**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

[ x ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **July 31, 2017**

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission file number: **000-55321**

# I-MINERALS INC.

(Exact name of registrant as specified in its charter)

| **British Columbia, Canada** | **20-4644299** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**Suite 880, 580 Hornby Street, Vancouver, BC, Canada V6C 3B6**
(Address of principal executive offices)(Zip Code)

**(877) 303-6573**
Registrant's telephone number, including area code

**Not applicable**
(Former name or former address if changed since last report)

Securities registered under section 12(g) of the Exchange Act: Common shares with no par value.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

| | | | |
|---|---|---|---|
| Large accelerated filer | [ ] | Accelerated filer | [ ] |
| Non-accelerated filer | [ ] | Smaller reporting company | [X] |
| (Do not check if a smaller reporting company) | | Emerging growth company | [X] |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of September 13, 2017, the registrant had 89,484,792 outstanding shares of common stock.

**I-Minerals Inc.**
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*I-Minerals Inc.*

Condensed Consolidated Financial Statements
**For the three months ended July 31, 2017**
(Unaudited - Expressed in US dollars)

# I-Minerals Inc.

Condensed Consolidated Balance Sheets

*(Unaudited - Expressed in US dollars)*

| | Notes | July 31, 2017 $ | April 30, 2017 $ |
|---|---|---|---|
| *ASSETS* | | | |
| Current assets | | | |
| Cash | | 45,193 | 287,282 |
| Receivables | | 8,889 | 7,169 |
| Prepaids | | 59,814 | 65,259 |
| | | 113,896 | 359,710 |
| Equipment | | 10,219 | 9,090 |
| Mineral property interest | 3 | 485,813 | 305,850 |
| Deposits | | 14,932 | 14,932 |
| TOTAL ASSETS | | 624,860 | 689,582 |
| *LIABILITIES* | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 4,8 | 844,656 | 1,168,606 |
| Promissory notes | 5 | 15,373,956 | 14,147,964 |
| Derivative liabilities | 2,6,7 | 770,786 | 1,188,937 |
| | | 16,989,398 | 16,505,507 |
| Promissory notes | 5 | 184,813 | 165,208 |
| TOTAL LIABILITIES | | 17,174,211 | 16,670,715 |
| *CAPITAL DEFICIT* | | | |
| Capital Stock | | | |
| Authorized: | | | |
| Unlimited common shares with no par value | | | |
| Issued and fully paid: 89,484,792 (April 30, 2017 - 89,372,359) | 7 | 18,697,493 | 18,658,118 |
| Additional paid-in capital | | 1,925,415 | 1,948,384 |
| Commitment to issue shares | 5 | 9,000 | 29,625 |
| Deficit | | (37,181,259) | (36,617,260) |
| TOTAL CAPITAL DEFICIT | | (16,549,351) | (15,981,133) |
| TOTAL LIABILITIES AND CAPITAL DEFICIT | | 624,860 | 689,582 |

On behalf of the Board

"Thomas M. Conway" Director　　"W. Barry Girling" Director

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

# I-Minerals Inc.

Condensed Consolidated Statements of Loss
For the three months ended July 31, 2017 and 2016

*(Unaudited - Expressed in US dollars)*

| | Notes | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| *OPERATING EXPENSES* | | | |
| Amortization | | 803 | 599 |
| Management and consulting fees | 7,8 | 34,731 | 113,653 |
| Mineral property expenditures | 8 | 118,212 | 291,509 |
| General and miscellaneous | | 136,924 | 235,879 |
| Professional fees | | 95,615 | 99,236 |
| | | (386,285) | (740,876) |
| *OTHER (EXPENSE) INCOME* | | | |
| Foreign exchange loss | | (18,637) | (915) |
| Accretion expense | 5 | (150,925) | (125,117) |
| Interest expense | 5 | (463,296) | (354,752) |
| Change in fair value of derivative liabilities | 2,6,7 | 455,144 | (173,334) |
| *LOSS FOR THE PERIOD* | | (563,999) | (1,394,994) |
| Loss per share – basic and diluted | | (0.01) | (0.02) |
| Weighted average number of shares outstanding | | 89,398,956 | 86,818,952 |

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

# I-Minerals Inc.

Condensed Consolidated Statements of Cash Flows
For the three months ended July 31, 2017 and 2016

*(Unaudited - Expressed in US dollars)*

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Loss for the year | (563,999) | (1,394,994) |
| Items not involving cash: | | |
| Amortization | 803 | 599 |
| Stock-based compensation | 9,829 | 72,169 |
| Loss on settlement of liabilities | - | - |
| Accretion expense | 150,925 | 125,117 |
| Change in fair value of derivative liabilities | (455,144) | 173,334 |
| Unrealized foreign exchange loss | 16,950 | - |
| Change in non-cash operating working capital items: | | |
| Receivables | (1,720) | 12,679 |
| Prepaids | 5,445 | 1,680 |
| Accounts payable and accrued liabilities | 526,717 | 316,992 |
| Cash flows used in operating activities | (310,194) | (692,424) |
| INVESTING ACTIVITIES | | |
| Additions to mineral property interest | (179,963) | - |
| Purchase of equipment | (1,932) | - |
| Cash flows used in investing activities | (181,895) | - |
| FINANCING ACTIVITIES | | |
| Proceeds from exercise of stock options and warrants | - | 167,736 |
| Promissory notes received | 250,000 | 800,000 |
| Cash flows from financing activities | 250,000 | 967,736 |
| INCREASE (DECREASE) IN CASH | (242,089) | 275,312 |
| CASH, BEGINNING OF THE PERIOD | 287,282 | 128,353 |
| CASH, END OF THE PERIOD | 45,193 | 403,665 |
| SUPPLEMENTAL CASH FLOW INFORMATION (Note 10) | | |
| Interest paid | - | - |
| Taxes paid | - | - |

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

# I-Minerals Inc.

Condensed Consolidated Statements of Capital Deficit
For the three months ended July 31, 2017

*(Unaudited - Expressed in US dollars)*

| | Number of Shares # | Amount $ | Commitment to Issue Shares $ | Additional Paid-in Capital $ | Accumulated Deficit $ | Total Capital Deficit $ |
|---|---|---|---|---|---|---|
| Balance at April 30, 2017 | 89,372,359 | 18,658,118 | 29,625 | 1,948,384 | (36,617,260) | (15,981,133) |
| Issued during the period: | | | | | | |
| Shares issued as a debt discount | 112,433 | 39,375 | (29,625) | - | - | 9,750 |
| Shares issuable as a debt discount | - | - | 9,000 | - | - | 9,000 |
| Share-based payments – vesting | - | - | - | 9,829 | - | 9,829 |
| Reallocation of vested options to liabilities | - | - | - | (32,798) | - | (32,798) |
| Loss for the period | - | - | - | - | (563,999) | (563,999) |
| Balance at July 31, 2017 | 89,484,792 | 18,697,493 | 9,000 | 1,925,415 | (37,181,259) | (16,549,351) |

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

## 1. NATURE OF BUSINESS AND BASIS OF PRESENTATION AND LIQUIDITY:

I-Minerals Inc. (the "Company") was incorporated under the laws of British Columbia, Canada, in 1984. The Company is listed for trading on the TSX Venture Exchange under the symbol "IMA" and the OTCQX marketplace under the symbol "IMAHF".

