087	1,260,058
Equity income from joint venture	(8,210,385)	(4,199,616)
Equity gain on capital contributions in joint venture	(4,226,000)	(6,270,237)
Amortization of non-reimbursable costs	904,401	-
Write-down of investment	7,500	-
Changes in non-cash working capital items:		
Increase in receivables	(283,708)	(23,621)
Decrease (increase) in prepaid expense and deposits	3,967	(16,882)
Decrease in accounts payable and accrued liabilities	(295,259)	(173,436)
Due from related parties	(249,284)	(124,681)
Net cash used in operating activities	<u>(3,999,867)</u>	<u>(1,555,090)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Due from related party	(75,000)	-
Proceeds from the issuance of capital stock	115,873	1,065,609
Share buyback	(6,209,144)	-
Net cash (used in) provided by financing activities	<u>(6,168,271)</u>	<u>1,065,609</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Short-term investments	1,560,496	52,992,134
Resource property expenditures	(7,876,563)	(19,933,924)
Investments in joint venture	(1,352,857)	(2,077,986)
Purchase of property and equipment	(382,662)	(214,032)
Environmental bond	(13,533)	81,599
Recovery of investment in joint venture	1,561,267	200,000
Net cash (used in) provided by investing activities	<u>(6,503,852)</u>	<u>31,047,791</u>
<b>Change in cash and equivalents for the year</b>	(16,671,990)	30,558,310
<b>Cash and equivalents, beginning of year</b>	<u>60,447,985</u>	<u>29,889,675</u>
<b>Cash and equivalents, end of year</b>	<u>\$ 43,775,995</u>	<u>\$ 60,447,985</u>

Supplemental disclosure with respect to cash flows (Note 15)

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is incorporated under the Business Corporations Act (Yukon Territory) and is in the process of exploring, developing and exploiting its mineral resource properties in South America.

At the 40% owned Pallancata silver property in Peru, on June 30, 2006, the Company entered into a joint venture agreement with affiliated companies of Hochschild Mining Plc. ("Hochschild"). In order to earn and retain a 60% joint venture interest, Hochschild funded all necessary costs to bring the Pallancata property into production to a maximum 1,000 tonnes per day ("tpd"), at no cost to the Company and without recoupment of their capital expenditure, except through their own share of profit distributions. Underground production at the mine is approximately 3,000 tpd. The expansion of mine production from 1,000 tpd to 3,000 tpd was financed by the cash flow generated by the Peruvian joint venture company which was formed by the Company and Hochschild to hold the Pallancata property (See Note 5). The Company received its initial share of cash dividends from operations in August 2009 (see Note 20).

At the 100% held Rio Blanco gold/silver project, located in Ecuador, the Company completed a feasibility study in January 2006 on the Alejandra North Vein deposit, which confirmed economically viable mineral reserves based on a gold price of \$475 per ounce. An updated capital and operating cost estimate was released in February 2009 and showed that the mineral reserves could be economically mined at a rate of 800 tpd and a gold price of \$750 per ounce. At the current time development remains subject to additional financing in an amount to be determined, permitting and clarification of certain issues under the new Ecuadorian mining law (see Note 18, "Ecuador Mining Law" for more detail).

Other than the Pallancata and Rio Blanco deposits, the Company has not been able to identify a known body of commercial grade ore on its other properties that can be economically produced at the current gold price. The ability of the Company to recover the costs it has incurred to date on its other properties is dependent upon the Company being able to identify commercial ore bodies, to finance their development costs and to resolve any environmental, regulatory or other constraints, which may hinder the successful development and exploitation of the properties.

To date the Company has not earned significant revenues and is considered to be in the development stage with some of its resource properties and the exploration stage with its other resource properties.

The Company believes it has adequate funds available to meet its operating and administrative obligations for the next fiscal year.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

### **Estimates**

The preparation of consolidated financial statements in accordance with Canadian 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 consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

**INTERNATIONAL MINERALS CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in United States dollars)  
JUNE 30, 2009

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Estimates (cont'd...)**

Significant accounts that require estimates as the basis for determining the stated amounts include securities held-for-trading, resource properties, investment in the Suyamarca (Pallancata) Joint Venture, stock-based compensation, valuation allowance of future income tax assets and foreign currency translation.

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries located in the United States and South America. All inter-company balances and transactions have been eliminated.

**Cash and equivalents**

Cash is comprised of cash on hand, demand deposits and money market funds. Cash equivalents include short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**Short-term investments**

Short-term investments have in the past included Canadian and US dollar investments in Auction Rate Securities and money market funds. Auction Rate Securities were municipal and state bonds that had their interest rates determined by auction every 7, 28 and 35 days in a bidding process conducted by securities dealers. These investments were stated at market value, but were discontinued as of January 2009. The money market funds were carried at market value (see Note 3).

**Securities held-for-trading and investments**

Securities held-for-trading which are traded on a recognized securities exchange, are recorded at fair values based on quoted closing bid prices at the balance sheet dates or the closing bid prices on the last day the security traded if there were no trades at the balance sheet dates with both realized and unrealized gains and losses recorded in earnings on the statement of operations.

Investments in securities of private companies that do not have a quoted market price on a recognized securities exchange are recorded at cost.

**Property and equipment**

Property and equipment are recorded at cost and are amortized using the straight line method over the estimated useful lives of the individual assets at the following annual rates.

Automobiles and mining equipment	10% to 33%
Furniture and equipment	10% to 20%
Computer equipment	20%
Computer software	33%
Leasehold improvements	20%

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Investment in Joint Venture companies**

Investment in common shares of Joint Venture companies, over which the Company has significant influence, is accounted for by the equity method, whereby the investment is initially recorded at cost and adjusted to recognize the Company's share of earnings or loss in the investment. When the Company is unable to exercise significant influence, cost is deemed to be the carrying value of the investment at that time.

**Resource properties**

All costs related to the acquisition, exploration and development of resource properties are capitalized by property. If economically recoverable mineral reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written-off to operations. If, after management review, it is determined that the carrying amount of a resource property is impaired, that property is written down to its estimated net realizable value.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing and permitting to complete the development of the properties, and the future profitable production from the disposition of the metals produced from the properties.

**Asset retirement obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have any significant asset retirement obligations.

**Accrued interest costs**

Costs for interest are accrued quarterly for semi-annual payments made in arrears on the convertible debentures at May 31st and November 30th each year.

**Deferred finance costs**

Deferred financing costs consist of all costs incurred in issuing the convertible debentures and were amortized over the life of this instrument, which was deemed to be five years.

Pursuant to the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, deferred finance costs are applied against the convertible debentures and are measured at amortized cost using the effective interest method.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Impairment of long-lived assets**

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its estimated fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its specific use and eventual disposition.

**Stock-based compensation**

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the six-month vesting period of the stock options.

***Earnings (loss) per share***

The Company uses the treasury stock method to compute the dilutive effect of options, warrants, and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For convertible debentures, the weighted average number of outstanding shares is adjusted for the shares to be issued on conversion. Basic and diluted earnings per share in fiscal 2009 is calculated using the weighted average number of common shares outstanding during the year.

In the fiscal year 2008, under the treasury stock method, the basic and diluted loss per share are the same as the effect of common shares issuable upon exercise of stock options of the Company would be anti-dilutive.

