

***i-minerals inc.***

Consolidated Financial Statements

For the Six Months Ended October 31, 2009

*(Prepared without audit)*

***i-minerals inc.***

**NOTICE OF NO AUDITOR REVIEW OF  
INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

***i-minerals inc.***  
*(an Exploration Stage Company)*  
Consolidated Balance Sheets  
As at October 31, 2009  
*(expressed in Canadian dollars)*  
*(Prepared without audit)*

	<b>October 31, 2009</b>	April 30, 2009
<b>Assets</b>		
CURRENT		
Cash	\$ 40,318	\$ 40,106
Receivables and prepaids	10,927	33,717
Deposits	1,125	1,125
	<b>52,370</b>	74,948
MINERAL PROPERTY ACQUISITION COSTS (Note 3)	117,000	117,000
MINERAL PROPERTY DEFERRED COSTS, statement	6,080,791	5,832,047
EQUIPMENT	5,321	6,261
	<b>\$ 6,255,482</b>	\$ 6,030,256
<b>Liabilities</b>		
CURRENT		
Accounts payable and accrued liabilities	\$ 459,994	\$ 543,830
Amounts due to related parties	99,023	88,268
	<b>559,017</b>	632,098
CONVERTIBLE LOAN – DEBT COMPONENT (Note 4)	278,900	-
FUTURE INCOME TAX LIABILITY	743,925	743,925
	<b>1,581,842</b>	1,376,023
<b>Shareholders' Equity</b>		
SHARE CAPITAL (Note 5)	14,307,427	14,307,427
CONVERTIBLE LOAN – EQUITY COMPONENT (Note 4)	135,631	-
WARRANTS (Note 5)	318,490	489,105
CONTRIBUTED SURPLUS (Note 5)	764,058	486,996
DEFICIT ACCUMULATED IN THE EXPLORATION STAGE	(10,851,966)	(10,629,295)
	<b>4,673,640</b>	4,654,233
	<b>\$ 6,255,482</b>	\$ 6,030,256

ABILITY TO CONTINUE AS A GOING CONCERN (Note 1)  
CONTINGENCIES (Note 8)  
SUBSEQUENT EVENTS (Note 10)

APPROVED BY THE BOARD

Signed "Roger A. Kauffman"

Signed "W. Barry Girling"

***i-minerals inc.***  
*(an Exploration Stage Company)*  
Consolidated Statements of Loss and Deficit  
For the Six Months Ended October 31, 2009  
*(expressed in Canadian dollars)*  
*(Prepared without audit)*

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>October 31, 2009</b>	October 31, 2008	<b>October 31, 2009</b>	October 31, 2008
<b>EXPENSES</b>				
Accounting	\$ 6,383	\$ 7,039	\$ 13,594	\$ 13,574
Amortization	470	442	940	885
Bank charges, interest and accretion	16,195	800	21,746	1,895
Consulting	12,214	9,000	24,538	18,000
Management fees	4,868	5,420	9,717	9,982
Office, telephone and miscellaneous	11,337	13,070	22,189	26,108
Professional fees	37,074	22,128	82,230	29,681
Promotions and shareholder communication	31,400	29,716	55,543	54,268
Rent	1,116	1,232	2,378	2,375
Stock based compensation	-	17,544	-	53,997
Transfer and regulatory fees	5,208	6,782	8,549	8,928
Travel	7,748	10,417	11,850	11,743
	<b>(134,013)</b>	(123,590)	<b>(253,274)</b>	(231,436)
Foreign exchange (loss) gain	<b>(15,898)</b>	5,135	<b>28,764</b>	10,135
Interest income	<b>1,828</b>	1,424	<b>1,839</b>	1,480
<b>NET LOSS FOR THE PERIOD</b>	<b>(148,083)</b>	(117,031)	<b>(222,671)</b>	(219,821)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(10,703,883)</b>	(10,280,565)	<b>(10,629,295)</b>	(10,177,775)
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (10,851,966)</b>	\$ (10,397,596)	<b>\$ (10,851,966)</b>	\$ (10,397,596)
<b>Loss per share</b>	<b>\$ (0.00)</b>	\$ (0.01)	<b>\$ (0.01)</b>	\$ (0.01)
<b>Weighted average number of shares outstanding</b>	<b>31,160,555</b>	23,375,724	<b>31,160,555</b>	21,281,082