The Company's principal business is the development of the Helmer-Bovill industrial mineral property ("the Property") located in Latah County, Idaho. Since inception, the Company has been in the exploration stage but moved into the development stage in fiscal 2018. The Helmer-Bovill property is comprised of eleven mineral leases that host potentially economic deposits of feldspar, quartz and kaolinitic clays, primarily kaolinite and halloysite.

### Basis of Presentation and Liquidity

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information as well as Article 10 of Regulation S-X on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the next year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At July 31, 2017, the Company had not yet achieved profitable operations, had an accumulated deficit of $37,181,259 since inception and expects to incur further losses in the development of its business, all of which casts substantial doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of our management, all adjustments (consisting of only normal recurring accruals) considered necessary for a fair presentation of the interim financial statements have been included. Operating results for the three months ended July 31, 2017 are not necessarily indicative of the results that may be expected for the full year ending April 30, 2018. All amounts presented are in US dollars except where otherwise indicated. For further information refer to the financial statements and footnotes thereto for the year ended April 30, 2017 included in the Company's Annual Report on Form 10-K filed on July 27, 2017.

The Company's ability to continue as a going concern is dependent upon its ability to obtain the necessary financing to develop the Property and to meet its obligations and repay its liabilities arising from normal business operations when they come due. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The Company is currently receiving funds from a company controlled by a director of the Company through promissory notes (Notes 5 and 11). Management has no formal plan in place to address this concern but considers that the Company will be able to obtain additional funds by equity financing and/or promissory notes; however there is no assurance of additional funding being available. The Company has historically satisfied its capital needs primarily by issuing equity securities and/or promissory notes. Management plans to continue to provide for its capital needs by issuing equity securities and/or promissory notes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Mineral Property and Exploration Costs

Costs related to the development of our mineral reserves are capitalized when it has been determined an ore body can be economically developed. The development stage begins when an ore body is determined to be economically recoverable based on proven and probable reserves and appropriate permits are in place, and ends when the production stage or exploitation of reserves begins. Major mine development expenditures are capitalized, including primary development costs such as costs of building access ways, tailings impoundment, development of water supply and infrastructure developments.

Exploration costs include those relating to activities carried out (a) in search of previously unidentified mineral deposits, or (b) at undeveloped concessions. Pre-development activities involve costs incurred in the exploration stage that may ultimately benefit production that are expensed due to the lack of evidence of economic development, which is necessary to demonstrate future recoverability of these expenses. Secondary development costs are incurred for preparation of an ore body for production in a specific ore block or work area, providing a relatively short-lived benefit only to the mine area they relate to, and not to the ore body as a whole.

Drilling and related costs are either classified as exploration or secondary development, as defined above, and charged to operations as incurred, or capitalized, based on the following criteria:

- Whether the costs are incurred to further define mineralization at and adjacent to existing reserve areas or intended to assist with mine planning within a reserve area;
- Whether the drilling costs relate to an ore body that has been determined to be commercially mineable, and a decision has been made to put the ore body into commercial production; and
- Whether, at the time that the cost is incurred, the expenditure: (a) embodies a probable future benefit that involves a capacity, singly or in combination, with other assets to contribute directly or indirectly to future net cash inflows, (b) we can obtain the benefit and control others' access to it, and (c) the transaction or event giving rise to our right to or control of the benefit has already occurred.

If all of these criteria are met, drilling and related costs are capitalized. Drilling costs not meeting all of these criteria are expensed as incurred. The following factors are considered in determining whether or not the criteria listed above have been met, and capitalization of drilling costs is appropriate:

- Completion of a favourable economic study and mine plan for the ore body targeted;
- Authorization of development of the ore body by management and/or the Board of Directors; and
- All permitting and/or contractual requirements necessary for us to have the right to or control of the future benefit from the targeted ore body have been met.

Once production has commenced, capitalized costs will be depleted using the units-of-production method over the estimated life of the proven and probable reserves. If mineral properties are subsequently abandoned or impaired, any capitalized costs will be charged to the Consolidated Statements of Loss in that period.

We assess the carrying cost of our mineral properties for impairment whenever information or circumstances indicate the potential for impairment. Such evaluations compare estimated future net cash flows with our carrying costs and future obligations on an undiscounted basis. If it is determined that the future undiscounted cash flows are less than the carrying value of the property, a write down to the estimated fair value is charged to the Consolidated Statements of Loss for the period. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if the carrying value can be recovered.

**Financial Instruments and Fair Value Measures**

The book value of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of those instruments. The fair value hierarchy under US GAAP is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - observable inputs other than Level I, quoted prices for similar assets or liabilities in active prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 - assets and liabilities whose significant value drivers are unobservable by little or no market activity and that are significant to the fair value of the assets or liabilities.

*(Unaudited - Expressed in US dollars except where otherwise indicated)*

The Company's promissory notes are based on Level 2 inputs in the ASC 820 fair value hierarchy. The Company calculated the fair value of these instruments by discounting future cash flows using rates representative of current borrowing rates. At July 31, 2017, the promissory notes had a fair value of $15,552,183 (April 30, 2017 – $13,781,276).

The Company had certain Level 3 liabilities required to be recorded at fair value on a recurring basis in accordance with US GAAP as at July 31, 2017 and April 30, 2017. As at July 31, 2017, the Company's Level 3 liabilities consisted of the warrants issued in connection with the Company's offering of equity units in a private placement and warrants issued as financing fees as well as the grant of share purchase options to non-employees.

The resulting Level 3 liabilities have no active market and are required to be measured at their fair value each reporting period based on information that is unobservable.

A summary of the Company's Level 3 liabilities for the three months ended July 31, 2017 and 2016 is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Warrants (Note 6) | | |
| Beginning fair value | 742,583 | 326,595 |
| Issuance | 4,195 | 27,750 |
| Change in fair value | (306,893) | 111,311 |
| Ending fair value | 439,885 | 465,656 |
| Non-employee options (Note 7(c)) | | |
| Beginning fair value | 446,354 | 189,207 |
| Fair value of options granted | - | - |
| Fair value of options on vesting | 32,798 | - |
| Change in fair value | (148,251) | 62,023 |
| Ending fair value | 330,901 | 251,230 |
| Total Level 3 liabilities | 770,786 | 716,886 |

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). There were no assets or liabilities measured at fair value on a nonrecurring basis during the periods ended July 31, 2017 and 2016.

**Earnings (Loss) Per Share**

The basic loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted loss per common share is computed similar to basic loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. For the three months ended July 31, 2017, loss per share excludes 10,992,130 (2016 – 12,524,012) potentially dilutive common shares (related to outstanding options and warrants as well as shares committed to be issued pursuant to the Third Promissory Notes) as their effect was anti-dilutive.

## 3. MINERAL PROPERTY INTEREST:

*Helmer-Bovill Property – Latah County, Idaho*

In May 2017, the Idaho Department of Lands accepted our operation and reclamation plan. Together with a water rights permit from the Idaho Department of Water Resources, we are able to proceed with development and construction of the mine, subject to obtaining sufficient financing. As a result, Management made the decision to begin capitalizing all development expenditures directly related to the Helmer-Bovill Property.