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Foreign currency translation**

The Company's subsidiaries are integrated foreign operations and are translated into United States dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date and non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the year. Translation gains and losses are reflected in loss for the year.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Foreign currency translation (cont'd...)**

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of operations.

**Financial instruments – recognition and measurement**

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its financial instruments as follows:

- a) Cash and equivalents, short term investments and securities held-for-trading and investment are classified as held-for-trading.
- b) Receivables and due from related parties are classified as loans and receivables.
- c) Accounts payable and accrued liabilities, accrued interest payable on convertible debentures, due to equity partner in joint venture company and convertible debentures are classified as other financial liabilities.
- d) Environmental bond is classified as held to maturity.

**Comparative figures**

Certain comparative figures have been reclassified to conform to the current year's presentation.

**Recent accounting pronouncements**

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning July 1, 2009. The Company will adopt the requirements commencing in the interim period ended September 30, 2009 and is currently considering the impact these new standards may have on the Company's financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Recent accounting pronouncements (cont'd...)**

*Goodwill and intangible assets*

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets", and Section 3450, "Research and development costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for years beginning on or after October 1, 2008. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

*Business combinations, non-controlling interest and consolidated financial statements*

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Both sections are applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

*Credit risk and the fair value of financial assets and liabilities*

In January 2009 the Emerging Issues Committee ("EIC") issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". This abstract requires companies to take counterparty credit risk into account when measuring the fair value of financial assets and liabilities, including derivatives. This new standard is effective for the Company's interim and annual consolidated financial statements commencing July 1, 2009. The Company does not expect that the adoption of this standard will have a material impact on its financial statements.

*International financial reporting standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The changeover date affects interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Changes in accounting policy**

Effective July 1, 2008, the Company adopted the following new accounting standards issued by the CICA relating to financial instruments. As required by the transitional provisions of these new standards, these new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

*Assessing going concern (Section 1400)*

The AcSB amended Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern. The adoption of this standard did not have an impact on the Company's financial statements.

*Capital disclosures (Section 1535)*

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences. (See Note 12)

*Financial instruments – disclosure (Section 3862) and presentation (Section 3863)*

These new standards require additional disclosures to enable users to evaluate the significance of financial instruments for an entity's financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments (See Note 13).

*Mining exploration costs – EIC 174*

The AcSB issued EIC-174 which provides guidance to mining enterprises related to the measurement of exploration costs and the conditions that a mining enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatments provided in EIC-174 have been applied in the preparation of these financial statements and did not have an impact on the valuation of the Company's mineral properties.

**3. SHORT-TERM INVESTMENTS**

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	2009	2008
Auction rate securities	\$ -	\$ 1,301,932
Money market funds	<u>-</u>	<u>258,564</u>
Total short-term investments	<u>\$ -</u>	<u>\$ 1,560,496</u>

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Auction Rate Securities with a face value of \$1.3 million held by the Company in a money market account as a short-term investment during fiscal year 2008 were settled in full (at face value plus interest) on January 6, 2009 and these funds are currently held in money market funds classified as cash equivalents.

**INTERNATIONAL MINERALS CORPORATION**  
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**4. SECURITIES HELD-FOR-TRADING**

Securities held-for-trading are comprised of 625,000 common shares of Kernow Resources & Developments Ltd (“Kernow”), Kernow has a director in common with the Company. The Company also holds 504,923 common shares of Ventura Gold Corp (“Ventura”) at a cost of approximately Cdn\$0.03 per share. This investment was reclassified from Long Term Investment to Securities Held-for-Trading during the previous fiscal year. Ventura has directors and officers in common with the Company.

The following table sets out the movement of the Company’s securities held-for-trading.

Company Name	Number of Shares	Cost Value	Market Value 2009	Market Value 2008
Kernow Resources	625,000	\$ 104,446	\$ 13,516	\$ 61,814
Ventura Gold Corp.	504,923	15,000	<u>122,300</u>	<u>195,261</u>
			\$ 135,816	\$ 254,075
			2009	2008
Beginning balance		\$ 254,075	\$ 103,252	
Reclassification from long term investments		-	-	15,000
Movement in fair value on shares			<u>(118,259)</u>	<u>135,823</u>
Ending balance		\$ 135,816	\$ 254,075	

**5. INVESTMENT IN JOINT VENTURE COMPANY**

	2009	2008
<b>Pallancata Investment</b>		
Balance, beginning	\$ 21,390,653	\$ 6,270,221
Investment in Pallancata	(1,870,533)	1,870,533
Pallancata finders fee non-reimbursable costs	-	2,367,442
Additional non-reimbursable costs	904,401	412,604
Equity gain on capital contributions of Hochschild	4,226,000	6,270,237
Equity income from Joint Venture	8,210,385	4,199,616
Amortization of non-reimbursable costs	<u>(904,401)</u>	<u>-</u>
	<u>31,956,505</u>	<u>21,390,653</u>
<b>Pacapausa Investment</b>		
Balance, beginning	1,581,682	-
Initial investment in Pacapausa	-	781,682
Additional costs	419,815	-
Payment received from Hochschild	(1,561,267)	(200,000)
Additional investment in Pacapausa	<u>-</u>	<u>1,000,000</u>
	<u>440,230</u>	<u>1,581,682</u>
Balance, ending	\$ 32,396,735	\$ 22,972,335

**INTERNATIONAL MINERALS CORPORATION**  
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**5. INVESTMENT IN JOINT VENTURE COMPANY (cont'd...)**

On June 30, 2006, the Company entered into a Joint Venture Agreement with affiliated companies of Hochschild Plc ("Hochschild") in Peru. The purpose of the joint venture was to fast-track development, permitting and production of the Company's Pallancata property in Peru. The Company and Hochschild formed a Peruvian joint venture company, Minera Suyamarca S.A.C. ("Suyamarca"), whose common shares are held 60% by Hochschild and 40% by the Company.

Hochschild agreed to provide (and has already provided) to Suyamarca 100% of the capital required to develop, permit and construct a mining operation at Pallancata to a production level of 1,000 tonnes per day ("tpd"). Hochschild cannot recover any of its capital investment, except through its 60% share of any profit distribution.

The Company recorded an equity gain on capital contributions by Hochschild of \$10,496,237 (representing 40% of Hochschild's capital that funded 100% of the costs for the expansion of the Pallancata operation from 500 tpd to 1000 tpd). The mine expansion in excess of 1,000 tpd is required to be funded 60% by Hochschild and 40% by the Company. In January 2008, the Company announced that Hochschild intended to increase production to approximately 2,000 tpd by the end of calendar year 2008. This expansion was achieved and a further expansion to approximately 3,000 tpd has been achieved in the fourth quarter of the current fiscal year. To date, the Company has committed its equity in the Joint Venture to fund capital expenditures to increase mine production beyond 1,000 tpd.

All Pallancata ore is processed off-site at Hochschild's nearby Selene Mine processing plant and Hochschild charges Suyamarca a toll processing fee based on the plant operating costs. The cost of the additional processing capacity required at the Selene processing plant in order to treat the increase in ore from Pallancata when mining was expanded first to approximately 2,000 tpd and subsequently to approximately 3,000 tpd, was paid 100% by Hochschild and the toll processing cost charged to Suyamarca was adjusted to reflect the additional capital cost incurred by Hochschild.

