

INTERNATIONAL TOWER HILL MINES LTD
Form 40-APP
February 05, 2013

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

Application for an Order Pursuant to Section 3(b)(2) or Section 6(c)
and Section 45(a) of the Investment Company Act of 1940

Submitted by

International Minerals Corporation
(Name of Applicant)

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February 4, 2013

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SUMMARY OF RELIEF REQUESTED

International Minerals Corporation (the “Applicant”) hereby makes application to the Securities and Exchange Commission (the “Commission”) for an order pursuant to Section 3(b)(2) of the Investment Company Act of 1940 (as amended, the “Act”)¹ finding and declaring that the Applicant is primarily engaged in a business or businesses other than that of investing, reinvesting, owning, holding, or trading in securities either directly, through majority-owned subsidiaries, or through controlled companies conducting similar types of business, and therefore, is not an investment company within the meaning of the Act. Alternatively, the Applicant makes application for an order pursuant to Section 6(c) of the Act exempting the Applicant from all of the provisions of the Act and any rule or regulation thereunder. The Applicant also hereby makes application to the Commission for an order pursuant to Section 45(a) of the Act finding and declaring that public disclosure of certain information is neither necessary nor appropriate in the public interest or for the protection of investors, that confidential treatment of such information is consistent with 5 U.S.C. § 552(b)(4) and 17 C.F.R. 200.80(b)(4), and, therefore, such information should be withheld from public disclosure.

APPLICATION FOR AN ORDER PURSUANT TO SECTION 3(b)(2) OR SECTION 6(c) OF THE INVESTMENT COMPANY ACT OF 1940

STATEMENT OF FACTS

History and Overview of the Applicant

Since its incorporation in 1986, the Applicant has been exclusively focused on the acquisition, exploration, development and mining of mineral properties. From 1986 to 1993, the Applicant (then named Vanbec Resources Corporation and later Sartigan Granite Corporation) was focused on the acquisition and exploration of industrial mineral properties in Canada. In 1993, the Applicant abandoned its Canadian mineral properties, acquired certain mineral properties in Ecuador, shifting its focus to the acquisition and exploration of mineral properties in Ecuador. In 1994, the Applicant changed its name to Ecuadorian Minerals Corporation to reflect this new focus. The Applicant expanded its focus to encompass mineral properties in both Ecuador and Peru in 1999 and accordingly in 2002 changed its name to International Minerals Corporation. The Applicant became a producing miner in 2007 with the commencement of commercial production at its Pallancata silver mine. In 2009, the Applicant further expanded the geographic scope of its mineral property base to Nevada. The Applicant’s common shares have been listed on the Toronto Stock Exchange since 1996 under the trading symbol “IMZ” and is identified by the Toronto Stock Exchange as being in the Metals and Mining industry group with a Gold and Silver Ore Mining industry classification under the North American Industry Classification System.

The Applicant is governed by the laws of the Yukon Territory, Canada, and is subject to the continuous disclosure obligations of Canadian provincial securities regulators. Additional

¹ All references to “Sections” are to Sections of the Act, and all references to “Rules” are to rules and regulations thereunder (at Title 17, Part 270, Code of Federal Regulations), unless otherwise stated.

information with respect to the Applicant and its business is set forth in the Applicant's 2012 Annual Report to Shareholders, its Annual Information Form for its financial year ended June 30, 2012 (a Canadian continuous disclosure document), Management's Discussion and Analysis for the Financial Quarter ended September 30, 2012, and its Financial Statements for the Financial Quarter ended September 30, 2012, copies of which are attached to this Application as Exhibits 1 through 4, respectively.

The Applicant currently conducts its mining operations in North and South America through various wholly-owned subsidiaries², majority-owned subsidiaries³, controlled companies⁴, and other affiliated companies. Exhibit 5 attached hereto sets forth a list of the Applicant's wholly-owned subsidiaries, majority-owned subsidiaries, controlled companies, and other affiliated companies, as well as the percentage of each company owned by the Applicant and the primary business of each such company. Included within Exhibit 2 attached hereto is an organizational chart of the Applicant and such other entities. The Applicant and such wholly- and majority-owned subsidiaries, controlled companies, and other affiliated companies (together, the "Group") are engaged solely in the mining business or in other businesses ancillary to the mining business. See "Business of the Applicant."

Management

As described below, each of the Applicant's senior executive officers has extensive experience in the mining industry. None of the Applicant's senior executive officers has experience as an investment manager or adviser, and none of such persons holds himself out as an expert in these areas. None of the Applicant's senior executive officers devotes any of his business time to investment management, apart from management of the Applicant's cash. The Applicant does not employ securities analysts and does not engage in the trading of securities for short-term speculative purposes, investment purposes or otherwise. Additionally, the Applicant does not employ any persons in the role of analyzing or managing the securities of public or private companies that the Applicant owns.

The following is a brief description of the professional experience in the mining industry and the mining-related educational backgrounds of each of the Applicant's directors and senior executive officers:

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- 2 Section 2(a)(43) of the Act defines a "wholly-owned subsidiary" of a person as a "company 95 per centum or more of the outstanding voting securities of which are owned by such person, or by a company which, within the meaning of this paragraph, is a wholly-owned subsidiary of such person. The Applicant's wholly-owned subsidiaries are not a significant source of revenue for the Applicant.
 - 3 Section 2(a)(24) of the Act defines a "majority-owned subsidiary" of a person as a "company 50 per centum or more of the outstanding voting securities of which are owned by such person, or by a company which, within the meaning of this paragraph, is a majority-owned subsidiary of such person." The term "majority-owned subsidiary" when used in this Application has the meaning given to such term in the Act.
 - 4 "Control" is defined in Section 2(a)(9) of the Act to mean "the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position within the company. Any person who owns beneficially, either directly or through one or more controlled companies, more than 25% of the voting securities of a company shall be presumed to control such company." The term "controlled company" when used in this Application has the meaning given to such term in the Act.

Stephen J. Kay

Mr. Kay has been President, CEO and a Director of the Applicant since 1993. He is a geologist with over 39 years of gold exploration experience in Europe, South Africa, South America and the United States. From 1985 to 1993, he was founder and President of GD Resources Inc., a successful smelter of precious metal by-products from U.S. gold mines. From 1983 to 1985, Mr. Kay worked with Amselco Exploration (BP Minerals) where he was involved in the discoveries of the Colosseum and Yellow Aster gold mines, both in California. During his 10 years with Gold Fields Mining Corporation until 1983, he was head of the project team that discovered the three-million ounce Mesquite gold mine in California. He graduated in 1973 with a Bachelor of Science degree in geology from Swansea University in Wales, United Kingdom. Mr. Kay is also a director of New Dimension Resources.

Scott Brunsdon

Mr. Brunsdon is Chief Financial Officer of the Applicant and brings to the Applicant over 26 years of financial and management experience in the mining sector with both junior and major companies, including 17 years with Placer Dome Inc. in the United States and Canada. He has also held senior management positions with mining companies Dayton Mining Corporation, Hillsborough Resources Limited and Revett Minerals Inc.. Most recently he was a financial advisor to the CFO for Timmins Gold Corp. assisting that company to enhance its internal and public reporting functions as it transitioned to an operating company from a pure mineral exploration company. He holds a Bachelor's degree in Commerce (Economics) from the University of Saskatchewan, Saskatoon, Canada and an MBA from the University of British Columbia, Vancouver, Canada.

Nick Appleyard

Mr. Appleyard is Vice President, Corporate Development for the Applicant. Except for a short period, he has worked with the Applicant since 1995. Prior to his recent appointment as VP Corporate Development, he was responsible for the technical management of all of the Applicant's exploration and development projects in Ecuador and Peru, together with playing a key role in identifying and evaluating potential new corporate acquisitions for the Applicant. He graduated from Curtin University in Perth, Australia with a B.Sc. (Geology) in 1991 and has worked predominantly in gold exploration, development and mining projects in Australia, South America and East Africa. With his involvement in various precious metal projects ranging from exploration through to development, construction and operation, he has developed specialized skills in marrying resource and reserve estimation techniques with project management and economic evaluation requirements.

Business of the Applicant

The Applicant and other members of the Group are engaged exclusively and actively in the exploration, development and mining of gold and silver deposits in North and South America. The Applicant's Pallancata underground silver mine, which is owned and operated by one of the Applicant's controlled companies, has proven to be a world-class operation and is

currently ranked number six in the world as a primary silver producer. This asset has generated significant income and cash flows for the Applicant.

The Applicant owns, through its subsidiaries and controlled and affiliated companies, six principal gold and silver projects and additional non-principal projects in three countries with attributable gold equivalent resource ounces of 12.8 million in the measured and indicated categories.⁵

As of September 30, 2012, the Applicant, together with its wholly-owned and majority-owned subsidiaries, had approximately 95 full-time employees and approximately 40 independent contractors or part-time employees. Of these employees and contractors, approximately 80 percent are involved in mining production and exploration-related activities and 20 percent are involved in administration. In addition, as of September 30, 2012, Suyamarca, a controlled company, had approximately 800 full-time employees and 930 independent contractors. Approximately 90 percent of such employees and contractors are involved in mining production and exploration-related activities, while only approximately 10 percent are involved in administration.

Set forth below is a brief description of the activities of the Applicant's wholly-owned subsidiaries, majority-owned subsidiaries, controlled companies, the Applicant's other affiliated companies and the Applicant's other assets.

The Wholly-Owned Subsidiaries

As indicated in Exhibit 5 attached hereto, the Applicant currently has 14 wholly-owned subsidiaries. The activities of these subsidiaries principally consist of the exploration, development, and mining of silver and gold. These subsidiaries hold, among other things, the Applicant's interests in the Converse and Goldfield gold properties in Nevada, the Rio Blanco gold-silver property in Ecuador and portions of the Applicant's Gaby gold property in Ecuador. The Applicant is currently conducting a feasibility study with respect to the Goldfield property in Nevada, with a view to achieving heap leach production in 2015. Further, the Applicant recently completed a scoping study at the Converse gold property and is continuing with drilling and the preparation of an environmental impact statement and plans to commence a full feasibility study within the next few months.

The Majority-Owned Subsidiaries

As indicated in Exhibit 5 attached hereto, the Applicant currently has three majority-owned subsidiaries. These subsidiaries hold, among other things, the remaining portions of the Applicant's Gaby gold property in Ecuador.

⁵ Mineral resources are disclosed in compliance with Canadian disclosure standards under National Instrument 43-101.