*(Unaudited - Expressed in US dollars except where otherwise indicated)*

| | $ |
|---|---|
| Balance at April 30, 2017 | 305,850 |
| | |
| Engineering and consulting | 90,028 |
| Metallurgy | 74,226 |
| Permitting and environmental | 6,000 |
| Other direct costs | 9,709 |
| | 179,963 |
| | |
| Balance at July 31, 2017 | 485,813 |

The Company has an undivided 100% interest in 11 State of Idaho mineral leases. The State of Idaho mineral leases are subject to a 5% production royalty on gross sales.

## 4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

| | July 31, 2017 $ | April 30, 2017 $ |
|---|---|---|
| Trade payables | 327,118 | 265,116 |
| Amounts due to related parties (Note 8) | 198,844 | 197,954 |
| Interest payable on promissory notes (Note 5) | 318,694 | 705,536 |
| | | |
| Total accounts payable and accrued liabilities | 844,656 | 1,168,606 |

## 5. PROMISSORY NOTES:

| | July 31, 2017 $ | April 30, 2017 $ |
|---|---|---|
| Third promissory notes | 15,373,956 | 14,147,964 |
| Fourth promissory notes | 184,813 | 165,208 |
| | | |
| Total promissory notes | 15,558,769 | 14,313,172 |
| | | |
| Current | 15,373,956 | 14,147,964 |
| Non-current | 184,813 | 165,208 |

### Third Promissory Notes

Effective August 31, 2016, the Company entered into an agreement (dated June 1, 2016) with a company controlled by a director of the Company (the “Lender”) pursuant to which up to an additional $2,965,000 will be advanced to the Company in tranches (the “Third Promissory Notes”). In addition, the First Promissory Notes and the Second Promissory Notes were amended and combined with the Third Promissory Notes with a modified maturity date of December 2, 2017. All other terms of the First Promissory Notes and the Second Promissory Notes remained unchanged.

*(Unaudited - Expressed in US dollars except where otherwise indicated)*

During the year ended April 30, 2017, the Company received $1,815,000 in advances pursuant to the Third Promissory Notes. During the three months ended July 31, 2017, the Company received $250,000 in advances. Subsequent to July 31, 2017, the Company received $300,000 in advances.

The following table outlines the estimated cash payments required in order to repay the principal balance of the Third Promissory Notes:

| 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|
| $ | $ | $ | $ | $ | $ |
| 15,559,324 | - | - | - | - | 15,559,324 |

Certain conditions may result in early repayment including immediate repayment in the event a person currently not related to the Company acquires more than 40% of the outstanding common shares of the Company. Debt issuance costs will be amortized over the estimated maturity life of the promissory notes.

The promissory notes bear interest at the rate of 12% per annum and during the three months ended July 31, 2017, the Company recorded interest of $457,567 (2016 - $354,752). Interest is payable semi-annually as calculated on May 31st and November 30th of each year. Interest is to be paid either in cash, in common shares or deemed an advance of principal at the option of the Lender. The lender elected to have interest payable from December 1, 2016 to May 31, 2017 of $850,667 deemed an advance (not subject to bonus shares or bonus warrants).

The Company and the Lender agreed that the Lender is to receive bonus shares equal to 7.5% of each loan tranche advanced under the Third Promissory Notes divided by the Company's common share market price. In addition, the Company will issue the Lender an equal number of share purchase warrants for each loan tranche advanced. Each bonus share purchase warrant will entitle the Lender to purchase one common share of the Company at a price equal to the greater of (a) the market price of the Company's common shares on the date of the advance and (b) the volume weighted average price of the Company's common shares over the twenty trading days immediately prior to the date of the advance. The bonus share purchase warrants expire on the earlier of (a) December 31, 2018 and (b) the date the advance has been repaid in full, including interest.

During the three months ended July 31, 2017, the Company issued 112,433 bonus shares to the Lender at the fair value of $39,375, based on their quoted market price at the date the advances were received, including 88,089 shares having a fair value of $29,625 that the Company had committed to issue as at April 30, 2017. At July 31, 2017, the Company was committed to issuing an additional 31,427 bonus shares to the Lender at the fair value of $9,000. The fair value of the bonus shares was determined by reference to the trading price of the Company's common shares on the date the advances were received.

The fair value of 55,771 bonus share purchase warrants committed to be issued (based on advances received during the period) during the three months ended July 31, 2017 of $4,195 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: stock price – CAD$0.444; exercise price – CAD$0.503; expected risk-free interest rate – 1.15%; expected life – 1.52 years; expected volatility – 53% and expected dividend rate – 0%.

The aggregate finance fees (bonus shares and bonus warrants) are recorded against the promissory notes balance and are being amortized to the Statement of Loss over the life of the promissory notes using the effective interest method. The accretion expense in respect of the debt discount recorded on the issuance of bonus shares and warrants totalled $148,270 for the three months ended July 31, 2017 (2016 - $125,117). The unamortized debt discount as at July 31, 2017 is $185,368 (April 30, 2017 – $310,693).

The promissory notes are collateralized by the Company's Helmer-Bovill Property.

**Fourth Promissory Notes**

On March 13, 2017, the Company entered into a loan agreement with an arm's-length lender pursuant to which CAD$250,000 ($186,846) was advanced to the Company (the "Fourth Promissory Notes"). As at July 31, 2017, the balance of the Fourth Promissory Notes was CAD$250,000 ($200,100). The loan bears interest at a rate of 12% per annum and during the three months ended July 31, 2017, the Company recorded interest of $5,729. The Fourth Promissory Notes are unsecured and are due on or before December 31, 2018. The Company issued 40,761 bonus shares at the fair value of $14,013 and 40,761 bonus share purchase warrants at the fair value of $4,814.

The aggregate finance fees (bonus shares and bonus warrants) are recorded against the Fourth Promissory Notes balance and are being amortized to the Statement of Loss over the life of the Fourth Promissory Notes using the effective interest method. The accretion expense in respect of the debt discount recorded on the issuance of bonus shares and warrants totalled $2,655 for the three months ended July 31, 2017. The unamortized debt discount as at July 31, 2017 is $15,287 (April 30, 2017 - $17,942).

## 6. WARRANT LIABILITIES:

The Company has share purchase warrants exercisable into common shares at an exercise price denominated in Canadian dollars. As a variable amount of US dollars are exercisable into a fixed number of common shares, the share purchase warrants are classified as derivative liabilities.

The Company records the fair value of the share purchase warrants in accordance with ASC 815, "Derivatives and Hedging". The Company uses the Black-Scholes option pricing model to calculate the fair values of the derivative liabilities. The fair value of the derivative liability is revalued on each balance sheet date with corresponding gains and losses recorded in the consolidated statement of loss.

| | $ |
|---|---|
| Balance, April 30, 2017 | 742,583 |
| Bonus warrants issuable pursuant to promissory notes (Note 5) | 4,195 |
| Change in fair value of warrant derivatives | (306,893) |
| Balance, July 31, 2017 | 439,885 |

**Warrant Derivative Liabilities**

At July 31, 2017, the Company determined the fair value of Warrant Derivative Liabilities to be $439,885 (April 30, 2017 - $742,583) as estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | July 31, 2017 | April 30, 2017 |
|---|---|---|
| Stock price (CAD$) | 0.38 | 0.48 |
| Exercise price (CAD$) | 0.31 | 0.31 |
| Risk-free interest rate (%) | 0.73 | 1.15 |
| Expected life (years) | 1.45 | 1.70 |
| Expected volatility (%) | 51 | 61 |
| Expected dividends ($) | Nil | Nil |

*(Unaudited - Expressed in US dollars except where otherwise indicated)*

## 7. SHARE CAPITAL:

**Common shares**

a) Authorized:

Unlimited number of common shares, without par value.