Hochschild is the manager and operator of the project and since September 9, 2007 has been charging Suyamarca a management services fee of 10% of the operating costs incurred by Suyamarca at Pallancata.

The Company will continue to incur certain costs on its own behalf at the Pallancata property in order to monitor and supervise its 40% interest in its investment in the Pallancata joint venture. Such costs are recorded as non-reimbursable costs and are being amortized over the life of the project.

On November 5, 2007, the Company purchased the 25% interest in the Pacapausa property (adjacent to Pallancata) owned by its joint venture partner, IAMGOLD Corp. ("IAMGOLD"), for \$1.0 million, resulting in the Company owning an aggregate 50% interest in the Pacapausa property.

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**5. INVESTMENT IN JOINT VENTURE COMPANY (cont'd...)**

Also on November 5, 2007, the Company agreed with Hochschild to transfer its 50% interest in the Pacapausa property to Suyamarca for \$1.2 million (received). Suyamarca agreed to assume the 0.5% NSR royalty obligation to IAMGOLD. In addition a payment was received of \$190,000 for reimbursement of IVA taxes, and \$371,000 for reimbursement of exploration costs. These amounts were credited to the Company's investment in the Suyamarca joint venture account.

Suyamarca currently holds a 50% interest in the Pacapausa property with Hochschild holding the remaining 50% which it acquired in its acquisition of Southwestern Resources in May 2009. All exploration and other costs associated with advancing the Pacapausa property will be shared as to 50% by Hochschild and 50% by Suyamarca (with Suyamarca's share funded as to 60% by Hochschild and 40% by the Company). With the acquisition of Southwestern Resources, Hochschild owns an 80% interest in the Pacapausa property and the Company owns a 20% interest.

**6. INVESTMENT**

**Santa Barbara Resources Limited**

On October 30, 2007, the Company received 50,000 shares of Santa Barbara Resources Limited ("Santa Barbara") as the initial payment in lieu of a \$25,000 cash payment under the Cañicapa Property Option Agreement in Ecuador.

Santa Barbara is a private company that has directors in common with the Company. The Cañicapa Property Option Agreement was terminated by Santa Barbara on March 24, 2009 and the Company received an additional 40,000 shares of Santa Barbara with a value of \$14,000 as an early termination fee. The Company has terminated the underlying agreement with Nordic Mining and will return the Cañicapa concessions to Nordic Mining as soon as possible, subject to clarification of the timing and conditions of such a transfer under the new Ecuadorian mining law.

The value of the 90,000 shares was written down by \$7,500 for a total value of \$31,500.

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**7. RESOURCE PROPERTIES**

2009	Balance, Beginning of Year	Additions	Write off or Transfer of Resource Properties	Balance, End of Year
<b>Gaby Property, Ecuador</b>				
Option payments on mining concessions	\$ 6,988,868	\$ 240,000	\$ -	\$ 7,228,868
Drilling contract costs	7,953,982	4,821	-	7,958,803
Field wages, consulting fees and on site costs	9,685,627	1,559,049	-	11,244,676
Feasibility costs	2,344,370	185,782	-	2,530,152
Assaying fees	1,835,167	128,590	-	1,963,757
Finder's fee	275,000	-	-	275,000
Amortization	158,999	-	-	158,999
Acquisition costs	520,008	38,588	-	558,596
Other deferred costs	<u>993,899</u>	<u>30,705</u>	-	<u>1,024,604</u>
Total for Gaby	<u>30,755,920</u>	<u>2,187,535</u>	-	<u>32,943,455</u>
<b>Rio Blanco Property, Ecuador</b>				
Option payments on mining concessions	2,129,861	-	-	2,129,861
Post feasibility drilling contract costs	3,641,690	-	-	3,641,690
Field wages, consulting fees and on site costs	16,231,459	5,215,339	-	21,446,798
Feasibility drilling/assay costs	4,103,936	2,066	-	4,106,002
Feasibility study/other costs	8,870,867	145	-	8,871,012
Assaying fees	577,628	64,877	-	642,505
Heavy equipment purchase	462,110	13,680	-	475,790
Finder's fee	16,667	-	-	16,667
Acquisition costs	1,102,118	102,346	-	1,204,464
Other deferred costs	<u>1,940,589</u>	<u>28,330</u>	-	<u>1,968,919</u>
Total for Rio Blanco	<u>39,076,925</u>	<u>5,426,783</u>	-	<u>44,503,708</u>

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**7. RESOURCE PROPERTIES (cont'd...)**

2009	Balance, Beginning of Year	Additions	Write off or Transfer of Resource Properties	Balance, End of Year
<i>Continued...</i>				
<b>Cañicapa Property, Ecuador</b>				
Option payments on mining concessions	(1,100)	-	1,100	-
Field wages, consulting fees and on site costs	50,391	(10,740)	(39,651)	-
Other deferred costs	12,887	-	(12,887)	-
Total for Cañicapa	62,178	(10,740)	(51,438)	-
<b>Urbaque Property, Peru</b>				
Field wages, consulting fees and on site costs	962,234	129,037	-	1,091,271
Drilling contract costs	333,154	-	-	333,154
Assaying fees	85,763	15,541	-	101,304
Other deferred costs	24,971	8,354	-	33,325
Total for Urbaque	1,406,122	152,932	-	1,559,054
<b>Rubi Property, Peru</b>				
Field wages, consulting fees and on site costs	-	468,992	(468,992)	-
Total for Rubi	-	468,992	(468,992)	-
<b>Other Resource Properties</b>				
Field wages, consulting fees and on site costs	663,964	544,816	(117,188)	1,091,592
Total for Other	663,964	544,816	(117,188)	1,091,592
<b>Total Resource Properties</b>	<b>\$ 71,965,109</b>	<b>\$ 8,770,318</b>	<b>\$ (637,618)</b>	<b>\$ 80,097,809</b>

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**7. RESOURCE PROPERTIES (cont'd...)**

2008	Balance, Beginning of Year	Additions	Write off or Transfer of Resource Properties	Balance, End of Year
<b>Gaby Property, Ecuador</b>				
Option payments on mining concessions	\$ 6,488,868	\$ 500,000	\$ -	\$ 6,988,868
Drilling contract costs	5,952,700	2,001,282	-	7,953,982
Field wages, consulting fees and on site costs	7,214,503	2,471,124	-	9,685,627
Feasibility costs	1,591,046	753,324	-	2,344,370
Assaying fees	1,311,307	523,860	-	1,835,167
Finder's fee	275,000	-	-	275,000
Amortization	158,999	-	-	158,999
Acquisition costs	459,629	60,379	-	520,008
Other deferred costs	<u>975,578</u>	<u>18,321</u>	<u>-</u>	<u>993,899</u>
Total for Gaby	<u>24,427,630</u>	<u>6,328,290</u>	<u>-</u>	<u>30,755,920</u>
<b>Rio Blanco Property, Ecuador</b>				
Option payments on mining concessions	2,004,861	125,000	-	2,129,861
Post feasibility drilling contract costs	2,093,078	1,548,612	-	3,641,690
Field wages, consulting fees and on site costs	9,213,140	7,018,319	-	16,231,459
Feasibility drilling/assay costs	4,103,936	-	-	4,103,936
Feasibility study/other costs	8,954,283	(83,416)	-	8,870,867
Assaying fees	445,737	131,891	-	577,628
Heavy equipment purchase	325,000	137,110	-	462,110
Finder's fee	16,667	-	-	16,667
Acquisition costs	925,725	176,393	-	1,102,118
Other deferred costs	<u>1,882,984</u>	<u>57,605</u>	<u>-</u>	<u>1,940,589</u>
Total for Rio Blanco	<u>29,965,411</u>	<u>9,111,514</u>	<u>-</u>	<u>39,076,925</u>
<b>Cañicapa Property, Ecuador</b>				
Option payments on mining concessions	23,900	(25,000)	-	(1,100)
Field wages, consulting fees and on site costs	39,177	11,214	-	50,391
Other deferred costs	<u>12,887</u>	<u>-</u>	<u>-</u>	<u>12,887</u>
Total for Cañicapa	<u>75,964</u>	<u>(13,786)</u>	<u>-</u>	<u>62,178</u>