Suyamarca – A Controlled Company

Prior to June 30, 2006, the Applicant's wholly-owned subsidiary, Minera Oro Vega S.A.C. ("Minorva"), held a 100% interest in the Pallancata silver property. To facilitate bringing Pallancata into commercial production, the Applicant and Minorva entered into a joint venture agreement effective June 30, 2006 with affiliates of a Peruvian mining company, Mauricio Hochschild & Cia. S.A.C. (collectively, "Hochschild").⁶ In exchange for a 60% interest in the venture, Hochschild agreed to provide 100% of the funds required for drilling and associated costs incurred in converting all or part of the then known mineral resources to mineral reserves on the Pallancata project. Hochschild also agreed to provide 100% of the capital investment required to develop, permit and construct a mining operation at Pallancata. Due to provisions of Peruvian law, it was determined necessary to structure the joint venture as a Peruvian joint venture company. Accordingly, the parties formed Minera Suyamarca S.A.C. ("Suyamarca"), with Minorva receiving a 40% interest and Hochschild receiving a 60% interest. Pallancata commenced commercial production in September 2007.

Prior to December 23, 2010, the Applicant's wholly-owned subsidiary, Ventura Gold Corp. ("Ventura") held a 51% interest in the Inmaculada gold-silver property through a letter agreement with Hochschild, which held the remaining 49% interest. To facilitate the development of Inmaculada, the Pallancata joint venture agreement and the Inmaculada letter agreement were terminated and replaced by a new joint venture agreement effective December 23, 2010 among the Applicant, Minorva, Ventura and Hochschild, covering both Pallancata and Inmaculada. Hochschild's interest in the Inmaculada project was increased to 60%, with the Applicant retaining a 40% interest. Hochschild agreed to, among other things, provide 100% of the first \$100 million of required funding to complete a feasibility study towards the planning, development and construction of a mining operation at Inmaculada. Ownership of the Inmaculada project was later transferred to Suyamarca. The parties are now constructing a mine at Inmaculada, targeting commencement of production in December 2013.

Suyamarca also holds the Pacapausa and Puquiopata mineral exploration properties in Peru.

Suyamarca, as a corporate entity, is dedicated to developing and producing gold and silver from the Pallancata Mine, and Inmaculada, Pacapausa and Puquiopata properties. As such, Suyamarca is primarily engaged in the business of mining and is not in any way engaged in a business or businesses that consists of investing, reinvesting, owning, holding, or trading in securities.

Pursuant to Section 2(a)(9) of the Act, the Applicant is presumed to control Suyamarca as a result of its 40% ownership interest created through the joint venture agreement. In addition, the Applicant believes that Suyamarca is in fact controlled by the Applicant through the Applicant itself and the Applicant's wholly-owned subsidiaries, although such control is shared

6 Joint ventures are common in the mining industry. Previously, the Commission has granted the relief sought herein by the Applicant to issuers involved in the mining business where such issuers conduct their business through ownership interests in joint ventures. See, e.g., In re Consolidated TVX Mining Corporation, Investment Company Act Release No. IC-17902 (December 11, 1990).

with Hochschild which has a 60% ownership interest. Set forth below is a description of the arrangements entered into with respect to the ownership and management of Suyamarca which demonstrate the Applicant's power to exercise a controlling influence over the management and policies of Suyamarca.

Control Over Major Corporate Events

The 2010 joint venture agreement between the Applicant and Hochschild provides the Applicant with control over major corporate events, as further set forth in Exhibit 6, which has been submitted to the Commission under separate cover. Through these controls, the Applicant has the ability to significantly control the business operations of Suyamarca and, as such, effectively controls Suyamarca for purposes of the Act.⁷

In addition, in March 2011, the Board of Directors of Suyamarca appointed the Applicant, through its wholly-owned subsidiary Minorva, to undertake all required exploration activities on land controlled by Suyamarca that is located outside of the direct mining area. Minorva and its staff are responsible for managing this exploration.

Board of Directors

Subject to the joint venture agreement, Suyamarca's affairs are governed by Suyamarca's Board of Directors. Stephen Kay, the Applicant's President and Chief Executive Officer, serves as a director of Suyamarca and in that capacity exercises the Applicant's control over Suyamarca, as described in more detail in Exhibit 6.

Together, the Applicant and Hochschild govern the business affairs of Suyamarca. In addition, due the significant expertise of the Applicant and its management, Hochschild looks to the Applicant as a technical and business partner and the Applicant provides significant advice in the review of technical studies and interpretation of data and involvement in establishing Suyamarca's business practices and priorities through the Applicant's participation on Suyamarca's Board of Directors.⁸

Other Controls

The joint venture agreement provides for certain other significant controls over the business and affairs of Suyamarca, each as described in detail in Exhibit 6.

7 The existence of control in fact through the exercise of influence over the management and policies of a controlled company has been relied on by issuers in the past in establishing that those issuers are engaged in a business, through controlled companies, other than investing in securities. See, e.g., *Compania de Minas Buenaventura S.A.* (1996). *Compania de Minas Buenaventura* ("Buenaventura") exerted influence over a controlled company through provisions similar to those stated in this application regarding Suyamarca.

8 In 2000, Yahoo! Inc. applied for, and received, exemptive relief from the Act. Yahoo! Inc., at the time of its application, owned a 34% interest in a joint venture. Yahoo! Inc. presented its interest in that joint venture as a controlling interest because of Yahoo! Inc.'s ability to significantly control the joint venture through Yahoo! Inc.'s involvement with the joint venture's board of directors. Through such involvement, like the Applicant's involvement in Suyamarca's board, Yahoo! Inc. directly oversaw the operations of the joint venture.

Affiliated Companies

As indicated in Exhibit 5 attached hereto, the Applicant also owns interests in one affiliated company. The activities of this company principally consist, like those described above, of exploration, development, and mining of silver and gold. A brief description of such company is included in Exhibit 5.9

The business activities and purposes of the Group primarily involve the exploration, development, and mining of gold and silver mineral resources in North and South America. The Group, as summarized in this section and the attached Exhibit 5 does not primarily engage in the business of investing, reinvesting, owning, holding, or trading in securities.

REASON RELIEF IS NECESSARY

The complex nature of the Applicant's structure, which was not created with the Act in mind, but which necessarily reflects the laws and business customs of the countries where the Applicant carries on its mining business, as well as the way the mining business is conducted generally, and the Applicant's interest in Suyamarca through which the Applicant conducts certain of its mining operations, pose the issue of whether the Applicant should be considered an investment company within the meaning of Section 3(a)(3) of the Act.

The Applicant strongly believes it is not an investment company as defined by the Act and as such is filing this Application to clarify its status under the Act. The Applicant believes that, as a result of its business operations, it is excepted from the definition of "investment company" in Section 3(a) of the Act and is seeking to reduce any uncertainty about its respective status under the Act.

It is important for the Applicant to resolve its status under the Act so that the Company may engage in potential and contemplated (1) private placements under Rule 144A of the Securities Act of 1933 ("Rule 144A") and Regulation S of the Securities Act of 1933 ("Reg. S"), (2) public offerings in the United States; (3) registration under the Multi-Jurisdictional Disclosure System between the United States and Canada, or (4) agreements in the United States. The clarity sought through this Application will allow the Applicant to conduct its future mining business without the uncertainty created by the possibility that the Applicant might be considered an investment company.

The Applicant owns "investment securities" within the meaning of Section 3(a)(3) of the Act, and these investment securities significantly exceed 40% of the value¹⁰ of the Applicant's

9 The Applicant believes that, as with Suyamarca, certain of the other affiliated companies are "controlled companies" within the meaning of Section 3(b)(2) of the Act. However, due to the relatively small size of such companies, for purposes of this Application, they are not treated as controlled companies.

10 The "value" of assets of a registered investment company for purposes of Section of the Act is defined in Section 2(a)(41) of the Act. Section 2(a)(41) of the Act defines "value" to mean

(i) with respect to securities owned at the end of the last preceding fiscal quarter for which market quotations are available, the market value at the end of such quarter; (ii) with respect to other securities and assets owned at the end of the last preceding fiscal quarter, fair value at

assets on an unconsolidated basis.¹¹ Consequently, on the basis of its holdings of investment securities, the Applicant may inadvertently be considered an investment company under Section 3(a)(3).¹²

The Applicant does not appear to qualify for the exception set forth in Section 3(b)(1) of the Act because a significant portion of its business is conducted not directly or through wholly owned-subidiaries, but through majority-owned subsidiaries, controlled companies and other affiliated companies.

Finally, the Applicant does not currently appear to qualify for the exemption from the Act provided by Rule 3a-1, 17 C.F.R. § 270-3a-1, which the Commission promulgated as a “safe harbor.” The Applicant exceeds the asset and income thresholds of Rule 3a-1 principally due to the Applicant’s ownership interest in Suyamarca.

For these reasons, by this Application, the Applicant seeks an order exempting it from regulation as an investment company under Section 3(b)(2) or Section 6(c) of the Act.

BASIS FOR RELIEF REQUESTED

The Applicant is entitled to relief because it is primarily engaged, through majority-owned subsidiaries, and through controlled companies conducting similar lines of business, in businesses other than that of investing, reinvesting, owning, holding, or trading in securities.

Section 3(b)(2)

Section 3(b)(2) of the Act authorizes the Commission to grant an order exempting an issuer from registration as an investment company under the Act whenever the Commission finds, upon application, that the entity is “primarily engaged in a business other than that of

the end of such quarter, as determined in good faith by the board of directors; and (iii) with respect to securities and other assets acquired after the end of the last preceding fiscal quarter, the cost thereof.

While Section 2(a)(41) of the Act literally defines only the value of assets of registered investment companies, the Commission has taken the position that Section 2(a)(41) of the Act also applies to a determination of asset value of other companies for purposes of Section 3(a)(3) of the Act. See *Certain Prima Facie Investment Companies*, Investment Company Act Release No. 10937 (Nov. 13, 1979) (“Release 10937”). See also *SEC v. Fifth Avenue Coach Lines, Inc.*, 289 F. Supp. 3, 27 n.13 (S.D.N.Y. 1968) (indicating the Commission had no objection to the use of such definition for purposes of Section 3).

11 For purposes of calculating the amount of “investment securities” owned by the Applicant, the Applicant has included the securities of all of the companies listed in Exhibit 3, except for the Applicant’s majority-owned subsidiaries. The Applicant exceeds the 40% threshold principally due to the value (calculated in accordance with Section 2(a)(41) of the Act) of the Applicant’s ownership interest in Suyamarca. In other words, if Suyamarca were a majority-owned subsidiary, the Applicant would fall well below the 40% threshold.