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

b) Stock transactions:

During the three months ended July 31, 2017, the Company completed the following stock transactions:

i) On July 11, 2017, the Company issued 112,433 common shares with a fair value of $39,375 including 88,089 common shares having a fair value of $29,625 which the Company had committed to issue at April 30, 2017. The common shares were issued as debt discounts pursuant to the Third Promissory Notes (Note 5).

c) Stock options:

The Company has granted stock options under the terms of its Stock Option Plan (the "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 maximum term of stock options is ten years. All stock options vest on the date of grant, unless otherwise stated. As at July 31, 2017, the Company had 2,393,479 stock options available for grant pursuant to the Plan (April 30, 2017 - 2,382,236).

The Company's stock options outstanding as at July 31, 2017 and April 30, 2017 and the changes for the periods then ended are as follows:

| | Number Outstanding | Weighted Average Exercise Price (in CAD$) |
|---|---|---|
| Balance outstanding at April 30, 2017 | 6,555,000 | 0.22 |
| Balance outstanding at July 31, 2017 | 6,555,000 | 0.22 |
| Balance exercisable at July 31, 2017 | 5,925,000 | 0.22 |

Summary of stock options outstanding at July 31, 2017:

| Security | Number Outstanding | Exercise Price (CAD$) | Expiry Date | Remaining Contractual Life (years) |
|---|---|---|---|---|
| Stock options | 1,300,000 | 0.10 | July 30, 2018 | 1.00 |
| Stock options | 260,000 | 0.15 | July 30, 2018 | 1.00 |
| Stock options | 300,000 | 0.25 | July 30, 2018 | 1.00 |
| Stock options | 200,000 | 0.25 | November 19, 2018 | 1.30 |
| Stock options | 150,000 | 0.25 | January 8, 2019 | 1.44 |
| Stock options | 300,000 | 0.25 | May 23, 2019 | 1.81 |

| | | | | |
|---|---|---|---|---|
| Stock options | 150,000 | 0.25 | December 16, 2017 | 0.38 |
| Stock options | 1,975,000 | 0.25 | January 29, 2020 | 2.50 |
| Stock options | 200,000 | 0.25 | August 4, 2020 | 3.01 |
| Stock options | 1,000,000 | 0.25 | February 25, 2018 | 0.57 |
| Stock options | 20,000 | 0.22 | May 19, 2018 | 0.80 |
| Stock options | 300,000 | 0.30 | July 21, 2021 | 3.98 |
| Stock options | 400,000 | 0.30 | November 3, 2021 | 4.26 |

*Non-Employee Stock Options*

In accordance with the guidance of ASC 815-40-15, stock options awarded to non-employees that are fully vested and exercisable in Canadian dollars are required to be accounted for as derivative liabilities because they are considered not to be indexed to the Company's stock due to their exercise price being denominated in a currency other than the Company's functional currency. Stock options awarded to non-employees that are not vested are accounted for as equity awards until the terms associated with their vesting requirements have been met. As at July 31, 2017, there were 200,000 (April 30, 2017 – 300,000) non-employee stock option awards that had not yet vested.

The non-employee stock options are accounted for at their respective fair values and are summarized as follows for the three months ended July 31, 2017 and 2016:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Fair value of non-employee options, beginning of the period | 446,354 | 189,207 |
| Fair value of options on vesting | 32,798 | - |
| Change in fair value of non-employee stock options during the period | (148,251) | 62,023 |
| Fair value of non-employee options, end of the period | 330,901 | 251,230 |

The Company determined the fair value of its non-employee stock options as at July 31, 2017 and April 30, 2017 using the Black-Scholes option pricing model with the following weighted average assumptions:

| | July 31, 2017 | April 30, 2017 |
|---|---|---|
| Stock price (CAD$) | 0.38 | 0.48 |
| Exercise price (CAD$) | 0.23 | 0.23 |
| Risk-free interest rate (%) | 0.90 | 0.83 |
| Expected life (years) | 1.44 | 1.56 |
| Expected volatility (%) | 58 | 59 |
| Expected dividends ($) | Nil | Nil |

The non-employee options are required to be re-valued with the change in fair value of the liability recorded as a gain or loss on the change of fair value of derivative liability and included in other items in the Company's Consolidated Statements of Loss at the end of each reporting period. The fair value of the options will continue to be classified as a liability until such time as they are exercised, expire or there is an amendment to the respective agreements that renders these financial instruments to be no longer classified as a liability.

As at July 31, 2017, the unamortized compensation cost of options is $60,675 and the intrinsic value of options expected to vest is $740,304 (CAD$924,225).

Share-based payments are classified in the Company's Statement of Loss during the three months ended July 31, 2017 and 2016 as follows:

*(Unaudited - Expressed in US dollars except where otherwise indicated)*

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Management and consulting fees | 9,829 | 72,169 |
| | 9,829 | 72,169 |

d) Share purchase warrants:

A summary of fully-exercisable share purchase warrants as at July 31, 2017 and April 30, 2017 and the changes for the periods then ended are as follows:

| | Number Outstanding | Weighted Average Exercise Price (CAD$) |
|---|---|---|
| Balance at April 30, 2017 | 4,349,932 | 0.31 |
| Issued | 55,771 | 0.50 |
| Balance at July 31, 2017 | 4,405,703 | 0.31 |

Summary of warrants outstanding and issuable at July 31, 2017:

| Security | Number Outstanding | Exercise Price ($CAD) | Expiry Date |
|---|---|---|---|
| Warrants | 730,848 | 0.22 | December 31, 2018[(1)] |
| Warrants | 242,545 | 0.23 | December 31, 2018[(1)] |
| Warrants | 194,344 | 0.24 | December 31, 2018[(1)] |
| Warrants | 37,203 | 0.245 | December 31, 2018[(1)] |
| Warrants | 393,058 | 0.255 | December 31, 2018[(1)] |
| Warrants | 192,206 | 0.259 | December 31, 2018[(1)] |
| Warrants | 126,843 | 0.265 | December 31, 2018[(1)] |
| Warrants | 198,750 | 0.272 | December 31, 2018[(1)] |
| Warrants | 95,781 | 0.291 | December 31, 2018[(1)] |
| Warrants | 100,373 | 0.295 | December 31, 2018[(1)] |
| Warrants | 101,095 | 0.298 | December 31, 2018[(1)] |
| Warrants | 49,294 | 0.299 | December 31, 2018[(1)] |
| Warrants | 150,246 | 0.310 | December 31, 2018[(1)] |
| Warrants | 58,496 | 0.335 | December 31, 2018[(1)] |
| Warrants | 30,139 | 0.405 | December 31, 2018[(1)] |
| Warrants | 40,761 | 0.460 | December 31, 2018[(1)] |
| Warrants | 25,621 | 0.470 | December 31, 2018[(1)] |
| Warrants | 63,756 | 0.475 | December 31, 2018[(1)] |
| Warrants | 24,344 | 0.540 | December 31, 2018[(1)] |
| Warrants | 1,550,000 | 0.40 | January 31, 2019 |

Notes:
(1) The warrants are exercisable until the earlier of the date disclosed or the date that the promissory note advance, including interest, is repaid (Note 5).