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

***i-minerals inc.***  
*(an Exploration Stage Company)*  
**Consolidated Statements of Cash Flows**  
**For the Six Months Ended October 31, 2009**  
*(expressed in Canadian dollars)*  
*(Prepared without audit)*

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>October 31, 2009</b>	October 31, 2008	<b>October 31, 2009</b>	October 31, 2008
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (148,083)	\$ (117,031)	\$ (222,671)	\$ (219,821)
Items not involving cash				
Accretion	15,421	-	19,640	-
Amortization	470	442	940	885
Stock based compensation	-	17,544	-	53,997
Foreign exchange loss (gain) on debts	14,474	3,430	(5,088)	2,669
	<b>(117,718)</b>	<b>(95,615)</b>	<b>(207,179)</b>	<b>(162,270)</b>
Change in non-cash operating working capital items:				
Receivables and prepaids	24,794	3,300	22,790	3,929
Accounts payable and accrued liabilities	23,248	71,623	40,517	(22,370)
Amounts due to related parties	15,146	1,832	18,959	15,810
	<b>(54,530)</b>	<b>(18,860)</b>	<b>(124,913)</b>	<b>(164,901)</b>
<b>FINANCING ACTIVITIES</b>				
Common shares and warrants issued for cash	-	-	-	1,027,466
Convertible debt issued for cash	207,597	-	498,222	-
	<b>207,597</b>	<b>-</b>	<b>498,222</b>	<b>1,027,466</b>
<b>INVESTING ACTIVITIES</b>				
Equipment	-	(1,083)	-	(2,706)
Mineral property expenditures	(121,265)	(337,389)	(373,097)	(448,030)
	<b>(121,265)</b>	<b>(338,472)</b>	<b>(373,097)</b>	<b>(450,736)</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>31,802</b>	<b>(357,332)</b>	<b>212</b>	<b>411,829</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>8,516</b>	<b>843,565</b>	<b>40,106</b>	<b>74,404</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 40,318</b>	<b>\$ 486,233</b>	<b>\$ 40,318</b>	<b>\$ 486,233</b>
<b>SUPPLEMENTARY NON-CASH FINANCING AND INVESTING INFORMATION</b>				
Contributed surplus on exercise of options and warrants	\$ -	\$ -	\$ -	\$ 202,500
Common shares issued for financing fee	-	-	-	4,800
Exercise of stock options through reduction of due to related parties	-	-	-	92,750
Book value of expired warrants transferred to contributed surplus	-	-	277,062	-
Mineral property expenditures included in accounts payable and accrued liabilities	25,645	(25,687)	124,353	(55,210)
Conversion of partnership units into common shares	-	1,585,593	-	1,585,593

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

***i-minerals inc.****(an Exploration Stage Company)*

## Consolidated Statement of Mineral Property Deferred Costs

For the Six Months Ended October 31, 2009

*(expressed in Canadian dollars)**(Prepared without audit)*

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	Balance, April 30, 2008	Expenditures incurred during the year	Balance, April 30, 2009	Expenditures incurred during the period	Balance, October 31, 2009
<b>UNITED STATES</b>					
HELMER BOVILL PROPERTY					
Assays	\$ 43,501	\$ -	\$ 43,501	\$ -	\$ 43,501
Drilling	983,570	20,497	1,004,067	-	1,004,067
Engineering and consulting	1,821,923	491,249	2,313,172	128,306	2,441,478
Environmental	86,553	217,753	304,306	47,415	351,721
Field and survey	206,482	13,998	220,480	6,165	226,645
Licenses and fees	100,406	97,580	197,986	7,541	205,527
Marketing and research	649,762	113,672	763,434	50,574	814,008
Mineral analysis and processing	519,351	97,428	616,779	988	617,767
Project management	135,120	21,663	156,783	4,128	160,911
Technical reports	44,977	-	44,977	-	44,977
Travel	149,442	17,120	166,562	3,627	170,189
<b>TOTAL</b>	<b>\$ 4,741,087</b>	<b>\$ 1,090,960</b>	<b>\$ 5,832,047</b>	<b>\$ 248,744</b>	<b>\$ 6,080,791</b>