12 The Applicant is not, and is not proposing to be, engaged primarily in the business of investing, reinvesting, or trading in securities. The Applicant submits, therefore, that it is not an investment company under Section 3(a)(1). Nor does the Applicant issue, propose to issue, or have outstanding installment face-amount certificates,

so as to fall with Section 3(a)(2) of the Act.

investing, reinvesting, owning, holding, or trading in securities either directly or (a) through majority-owned subsidiaries or (b) through controlled companies conducting similar types of businesses.” Release 10,937 and Release 11,55113, respectively proposing and adopting Rule 3a-1, confirm that notwithstanding that a company is, prima facie, an investment company under Section 3(a)(3) of the Act, there are a variety of circumstances in addition to those set forth in Rule 3a-1 under which the Commission may determine that a company is primarily engaged in a non-investment company business.¹⁴

Under a Quantitative Test, the Applicant is Not Primarily Engaged in Investment Company Business

From a purely quantitative standpoint, the Applicant is primarily engaged, directly and through majority-owned subsidiaries and controlled companies, in businesses other than in investing in securities. Suyamarca, a company controlled by the Applicant (previously discussed and as discussed below in the footnotes)¹⁵, owns and operates the Pallancata underground silver

¹³ Investment Company Act Release No. 11,551 (Jan. 14, 1981) (“Release 11,551”).

¹⁴ “[C]ompanies which do not meet the proposed rule’s standards nonetheless may be found, pursuant to the application process, not to be investment companies upon the Commission’s determining that the attending facts and circumstances warrant such a finding.” Release 10,937.

¹⁵ As a result of the Applicant’s 40% ownership interest in Suyamarca, the Applicant is presumed to control Suyamarca pursuant to Section 2(a)(9) of the Act. The Applicant submits that there exists no evidence rebut the statutory presumption of the Applicant’s control of Suyamarca.

Not only is there a statutory presumption that Suyamarca is controlled by the Applicant, but as a result of the arrangements described under “Statement of the Facts – Business of the Applicant – Suyamarca – A Controlled Company” and in Exhibit 4 submitted to the Commission under separate cover, the Applicant does in fact have the power to exercise a controlling influence over the management and policies of Suyamarca pursuant to Section 2(a)(9) of the Act, although such influence may be shared with Hochschild. As Section 2(a)(9) of the Act has been interpreted by the Commission, in *M.A. Hanna Company*, 10 S.E.C. 581, 589 (1941):

It appears to us that by the use of the phrase “power to exercise a controlling influence over the management and policies of a company” the Congress intended to include within the orbit of “control” situations where less than absolute and complete domination of a company is present. This conclusion is reinforced by the fact that the possession of a majority of the voting stock of a company is not the statutory standard as to whether or not “control” exists Further, the rebuttable presumptions set up in Section 2(a)(9) indicate that it was intended that facts other than voting power alone are to be taken into consideration in determining whether or not “controlling influence” exists. Historical, traditional, or contractual associates of persons with companies or a dominating persuasiveness of one or more persons acting in concert or alone may form the basis of a finding of “control” in the sense used in the Act. Nor is the statutory definition to be restricted to cases where a controlling influence in the management and policies of a company is actually exercised; an ability or power to exercise from time to time a

controlling influence in the management and policies of a company is “control” for the purposes of the Act. This potentiality of exercising a controlling influence in the determination of the course of action of a company may exist in more than one person at the same time or from time to time.

In other words, the Applicant can be found to have a “controlling influence” over Suyamarca even if Hochschild’s ownership of the voting securities is equal to or greater than that of the Applicant.

mine which is currently ranked number six in the world as a primary silver producer, and holds the Inmaculada gold-silver property which is anticipated to enter commercial production in late 2013. In addition, the Applicant, directly or through its wholly-owned and majority-owned subsidiaries, holds an additional four mineral exploration properties in Ecuador and Nevada. None of such companies is engaged in the business of investing or trading in securities. As of June 30, 2012, the value (calculated in accordance with Section 2(a)(41) of the Act) of all securities owned by the Applicant, other than securities of the Applicant's wholly- and majority-owned subsidiaries and Suyamarca, accounted for less than one half of one percent of the Applicant's total assets (exclusive of U.S. government securities and cash items). For the 12 months ended June 30, 2012, the Applicant recorded a net loss of \$1,026,280 on such securities, equal to -3.37% of Applicant's income from continuing operations before taxes for such period. For the 3 months ended September 30, 2012, the Applicant recorded a net loss of \$253,488 on such securities, equal to -2.37% of Applicant's income from continuing operations before taxes for such period.

Accordingly, measured in quantitative terms, the Applicant is not primarily engaged in the business of investing in securities. Through its direct operations and active participation in all of its wholly- and majority-owned subsidiaries and controlled companies, the Applicant is involved in the mining business, and only the mining business.

Under a Qualitative Test, the Applicant is Not Primarily Engaged in the Business of Investing in Securities

Going beyond a strictly quantitative analysis, the Commission has prescribed a qualitative test to determine whether a company is primarily engaged in a non-investment company business. According to Release 10,937, the relevant criteria, as first set out in *Tonopah Mining Co. of Nevada*, 26 S.E.C. 426 (1947), for resolving whether or not a company is primarily engaged in a non-investment company business are: (i) the company's historical development; (ii) the company's public representations of its policy; (iii) the activities of the company's officers and directors, (iv) the nature of the company's present assets; and, (v) the sources of the company's present income. The SEC in *In re International Bank, Investment Company Act* Release No. 3986, 1964 LEXIS 290 (June 4, 1964), appears to have acknowledged an additional factor to be considered, which focuses on "plans for future development of its business." A review of these factors supports the grant of the exemptive order requested by the Applicant.

Historical and Future Development

The Applicant has had a long history, dating back to its formation in 1986, of being primarily engaged in the exploration, development, and mining of natural resources, principally, gold and silver. The Applicant will continue this focus and primary engagement for the future, as indicated by the relevant portions of its 2012 Annual Report to Shareholders excerpted below.

Moreover, for purposes of Section 3(b)(2) of the Act, unlike Rule 3a-1, it is not necessary that a company be "primarily" controlled by the issuer. Section 3(b)(2) does not preclude an issuer from exercising control under circumstances where another entity or group also exercises control, and the Commission has granted orders under Section 3(b)(2) where the applicant has admitted the existence of a significant controlling influence by an entity other than the applicant. See *In re Consolidated TVX Mining Corporation, Investment Company Act* Release No. IC-17902 (December 11, 1990); *In re San Luis Mining Company, Investment Company Act* Release No. 9689 (March 22, 1977).

Based on the foregoing, the Applicant submits that it is an operating company whose past has been and whose future will continue to be committed to the mining business.

Public Representations of Policy

A company's public representations have long been recognized as an important indicator of whether the company is an investment or operating company because those representations reveal whether investors have been induced to acquire the company's securities in reliance on the income that may be realized from its investment activities. See *Tonopah Mining Co.*, 26 S.E.C. at 428-30; cf. *Securities and Exchange Commission v. Fifth Avenue Coach Lines*, 289 F. Supp. 3, 30 (S.D.N.Y. 1968) (stating purpose of the Act is to prevent abuses growing out of the unregulated power of management to use large amounts of cash), *aff'd*, 435 F.2d 510 (2d Cir. 1970). In this connection a company's most important public representations are those contained in its annual reports and its other communications with shareholders and the investing public. See, e.g., *Newmont Mining Corp.*, 36 S.E.C. at 432-33 (1955) (discussing annual reports); *Moses v. Black*, No. 78 Civ. 1913, [1981 Transfer Binder] Fed. Sec. L. Rep. (CCH) at ¶ 97,866 (S.D.N.Y. 1981) (discussing annual reports and public filings); *Tonopah Mining Co.*, 26 S.E.C. at 428-30 (discussing charter, application for stock registration, and annual reports to shareholders). The Applicant has never held itself out as anything other than a mining company and, in particular, has not held itself out as an investment company within the meaning of the Act. The Applicant has never been registered as an investment company (or subject to any analogous regulatory scheme in Canada or in any other jurisdiction). The Applicant has consistently represented itself to its shareholders and the public as a company actively engaged in the mining business.

For example, in its 2012 Annual Report to Shareholders for the fiscal year ended June 30, 2012, the Applicant referenced its primary engagement "in the exploration, development, and mining of gold and silver deposits in South America (Peru and Ecuador) and the [United States]." The Applicant cites, among its corporate objectives and strategy, an intent "to continue to deliver value to shareholders by increasing its mineral resources and reserves and expanding its low-cost production in silver and gold projects located in select countries in the Americas."

The 2012 Annual Report to Shareholders, at page three of the Management's Discussion and Analysis, summarizes the following development and production steps the Company plans to take to further grow and diversify its asset base:

- Increase production and cash flow from existing levels to approximately 200,000 gold equivalent ounces per year in the next two to three years;
- Increase mineral reserves and resources at the Pallancata Mine, maintain current production levels and maintain or increase cash dividend distributions from the Pallancata Mine;
- Advance the Inmaculada property to production by December 2013 and continue with an aggressive exploration program in order to expand reserves and resources;
- Complete permitting and commence construction at the Goldfield Project in Nevada;

- Continue with metallurgical test work at the Converse gold property in Nevada;
- Advance the Applicant’s other exploration projects in the Americas; and,
- Seek property and/or corporate acquisitions to increase cash flow and to expand the Company’s portfolio of exploration and development projects.

In addition, in numerous analyst reports and other publications, representative samples of which are attached hereto as Exhibit 7, the Applicant is described as a mining company, principally and actively engaged in the businesses of mining. For example, the attached reports describe the Applicant as “a silver and gold producer with assets in Peru, Nevada and Ecuador” and “a precious metals mining and development company with 6 primary projects in Peru, Nevada and Ecuador.” In addition, as attached, analyst recommendations regarding the Applicant’s securities are classified within the basic/precious metals industry.

In short, the Applicant does not, and has not ever, held itself out as an investment company. The Applicant generally does not make public representations regarding its “investment securities” except as may be required by applicable securities laws. The Applicant has never emphasized its investment income or the possibility of significant appreciation from its cash management investment strategies as a material factor in its business or future growth. Rather, as exemplified above, press releases and other written communications from the Applicant emphasize the Applicant’s active role in mining and developing the earth’s mineral resources, and numerous analyst reports and other publications consistently describe the Applicant as engaged in the mining industry.