## 8. RELATED PARTY TRANSACTIONS:

During the three months ended July 31, 2017, management and consulting fees of $24,000 (2016 - $24,026) were charged by RJG Capital Corporation, a wholly-owned company of W. Barry Girling, Director. Wayne Moorhouse, Director, charged $902 (2016 - $770) in management and consulting fees. $8,076 (2016 - $10,087) was charged by Malaspina Consultants Inc. for the services of Matt Anderson, CFO, and are included in professional fees. John Theobald, Director, charged $29,048 (2016 - $nil) in mineral property expenditures.

Included in accounts payable and accrued liabilities are amounts owed to directors or officers or companies controlled by them. As at July 31, 2017, the amount was $198,844 (April 30, 2017 – $197,954). All amounts are non-interest bearing, unsecured, and due on demand.

The promissory notes received from a company controlled by a director (Notes 5 and 11) are related party transactions.

## 9. SEGMENT DISCLOSURES:

The Company considers its business to comprise a single operating segment being the exploration and development of its resource property. Substantially all of the Company's long-term assets and operations are located in Latah County, Idaho.

## 10. NON-CASH TRANSACTIONS:

Investing and financing activities that affect recognized assets or liabilities but that do not result in cash receipts or cash payments are excluded from the consolidated statements of cash flows. During the three months ended July 31, 2017, the following transactions were excluded from the consolidated statement of cash flows:

a) The commitment to issue 55,771 common shares at the fair value of $18,750 and 55,771 warrants at the fair value of $4,195 pursuant to the promissory notes.

During the three months ended July 31, 2016, the following transactions were excluded from the consolidated statement of cash flows:

a) The commitment to issue 269,359 common shares at the fair value of $58,144 and 269,359 warrants at the fair value of $27,750 pursuant to the promissory notes.

## 11. SUBSEQUENT EVENTS:

Subsequent to July 31, 2017:

i) The Company received an aggregate of $300,000 of Third Promissory Notes.

**Item 2. Management's discussion and analysis of financial condition and results of operations**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Quarterly Report constitute "forward-looking statements." These statements, identified by words such as "plan," "anticipate," "believe," "estimate," "should," "expect" and similar expressions include our expectations and objectives regarding our future financial position, operating results and business strategy. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political and social uncertainties; the actual results of current exploration and development activities; changes in project parameters as plans continue to be refined; changes in labour costs or other costs of production; future mineral prices; equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry, including but not limited to environmental hazards, cave-ins, pit-wall failures, flooding, rock bursts and other acts of God or unfavourable operating conditions and losses; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section titled "Risk Factors" in our Annual Report on Form 10-K which was filed with the SEC on July 27, 2017.

Forward looking statements are based on a number of material factors and assumptions, including the results of exploration/development and drilling activities, the availability and final receipt of required approvals, licenses and permits, that sufficient working capital is available to complete proposed exploration/development and drilling activities, that contracted parties provide goods and/or services on the agreed time frames, the equipment necessary for exploration/development is available as scheduled and does not incur unforeseen break downs, that no labour shortages or delays are incurred and that no unusual geological or technical problems occur. While we consider these assumptions may be reasonable based on information currently available to it, they may prove to be incorrect. Actual results may vary from such forward-looking information for a variety of reasons, including but not limited to risks and uncertainties disclosed in the section titled "Risk Factors" in our Annual Report on Form 10-K which was filed with the SEC on July 27, 2017.

We intend to discuss in our Quarterly Reports and Annual Reports any events or circumstances that occurred during the period to which such documents relate that are reasonably likely to cause actual events or circumstances to differ materially from those disclosed in this Quarterly Report. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of such factors, may cause actual results to differ materially from those contained in any forwarding looking statement.

**CAUTIONARY NOTE TO U.S. INVESTORS REGARDING ESTIMATES OF MEASURED, INDICATED AND INFERRED RESOURCES AND PROVEN AND PROBABLE RESERVES**

The terms "mineral reserve", "proven mineral reserve" and "probable mineral reserve" as used in this Quarterly Report are Canadian mining terms as defined in accordance with Canadian National Instrument 43-101 – Standards of Disclosure for Mineral Projects ("NI 43-101") and the Canadian Institute of Mining, Metallurgy and Petroleum (the "CIM") – CIM Definition Standards on Mineral Resources and Mineral Reserves, adopted by the CIM Council, as amended (the "CIM Definition Standards"). These definitions differ from the definitions in the United States Securities and Exchange Commission ("SEC") Industry Guide 7 ("SEC Industry Guide 7") under the United States Securities Act of 1933, as amended (the "Securities Act"). Under SEC Industry Guide 7 standards, a "final" or "bankable" feasibility study is required to report reserves, the three-year historical average price is used in any reserve or cash flow analysis to designate reserves, and the primary environmental analysis or report must be filed with the appropriate governmental authority.

In addition, the terms "mineral resource", "measured mineral resource", "indicated mineral resource" and "inferred mineral resource" are defined in and required to be disclosed by NI 43-101; however, these terms are not defined terms under SEC Industry Guide 7 and are normally not permitted to be used in reports and registration statements filed with the SEC. Investors are cautioned not to assume that all or any part of a mineral deposit in these categories will ever be converted into reserves. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all, or any part, of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. Investors are cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable. Disclosure of unit measures in a resource is permitted disclosure under Canadian regulations; however, the SEC only permits issuers to report mineralization that does not constitute "reserves" by SEC standards as in place tonnage and grade without reference to unit measures.

Accordingly, information contained in this Quarterly Report and any documents incorporated by reference herein contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

As used in this Quarterly Report, unless the context otherwise requires, “we,” “us,” “our,” the “Company” and “I-Minerals” refers to I-Minerals Inc. All dollar amounts in this Quarterly Report are in U.S. dollars unless otherwise stated.

**General**

We were incorporated under the laws of British Columbia, Canada in 1984. In 2004, we changed our corporate jurisdiction from a British Columbia company to a Canadian corporation. In December 2011, we amended our articles to change our name from “i-minerals inc.” to “I-Minerals Inc.”

The Company is engaged in the development of our Helmer-Bovill industrial minerals property (the “Helmer-Bovill Property”). The Helmer-Bovill Property, in which we hold a 100% interest, is comprised of 11 mineral leases totaling 5,140.64 acres located approximately 6 miles southwest of Bovill, Latah County, Idaho. Since inception, the Company has been in the exploration stage but moved into the development stage in fiscal 2018.