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**7. RESOURCE PROPERTIES (cont'd...)**

2008	Balance, Beginning of Year	Additions	Write off or Transfer of Resource Properties	Balance, End of Year
<i>Continued...</i>				
<b>Aster and Acos Properties, Peru</b>				
Field wages, consulting fees and on site costs	530,113	798,867	(1,328,980)	-
Total for Aster and Acos	530,113	798,867	(1,328,980)	-
<b>Pacapausa Property, Peru</b>				
Field wages, consulting fees and on site costs	533,646	248,036	-	781,682
Transfer of Pacapausa to Joint Venture	-	-	(781,682)	(781,682)
Total for Pacapausa	533,646	248,036	(781,682)	-
<b>Antabamba Property, Peru</b>				
Option payments on mining concessions	39,071	-	(39,071)	-
Field wages, consulting fees and on site costs	1,378,356	939,569	(2,317,925)	-
Drilling contract costs	409,173	690,246	(1,099,419)	-
Assaying fees	24,705	23,750	(48,455)	-
Total for Antabamba	1,851,305	1,653,565	(3,504,870)	-
<b>Other Resource Properties, Ecuador and Peru</b>				
Field wages, consulting fees and on site costs	597,939	1,472,147	-	2,070,086
Total Other	597,939	1,472,147	-	2,070,086
<b>Total Resource Properties</b>	<b>\$ 57,982,008</b>	<b>\$ 19,598,633</b>	<b>\$ (5,615,532)</b>	<b>\$ 71,965,109</b>

**Title to mineral properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of title to certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has diligently investigated rights of ownership of all of the mineral concessions in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

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**7. RESOURCE PROPERTIES (cont'd...)**

**Title to mineral properties (cont'd...)**

Ecuador mining concessions are subject to the Ecuador mining law (approved in January 2009) and its regulations which are pending (see Note 18).

**Gaby Property, Ecuador**

***Muyuyacu Concession***

To date the Company has earned a 55% interest in the Muyuyacu concession ("the Concession").

In July 1993, the Company entered into a joint venture agreement to acquire an initial 50% interest in the Concession. Under the terms of this agreement, the Company was originally required to pay a total of \$3,640,000 in option payments. To date the Company has earned its 50% interest by paying \$2,665,000 in cash between July 1993 and July 1997, with the balance being subject to the terms of a trust agreement signed in May 1995 between the Company, the joint venture partner and an Ecuadorian bank, the latter also being the trust agreement administrator and the entity to whom the joint venture partner had pledged its remaining 50% interest in the Concession.

Also in May 1995, the Company entered into a second agreement to acquire the remaining 50% of the Concession from the joint venture partner by agreeing to pay a total of \$10,400,000 in option payments. This agreement became part of the same trust agreement described above and the trust agreement completely revised the payment terms of this second agreement (to acquire the remaining 50% interest in the Concession not held by the Company) and also incorporated the then-outstanding payments that were originally due under the terms of the joint venture agreement for the initial 50% interest. Under the terms of this May 1995 trust agreement, the Company had the option to acquire the remaining 50% interest in the Concession by making payments to the Ecuadorian bank totaling \$11,375,000 between July 1995 and July 1999. The Company paid a total of \$1,575,000 to the Ecuadorian bank in 1995 and 1996 and earned an additional 5% indirect interest in the Concession, bringing its aggregate interest to 55%.

In order to earn the remaining 45% interest in the Concession, the Company was required to pay an aggregate of \$9,800,000 to the Ecuadorian bank between 1997 and 1999. These payments were not made by the Company. The bank, therefore, presently controls a 45% interest in the Concession. The current amount payable, payment schedule and/or other mechanism of payments are still under negotiation with the Ecuadorian governmental agency (the "AGD") that is dealing with the insolvency and reorganization procedures for the Ecuadorian bank. The government has stated their intention to close the AGD by December 31, 2009. The Company intends to re-start negotiations with the AGD once the regulations to the new mining Ecuadorian law are issued and clarifications of other important issues are resolved (see Note 18).

In consideration of acquiring the Concession, the Company agreed to pay a finder's fee to a third party as follows: \$75,000 cash (paid) and the issue of 112,027 common shares (issued) at an agreed value of \$200,000 and a further \$300,000 cash or equivalent in shares, at the election of the Company, on the completion of a positive feasibility study.

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**7. RESOURCE PROPERTIES (cont'd...)**

**Gaby Property, Ecuador (cont'd...)**

***Guadalupe, Papa Grande and Mollopongo Concessions, Ecuador***

The Company holds a 100% interest in the Guadalupe concession and has an option to acquire a 100% interest in the Mollopongo concession. For the Papa Grande concession, the Company owns a 50% interest and had an option to acquire the remaining 50% interest.

In January, 2008, the Company entered into an option agreement to purchase the remaining 50% interest in the Papa Grande concession for a total of \$12,000,000, to be paid over seven years. The Company paid \$740,000 and has terminated the option agreement due to the uncertainties relating to the new mining law in Ecuador.

In order to exercise the option on the Mollopongo concession, the Company is required to pay \$300,000 plus an additional \$50,000 for each three year period after May 2001. The current amount due under the option at June 30, 2009, is \$450,000 if it were paid (at the Company's election) prior to May 2010.

**Rio Blanco Property, Ecuador**

Under the terms of an option agreement between the Company and Rio Tinto Mining and Exploration Ltd. ("Rio Tinto") dated October 8, 1998 (as amended), the Company holds a 100% interest in the Canoas, Canoas 1 and San Luis A2 concessions (the "Concessions"). To date, the Company has paid \$1,045,000 in cash and issued 683,855 common shares with a value of \$520,000 to Rio Tinto as option payments. Pursuant to the latest amendment to the agreement dated August 20, 2003, the following option payments remain:

Upon commencement of commercial production	\$ 700,000
One year after commencement of commercial production	<u>1,000,000</u>
	<u>\$ 1,700,000</u>

In addition, a 2.5% Net Smelter Return ("NSR") royalty will be payable to Rio Tinto upon commencement of commercial production from the Concessions. If the Company defaults on any conditions of the amended agreement, the Concessions revert to Rio Tinto and the Company will receive a 1% NSR royalty.