In light of the foregoing, the Applicant believes that investors purchase shares of the Applicant with the expectation of gaining from the Applicant’s growth as a leading international mining group, engaged in the business of exploration, development, and mining of gold and silver deposits, and not from an increase in its investment income or capital gains generated by the purchase or sale of securities.

Activities of Officers and Directors

The activities of a company’s officers, directors and employees are important in evaluating the primary business of a company because they show the extent to which a company’s resources are directed to investment activities, as opposed to operating activities. See, e.g., *Moses v. Black*, [1981 Transfer Binder] Fed. Sec. L. Rep. (CCH) at 97,866; *Newmont Mining Corp.*, 36 S.E.C. at 433-34; *Real Silk Hosiery Mills, Inc.*, 36 S.E.C. 365, 366 (1955). The Applicant’s senior executive officers are actively involved in the Applicant’s mining business. All the Applicant’s senior executive officers devote their full time to management of the mining operations of the Applicant and the other members of the Group. The activities of the Applicant’s directors are exclusively focused on the supervision and oversight of the Applicant and its senior executive officers in the management of the Applicant’s mining operations. The Applicant’s outside directors were selected for the Applicant’s board because of their specific knowledge of mining and/or mining law and their specific knowledge of the countries in which the Applicant conducts its mining and exploration business.

The Applicant does not maintain an investment department or an analytical or trading staff that focuses on securities investment activities. As described under “Statement of Facts – Management,” all of the Applicant’s senior executive officers have significant experience in the mining industry and most of them hold mineral exploitation or geology degrees. None of the Applicant’s directors provide expertise in the business of investing in securities or managing an investment company.

Thus, the active involvement of the Applicant’s senior executive officers and directors in the Applicant’s mining operations, their extensive experience in the mining industry and their educational backgrounds lead to the conclusion that the Applicant is primarily engaged in the mining business.

The Applicant’s Present Assets

A review of the nature of the Applicant’s assets also supports the conclusion that the Applicant is primarily engaged in a business other than that of investing, holding, or trading securities and therefore is outside the scope of the Act. As of June 30, 2012 and September 30, 2012, the Applicant’s total assets (exclusive of U.S. government securities and cash items) and calculated in accordance with Section 2(a)(41) of the Act were approximately \$895.9 million and \$895.4 million, respectively. As of the end of the recently completed fiscal year and financial quarter, the value (calculated in accordance with Section 2(a)(41) of the Act) of all securities owned by the Applicant, other than securities of the Applicant’s majority-owned subsidiaries and controlled companies, accounted for less than one half of one percent of the Applicant’s total assets.

The Applicant’s Present Income

Unlike a typical investment company, the Applicant has never derived any material income from selling appreciated securities. For the 12 months ended June 30, 2012, the Applicant recorded a loss of \$1,026,280 on the Applicant’s investment in “other affiliated companies” and securities other than those of its majority-owned subsidiaries and controlled companies (as listed in Exhibit 5 attached hereto), equal to -3.37% of Applicant’s gross income (net profit before tax) for such period. For the 3 months ended September 30, 2012, the Applicant recorded a net loss of \$253,488 on such securities, equal to -2.37% of Applicant’s income from continuing operations before taxes for such period.

Conclusion

The qualitative factors discussed above all support the conclusion that the Applicant is not primarily engaged in the business of investing in securities, but instead is primarily engaged, through majority-owned subsidiaries and controlled companies, in the mining business. Therefore, the Applicant believes that it is primarily engaged in a business other than investing, reinvesting, owning, holding, or trading in securities and falls within the exception set forth in Section 3(b)(2) of the Act.

Section 6(c)

If the Commission should decline to grant an order under Section 3(b)(2) of the Act as requested in this Application, the Applicant requests that the Commission enter an order under Section 6(c) of the Act exempting the Applicant from all provisions of the Act and all rules and regulations thereunder. Section 6(c) of the Act provides that the Commission may

unconditionally exempt any person from any provision of the Act “if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provision of [the Act].”

A leading case, *Moses v. Black*¹⁶, states that the Act was the “product of Congressional concern that existing legislation in the securities field did not afford adequate protection to the purchasers of investment company securities” and that “[i]nvestment companies, most familiar today as mutual funds, are characterized by large liquid pools of funds entrusted by the investing public to investment companies and their management for investment in corporate enterprise” The main abuses of investment companies that the Act was designed to curtail were those that “flow from the very nature of the assets of investment companies” because the liquid, mobile, and readily negotiable nature of cash and securities made it easy for person to embezzle, steal, or use them for improper purposes or to foster their own interest rather than those of shareholders.¹⁷

The Applicant is not the type of entity Congress intended be regulated by the Act, and its business activities are not likely to result in the types of abuses that prompted the adoption of the Act. The Applicant was not and is not organized as an investment company and is not engaged in the business of investing or trading in securities. The Applicant’s assets do not consist of liquid, mobile, and readily negotiable cash and securities or large liquid pools of funds. To the contrary, the Applicant has been, and intends to be, a significant long-term participant in the South American and United States mining industry.

The fact that the Applicant has, for valid economic and legal reasons, chosen or been required to conduct its business using structures not constructed with the Act in mind should not work to the detriment of the Applicant or its shareholders by causing the Applicant to be treated as an investment company and subject to the Act.

As the Commission itself has stated, there has been a “proliferation of new vehicles, the development of new markets, and the creation of new financial interest which by virtue of the scope and expansiveness of the operative phrases ‘primarily in the business of investing, reinvesting, or trading in securities,’ are within the reach of [the Act]. Many of the vehicles and interests, and the markets in which they are traded, are adapted only with great difficult to regulation under [the Act]; some appear as a practical matter to be prohibited under that regulatory pattern. In many instances, the vehicles and interests implicate only to a minor extent certain of the core problems to which various provisions of [the Act] are addressed.”¹⁸ The

¹⁶ [1981 Transfer Binder] Fed. Sec. L. Rep. (CCH), at 97,866.

¹⁷ S. Rep. No. 1775, 76th Cong., 3d Sess. at 6 (1940). In its 1939 report on Investment Trusts and Investment Companies, the Commission identified the following as areas of abuse: (i) the ability of unscrupulous brokers, investment bankers, and commercial bankers to control investment companies for their own interests at the expense of shareholders, (ii) improper transactions facilitated by unrestricted dealings between investment companies and affiliated persons, which permitted far greater flexibility and allowed investment companies to share in affiliates’ profitable enterprises, and (iii) the treatment of investment companies by insiders as a source of private capital and as markets for otherwise unsalable securities. Report of the Securities and Exchange Commission on Investments Trusts and Investment Companies (1939).

¹⁸ Request for Comments, Investment Company Act Release No. 17534 (1990).

Applicant is one of those entities – a company that is not of the type and that does not engage in the activities which the Act was designed to regulate.

APPLICATION FOR AN ORDER PURSUANT TO SECTION 45(a) OF THE ACT

For the reasons discussed below, the Applicant hereby requests an order granting confidential treatment pursuant to Section 45(a) of the Act for the redacted portions of this Application (Exhibit 6). Section 45(a) of the Act states that confidential treatment of information in an application to the Commission is appropriate when public disclosure of such information is “neither necessary nor appropriate in the public interest or for the protection of investors.”

The Applicant believes that public disclosure of the information on Exhibit 6 is neither necessary nor appropriate in the public interest or for the protection of investors. The Applicant submits that the publicly available financial data and other information in this Application is sufficient to fully apprise any interested member of the public of the basis for the orders requested in this Application and, more specifically, contains an adequate summary of the redacted information. While the Applicant recognizes that the Commission may have legitimate reasons for wishing to see the redacted Exhibit (such as, for example, satisfying itself that the description in this Application of such information is fair and accurate), it does not believe there is a legitimate reason for a member of the public to have access to this information that the Applicant does not otherwise publicly disclose.

Additionally, the Applicant believes that the public disclosure of this information would cause substantial harm to its competitive position as it would provide competitors with insight into the structure and governance of the Applicant that they would not otherwise have, and it may negatively impact the Applicant’s relationships with existing or potential future joint venture partners or bargaining position in relation thereto. Lastly, the joint venture agreement (which includes the information on Exhibit 6) requires that the parties treat such information as confidential. As such, the Applicant treats the information contained on Exhibit 6 as confidential and believes that it is unlikely that such information would fall into the possession of any other person unless the Commission were to make it publicly available. In view of the reasons stated above, the Applicant believes that it has met the standards for obtaining an order under Section 45(a) of the Act, and its request for such order should be granted.

RELIEF REQUESTED

The Applicant respectfully requests an order of the Commission, pursuant to Section 3(b)(2), declaring that the Applicant is primarily engaged in a business other than that of investing, reinvesting, owning, holding or trading in securities either directly, through majority-owned subsidiaries, or through controlled companies conducting similar types of businesses, or, in the alternative, an order of the Commission, pursuant to Section 6(c) exempting the Applicant from all provisions of the Act and all rules and regulations thereunder. The Applicant also respectfully requests an order of the Commission, pursuant to Section 45(a), granting confidential treatment for the redacted portions of this Application.

The Applicant respectfully requests that the Commission enter an order pursuant to Rule 0-5 under the Act without a hearing being held.

AUTHORIZATION

Pursuant to Rule 0-2(c)(1) under the 1940 Act, the Company hereby states that the officer signing and filing this Application on behalf of the Company is authorized to do so by virtue of the authority vested in him by resolution of the Board of Directors of the Applicant, the form of which is attached hereto as Exhibit 8. The Company has complied with all requirements for the execution and filing of this Application.