We acquired the Helmer-Bovill Property from Idaho Industrial Minerals (“IIM”) pursuant to an Assignment Agreement with Contingent Right of Reverter (the “IIM Agreement”) dated August 12, 2002, as amended August 10, 2005, August 10, 2008 and January 21, 2010, between I-Minerals USA (formerly Alchemy Kaolin Corporation), our wholly owned subsidiary, and IIM. Under the terms of the IIM Agreement, we issued a total of 1,800,000 common shares to IIM.

Our principal executive office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada and our telephone number is (877) 303-6573.

To date, we have not earned significant revenues from the operation of our Helmer-Bovill Property. Accordingly, we are dependent on debt and equity financing as our primary source of operating working capital. Our capital resources are largely determined by the strength of the junior resource markets and by the status of our projects in relation to these markets, and its ability to compete for investor support of its projects.

**Our Principal Projects**

Our activities at the Helmer-Bovill Property are focused on developing the Bovill Kaolin Project and the WBL Tailings Project.

<u>The Bovill Kaolin Project</u>

Our lead project, the Bovill Kaolin Project, is a strategically located long term resource of high purity quartz, potassium feldspar (“K-spar”), halloysite and kaolinite formed through weathering of a border phase of the Idaho Batholith causing all minerals to be contained within a fine white clay-sand mixture referred to as “primary clay.” The Bovill Kaolin Project is located within 3 miles of state highways with electricity and natural gas already at the property boundary.

Since 2010, our exploration work has focused diamond drilling on the Bovill Kaolin Project. To date, a total of 258 diamond drill holes have been drilled totaling 28,251 feet. As a result of these drill campaigns, four deposits have been identified: Kelly’s Hump, Kelly’s Hump South, Middle Ridge and WBL.

In June 2014, we completed an updated pre-feasibility study on the Bovill Kaolin Project (the “2014 PFS”) and on March 8, 2016, we announced the economic results of our full feasibility study (the “2016 FS”), which included the following highlights:

- *Updated Measured and Indicated Resource Estimate*
    - Measured Resources of 5.7 million tons containing 76.5% quartz/K-spar sand, 12.3% Kaolinite and 4.0% Halloysite.
    - Indicated Resources of 15.5 million tons containing 57.0% quartz/K-spar sand, 15.5% Kaolinite and 2.8% Halloysite.
    - 667,000 tons of contained halloysite, 3,119,000 tons of contained kaolinite and 13,235,000 tons of contained quartz/K-spar.

- *Updated Mineral Reserves. All figures are in thousands of tons.*

| Reserve | Proven | Probable | Total P&P |
|---|---|---|---|
| Tons (1000s) | 4,155 | 4,548 | 8,702 |
| Halloysite % | 4.8 | 4.0 | 4.4 |
| Halloysite Tons (1000s) | 200 | 182 | 382 |
| Kaolinite % | 11.1 | 12.5 | 11.8 |
| Kaolinite Tons (1000s) | 460 | 568 | 1,028 |
| Sand % | 77.8 | 76.8 | 77.3 |
| Sand Tons (1000s) | 3,234 | 3,491 | 6,725 |

Note that values presented here have been rounded to reflect the level of accuracy.
Proven and Probable Mineral Reserves are presented using a $57.00 NSR cutoff grade.

- *Economic Analysis*
  - US$386 million Pre-Tax NPV; US$249.8 million After Tax NPV using a 6% discount rate.
  - 31.6% Pre-Tax IRR; 25.8% After Tax IRR.
  - Initial Capital Cost of $108.3 million and Total Life of Mine capital costs $120.0 million.
  - Life of Mine in excess of 25 years with a stripping ratio of 0.54:1 (waste:ore).
  - 3 year estimated after tax payback.

The full feasibility study was filed on www.sedar.com on April 20, 2016 and is available on the Company's website. The 2016 FS was prepared by GBM Engineers LLC, Mine Development Associates, HDR Engineering Inc., SRK Consulting (U.S.), Inc. and Tetra Tech. Going forward our focus is to complete the detailed engineering and commence efforts to raise the capital necessary to build the mine.

In May 2017, the Idaho Department of Lands ("IDL") accepted our operation and reclamation plan. Together with a water rights permit from the Idaho Department of Water Resources, we are able to proceed with development and construction of the mine, subject to obtaining sufficient financing. Effective May 1, 2017, the Company entered into the development stage.

**Plan of Operation**

During the next twelve months, our plan of operation is to complete the longer lead time engineering tasks such as the electricity and gas planning. In May 2017, the IDL accepted our Operation and Reclamation Plan on the Bovill Kaolin Project. Avista, the local utility, has started the initial scoping studies to bring electricity and gas the last five miles from its current terminus to the proposed mill site. In the interim we will continue to strengthen our customer list and continue discussions to raise the capital to fund the mine construction

<u>Engineering work on the Bovill Kaolin Project</u>

As recommended in the 2016 FS, we are about to begin the contemplated utility surveys and are undertaking additional pilot plant work to produce customer samples for marketing purposes and the related testwork for final equipment selection. Two pilot plants are currently ongoing with the first producing metakaolin and halloysite and the second producing quartz and K-spar. Additional work is also ongoing to finalize the process plant water balance and utilities consumptions. This work together with the General and Administrative expenses related in part to our continuing financing efforts are estimated to cost about USD$2,440,000 before taking into consideration any possible land swap with the IDL.

**Outlook**

Our focus continues to be the detailed assessment of all our mineral assets and advancing the Bovill Kaolin Project towards production. The process of producing minerals through pilot plant work includes shipping the unprocessed primary clay to Ginn Mineral Technologies ("GMT") who undertakes the separation of the sand fraction (quartz and K-spar) from the clay fraction (kaolin and halloysite). GMT then sends the sand fraction on to Minerals Research Laboratory at North Carolina State University ("MRL") where MRL separates the K-spar and quartz through flotation. GMT separates the halloysite and kaolinite into marketable products.

Three bulk samples are currently completed or being processed at both GMT and MRL. Processing of the first of the three bulk samples is complete. Processing of the second bulk sample has been completed at GMT and the K-spar float was completed at MRL. The third bulk sample has been separated at GMT. The clay fraction was separated into halloysite and metakaolin products. The halloysite products have been returned to our warehouse in Coeur d'Alene, Idaho. A small spilt of the kaolin was sent out to test flash calcination, an alternate calcining technique. Preliminary results are very favorable with indications of the highest quality metakaolin product to date. Final results are expected before the end of September 2017. All remaining kaolin currently at GMT will be sent for flash calcination once the final results from the test work are received.

At present we have, or will have shortly, inventory of all minerals for distribution to customers. Fine grinding of quartz and K-spar still needs to be completed. With material from the third bulk sample, we are testing a different fine grinding technique from what has previously been used and will also test flash calcination - a technique which in other instances has produced a superior metakaolin product.

Management is very pleased with the product development to date. Processing of the second bulk sample at MRL has generated the highest $K_2O$ grades to date with results consistently in excess of 14% $K_2O$. Sample requests for halloysite have come from North America, Europe, the Middle East, South America and Asia showing both the scarcity of halloysite in general and the quality of I-Minerals halloysite in particular. While we currently have inventory of ULTRA Hallopure® and HalloPure® several companies have advanced their halloysite consuming products to near commercialization and have indicated a need for multiple tons of halloysite to complete the commercialization process. We are currently assessing the logistics and cost of completing an additional large pilot plant to make multiple tons of ULTRA Hallopure® and HalloPure® available to customers in life science, clean tech and plastic / polymer industries.