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

## ***i-minerals inc.***

*(an Exploration Stage Company)*

Notes to Consolidated Financial Statements

For the Six Months Ended October 31, 2009

*(expressed in Canadian dollars)*

*(Prepared without audit)*

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### **1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN:**

The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain mineral reserves that are economically recoverable.

The recoverability of amounts shown for mineral property acquisition costs and mineral property deferred costs is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development, and upon future profitable production or proceeds from the disposition of the mineral properties.

The Company has incurred losses since inception and, at October 31, 2009, has a working capital deficit of \$506,647, outstanding convertible debentures of US\$442,880, and an accumulated deficit of \$10,851,966.

The ability of the Company to continue as a going concern is dependent upon its ability to raise sufficient funds to meet its obligations as they become due. Management believes that it will be able to obtain the necessary financing to meet the Company's requirements on an ongoing basis; however, there can be no assurance that the necessary financing will be obtained.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its commitments, continue operations and realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. They do not reflect adjustments to the carrying values of assets and liabilities which may be necessary should the Company be unable to do so and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the consolidated financial statements.

### **2. SIGNIFICANT ACCOUNTING POLICIES:**

These consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods as per the annual financial statements for the year ended April 30, 2009 with the following additions. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the Company's latest annual report.

#### **Convertible debt**

The Company classifies the proceeds received from convertible loans into their liability and equity components using the relative fair value approach. The carrying amount of the liability component is accreted over the life of the instrument through charges to operations using the effective interest rate method. On conversion into shares, the carrying amount of the equity component and the carrying amount of the liability component are transferred to share capital. In the event that the instrument is settled in cash, this is treated as the extinguishment of the instrument; a gain or loss on extinguishment of the liability component is recognized in the current period operations.

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*(an Exploration Stage Company)*

Notes to Consolidated Financial Statements

For the Six Months Ended October 31, 2009

*(expressed in Canadian dollars)*

*(Prepared without audit)*

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued):**

#### **Adoption of new accounting standards**

##### Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued the new Handbook Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets". The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred. The new standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standard for its fiscal year beginning May 1, 2009. This standard did not have a material impact on the Company's consolidated financial statements.

##### Financial Statement Concepts

CICA Handbook Section 1000 has been amended to focus on the capitalization of costs that meet the definition of an asset and de-emphasizes the matching principle. The revised requirements are effective for annual and interim financial statements relating to fiscal year beginning on or after October 1, 2008. Accordingly, the Company adopted the new standard for its fiscal year beginning May 1, 2009. This standard did not have a material impact on the Company's consolidated financial statements.

#### **Future accounting and reporting changes**

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

In January 2009, the CICA issued CICA Handbook Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-controlling Interests". These sections replace the former CICA Handbook Section 1581, "Business Combinations" and Section 1600, "Consolidated Financial Statements" and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3, "Business Combinations" (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, "Consolidated and Separate Financial Statements" (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

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Notes to Consolidated Financial Statements

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### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued):**

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 date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended April 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.

### **3. MINERAL PROPERTY ACQUISITION COSTS:**

	October 31, 2009	April 30, 2009
Helmer Bovill Property – Latah County, Idaho	<u>\$ 117,000</u>	<u>\$ 117,000</u>

The Company has entered into a purchase and sale agreement with Idaho Industrial Minerals LLC (IIM), a company in which one of the Company's directors has a 25% interest, under which the Company has the right to acquire a 100% interest in 10 lease applications that comprise the Helmer-Bovill property by issuing to IIM a total of 1,750,000 shares of the Company. These shares will be issued based on certain development-based benchmarks being attained as follows:

- 100,000 shares upon assignment of the mineral lease applications to the Company (issued)
- 350,000 shares upon the State of Idaho issuing mineral leases to the Company (issued)
- 400,000 shares upon the completion of a feasibility study
- 500,000 shares upon completion of the permitting process necessary to construct and operate a mining facility
- 400,000 shares upon completion of a production plant and first delivery of a commercial product

In fiscal 2006, the total consideration of 1,750,000 shares was increased by an additional 50,000 shares in return for an extension of the agreement until August 2008. In fiscal 2007, all approvals were received and the commitment to issue shares was recorded at the trading value on the resolution date of \$0.63 per share. These shares were issued during fiscal 2009.