The Company also has an option to acquire a 100% interest in the Miguir exploration concession under the terms of an agreement dated July 15, 2003 (as amended). To date the Company has paid \$492,000. Pursuant to the latest amendment to the agreement dated October 28, 2003, the following option payments remain:

Upon completion of a feasibility study at Miguir	\$ 200,000
Upon commencement of commercial production from Miguir	500,000
One year after commercial production from Miguir	<u>250,000</u>
	<u>\$ 950,000</u>

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**7. RESOURCE PROPERTIES (cont'd...)**

**Rio Blanco Property, Ecuador (cont'd...)**

In addition, in the year the Company purchased surface rights over part of the Rio Blanco property for a total cost of \$17,000 (2008 - \$154,055) bringing the aggregate cost to a total of \$1,096,780 (2008 - \$1,079,780) for surface rights purchases.

**Cañicapa Property, Ecuador**

On April 24, 2002, the Company entered into an option agreement to acquire a 100% interest in the Cañicapa gold property (the "Property") in Ecuador. In order to maintain the option the Company was to make annual payments of \$10,000 and pay \$500,000 within 30 days after the start of commercial production together with a 2.5% NSR royalty. The Company had a one time right to purchase the NSR royalty for \$5,000,000 for a period of 120 days from the start of commercial production. The Company has terminated its option agreement with the underlying owner and accordingly has written-off all of its costs in the project to operations.

The Company had an option agreement with Santa Barbara Resources Ltd. ("Santa Barbara") a private company, whereby Santa Barbara could have earned a 50% interest in the property by completing \$1,000,000 of exploration expenditures within four years and issuing either 550,000 common shares of Santa Barbara or paying to the Company an aggregate of \$275,000 in cash, at the election of Santa Barbara. To date, Santa Barbara has issued 90,000 common shares with a value of \$31,500.

On April 23, 2008 Santa Barbara invoked the force majeure provision of the agreement based on the Ecuadorian mining mandate (see Note 18) and suspended its activities pending expiry of the mining mandate and the approval of a new mining law. On March 24, 2009, the Company received notice from Santa Barbara that it had terminated its option agreement with the Company. A payment of 40,000 Santa Barbara common shares (included in the 90,000 shares above) was received by the Company as an early termination fee.

**Urbaque Property, Peru**

**Urbaque Agreement**

The Company is the operator and must complete 9,000m of drilling (with a minimum of 2,000m by September 26, 2007 (completed); 3,000m by September 30, 2008 and 4,000m by September 30, 2009, "the Earn-in Period") in order to acquire a 51% interest in the Urbaque property. In June 2008, the Company issued a letter to Barrick (who accepted the letter and waived the drilling requirement for 2008) to suspend its drilling requirement for 2008 due to the inability of the Company to obtain approval from the local community to drill on the mineral property. The Company is currently renegotiating the drilling commitment for 2009.

Following the Earn-in Period, Barrick will have a one-time back-in right to increase its participating interest from 49% to 60% and become operator if the Company has established a total mineral resource (measured, indicated and inferred) in excess of 2.0 million ounces of gold on the property. Barrick must exercise its back-in right within 90 days of notification in writing of the resource estimate by the Company and must pay three times the Company's exploration costs up to the date of Barrick's election to exercise its back-in right.

**7. RESOURCE PROPERTIES (cont'd...)**

**Urbaque Property, Peru (cont'd...)**

Urbaque Agreement (cont'd...)

If Barrick's participating interest in the joint venture is reduced to 20% or less, then Barrick's participating interest may be exchanged (at Barrick's sole choice) for a 2% NSR royalty payable upon commencement of any commercial production from the property. The Company is responsible for the maintenance costs of the property during the Earn-in Period. There are no underlying property option payments or royalties to third parties.

**Rubi Property, Peru**

In October 2008, the Company agreed to a joint venture agreement with Radius Gold Inc. ("Radius") to earn a 60% interest in the Rubi property. Terms of the agreement required the Company to pay \$475,000 (paid), pay 60% of the cash payments totaling \$2,925,000 and to pay 60% of the exploration costs totaling \$2,600,000. After its initial payment, the Company decided to terminate its interest in the project and accordingly has written-off its costs to operations.

**Reese River, Nevada, Other Resource Properties**

On March 31, 2009, the Company signed a Letter Agreement with New Dimension Resources Ltd ("NDR") for the Company to earn up to a 70% interest in NDR's Reese River silver project (the "Property"), an exploration prospect located in central Nevada. NDR has a director in common with the Company.

The Company can earn an initial 60% interest in the Property over a four year period by undertaking \$1.0 million in exploration expenditures and maintaining the underlying property obligations. The Company's exploration expenditures include firm commitments to fully fund and complete a 2,000m drill program in the first year of the agreement.

The Company also has the option to acquire an additional 10% interest (for a total interest of 70%) by funding and completing a Feasibility Study within eight years.

NDR has received an initial payment of \$10,000 in cash and could receive a further \$100,000 in cash or its equivalent value in the Company shares (at the election of the Company) should the Company earn its 60% interest in the Property. In addition, the Company paid \$15,000 as part of the underlying agreements.

Once the Company has earned its interest (either 60% or 70%), joint venture expenditures will be funded pro-rata.

**8. ENVIRONMENTAL BOND**

The Company holds a guaranteed bank certificate in the amount of \$68,352 (2008 - \$54,819) with an Ecuadorian bank as security for any environmental issues that might occur on the Rio Blanco property in Ecuador. The bank certificate was required by the Ministry of Mines and Petroleum in Ecuador.

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**9. RELATED PARTY TRANSACTIONS**

During the year, the Company entered into the following transactions with related parties:

- a) Paid or accrued legal and other services of \$201,526 (2008 - \$168,582) provided by firms in which two directors of the Company are partners or principals. The Company allocated \$64,971 (2008 - \$92,665) of these costs to resource properties. As at June 30, 2009, the accounts payable to these firms totalled \$18,087 (2008 - \$14,743).
- b) Charged salaries of \$158,918 (2008 - \$146,806) of which \$39,296 was allocated to investor relations and management fees of \$373,877 (2008 - \$400,885) of which \$2,307 was allocated to investor relations to Ventura pursuant to service agreements whereby the Company provides administrative and exploration program management services to Ventura. This public company has officers and directors in common with the Company. In addition, the Company has paid certain costs on behalf of Ventura, totalling \$70,049 (2008 - \$40,548). The amount due from Ventura at June 30, 2009 was \$395,415 (2008 - \$139,424).
- c) At year end, the Company held 504,923 (2008 - 504,923) common shares of Ventura and 90,000 (2008 - 50,000) common shares of Santa Barbara as described in Notes 4 and 6.
- d) Paid a property payment (as part of property maintenance costs) for the Reese River project in Nevada of \$25,000 (2008 - \$Nil) to New Dimension Resources, which has a director in common with the Company (see Note 7).
- e) A loan of \$75,000 was made to a director of the Company on May 29, 2009. Annual interest payments based on a 3% rate are paid monthly. Repayment in full is due no later than 36 months from the date of the loan.
- f) The summary of amounts payable (to) due from related parties is as follows:

	2009	2008
<b>Short term</b>		
Accounts payable to related parties for fees	\$ (18,087)	\$ (14,743)
Amounts due from related parties (Ventura)	<u>395,415</u>	<u>139,424</u>
	377,328	124,681
<b>Long term</b>		
Amount due from related party	<u>75,000</u>	<u>-</u>
Due from related parties	<u>\$ 452,328</u>	<u>\$ 124,681</u>

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

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**10. CONVERTIBLE DEBENTURES**

The convertible debentures ("Debentures") bear interest at an annual rate of 5.50%, payable semi-annually on May 31 and November 30 of each year, commencing November 30, 2006 and mature on May 19, 2012. The Debentures are convertible into common shares of the Company at a conversion price of Cdn\$6.88 per common share.