Based upon opportunities identified in the Charles Rivers report, internal marketing efforts and customer leads generated through the website, strong interest has been generated in all our mineral products with ever increasing interest in the K-spar. Samples continue to be sent to customers for testing and the response has been very favorable.

**Results of Operation**

*Three months ended July 31, 2017*

We recorded a loss of $563,999 ($0.01 per share) for the three months ended July 31, 2017 as compared to a loss of $1,394,994 ($0.02 per share) for the three months ended July 31, 2016. The decrease in the loss recorded for the three months ended July 31, 2017 as compared to the three months ended July 31, 2016 is the net result of changes to a number of expenses. Of note are the following items:

- Management and consulting fees of $34,731 (2016 - $113,653) are comprised of fees to manage our Company and stock-based compensation. The stock-based compensation recognized in the current period was $9,829 (2016 - $72,169). Approximately 25% of the fees to manage our Company are charged to management and consulting fees and the other 75% is charged to mineral property expenditures and/or capitalized to mineral property interest.
- Mineral property expenditures of $118,212 (2016 - $291,509) are costs incurred on our Helmer-Bovill Property. The expenditures in the current period are pre-development costs that have been expensed during the period. The Company also capitalized $179,963 of development costs to the balance sheet during the period. The main components of capitalized costs during the current period included engineering and consulting ($90,028) and metallurgy ($74,226). In May 2017, the Company completed permitting work. During the current period, the Company continues to optimize the metallurgical processes and detailed engineering.
- General and miscellaneous expenses of $136,924 (2016 - $235,879) are comprised of office and telephone expenses, payroll taxes, medical benefits, insurance premiums, travel expenses, promotional expenses, shareholder communication fees, transfer agent fees and filing fees. The decrease during the current period was due primarily to a decrease in mineral marketing activities as well as investor relations activities.
- Professional fees of $95,615 (2016 - $99,236) include legal fees, audit fees and financial consulting fees.
- Accretion expense of $150,925 (2016 - $125,117) is the amortization of the fair value of bonus shares and bonus warrants issued to the lender of the promissory notes. The bonus shares and bonus warrants are amortized over the life of the promissory notes.
- Interest expense of $463,296 (2016 - $354,752) is from promissory notes that bear interest at a rate of 12% per year. Interest increased as additional funds were advanced.
- We recorded a gain on change in fair value of derivative liabilities of $455,144 (2016 – loss of $173,334). The change in fair value of derivative liabilities is based on the change in remaining term of derivative instruments and our stock price. The derivatives include warrants as well as stock options granted to non-employees. The derivative liabilities do not represent cash liabilities.

**Liquidity and Capital Resources**

Our aggregate operating, investing and financing activities during the three months ended July 31, 2017 resulted in a net cash outflow of $242,089 (2016 – inflow of $275,312). As at July 31, 2017, we had a working capital deficiency of $16,875,502, including cash of $45,193.

During the three months ended July 31, 2017, $840,636 was used in operations before changes in non-cash operating working capital items (2016 - $1,023,775). The decrease in these cash flows was due primarily to a decrease in mineral property expenditures. During the three months ended July 31, 2017, we spent $181,895 on investing activities (2016 - $nil) and we received $250,000 from financing activities (2016 - $967,736).

Currently, we are being financed by advances pursuant to promissory notes advanced by BV Lending LLC, an entity controlled by Allen L. Ball, a member of our Board of Directors and our largest shareholder (the "Lender"). During the three months ended July 31, 2017, the Company was receiving advances pursuant to the Third Promissory Notes. As at July 31, 2017, the balance of the Third Promissory Notes was $15,559,324. Subsequent to July 31, 2017, the Company received $300,000 in advances. Pursuant to the terms of the agreement, the Lender has agreed to advance up to an additional $750,000. The Third Promissory Notes have a maturity date of December 2, 2017. Certain conditions may result in early repayment.

An additional CAD$250,000 promissory note was issued in March 2017 to an arm's-length lender with a maturity date of December 31, 2018.

We have not as yet put into commercial production any mineral properties and as such have no operating revenues. Accordingly, we are dependent on debt and equity financing as its primary source of operating working capital. Our capital resources are largely determined by the strength of the junior resource markets and by the status of our projects in relation to these markets, and our ability to compete for investor support of our projects.

We remain dependent on additional financing to fund development requirements on the Helmer-Bovill property and for general corporate costs. With respect to funds required for capital cost items, State-sponsored debt financing instruments may be available on attractive terms, and we intend to pursue such financial instruments to cover portions of the capital costs associated with placing the Bovill Kaolin deposits into production. We have commenced efforts to raise the capital necessary to build the mine.

We do not have the ability to internally generate sufficient cash flows to support our operations for the next twelve months. We are currently receiving funds from a company controlled by a director of the Company through promissory notes. We have no formal plan in place to address this going concern issue but consider that we will be able to obtain additional funds by equity financing and/or debt financing; however, there is no assurance of additional funding being available. As a result, our auditors included an emphasis of matter note in their report on the financial statements for the year ended April 30, 2017 about our ability to continue as a going concern.

**Off-Balance Sheet Arrangements**

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to shareholders.

**Critical Accounting Policies**

*Measurement Uncertainty*

The preparation of these consolidated financial statements in conformity with US GAAP requires us to make estimates and assumptions that affect the reported amounts 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 reporting period. We regularly evaluate estimates and assumptions related to the useful life and recoverability of long lived assets, stock-based compensation, valuation of convertible debentures and derivative liabilities, and deferred income tax asset valuation allowances. We base our estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected. The most significant estimates with regard to our condensed consolidated financial statements relate to the determination of fair values of derivative liabilities and stock-based transactions.

*Stock-based Compensation*

We account for all stock-based payments and awards under the fair value based method. Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable.

The fair value of stock-based payments to non-employees is periodically re-measured until the counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if we had paid cash instead of paying with or using equity based instruments. The cost of the stock-based payments to non-employees that are fully vested and non-forfeitable as at the grant date is measured and recognized at that date, unless there is a contractual term for services in which case such compensation would be amortized over the contractual term.

We account for the granting of stock options to employees using the fair value method whereby all awards to employees will be recorded at fair value on the date of the grant. The fair value of all stock options is expensed over their vesting period with a corresponding increase to additional paid-in capital.

Compensation costs for stock-based payments that do not include performance conditions are recognized on a straight-line basis. Compensation cost associated with a share based award having a performance condition is recognized on the probable outcome of that performance condition during the requisite service period. Share based awards with a performance condition are accrued on an award by award basis.

We use the Black-Scholes option valuation model to calculate the fair value of stock options at the date of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimates.

*Derivative Liabilities*

We evaluate our financial instruments and other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for in accordance with ASC 815. The result of this accounting treatment is that the fair value of the embedded derivative is marked-to-market at each balance sheet date and recorded as a liability and the change in fair value is recorded in the consolidated statement of loss. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instruments that become subject to reclassification are reclassified at the fair value of the instrument on the reclassification date. Derivative instrument liabilities are classified in the balance sheet as current as settlement of the derivative instruments are at the option of the holder.