In fiscal 2009, the Company agreed, subject to regulatory approval, to issue 50,000 warrants to IIM in return for an extension of the agreement until August 2011.

## ***i-minerals inc.***

*(an Exploration Stage Company)*

Notes to Consolidated Financial Statements

For the Six Months Ended October 31, 2009

*(expressed in Canadian dollars)*

*(Prepared without audit)*

### **4. CONVERTIBLE LOAN:**

	<u>Amount</u>
Balance at April 30, 2009	\$ -
Proceeds from issuance of the loan	498,222
Proceeds classified as equity – warrants	(106,447)
Proceeds classified as equity – conversion feature	(135,631)
Accretion expense	19,640
Unrealized foreign exchange loss	<u>3,116</u>
Balance at October 31, 2009	<u>\$ 278,900</u>

On June 30, 2009, the Company completed the first tranche of a non-brokered unsecured convertible debenture financing, raising \$290,625 (US\$250,000). On September 15, 2009, the Company completed the second tranche, raising \$207,597 (US\$192,880). The Company has agreed to pay interest at the rate of 12 per cent per year, calculated semi-annually and paid semi-annually either in cash or in shares, at the election of the Company. The debentures have a term of two years to June 30, 2011 for tranche one and September 15, 2011 for tranche two, and are convertible into shares of the Company at the rate of one share per \$0.35 of principal outstanding. Accordingly, the US\$250,000 debentures are convertible into 830,565 shares of the Company and the US\$192,880 debentures are convertible into 599,006 shares of the Company. Conversion is at the sole discretion of the debentureholder unless the closing price of the Company's common shares as traded on the TSX Venture Exchange is \$0.75 or greater for a period of ten consecutive trading days subsequent to four months and one day after the issuance of the debentures, in which case the Company may give notice to the debentureholders, forcing conversion of the debentures. The Company estimated the fair value of the holder's conversion option by using the Black-Scholes option pricing model with the following assumptions: two year estimated life, 109.5% to 113.3% volatility, a risk free rate of 1.5% and expected dividends of \$nil.

The Company also issued 830,565 share purchase warrants to the debentureholders of tranche one with each warrant entitling the holder to acquire an additional share at a price of \$0.43 until expiry on June 30, 2010; and 599,006 share purchase warrants to the debentureholders of tranche two with each warrant entitling the holder to acquire an additional share price at a price of \$0.43 until expiry on September 15, 2010. The warrants are detachable from the debentures and may therefore be exercised prior to conversion of the debentures. A value of \$61,900 (\$0.07 per warrant) has been attributed to the warrants issued as part of tranche one and credited to warrants within shareholders' equity. Tranche two had a value of \$44,547 (\$0.07 per warrant) attributed to the warrants. The Company estimated the fair value of the share purchase warrants by using the Black-Scholes option pricing model with the following assumptions: one year estimated life, 133% to 145% volatility, a risk free rate of 0.3% and expected dividends of \$nil.

### **5. SHARE CAPITAL:**

#### **Common shares**

	<u>Shares</u>	<u>Amount</u>
Balance at April 30, 2009 and October 31, 2009	<u>31,160,555</u>	<u>\$ 14,307,427</u>

## ***i-minerals inc.***

*(an Exploration Stage Company)*

Notes to Consolidated Financial Statements

For the Six Months Ended October 31, 2009

*(expressed in Canadian dollars)*

*(Prepared without audit)*

### **5. SHARE CAPITAL (Continued):**

#### **Stock options**

The Company has granted stock options under the terms of its Stock Option Plan ("Plan"). The Plan provides that the directors of the Company may grant options to purchase common shares to directors, officers, employees and service providers of the Company on terms that the directors of the Company may determine are within the limitations set forth in the Plan. The maximum number of shares available under the Plan is limited to 10% of the issued common shares.