The Debentures were not redeemable by the Company prior to May 31, 2009. On or after May 31, 2009, and prior to May 31, 2011, the Debentures may be redeemed by the Company, in whole or in part, at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, provided the market price of the Company's common shares on the Toronto Stock Exchange ("TSX") equals or exceeds 125% of the conversion price for the 20 consecutive trading days ending five trading days prior to the date on which notice of redemption is given. On or after May 31, 2011, the Debentures may be redeemed, in whole or in part, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest to the date of redemption. The Company may, at its option and subject to compliance with all legal and regulatory requirements, repay all or a portion of the principal amount of the Debentures on redemption or at maturity, through the issuance of common shares that are freely tradeable in Canada.

Using acceptable pricing models, the Debentures have been segregated based on the respective fair values of their debt and equity components on the date the Debentures were issued. The Debentures were segregated into a debt component of \$30,766,089 and an equity component of \$4,945,008.

The debt component, representing the value allocated to the liability at inception, is recorded as a long-term liability. The remaining component, representing the value ascribed to the holders' option to convert the principal amount into common shares, is classified in shareholders' equity as "equity component of convertible debentures". Over the term of the debt obligation (which is deemed to be five years), the debt component will be accreted to the face value of the Debentures by the recording of additional interest expense.

	Principal Amount	Effect of Foreign Exchange Rate	Unamortized Accreted Amount	Deferred Finance Costs, Net	Net Carrying Amount
June 30, 2009					
Convertible Debentures	\$ 35,711,097	\$ (1,043,101)	\$ (2,122,644)	\$ (789,153)	\$ 31,756,199

	Principal Amount	Effect of Foreign Exchange Rate	Unamortized Accreted Amount	Deferred Finance Costs, Net	Net Carrying Amount
June 30, 2008					
Convertible Debentures	\$ 35,711,097	\$ 3,514,069	\$ (3,114,081)	\$ (988,530)	\$ 35,122,555

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**11. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited number of common shares without par value			
Balance, June 30, 2007	95,194,501	\$ 126,117,325	\$ 3,655,503
Issued on exercise of options	410,500	1,365,518	(299,909)
Shares issued – Pallancata finder’s fee	425,000	2,367,442	-
Stock-based compensation	-	-	1,745,510
Balance, June 30, 2008	96,030,001	129,850,285	5,101,104
Shares returned to Treasury and cancelled*	(3,198,000)	(4,288,017)	(1,921,127)
Issued on exercise of options	150,000	115,873	-
Stock-based compensation	-	-	2,146,211
Balance, June 30, 2009	92,982,001	\$ 125,678,141	\$ 5,326,188

\*See Share Buyback Program – Note 19.

During the year ended June 30, 2009, 150,000 common shares were issued for proceeds totaling \$115,873 pursuant to the exercise of incentive stock options.

During the year ended June 30, 2009, pursuant to a share buyback program on the Toronto Stock Exchange (“TSX”), the Company repurchased 3,198,000 shares at an average price of Cdn \$2.38 per share for a total cost of Cdn\$7,626,438 (\$6,209,144). The Company returned to Treasury and cancelled 3,198,000 common shares acquired and allocated \$4,288,017 to Capital Stock and \$1,921,127 to Contributed Surplus.

During the year ended June 30, 2008, 410,500 shares were issued for proceeds totaling \$1,065,609 pursuant to the exercise of incentive stock options. As a result, \$299,909 was transferred from contributed surplus to share capital.

During the year ended June 30, 2008, the Company issued 425,000 shares with a value of \$2,367,442 as a finder’s fee in connection with the acquisition of the Pallancata property.

**Stock options**

The Company has an incentive stock option plan in place under the rules of the TSX pursuant to which it is authorized to grant options to executive officers directors, employees and consultants, enabling them to acquire up to 10.5 million common shares of the Company. Under the plan, the exercise price of each option is equal to the market price of the Company’s shares on the date of grant. The options can be granted for a maximum term of 10 years and vest over a period of 6 months from the date granted.

Stock option transactions and the number of stock options outstanding are summarized as follows:

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**11. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock options (cont'd...)**

	Number of Options	Weighted Average Exercise Price (\$Cdn)
Balance, June 30, 2007	3,216,500	\$ 4.29
Granted	495,000	5.67
Exercised	(410,500)	2.62
Expired / cancelled	<u>(70,000)</u>	5.78
Balance, June 30, 2008	3,231,000	4.68
Granted	1,002,500	3.73
Exercised	(150,000)	0.90
Expired / cancelled	<u>(199,000)</u>	5.50
Balance, June 30, 2009	3,884,500	\$ 4.54
Options exercisable, June 30, 2009	2,882,000	\$ 4.82
Weighted average fair value of options granted during fiscal 2009 and 2008	US\$ 2.37	US\$ 2.07

The following stock options were outstanding at June 30, 2009:

Expiry date	Exercise Price (\$Cdn)	Number of Options
August 14, 2011	1.00	275,000
May 22, 2013	1.80	50,000
February 11, 2014	4.58	250,000
February 1, 2015	4.00	342,000
December 6, 2015	4.48	50,000
October 4, 2016	4.70	50,000
November 6, 2016	5.25	300,000
February 26, 2017	5.78	1,070,000
July 10, 2017	5.70	120,000
August 6, 2017	5.84	250,000
November 2, 2017	5.62	25,000
June 2, 2018	5.22	100,000
February 23, 2019	3.73	<u>1,002,500</u>
		<u>3,884,500</u>

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**11. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Stock-based compensation**

The total stock-based compensation recognized under the fair value method for options granted and extended in 2009 was \$2,669,384 (2008 - \$1,026,281), using the Black-Scholes option-pricing model. Together with amortization of options awarded in previous periods, the Company expensed a total of \$2,146,211 (2008 - \$1,745,510) during the current year, leaving an unamortized balance of \$718,545 (2008 - \$195,372) yet to be amortized to operations.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted and extended:

	2009	2008
Risk-free interest rate	2.29%	4.30 %
Expected life of options	5.93 years	6.1 years
Annualized volatility	93.82 %	23.98 %
Dividend	0%	0 %

**12. CAPITAL RISK MANAGEMENT**

The objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders, benefits to other stakeholders and to have sufficient funds on hand to meet the Company's exploration and development plans to ensure the on-going growth of the business .

The Company considers as its capital its shareholder's equity, convertible debentures and cash and equivalents. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust capital structure, the Company may issue new shares through private placements, repurchase shares, sell assets, incur debt, or return capital to shareholders. As of June 30, 2009, the Company has debt in the form of convertible debentures (see Note 10), but is not subject to externally imposed capital requirements. During the year, the Company implemented a share buyback program on the TSX (see Note 19). The Company currently has sufficient capital resources to meet its planned operational and administrative overhead expenses for the next fiscal year. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. Due to the cyclical nature of the industry, there is no guarantee that when the Company needs to raise capital, there will be funds at that time.