We use the Black-Scholes option valuation model to value derivative liabilities. This model uses Level 3 inputs in the fair value hierarchy established by ASC 820 Fair Value Measurement.

*Mineral Property and Exploration Costs*

Costs related to the development of our mineral reserves are capitalized when it has been determined an ore body can be economically developed. The development stage begins when an ore body is determined to be economically recoverable based on proven and probable reserves and appropriate permits are in place, and ends when the production stage or exploitation of reserves begins. Major mine development expenditures are capitalized, including primary development costs such as costs of building access ways, tailings impoundment, development of water supply and infrastructure developments.

Exploration costs include those relating to activities carried out (a) in search of previously unidentified mineral deposits, or (b) at undeveloped concessions. Pre-development activities involve costs incurred in the exploration stage that may ultimately benefit production that are expensed due to the lack of evidence of economic development, which is necessary to demonstrate future recoverability of these expenses. Secondary development costs are incurred for preparation of an ore body for production in a specific ore block or work area, providing a relatively short-lived benefit only to the mine area they relate to, and not to the ore body as a whole.

Drilling and related costs are either classified as exploration or secondary development, as defined above, and charged to operations as incurred, or capitalized, based on the following criteria:

- Whether the costs are incurred to further define mineralization at and adjacent to existing reserve areas or intended to assist with mine planning within a reserve area;
- Whether the drilling costs relate to an ore body that has been determined to be commercially mineable, and a decision has been made to put the ore body into commercial production; and
- Whether, at the time that the cost is incurred, the expenditure: (a) embodies a probable future benefit that involves a capacity, singly or in combination, with other assets to contribute directly or indirectly to future net cash inflows, (b) we can obtain the benefit and control others' access to it, and (c) the transaction or event giving rise to our right to or control of the benefit has already occurred.

If all of these criteria are met, drilling and related costs are capitalized. Drilling costs not meeting all of these criteria are expensed as incurred. The following factors are considered in determining whether or not the criteria listed above have been met, and capitalization of drilling costs is appropriate:

- Completion of a favourable economic study and mine plan for the ore body targeted;
- Authorization of development of the ore body by management and/or the Board of Directors; and
- All permitting and/or contractual requirements necessary for us to have the right to or control of the future benefit from the targeted ore body have been met.

Once production has commenced, capitalized costs will be depleted using the units-of-production method over the estimated life of the proven and probable reserves. If mineral properties are subsequently abandoned or impaired, any capitalized costs will be charged to the Consolidated Statements of Loss in that period.

We assess the carrying cost of our mineral properties for impairment whenever information or circumstances indicate the potential for impairment. Such evaluations compare estimated future net cash flows with our carrying costs and future obligations on an undiscounted basis. If it is determined that the future undiscounted cash flows are less than the carrying value of the property, a write down to the estimated fair value is charged to the Consolidated Statements of Loss for the period. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if the carrying value can be recovered.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable

**Item 4. Controls and Procedures.**

The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures as of July 31, 2017. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of July 31, 2017. There were no material changes in the Company’s internal control over financial reporting during the first quarter of fiscal 2018.

## PART II

**Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

There have been no material changes from the risk factors as previously disclosure in our Annual Report on Form 10-K which was filed with the SEC on July 27, 2017.

**Item 2. Sale of Unregistered Securities.**

All unregistered sales of equity securities during the period covered by the Quartlery Report were previously disclosed in our current reports on Form 8-K and our Annual Report on Form 10-K.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Pursuant to Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (The “Dodd-Frank Act”), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the three months ended July 31, 2017, our U.S. development property was not subject to regulation by the Federal Mine Safety and Health Administration (“MSHA”) under the Federal Mine Safety and Health Act of 1977 (the "Mine Act").

**Item 5. Other Information.**

None

**Item 6. Exhibits.**

**(a) Exhibits**

| | |
|---|---|
| 3.1 | Certificate of Continuation.(2) |
| 3.2 | Articles of Continuance.(2) |
| 3.3 | Certificate of Amendment.(2) |
| 3.4 | Articles of Amendment.(2) |
| 3.5 | By-Laws.(2) |
| 10.1 | Assignment Agreement with Contingent Right of Reverter dated August 10, 2002, between the Company, Idaho Industrial Minerals, LLC and Northwest Kaolin Inc.(2) |
| 10.2 | Amendment and Ratifications of Assignment Agreement with Contingent Right of Reverter dated August 10, 2005, between the Company, Idaho Industrial Minerals, LLC and Northwest Kaolin Inc.(2) |
| 10.3 | Second Amendment and Ratifications of Assignment Agreement with Contingent Right of Reverter dated August 10, 2005, between the Company, Idaho Industrial Minerals, LLC and Northwest Kaolin Inc.(2) |
| 10.4 | Third Amendment and Ratifications of Assignment Agreement with Contingent Right of Reverter dated August 10, 2008, between the Company, Idaho Industrial Minerals, LLC and Northwest Kaolin Inc.(2) |
| 10.5 | Fourth Amendment and Ratifications of Assignment Agreement with Contingent Right of Reverter dated January 1, 2010, between the Company, Idaho Industrial Minerals, LLC and Northwest Kaolin Inc.(2) |
| 10.6 | Employment Agreement dated April 1, 2013 between the Company and Thomas M. Conway.(2) |
| 10.7 | Loan Agreement dated September 13, 2013 between the Company and BV Lending LLC.(2) |
| 10.8 | Stock Option Plan.(1) |
| 10.9 | Sales Agreement dated April 28, 2014 between I-Minerals USA, Inc. and Pre-Mix, Inc.(2) |
| 10.10 | Loan Agreement dated February 18, 2015 between the Company and BV Lending LLC.(3) |
| 10.11 | Amendment Agreement dated December 1, 2015 between the Company and BV Lending LLC.(4) |
| 10.12 | Loan Agreement dated June 1, 2016 between the Company and BV Lending LLC. (5) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (Rule 13a-14 and 15d-14 of the Exchange Act) |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (Rule 13a-14 and 15d-14 of the Exchange Act) |
| 32.1 | Certification of Chief Executive Officer pursuant to pursuant to Section 1350 of Title 18 of the United States Code |
| 32.2 | Certification of Chief Financial Officer pursuant to pursuant to Section 1350 of Title 18 of the United States Code |

Notes:

(1) Filed as an exhibit to our Registration Statement on Form 10 filed with the SEC on November 17, 2014.
(2) Filed as an exhibit to our Registration Statement on Form 10/A filed with the SEC on December 24, 2014.
(3) Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on March 11, 2015.
(4) Filed as an exhibit to our Current Report on Form 8-K filed with the SEC on December 7, 2015.
(5) Filed as an exhibit to our Form 10-Q filed with the SEC on September 14, 2016.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**I-MINERALS INC.**

| | | | |
|---|---|---|---|
| Date: | September 13, 2017 | By: | */s/ Thomas M. Conway*<br>**THOMAS M. CONWAY**<br>Chief Executive Officer and President<br>(Principal Executive Officer) |
| Date: | September 13, 2017 | By: | */s/ Matthew Anderson*<br>**MATTHEW ANDERSON**<br>Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer) |