The Company's stock options outstanding as at October 31, 2009 and the changes for the six months then ended are as follows:

	Number of common shares	Weighted average exercise price
	<u>                    </u>	<u>                    </u>
Balance – April 30, 2009	1,125,000	\$ 0.52
Options expired, unexercised	<u>(45,000)</u>	<u>\$ 0.35</u>
Balance – October 31, 2009	<u>1,080,000</u>	<u>\$ 0.53</u>

All of the outstanding options had vested as at October 31, 2009.

Options granted under the Plan vest over varying periods and are expensed over the vesting period. During the six months ended October 31, 2009, an amount of \$nil (October 31, 2008 - \$53,997) was expensed and credited to contributed surplus.

Summary of stock options outstanding at October 31, 2009:

Security	Number Outstanding	Exercise Price	Expiry Date
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Stock options	100,000	\$ 0.35	September 6, 2010
Stock options	100,000	\$ 0.40	September 6, 2010
Stock options	360,000	\$ 0.53	March 21, 2011
Stock options	390,000	\$ 0.55	July 24, 2012
Stock options	130,000	\$ 0.70	October 23, 2012

#### **Share purchase warrants**

The Company's warrants outstanding as at October 31, 2009 and the changes for the six months then ended are as follows:

	Number of common shares	Weighted average exercise price	Amount
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Balance – April 30, 2009	3,361,432	\$ 0.43	\$ 489,105
Warrants expired, unexercised	<u>(1,843,400)</u>	<u>\$ 0.43</u>	<u>(277,062)</u>
Issued	<u>1,429,571</u>	<u>\$ 0.43</u>	<u>106,447</u>
Balance – October 31, 2009	<u>2,947,603</u>	<u>\$ 0.43</u>	<u>\$ 318,490</u>

## ***i-minerals inc.***

*(an Exploration Stage Company)*

Notes to Consolidated Financial Statements

For the Six Months Ended October 31, 2009

*(expressed in Canadian dollars)*

*(Prepared without audit)*

### **5. SHARE CAPITAL (Continued):**

Summary of warrants outstanding at October 31, 2009:

Security	Number Outstanding	Exercise Price	Expiry Date
Warrants	1,510,032	\$ 0.43	January 20, 2010
Warrants	8,000	\$ 0.70	January 20, 2010
Warrants	830,565	\$ 0.43	June 30, 2010
Warrants	599,006	\$ 0.43	September 15, 2010

The Company also has outstanding convertible debentures which are convertible into 830,565 common shares of the Company, with an expiry date of June 30, 2011; and outstanding convertible debentures which are convertible into 599,006 common shares of the Company, with an expiry date of September 15, 2011.

#### **Contributed surplus**

	Amount
Balance – April 30, 2009	\$ 486,996
Book value of expired warrants	277,062
Balance – October 31, 2009	<u>\$ 764,058</u>

### **6. RELATED PARTY TRANSACTIONS:**

Related party transactions not disclosed elsewhere in these financial statements are as follows:

Except as noted below, amounts due to or from related parties are unsecured, non-interest bearing and have no fixed terms for repayment.

During the three months ended October 31, 2009, management fees of \$4,869 (October 31, 2008 - \$5,420) and consulting fees of \$9,000 (October 31, 2008 - \$9,000) were charged by directors or companies controlled by them. These charges are included in the accompanying statement of loss and deficit. A further \$25,979 (October 31, 2008 - \$30,542) in consulting and research fees were charged by directors and are included with mineral property deferred costs.

During the six months ended October 31, 2009, management fees of \$9,717 (October 31, 2008 - \$9,982) and consulting fees of \$18,000 (October 31, 2008 - \$18,000) were charged by directors or companies controlled by them. These charges are included in the accompanying statement of loss and deficit. A further \$52,537 (October 31, 2008 - \$57,979) in consulting and research fees were charged by directors and are included with mineral property deferred costs.