**13. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT**

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

**13. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (cont'd...)**

*Liquidity risk*

Liquidity risk is managed by the Company by maintaining sufficient cash balances to meet current working capital requirements. The Company is in production in Peru but may require additional funding in order to continue other exploration and development programs in the future. Despite previous success in acquiring this funding, there is no guarantee of obtaining future funding. The Company's cash and cash equivalents are invested in business accounts with quality financial institutions primarily in Canada and the U.S. and are available on demand for the Company's programs. Long term investments are held as an interest in a joint venture company managed by an established public mining company in Peru. The Company is not invested in any asset-backed commercial paper but did receive on January 6, 2009, full settlement (at face value plus interest) for the \$1.3 million in Auction Rate Securities the Company had been carrying as a short term investment. These funds are currently held in money market funds (cash equivalents).

*Credit risk*

The Company's credit risk is primarily attributable to its liquid financial assets and would arise from the non-performance by counterparties of contractual financial obligations. The Company limits its exposure to credit risk on liquid assets by maintaining its cash, cash equivalents and environmental reclamation bond with high-credit quality financial institutions. Receivables are minimal at this time and are not considered a material credit risk. Securities held-for-trading currently include only two junior exploration companies, but the securities remain subject to market fluctuations and changing market values.

*Currency risk*

While the Company's funds are held in both US and Canadian dollars, its operations are in the United States, Ecuador and Peru. Foreign exchange or currency risk results from multiple currencies transactions and the Company's financial statements which are reported in US dollars. The largest risk involves the Company's convertible debentures and the required bi-annual interest payments which are transacted in Canadian dollars. The Company does not use derivative instruments to reduce its currency risk. Ecuador is a US dollar based economy and accordingly there is limited currency risk.

*Sensitivity Analysis*

The Company is exposed to foreign currency risk on fluctuations related to cash, securities held-for-trading, long term investment, convertible debentures and accounts payable and accrued liabilities, that are denominated in Canadian dollars. As at June 30, 2009, net liabilities totalling \$20,211,786 were held in Canadian dollars.

Based on the above net exposure as at June 30, 2009, and assuming all other variables remain constant, a 15% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of approximately \$3,885,720 in the Company's net income.

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**13. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (cont'd...)**

*Interest rate risk*

The Company's exposure to interest rate risk arises from the interest rate impact on its cash, cash equivalents and short term investments. Cash has been invested in short-term investments to maintain liquidity and achieve a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of the decrease in the fair value of any banker's acceptance notes, GIC's, money market funds or term deposit included in cash equivalents as they are held with large high-quality credit financial institutions, primarily in Canada and the USA.

**Financial assets**

The following table sets out the movement of the Company's financial asset instruments, which are accounted for as "held-for-trading" as defined by CICA 3855, Financial Instruments – Recognition and Measurement.

	Securities Held-for- Trading
At June 30, 2008	\$ 254,075
Change in Fair Value	<u>(118,259)</u>
At June 30, 2009	<u>\$ 135,816</u>

The fair value of securities held-for-trading is based on the market values of the quoted investments.

The estimated fair value of cash and equivalents, environmental bonds and receivables is equal to their carrying values. The exposure of the Company's financial assets to interest rate and currency risk at June 30, 2009 is as follows:

Stated in US Dollars	Canadian Dollar	US Dollar	Peruvian Soles	Total
Floating rate financial assets	\$ 83,713	\$ 7,919,205	\$ 137,983	\$ 8,140,901
Fixed rate financial assets	<u>6,617,647</u>	<u>29,017,447</u>	<u>-</u>	<u>35,635,094</u>
Subtotal	<u>6,701,360</u>	<u>36,936,652</u>	<u>137,983</u>	<u>43,775,995</u>
Weighted average effective interest rate	2.44 %	1.71 %	-	-
Investment	-	31,500	-	31,500
Receivables	150,442	97,366	176,175	423,983
Due from related parties	<u>-</u>	<u>438,600</u>	<u>13,728</u>	<u>452,328</u>
Total	<u>\$ 6,851,802</u>	<u>\$ 37,504,118</u>	<u>\$ 327,886</u>	<u>\$ 44,683,806</u>

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**13. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (cont'd...)**

**Financial liabilities**

The estimated fair value of financial liabilities is equal to their carrying values. The weighted average effective interest rate for the Company's convertible debentures issued in May 2006 was calculated by the fair value method using the Black-Scholes model. The conversion feature of the debentures derives an additional ascribed 3.5% interest rate which when added to the actual stated interest rate of 5.5% equates to a total effective rate of 9% as shown below. The exposure of the Company's financial liabilities to interest rate and currency risk at June 30, 2009, is as follows:

Stated in US Dollars	Canadian Dollar	US Dollar	Peruvian Soles	Total
Fixed rate debt – Convertible Debentures	\$ 31,756,199	\$ -	\$ -	\$ 31,756,199
Weighted average effective interest rate	9%	-	-	-
Weighted average period for which the rate is fixed in years	2.88	-	-	-
Weighted average period until maturity in years	1.88	-	-	-
Accounts payable and accrued liabilities	342,984	114,426	78,123	535,533
<b>Total</b>	<b>\$ 32,099,183</b>	<b>\$ 114,426</b>	<b>\$ 78,123</b>	<b>\$ 32,291,732</b>

**14. SEGMENTED INFORMATION**

The Company primarily operates in one reportable operating segment, being the acquisition, exploration, development and exploitation of resource properties located in South America. Geographic information is as follows:

	Total Assets	Property and Equipment	Resource Properties	Other Assets
<b>2009</b>				
USA	\$ 8,603,669	\$ 333,235	\$ -	\$ 8,270,434
Canada	36,147,844	-	-	36,147,844
Ecuador	77,852,406	249,643	77,447,163	155,600
Peru	35,380,398	-	2,650,646	32,729,752
	<b>\$ 157,984,317</b>	<b>\$ 582,878</b>	<b>\$ 80,097,809</b>	<b>\$ 77,303,630</b>
<b>2008</b>				
USA	\$ 4,475,191	\$ 133,317	\$ -	\$ 4,341,874
Canada	57,440,269	-	-	57,440,269
Ecuador	70,490,807	311,136	69,895,023	284,648
Peru	25,605,850	-	2,070,086	23,535,764
	<b>\$ 158,012,117</b>	<b>\$ 444,453</b>	<b>\$ 71,965,109</b>	<b>\$ 85,602,555</b>

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**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

**Cash and equivalents in the consolidated statement of cash flows**

	2009	2008
Cash	\$ 8,109,655	\$ 3,408,315
Equivalents	<u>35,666,340</u>	<u>57,039,670</u>
	<u>\$ 43,775,995</u>	<u>\$ 60,447,985</u>
	2009	2008
Cash paid during the year for income taxes	\$ -	\$ -
Cash paid during the year for interest	1,888,299	2,175,848

Significant non-cash transactions for the Company for the year ended June 30, 2009, were as follows:

- a) Included in investment in the joint venture company are the following: \$419,815 which relates to the transfer of costs from resource properties to record the Company's investment in the Pacapausa project; \$16,356 which related to accounts payable and accrued liabilities (Note 5).
- b) Included in resource properties are the following amounts: \$79,325 which relates to amortization of property and equipment; \$2,402,361 which relates to accounts payable and accrued liabilities; and \$6,958 which relates to due to related parties.
- c) The Company received 40,000 shares of Santa Barbara Resources Limited with an agreed value of \$14,000 which has been recorded as a recovery in resource properties (Note 6). The Company recorded a write down in value of previously acquired Santa Barbara common shares in the amount of \$7,500.