COMMUNICATION

The Company states that all communications or questions should be directed to:

Christopher L. Doerksen
Dorsey & Whitney LLP
Columbia Center
701 Fifth Avenue, Suite 6100
Seattle, WA 98104
(206) 903-8800

SIGNATURE AND VERIFICATION

The undersigned states that he has duly executed the attached Application for an Order Pursuant to Section 3(b)(2) or Section 6(c) and Section 45(a) of the Investment Company Act of 1940 dated February 4, 2013 for and on behalf of International Minerals Corporation; that he is the Chief Financial Officer of such company; and that all action by stockholders, directors, and other bodies necessary to authorize the undersigned to execute and file such instrument has been taken. The undersigned states that he is familiar with such instrument, and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

INTERNATIONAL MINERALS CORPORATION

By: /s/ Scott Brundson
Scott Brundson
Chief Financial Officer

LIST OF EXHIBITS

1. 2012 Annual Report to Shareholders
2. Annual Information Form
3. Management's Discussion and Analysis for the Financial Quarter Ended September 30, 2012
4. The Applicant's Financial Statements for the Financial Quarter Ended September 30, 2012
5. List of Wholly-Owned Subsidiaries, Majority-Owned Subsidiaries, Controlled Companies and Affiliated Companies
6. Summary of Confidential Terms of 2010 Joint Venture Agreement between the Applicant and Hochschild (Confidential Treatment Requested – Submitted under Separate Cover)¹⁹
7. Analyst Reports relating to the Applicant
8. Resolutions of the Board of Directors of the Applicant

¹⁹ The 2010 Joint Venture Agreement contains a confidentiality provision that applies to all parties to the agreement. Pursuant to the terms of that provision, the Applicant is obligated to inform you that disclosure of the information contained within this Exhibit 6 is not being made by, or on behalf of, any party to the 2010 Joint Venture Agreement other than the Applicant, and that no other party to the 2010 Joint Venture Agreement, other than the Applicant, is responsible for the truthfulness of the information contained within this Exhibit 6.

Exhibit 1 – 2012 Annual Report to Shareholders

2012 ANNUAL REPORT

FOR FISCAL YEAR ENDED JUNE 30

INTERNATIONAL MINERALS
(TSX and SIX: IMZ)

LETTER TO SHAREHOLDERS - FISCAL YEAR ENDED JUNE 30, 2012

September 28, 2012

All currency amounts are in US Dollars unless indicated otherwise

Dear Fellow Shareholders,

Although the Company's financial performance for the fiscal year ended June 30, 2012 (the "Current Year") was not as impressive as last year's record-breaking performance (the "Prior Year"), the Company still had a successful year and achieved several notable technical and financial milestones and we are well-positioned for an improved financial performance in 2013.

It should be understood that the Current Year marks the first time that the Company's annual audited financial statements have been reported under International Financial Reporting Standards (IFRS) and not Canadian GAAP. Please see the accompanying Financial Statements and Management Discussion and Analysis ("MD&A) for further details of this significant change in financial reporting.

Significant Achievements for the Current Year:

The Company:

Received significant cash distributions of \$40 million from the Pallancata silver mine in Peru, compared to \$46 million for the Prior Year. Pallancata is owned 40% by the Company and 60% by Hochschild Mining plc ("Hochschild").

Completed a positive feasibility study on the Inmaculada gold-silver property in Peru (also owned 40% by the Company and 60% by Hochschild) and commenced construction of the mine. The targeted date for the commencement of production is December 2013, subject to the receipt of final construction permits.

Issued a positive feasibility study for our 100%-owned Gemfield gold deposit on the Goldfield property in Nevada and is successfully advancing permitting, with a goal of commencing mine construction by mid-calendar year 2014 and production in mid-calendar year 2015.

In May 2012, sold our 3% net smelter return ("NSR") royalty on production from Barrick's Ruby Hill gold mine in Nevada for \$38.0 million (net of taxes) and recorded a gain on the sale of \$27.9 million.

Completed a Normal Course Issuer Bid share repurchase program and repurchased 3.0 million of our common shares through the Toronto Stock Exchange at a cost of Cdn\$17.1 million.

Also in May 2012, we redeemed in cash (at maturity) the May 2006 convertible debentures totaling \$39.6 million, while still maintaining a strong cash and equivalents position of \$81.2 million as of June 30, 2012.

Reported proven and probable reserves at the Gemfield deposit and the Inmaculada property, both for the first time.

Released a positive preliminary economic assessment (or scoping study) for our 100%-owned Converse gold property in Nevada. A decision on initiating a full feasibility study at Converse will be made early in calendar year 2013 when all metallurgical testwork is complete.

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Financial Performance for the Current Year:

The Company:

Ended the Current Year with \$81.2 million in cash and equivalents compared to \$85.8 million in the Prior Year.

Reported net cash flow from continuing operations (primarily the Pallancata Mine) for the Current Year of \$29.1 million compared to \$35.9 million for the Prior Year.

Generated a gain and income from discontinued operations related to the Ruby Hill royalty of \$30.0 million (\$0.25/share) for the Current Year compared to \$3.6 million (\$0.03/share) for the Prior Year.

Reported a loss from discontinued operations related to the Rio Blanco and Gaby resource properties in Ecuador of \$53.2 million (a loss of \$0.44/share) as a result of a decision to seek alternatives to maximize the value of these assets, including a sale of the assets.

Generated after-tax net income from continuing operations of \$28.0 million for the Current Year (\$0.23/share) compared to \$56.7 million (\$0.48/share) for the Prior Year;

Reported after-tax net and comprehensive income of \$4.8 million (\$0.04/share) compared to \$60.3 million (\$0.51/share) for the Prior Year.

Ended the Current Year with working capital of \$126.7 million compared to \$50.4 million in the Prior Year. (Current Year working capital includes \$40 million in estimated proceeds, net of selling expenses, from the possible disposition of the Ecuadorian assets.)

Total assets decreased to \$336.2 million from \$369.7 million in the Prior Year, primarily due to the \$53.2 million write-down of the carrying value of the Rio Blanco and Gaby properties in Ecuador.

Reported the following production and costs data from the Pallancata silver mine in Peru:

Ø For the Current Year, production (on a 100% basis) was approximately 8.2 million ounces of silver (Prior Year: 9.5 million ounces) and 29,689 ounces of gold (Prior Year: 34,517 ounces).

Ø The Company's 40% share of production was approximately 3.3 million ounces of silver (Prior Year: 3.8 million ounces) and 11,876 ounces of gold (Prior Year: 13,807 ounces).

The decrease in gold and silver production compared to the Prior Year was due primarily to a decrease in the grades of both silver and gold processed because (a) higher metal prices allowed lower-grade material to be mined profitably, (b) the mine experienced an increase in mining dilution due to narrower veins being mined and c) the mine experienced operational scheduling constraints, which restricted mine development and backfill placement.

Ø For the Current Year, direct onsite cash costs were \$3.31 per ounce ("oz) of silver produced after gold by-product credit (Prior Year: \$2.21/oz) and total cash costs (as defined by the Gold Institute) were \$7.37/oz of silver produced (Prior Year: \$6.04/oz) after gold by-product credit.

Costs per ounce of silver net of gold by-product credit increased in the Current Year primarily because of (a) lower silver and gold production, (b) lower gold by-product credit (c) an increase in mining costs associated with the preparation of stopes exploiting the narrower veins, and (d) increased Peruvian mining taxes (under a newly-enacted law in late 2011, which replaced the existing government royalty with an operating-profit based tax).

Project Updates

A brief update on the Company's key properties in Peru, the USA and Ecuador is provided below:

Pallancata Silver Mine, Peru (40% the Company, 60% Hochschild)

The Pallancata Mine in southern Peru continues to be a very successful mining operation and is now in its fifth year of production. In 2011, it was the sixth largest primary silver mine in the world.

In calendar year 2011, Pallancata produced (on a 100% basis) 8.77 million ounces of silver and almost 34,000 ounces of gold at a low total cash cost of \$6.38/oz of silver (net of gold credit).

In calendar year 2012, the Company estimates that Pallancata's production (100% basis) will be approximately 7.8 million ounces of silver and 32,000 ounces of gold at an estimated total cash cost of \$8.00/oz of silver (net of gold credit), which is considered low-cost by world standards. Similar production levels and costs are expected in calendar year 2013.

As discussed previously, the decrease in gold and silver production compared to 2011 was due primarily to a decrease in the grades of both silver and gold processed because (a) higher metal prices allowed lower-grade material to be mined profitably, (b) the mine experienced an increase in mining dilution due to narrower veins being mined and c) the mine experienced operational scheduling constraints, which restricted mine development and backfill placement.

The mine continues to process ore at the rate of 3,000 tonnes per day ("tpd") and existing reserves (as of December 31, 2011) are approximately 32 million ounces of silver and 152,000 ounces of gold contained within 3.5 million tonnes (Mt) at an average grade of 287 grams per tonne ("g/t") silver and 1.4 g/t gold. Including resources, the mine life is expected to be at least another seven years. In the first quarter of calendar 2013, Hochschild will report new reserve and resource estimates for the Pallancata Mine as of December 31, 2012.

To date, The Company has received almost \$116 million in cash distributions from Pallancata for its 40% ownership, a very significant return on an original investment of less than \$5 million by the Company.

Inmaculada Gold-Silver Project, Peru (40% the Company, 60% Hochschild)

In January 2012, the Company announced positive results for an independent feasibility study at its 40%-owned Inmaculada project, also located in southern Peru. Inmaculada is Hochschild's #1 project for development worldwide and, subject to construction permits, is being fast-tracked into production by Hochschild with a targeted production date of December 2013.

At conservative base-case gold and silver prices of \$1,100/oz and \$18/oz respectively and a 3,500 tpd processing throughput, an underground mine on the Angela Vein deposit at Inmaculada could return (on a 100% basis) a pre-tax net present value at a 5% discount rate ("NPV5") of approximately \$181 million and an Internal rate of Return ("IRR") of 18%. At \$1,500 gold and \$25 silver, the NPV5 increases to \$551 million and the IRR to 38%, demonstrating the robust nature of the project and its leverage to current metal prices. At base case metal prices, total cash costs per ounce of gold (net of the silver by-product credit) are estimated at \$172.

Based on IMZ's 40% ownership of Inmaculada and Hochschild's required contribution of the initial \$100 million of the estimated \$325 million in feasibility study and initial capital costs, IMZ's attributable pre-tax NPV5 is approximately \$85 million with an IRR of 26%, at base-case metal prices. At \$1,500 gold and \$25 silver, the NPV5 increases to \$233 million and the IRR to 55%.

Estimated Proven and Probable mineral reserves at Inmaculada are 845,000 gold ounces and 30.1 million silver ounces contained within 7.8 Mt at an average grade of 3.4 g/t gold and 120 g/t silver. The initial mine-life is 6.3 years.

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Goldfield Gold Project, Nevada (100% the Company)

The Goldfield property (“Goldfield”) is located close to the historic mining town of Goldfield, Nevada, with reported historical production of over 4 million ounces of gold averaging 18 g/t gold, principally from the early 1900’s to the 1940’s.

Goldfield currently hosts three separate gold deposits (Gemfield, Goldfield Main and McMahon Ridge) with total Measured and Indicated resource estimates of 1.2 million ounces gold contained in 31.1 Mt at an average grade of 1.2 g/t.