Included in accounts payable as at October 31, 2009 was \$3,150 (April 30, 2009 - \$5,775) payable to related parties.

Transactions with related parties are recorded at the exchange amount, being the price agreed between the parties.

## ***i-minerals inc.***

*(an Exploration Stage Company)*

Notes to Consolidated Financial Statements

For the Six Months Ended October 31, 2009

*(expressed in Canadian dollars)*

*(Prepared without audit)*

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### **7. SEGMENT DISCLOSURES:**

The Company considers its business to comprise a single operating segment, being exploration of resource properties, within the geographic area of the United States.

### **8. CONTINGENCIES**

The Company may be subject to various contingent liabilities that occur in the normal course of operations. The outcome of these contingencies is not determinable and such expense, if any, will be recognized in the periods in which they become likely.

### **9. FINANCIAL INSTRUMENTS:**

#### a) Currency risk

A portion of the Company's financial assets and liabilities is denominated in foreign currencies giving rise to risks from changes in foreign exchange rates. The Company is exposed to currency exchange rate risks to the extent of its activities in the United States. The Company does not use derivative financial instruments to reduce its foreign exchange exposure.

Future changes in exchange rates could have a material effect on the Company's business, financial condition and results of operations.

#### b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations.

The Company's cash is held primarily through large Canadian and international banks and accordingly, the Company's exposure to credit risk is considered to be limited.

#### c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of short term investments is limited because these instruments, although available for sale, are generally held to maturity. The Company manages its cash according to its operational needs and to optimize revenues from interest.

#### d) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at October 31, 2009, the Company had current liabilities of \$559,017 (April 30, 2009 - \$632,098), outstanding convertible debentures of US\$442.880 (April 30, 2009 - \$nil), and current assets of \$52,370 (April 30, 2009 - \$74,948). The ability of the Company to eliminate its working capital deficiency is dependent upon its ability to secure additional equity or other financing.

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Notes to Consolidated Financial Statements

For the Six Months Ended October 31, 2009

*(expressed in Canadian dollars)*

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**10. SUBSEQUENT EVENTS:**

- a) Subsequent to October 31, 2009, the Company received a bridge loan in the amount of US\$100,000 from a company related to a director of the Company. The Company has signed a promissory note for this amount, with such note bearing interest at 12% per annum compounded and paid semi-annually. The loan and accrued interest matures on the earlier of May 1, 2010 and the date on which the Company closes a financing of a minimum of \$1,000,000.
- b) Subsequent to October 31, 2009, the Company agreed to terms on a brokered private placement to raise an aggregate of up to \$2 million through the sale of units and/or convertible debentures on a commercially reasonable efforts basis. Each unit will be priced at \$0.25 and will consist of one common share and one share purchase warrant, with each warrant to entitle the holder to acquire one additional common share at a price of \$0.35 for the first 6 months from closing, and thereafter at a price of \$0.50 until expiry 18 months from closing.

Each debenture will bear interest at a rate of 12% per annum for a period of two years, payable semi-annually, and will be convertible at the option of the holder into that number of common shares of the Company equal to the principal amount of the debenture divided by \$0.35. In addition, detachable warrants will be issued to the debentureholders, entitling them to purchase up to the same number of common shares of the Company they will be entitled to receive on conversion of the debentures. As detachable warrants, they may be exercised, whether or not the debentures are converted, with each warrant to entitle the holder to purchase one common share of the Company at a price of \$0.43 for a period of two years from closing. The interest on the debentures may be paid in cash or common shares of the Company at the option of the Company. If interest is paid in shares, each share will have a deemed price equal to the weighted average trading price for the 20 trading days prior to the date any such interest becomes due.

The Company has granted the agent an overallotment option, pursuant to which it will have an option to solicit the sale of additional units and/or debentures to raise gross proceeds of up to an additional \$1 million, exercisable at any time in whole or on part up until 48 hours prior to closing.