Significant non-cash transactions for the Company for the year ended June 30, 2008 were as follows:

- a) Included in investment in the joint venture company are the following: \$781,682 which relates to the transfer of costs from resource properties to record the Company's investment in the Pacapausa project; \$2,367,442 which relates to shares issued as finders fees for the acquisition of the Pallancata property; \$44,997 which related to accounts payable and accrued liabilities and \$1,870,533 due to equity partner in Joint Venture.
- b) Included in resource properties are the following amounts: \$88,563 which relates to amortization of property and equipment; \$1,570,569 which relates to accounts payable and accrued liabilities; and \$10,321 which relates to due to related parties.
- c) The Company allocated \$299,909 for incentive stock options exercised during the year to capital stock from contributed surplus.
- d) The Company reclassified \$15,000 of long-term investment to securities held-for-trading due to the application of CICA Handbook Section 3855.

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**15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd...)**

**Cash and equivalents in the consolidated statement of cash flows (cont'd...)**

- e) The Company received 50,000 shares of Santa Barbara Resources Limited with an agreed value of \$25,000 which has been recorded as a recovery in resource properties.

**16. INCOME TAXES**

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes (recovery) is as follows:

	2009	2008
Income (loss) for the year	\$ 8,670,985	\$ (168,763)
Expected net income tax (recovery) at statutory rates	2,514,586	(51,996)
Difference in foreign tax rates	84,097	(31,329)
Non-deductible items	1,002,208	2,125,065
Non-taxable income	(3,575,114)	(3,265,962)
Deductible items	(267,178)	(431,085)
Unrecognized benefits of non-capital losses	241,401	1,655,307
Income tax (recovery)	\$ -	\$ -

Details of future income tax assets are as follows:

	2009	2008
Capital loss carry-forwards	\$ 427,000	\$ 500,000
Resource properties	2,174,000	2,000,000
Share issuance costs	43,000	260,000
Non-capital losses carried forward	5,234,000	2,500,000
Property and equipment	92,000	35,000
	7,970,000	5,295,000
Less: valuation allowance	(7,970,000)	(5,295,000)
	\$ -	\$ -

The Company has Canadian non-capital losses carried forward of approximately Cdn\$11,100,000 available for deduction against future taxable income. The losses, if not utilized, will expire commencing in 2029. The Company has Peruvian non-capital losses carry forward of approximately \$9,000,000 available against future taxable income. These are carried forward indefinitely. The Company has carried Canadian capital losses of approximately Cdn\$4,000,000 which are available to reduce any capital gains in future years. Future tax benefits, which may arise as a result of these losses and other tax assets, have not been recognized in these consolidated financial statements and have been offset by a valuation allowance.

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**17. CONTINGENCY**

On June 10, 2008, the Company filed a complaint against UBS Financial Services Inc. (“UBS”) of Delaware and certain UBS current or former employees, relating to UBS’ misrepresentation and mismanagement of certain investment instruments that were not in compliance with the Company’s conservative investment guidelines as provided to UBS by the Company. The investments in question were discontinued in September 2007. This legal action by the Company against UBS has no affect on the current financial position or results of operations of the Company as at June 30, 2009. Commercial arbitration procedures are pending to resolve this dispute. The Company seeks in the complaint an amount of not less than Cdn\$4.1 million (\$3.9 million) in compensatory damages, plus consequential and punitive damages. The prospects for any recovery of such amount(s) remain, at this point, uncertain.

**18. ECUADOR MINING LAW**

On April 18<sup>th</sup>, 2008, Ecuador’s Constituent Assembly adopted a Mining Mandate. The Mining Mandate invoked an immediate 180-business day suspension of activities on virtually all mining concessions in Ecuador while a new Mining Law was being drafted and adopted. As required in the Mandate, the Company suspended drilling and other exploration operations in Ecuador. An extensive staff reduction occurred in Ecuador in December 2008, which included substantial employee severance payments, as project activity was not expected to begin again before late 2009.

On January 29<sup>th</sup>, 2009, Ecuador’s President approved the new Mining Law. The mining regulations required to complete the new law’s legal framework were scheduled to be issued at the end of May 2009. To date they have not been issued.

The Company may be further adversely affected by the Mining Law regulations and other requirements planned by the Government of Ecuador, including the possibility of increased government participation in the mining sector, increased royalties, windfall revenue taxes, and possible expropriation or changes in the way concessions are held. These may adversely affect the investment and may result in the impairment or loss of all or part of the Company’s investment in mineral properties and deferred exploration and development. Management has assessed the impact of these potential developments and does not consider that any impairment has resulted at this time.

**19. SHARE BUYBACK PROGRAM**

On October 17, 2008, the Company commenced a normal course issuer bid or share repurchase program to purchase, through the market on the Toronto Stock Exchange, 5.0 million of its common shares (“Shares”), representing 5.21% of the Company’s 96,030,001 issued and outstanding Shares as at October 8, 2008. Following the end of each quarter, all Shares repurchased are cancelled.

Share repurchases during the year ended June 30, 2009 totaled 3,198,000 shares at an average price of Cdn \$2.38 per share for a total value of Cdn\$7,626,438 (\$6,209,144). All of these shares were cancelled.

**20. SUBSEQUENT EVENTS**

Subsequent to the year ended June 30, 2009:

- a) The Company received payment of an initial cash dividend of approximately \$1.2 million from Hochschild as part of its 40% interest in Suyamarca, the joint venture company operating the Pallancata mine.

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**20. SUBSEQUENT EVENTS (cont'd...)**

- b) On September 23, 2009, the Company announced the signing of a binding letter agreement for the Company to acquire, in an all-share transaction, all of the issued and outstanding shares of Ventura Gold Corp. (TSX-V:VGO, "Ventura") by way of a statutory plan of arrangement (the "Transaction").

Summarized details of the Transaction include:

- i. Under the Transaction, Ventura shareholders will receive one common share of the Company for every 10 Ventura common shares held. Based on respective closing prices for the Company and Ventura on September 23, 2009, the consideration is valued at C\$0.43 per Ventura common share. As a result of the Transaction, all existing Ventura share purchase warrants and stock options will be acquired or assumed by the Company and adjusted on the basis of the same share exchange ratio. The total value of the Transaction is approximately C\$64.6 million on a fully diluted basis (approximately \$60 million).
- ii. The Company will issue approximately 13.7 million of its common shares to Ventura shareholders pursuant to the Transaction, representing approximately 12.8% of the Company's total post-Transaction issued and outstanding shares. The Company's fully diluted share capital will increase to approximately 117.7 million, resulting from the assumption by the Company of the Ventura convertible securities.
- iii. Ventura will receive a bridge loan in the principal amount of up to \$2.0 million from the Company to enable it to continue its ongoing drill program at its Inmaculada gold-silver project in Southern Peru. The loan will be repayable immediately, together with 10% interest from the date of advance, if Ventura terminates the Transaction and accepts a superior proposal from a third party.
- iv. The Transaction is subject to, among other things, receipt of regulatory, court and Ventura shareholder approval, completion of legal due diligence and completion of definitive documentation. The agreement contemplates the completion of due diligence and of definitive documentation by October 31, 2009.