In July 2102, the Company announced positive results from an independent feasibility study on the Gemfield gold deposit. The Goldfield Main and McMahon Ridge deposits do not form part of the current feasibility study as they remain subject to further drilling and metallurgical testwork.

The Gemfield feasibility study shows that at a base-case gold price of \$1,350/oz and a projected 6,000 tpd heap leach processing throughput, an open-pit mine on the Gemfield deposit could produce 66,000 ounces of gold over a 6.5 year mine life and return a pre-tax NPV5 of approximately \$102 million and an IRR of 22% based on initial estimated capital costs of \$133 million. At \$1,600/oz gold the economics improve to a pre-tax NPV5 of \$179 million and an IRR of 33%. Total cash costs per ounce of gold (net of the silver by-product credit) are estimated at \$611.

Proven and Probable reserves for Gemfield are estimated at 14.3 Mt at an average grade of 1.1 g/t gold, containing 511,000 ounces of gold.

Basic engineering is underway at Gemfield and, subject to ongoing permitting, financing and construction, production is estimated to commence in mid-calendar year 2015.

Converse Property, Nevada (100% the Company)

The Converse gold project (“Converse”) is located in the western part of the Battle Mountain Gold Belt, a mineralized belt that accounts for over 50 million ounces of reported cumulative gold production and mineral resources.

In December 2011 the Company announced the positive results of an independent preliminary economic assessment (or scoping study) for Converse.

At base-case gold and silver prices of \$1,300/oz and \$25/oz respectively and a 45,000 tpd heap leach processing throughput, an open-pit mining project at Converse could produce 160,000 ounces of gold over a 13.5 year mine life and return a pre-tax NPV5 of approximately \$185 million and an IRR of 11%, based on conceptual mine production of 217Mt at an average grade of 0.52 grams per tonne gold and 3.9 g/t silver. At \$1,600/oz gold the economics improve to a pre-tax NPV5 of \$639 million and an IRR of 23%.

Measured and Indicated resources for Converse are estimated at 320 Mt at an average grade of 0.51 g/t gold and 3.7 g/t silver, containing 5.2 million ounces of gold and 38 million ounces of silver. Currently there are no reserves at Converse.

A decision on initiating a full feasibility study at Converse will be made early in calendar year 2013 when current metallurgical testwork is complete.

Ecuador

The Company's Ecuadorian properties consist of the Rio Blanco feasibility-stage gold-silver property and the advanced-exploration stage Gaby gold property. The Company owns a 100% interest in the Rio Blanco concessions and variable interests between 50% and 100% of the Gaby mineral concessions.

In early 2008, the Ecuadorian government adopted a Mining Mandate, which suspended activities on all mineral concessions in Ecuador while a new Mining Law was being adopted. Following the introduction of the new Mining Law and regulations in 2009, the Company commenced negotiations in February 2011 for a production contract for the Rio Blanco property. The negotiations have been on-going for over 18 months without resolution of significant issues. In May 2012, the Company

appointed two North American investment advisors to assist the Company in implementing its strategy to maximize the value of its resource properties in Ecuador, including a sale.

Calendar Year 2013 – Corporate Objectives

During the remainder of fiscal and calendar year 2013, the Company's exploration and development efforts are expected to focus primarily on:

The Pallancata Silver Mine (40% IMZ) in Peru:

- Working with Hochschild to produce approximately 7.8 million ounces of silver and 32,000 ounces of gold, in calendar 2012 (the Company's estimate on a 100% project basis).
- Increasing mineral resources and reserves to extend the existing mine life (approximately 4.0 years based on current reserves).

The Inmaculada gold-silver project (40% IMZ), also in Peru:

- Working with Hochschild to continue with mine development, permitting and construction with production targeted to commence prior to the end of calendar year 2013, but subject to the receipt of final construction permits.
- Continuing with an aggressive exploration program in order to expand reserves and resources.

At the Goldfield gold project (100% IMZ) in Nevada: advancing the Gemfield deposit to commence construction in 2014, following the completion of permitting, with the goal of potential production in mid-calendar year 2015.

At the Converse gold project (100% IMZ), also in Nevada: commencing a feasibility study at the end of calendar year 2012, if metallurgical testwork justifies such a study.

At the Rio Blanco gold-silver project (100% IMZ) and the Gaby gold project (approximately 60% IMZ) in Ecuador, implementing our strategy to maximize their value, including their sale.

Continuing to seek investment opportunities in precious metals properties in low political risk countries in the Americas, where the Company believes it can increase the value of such properties using its exploration, development, financing and administrative abilities to enhance value.

On behalf of the Board of Directors and senior management of the Company, I thank the Company's employees and consultants for all their efforts in 2012 and the Company's shareholders for their continuing support and belief in the long-term success of the Company.

Sincerely,

Stephen J. Kay
President and Chief Executive Officer

International Minerals Corporation – Location of Principal Properties

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CORPORATE GOVERNANCE

Pursuant to the regulations of the TSX and the Swiss Stock Exchange (“SIX”), the Company must annually disclose its corporate governance policies as an integral part of the information provided to the public to enable them to assess the quality of the Company. According to TSX guidelines, this disclosure must be contained in the Company’s Management Proxy Circular, which is filed annually, prior to the Company’s Annual General Meeting. Generally, the SIX requires that a review of corporate governance policies must be included in an issuer’s Annual Report. However, to avoid duplication of reporting, the SIX allows the Company to fulfill its obligation to report its corporate governance practices by filing the disclosure annually in its Management Proxy Circular, which was filed simultaneously with its Annual Report on September 28, 2012.

Corporate governance disclosure for the 2012 fiscal year is presented in the Company’s Management Proxy Circular dated September 27, 2012, which can be found on the Company’s website at:

http://www.intlminerals.com/images/pdf/filings/Management_Proxy_Circular_2012.pdf

More generically, it is posted under “Company Filings” on the Investor menu tab of the Company’s website (www.intlminerals.com). The information has also been filed on SEDAR (www.sedar.com) under the Company’s name.

INTERNATIONAL MINERALS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)

YEARS ENDED JUNE 30, 2012 AND 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
International Minerals Corporation

We have audited the accompanying consolidated financial statements of International Minerals Corporation, which comprise the consolidated statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010 and the consolidated statements of comprehensive income, cash flows and changes in shareholders' equity for the years ended June 30, 2012 and June 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of International Minerals Corporation as at June 30, 2012, June 30, 2011 and July 1, 2010 and its financial performance and its cash flows for the years ended June 30, 2012 and June 30, 2011 in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

September 27, 2012

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INTERNATIONAL MINERALS CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in United States dollars)

	June 30, 2012	June 30, 2011 (Note 20)	July 1, 2010 (Note 20)
ASSETS			
Current			
Cash and equivalents (Note 5)	\$81,243,474	\$85,839,236	\$29,031,435
Receivables	79,105	2,847,666	3,682,704
Due from related party (Note 12)	6,210,377	557,367	–
Prepaid expenses and deposits	35,373	81,357	116,324
Investments (Note 6)	2,557,195	4,437,839	3,082,317
Discontinued operations – Ecuador resource properties (Note 7)	39,976,344	–	–
Current assets	130,101,868	93,763,465	35,912,780
Non-current			
Property, plant and equipment (Note 9)	359,724	250,789	209,649
Investment in associate (Note 8)	133,146,660	120,133,542	36,666,973
Investment in resource properties (Note 10)	72,401,093	56,814,136	121,277,222
Reclamation bonds (Note 11)	185,100	135,100	138,000
Discontinued operations – mine royalty (Note 7)	–	13,152,415	13,897,695
Discontinued operations – Ecuador resource properties (Note 7)	–	85,451,660	81,457,321
Non-current assets	206,092,577	275,937,642	253,646,860
Total assets	\$336,194,445	\$369,701,107	\$289,559,640
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable	\$1,397,461	\$700,771	\$2,602,807
Accrued severance and payroll costs	736,500	652,708	1,226,778
Due to related parties (Note 12)	17,649	62,079	11,819
Accrued interest payable on convertible debentures	–	187,661	174,869
Convertible debentures (Note 13)	–	40,944,188	–
Discontinued operations – mine royalty (Note 7)	113,152	–	–
Discontinued operations – Ecuador resource properties (Note 7)	1,103,150	872,566	1,604,175
Current liabilities	3,367,912	43,419,973	5,620,448
Non-current			
Convertible debentures (Note 13)	–	–	36,646,543
Deferred income tax liability (Note 19)	8,160,000	8,000,000	8,000,000
Discontinued operations – mine royalty (Note 7)	–	–	600,000
Non-current liabilities	8,160,000	8,000,000	45,246,543

Shareholders' equity			
Capital stock (Note 14)	240,784,904	245,260,695	217,204,514
Reserves (Note 14)	4,869,396	4,774,831	7,100,512
Equity component of convertible debentures (Note 13)	–	4,945,008	4,945,008
Equity gain on carried interest (Note 8)	16,782,196	–	–
Retained earnings	62,230,037	63,300,600	2,666,515
Capital and reserves attributable to the shareholders of the Company			
	324,666,533	318,281,134	231,916,549
Non-controlling interest in subsidiary (Note 8)			
	–	–	6,776,100
Total liabilities and shareholders' equity	\$336,194,445	\$369,701,107	\$289,559,640

Nature and continuance of operations (Note 1)
 Commitments (Note 21)

Subsequent events (Note 22)
 Approved on September 27, 2012
 by the Directors:

“Stephen J. Kay”

Director

Stephen J. Kay

“W. Michael Smith”

Director

W. Michael Smith

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

INTERNATIONAL MINERALS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in United States dollars)
YEAR ENDED JUNE 30

	2012	2011
		(Note 20)
Revenue	\$ –	\$ –
Income from associate (Note 8)	42,952,390	56,788,504
Other income/(loss) (Note 4)	(1,178,435)	12,206,564
Total income	41,773,955	68,995,068
Expenses		
Amortization and depreciation (Note 4)	(776,985)	(761,063)
Salaries and employee benefits (Note 4)	(3,387,372)	(2,848,555)
Administrative costs (Note 4)	(3,374,828)	(2,098,400)
Stock-based compensation (Note 14)	(627,506)	(662,768)
Financing expense	(2,427,346)	(3,801,160)
Write-downs	(739,566)	(2,134,102)
Total expenses	(11,333,603)	(12,306,048)
Income from continuing operations before taxes	30,440,352	56,689,020
Deferred income taxes (Note 19)	(160,000)	–
Income taxes (Note 19)	(2,292,474)	–
Net income from continuing operations after taxes	27,987,878	56,689,020
Discontinued operations net of taxes		
Disposal gain and income from mine royalty (Note 7)	30,042,021	3,632,190
Write-down of discontinued operations – Ecuador resource properties (Note 7)	(53,238,265)	–
Income/(loss) from discontinued operations	(23,196,244)	3,632,190
Net income and comprehensive income after taxes	\$ 4,791,634	\$ 60,321,210
Net income from continuing operations after taxes per common share		
Basic	\$ 0.23	\$ 0.48
Diluted	\$ 0.23	\$ 0.48
Income/(loss) from discontinued operations after taxes per common share		
Basic	\$ (0.19)	\$ 0.03
Diluted	\$ (0.19)	\$ 0.03
Net income after taxes per common share		
Basic	\$ 0.04	\$ 0.51

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Diluted	\$	0.04	\$	0.51
Weighted average number of common shares outstanding - basic (Note 14)				
		119,726,674		118,222,472
Weighted average number of common shares outstanding - diluted (Note 14)				
		120,298,346		118,984,254

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

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

	2012	2011
CASH FLOWS FROM CONTINUING OPERATIONS		
Net income for the year from continuing operations	\$ 27,987,878	\$ 56,689,020
Adjustments to net income:		
Amortization and depreciation	776,985	761,063
Stock-based compensation	627,506	662,768
Unrealized foreign exchange (gain)/loss	(1,358,469)	2,419,178
Realized gain on sale of investments	(1,135,855)	-
Unrealized loss/(gain) on investments	2,162,135	(1,259,424)
Write-downs	739,566	2,897,965
Financing expense	2,114,809	3,801,160
Equity income from investment in associate	(42,952,390)	(56,788,504)
Gain on sale of investment in associate	-	(12,487,218)
Interest income	(283,071)	(285,174)
Deferred income tax expense	160,000	-
Cash distributions received from investment in associate	40,000,000	36,000,000
Changes in non-cash working capital items:		
Decrease in receivables	183,220	3,532,287
Decrease in prepaid expenses and deposits	45,984	34,967
Increase (decrease) in accounts payable	358,323	(153,124)
Increase in due from related party	(210,377)	-
(Decrease) increase in accrued severance and payroll costs	(89,906)	16,865
(Decrease) increase in due to related party	(44,430)	50,260
Net cash flow from continuing operations provided by operating activities	29,081,908	35,892,089
Net (loss)/income for the year from discontinued operations	(23,196,244)	3,632,190
Discontinued operations – mine royalty (Note 7)	(24,734,433)	145,280
Discontinued operations – Ecuador resource properties (Note 7)	53,235,898	41,422
Net cash flow provided by discontinued operations	5,305,221	3,818,892
Net cash provided by operating activities	34,387,129	39,710,981
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Share issuance costs	-	(33,856)
Proceeds from the issuance of common shares	1,067,518	25,395,893
Convertible debenture interest payment	(2,114,809)	(2,205,099)
Convertible debenture payment	(39,577,883)	-
Repurchase of common shares	(16,923,880)	-
Net cash flow (used in) provided by financing activities	(57,549,054)	23,156,938
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		

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Resource property expenditures	(15,148,669)	(17,093,600)
Proceeds from sale of property ownership interest	2,650,000	15,000,000
Purchase of investments	(648,162)	(148,054)
Sale of investments	1,295,517	–
Interest received	218,412	211,464
Purchase of property and equipment	(221,934)	(80,736)
Reclamation bonds	(50,000)	2,900
Recovery of investment in resource properties	–	603,065
Discontinued operations – mine royalty (Note 7)	38,000,000	–
Discontinued operations – Ecuador resource properties (Note 7)	(7,529,001)	(4,555,157)
Net cash flow provided by (used in) investing activities	18,566,163	(6,060,118)
Change in cash and equivalents for the year	(4,595,762)	56,807,801
Cash and equivalents, beginning of year	85,839,236	29,031,435
Cash and equivalents, end of year	\$ 81,243,474	\$ 85,839,236

Supplemental disclosure with respect to cash flows (Note 18)

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

INTERNATIONAL MINERALS CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in United States dollars)
JUNE 30, 2012

Capital Stock								
	Number of shares	Amount	Reserves	Equity component of convertible debentures	Equity gain on carried interest	Retained earnings	Total	Net income
Balance July 1, 2010 (Note 20)	115,242,581	\$217,204,514	\$7,100,512	\$4,945,008	\$-	\$2,666,515	\$231,916,549	\$6,7
Issued on conversion of debentures	2,616	18,570	-	-	-	-	18,570	-
Issued on exercise of options	1,396,620	8,071,467	(2,675,574)	-	-	-	5,395,893	-
Issued on private placement	3,655,746	20,000,000	-	-	-	-	20,000,000	-
Share issuance costs	-	(33,856)	-	-	-	-	(33,856)	-
Stock-based compensation	-	-	662,768	-	-	-	662,768	-
Forfeiture of stock options	-	-	(312,875)	-	-	312,875	-	-
Sale of controlling interest in Quellopata (Note 8)	-	-	-	-	-	-	-	(6,
Net income for the year	-	-	-	-	-	60,321,210	60,321,210	-
Balance June 30, 2011	120,297,563	\$245,260,695	\$4,774,831	\$4,945,008	\$-	\$63,300,600	\$318,281,134	\$-
Issued on conversion of debentures	5,813	40,425	-	-	-	-	40,425	-
Issued on exercise of options	278,000	1,593,999	(526,481)	-	-	-	1,067,518	-
Expiry of options	-	-	(6,460)	-	-	6,460	-	-
Repurchase of common shares (Note	(3,000,000)	(6,110,215)	-	-	-	(10,813,665)	(16,923,880)	-

14)									
Stock-based compensation	-	-	627,506	-	-	-	627,506	-	-
Equity component of debentures	-	-	-	(4,945,008)	-	4,945,008	-	-	-
Equity gain on carried interest	-	-	-	-	16,782,196	-	16,782,196	-	-
Net income for the year	-	-	-	-	-	4,791,634	4,791,634	-	-
Balance June 30, 2012	117,581,376	\$240,784,904	\$4,869,396	\$-	\$16,782,196	\$62,230,037	\$324,666,533	\$-	\$-

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

INTERNATIONAL MINERALS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2012

1. NATURE AND CONTINUANCE OF OPERATIONS

International Minerals Corporation (the “Company”) is incorporated under the Business Corporations Act (Yukon Territory) and is in the business of exploring, developing and exploiting its mineral resource properties in South America and the United States. The head office and principal address of the Company is 7950 E Acoma Drive, Suite 211, Scottsdale, Arizona, 85260. The address of the Company’s registered and records office is 200-204 Lambert Street, Whitehorse, Yukon Territory, Y1A 3T2.

In June 2006, the Company entered into a joint venture agreement with affiliated companies of Hochschild Mining Plc. (“Hochschild”) with respect to the Pallancata property in Peru. In order to earn and retain a 60% joint venture interest, Hochschild funded all necessary costs to bring the Pallancata property into initial underground production at a rate of 1,000 tonnes per day (“tpd”), at no cost to the Company and without recoupment of their capital expenditure, except through their own share of profit distributions. Production at the mine has been expanded several times and is currently approximately 3,000 tpd. The Company received its initial share of cash distributions in August 2009 and additional distributions have been received throughout 2010, 2011 and 2012 for total distributions received by the Company to June 30, 2012 of \$109.7 million.

In January 2012, Hochschild completed a feasibility study on the Inmaculada property, also located in Peru, which is also owned 60% by Hochschild and 40% by the Company (Note 8). In February 2012, the Company and Hochschild approved the construction and development of an underground mine at Inmaculada.

At the 100% held Rio Blanco gold/silver project, located in Ecuador, the Company completed a feasibility study in January 2006 and an updated capital and operating cost estimate in February 2009. Following the introduction of the new Mining Law and regulations in 2009, the Company commenced negotiations in February 2011 for a production contract for the Rio Blanco property. The negotiations have been on-going for over 18 months without resolution of significant issues. As a result of the lack of progress in this critical negotiation, increasing social and community risks and activism, a lack of clarity with respect to the components of the taxation regime, concerns for the security of tenure for all concessions, and restrictive profit-sharing laws, in May 2012, the Company appointed two investment advisors to assist the Company in implementing its strategy to maximize the value of the resource properties in Ecuador, including their sale (Note 7).

The Company held a 3% net smelter return (“NSR”) royalty on all production from the Ruby Hill open pit gold mine (the “mine royalty”) near Eureka, Nevada, owned by Barrick Gold Corporation (“Barrick”). This royalty was acquired as part of the acquisition of Metallic Ventures Gold Inc. (“Metallic”) completed on February 26, 2010, and produced nearly \$10 million in gross royalty revenue for the Company. The Company’s royalty interest was sold to Royal Gold Inc. in May 2012 for an additional \$38 million (Note 7).

The Company has identified proven and probable reserves at its Pallancata, Inmaculada, Rio Blanco and Goldfield properties and is currently developing or may proceed to develop these reserves. The ability of the Company to recover the costs it has incurred to date on its other properties is dependent upon the Company being able to identify commercial ore bodies, to finance their development costs and to resolve any environmental, regulatory or other constraints, which may hinder the successful development and exploitation of the properties, or from their sale.

The Company believes it has adequate funds available to meet its operating and administrative obligations for the upcoming fiscal year. However, for significant capital projects, additional financing may be required.

	June 30, 2012	June 30, 2011	July 1, 2010
Working capital	\$ 126,733,956	\$ 50,343,492	\$ 30,292,332

INTERNATIONAL MINERALS CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (Expressed in United States dollars)
 JUNE 30, 2012

2. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The Canadian Accounting Standards Board (“AcSB”) confirmed in February 2008 that International Financial Reporting Standards (“IFRS”) would replace Canadian generally accepted accounting principles (“Canadian GAAP”) for publicly accountable enterprises for financial periods beginning on or after January 1, 2011. The Company adopted IFRS as at July 1, 2011, with a transition date of July 1, 2010. The disclosures concerning the transition from Canadian GAAP to IFRS are included in Note 20.

Statement of Compliance

These consolidated financial statements for the year ended June 30, 2012, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements are the Company’s first annual financial statements prepared under IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) with a transition date to IFRS of July 1, 2010. Consequently, the comparative figures for fiscal 2011 and the Company’s statement of financial position as at July 1, 2010, have been restated from Canadian GAAP to comply with IFRS. The reconciliations to IFRS from the previously published Canadian GAAP financial statements are summarized in Note 20, and additional reconciliation is provided in Note 4.

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated financial statements were authorized for issue by the Company’s Board of Directors on September 27, 2012.

Subsidiaries of the Company

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant inter-company transactions and balances have been eliminated upon consolidation.

The Company’s subsidiaries are as follows:

%	Owned Subsidiary of the Company	%	Owned Subsidiary / Associate Holdings	%	Owned Subsidiary / Associate Holdings
100	Ecuadorian Minerals Corporation (US)	100	Metallic Goldfield Inc.	100	Goldfield property (USA)
		100	Metallic Nevada Inc.	100	Converse property (USA)
		100	Metallic Ventures (US) Inc.		
100	Ventura Gold Corp (US)			51	Del Oro property (USA)
100	Minera Oro Vega S.A.C.	40	Minera Suyamarca S.A.C. (associate)	100	Pallancata mine (in operation - Peru) and

					Inmaculada property (in development - Peru)
100	Square Valley AVV (Aruba)	100	San Luis Minerales SA (Panama)	100	Rio Blanco property (Ecuador)
		100	Ecuador Minerals Corp. (Panama)	100	Several Panama and Ecuador companies associated with Gaby property (Ecuador)
				55	Muyuyacu concession (Gaby)
				50	Papa Grande concession (Gaby)
				100	Other concessions (Gaby)

INTERNATIONAL MINERALS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES

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

Estimates

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from these estimates.

These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, which could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following: a) the recoverability of receivables; b) the valuation of financial instruments; c) the estimated useful lives of property, plant and equipment and the related depreciation; d) the carrying value and recoverability of investments in resource properties; e) investment in and contributions to the Suyamarca Joint Venture (the Pallancata Mine and the Inmaculada development project); f) the carrying value of assets related to discontinued operations; g) the recoverable proven and probable reserves and resources, life of mine, future metal prices, future operating results and net cash flows and recoverability of capitalized costs for mining properties; h) allocation of purchase price on acquisitions and dispositions; i) accrued severance and payroll costs; j) the valuation of deferred income taxes and allowances; k) the valuation of share-based compensation; and l) the determination of functional currencies.

Estimates and assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods. The most critical accounting policies are described below.

Cash and equivalents

Cash is comprised of cash on hand, demand deposits, and money market funds, all of which are held in high-quality financial institutions. Cash equivalents include short-term, highly liquid investments with original maturities of three months or less, that are readily convertible to cash and which are subject to an insignificant risk of change in value. The Company invests in guaranteed investment certificates (GICs) and certificates of deposit (CDs) which may have maturity dates greater than three months, but can be liquidated without penalty at the Company's option after thirty days. Because of the ability of the Company to liquidate these securities without interest or principal penalty, they are included in Bank notes as equivalents.

Property, plant and equipment

Property, plant and equipment (“PPE”) is stated at cost less accumulated depreciation, amortization and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. PPE are depreciated using the straight-line method over the estimated useful lives of the individual assets at the following annual rates.

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INTERNATIONAL MINERALS CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (Expressed in United States dollars)
 JUNE 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Property, plant and equipment (cont'd...)

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

An item of PPE is reclassified when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset (determined as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized through profit or loss.

Investment in mine royalty (“Ruby Hill royalty”)

The investment in the Ruby Hill royalty interest has been included as assets related to discontinued operations because it was sold in May 2012.

Investment in associate

The Company conducts a significant portion of its business through equity interests in an associate. An associate is an entity over which the Company has significant influence and is neither a subsidiary nor a jointly controlled entity. The Company has significant influence when it has the power to participate in the financial and operating policy decisions of the associate but does not have control or joint control over those policies.

The Company accounts for its investment in associate using the equity method. Under the equity method, the Company’s investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company’s share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company’s share of an associate’s losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company’s share of earnings and losses of associates are recognized through profit or loss during the period. Cash distributions received from an associate are accounted for as a reduction in the carrying amount of the Company’s investment in the associate.

Intercompany transactions between the Company and its associates are recognized only to the extent of unrelated investors’ interests in the associates. Intercompany balances between the Company and its associates are not eliminated.

At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. Objective evidence includes observable data indicating that there is a measurable decrease

in the estimated future cash flows of the associate's operations. When there is objective evidence that an investment in an associate is impaired, the carrying amount of such investment is compared to its recoverable amount, being the greater of its fair value less cost to sell and value in use (i.e. present value of its future cash flows). If the recoverable amount of an investment in associate is less than its carrying amount then an impairment loss is recognized in that period. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in an associate is increased to the revised estimate of the recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized through profit or loss in the period that the reversal occurs.

INTERNATIONAL MINERALS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Investment in associate (cont'd...)

Minera Suyamarca S.A.C. (“Suyamarca”), the joint venture company in which the Company owns a 40% interest, has a December year end which differs from the year end of the Company. However, the quarterly reporting periods coincide. For the purpose of applying the equity method of accounting, the financial statements of Suyamarca for each year end and each interim reporting period have been adjusted to be consistent with the Company’s reporting periods.

Investment in resource properties, exploration and evaluation assets

Exploration costs incurred on resource properties prior to the Company obtaining the legal right to explore a resource property are expensed in the period in which they are incurred.

Once the legal right to explore a resource property has been acquired, all costs related to the acquisition, exploration and evaluation of the resource property are capitalized on a property by property basis. These direct expenditures include such costs as analytical costs, surveying costs, geological studies, drilling costs, payments made to contractors, applicable administration costs and depreciation of plant and equipment used during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including an allocation of general administrative overhead costs, are expensed in the period in which they occur.

Exploration and evaluation expenditures for the Company’s investments in a resource property are carried forward as an asset provided that one of the following conditions are met; (i) such costs are expected to be recouped in full through successful development and exploration of the resource property, or alternatively by sale; or (ii) although exploration and evaluation activities in the resource property have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves, active field work and other activities in relation to the resource property are continuing, or planned for the foreseeable future.

The carrying values of capitalized amounts are reviewed annually or whenever indicators of impairment are present. In the case of undeveloped resource properties, there may only be inferred resources to allow management to form a basis for the impairment review. The review is based on the Company’s intentions for the development of such a property. If a resource property does not prove viable, all unrecoverable costs associated with the property are charged through profit or loss at the time that determination is made.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mining assets” in PPE. Investment in resource property expenditures accumulated to that date is tested for impairment before the resource property costs are transferred to PPE.

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

Reclamation and decommissioning liabilities

The Company recognizes a liability for legal and constructive obligations relating to the reclamation of investments in resource properties and PPE when those obligations arise from the acquisition, construction, development, or normal operation of those assets. Such reclamation and decommissioning costs must be recognized at fair value, when a reliable estimate of fair value can be made in the period in which it is incurred. The fair value is added to the carrying value of the asset and amortized through profit or loss on a systematic basis over its estimated useful life. Fair value is measured based on the Company's best estimate of the asset's cash outflows. Present value must be used where the effect of the time value of money is material. The related liability is adjusted for each period for the unwinding of the

INTERNATIONAL MINERALS CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in United States dollars)
JUNE 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Reclamation and decommissioning liabilities (cont'd...)

discount rate and for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation.

Royalty revenue recognition

Royalty revenue was recognized quarterly when management could reasonably estimate the royalty revenue from the sale of gold and silver production from the Ruby Hill Mine, pursuant to the terms of the royalty agreement with Barrick. Differences between estimates of royalty revenue and the actual amounts subsequently received were adjusted and recorded in the period that the actual amounts were known. All prior period royalty revenue has been reclassified to disposal gain and income from Ruby Hill royalty in discontinued operations.

Impairment of long-lived assets

At each financial reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. The recoverable amount is the greater of fair value less costs to sell and value in use (which is the present value of future cash flows expected to be realized from the asset). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized through profit or loss for the period. For the purposes of impairment testing, investments in resource properties are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized immediately through profit or loss.

Assets related to discontinued operation

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as assets related to discontinued operations. Immediately before classification as discontinued operations, the assets are re-measured in accordance with the Company's accounting policies. Thereafter, generally, the assets are measured at the lower of their carrying amount and fair value less cost to sell and included in current assets as the sale is expected within the next 12 months. Comparative figures for the discontinued assets and liabilities are reported as non-current assets and liabilities in single line items on the statement of financial position for the prior year.

A discontinued operation is a component of the Company's business that represents a separate major line of business that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued

operation, the comparative Statement of Comprehensive Income is restated as if the operation had been discontinued from the start of the comparative period. Income (loss) from discontinued operations is reported in the statement after net comprehensive income (loss) after taxes from continuing operations.

In the Consolidated Statement of Cash Flows, net cash flow provided by / (used in) discontinued operations is presented separately after net cash flows provided by / (used in) continuing operations. Actual cash received from the sale of assets, resource property expenditures and related operations are presented as discontinued operations within investing activities.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Stock-based compensation

The Company grants incentive stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is employed directly by the Company (for legal or tax purposes) or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date, the amount previously recognized in reserves is transferred to retained earnings.

In situations where equity instruments might be granted to non employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share based payment. Otherwise, share based payments are measured at the fair value of goods or services received.

Earnings per share

Basic earnings per share is computed by dividing net income and comprehensive income after taxes available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed conversion of the convertible debentures, exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that the convertible debentures and the outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Income taxes

Income tax expense is comprised of current tax, deferred taxes and withholding taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Withholding taxes are those taxes paid to the Peruvian government at the rate of 4.1% on funds transferred out of the country back to Canada from the profits of the Peruvian subsidiary.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

INTERNATIONAL MINERALS CORPORATION
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Foreign currency translation

The Company considers the functional currency of all its operations to be the United States dollar. The functional currency of each operation is determined after consideration of the primary economic environment of the operation.

Transactions denominated in foreign currencies (currencies other than the functional currency of an operation) are translated at the exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the reporting date exchange rates.

Should other operations exist that have functional currencies other than the US dollar, revenue and expense items are translated at average rates of exchange where there is a reasonable approximation of the exchange rate at the dates of the transactions. Statement of financial position items are translated at closing exchange rates at the reporting date. Exchange differences on the re-translation of the foreign currency entities, with a functional currency other than the US dollar, at closing rates together with differences between the revenue and expenses translated at average and closing rates, would be recorded in the currency translation adjustment reserve in shareholders' equity.

Financial instruments

Financial assets:

Financial assets are classified into one of the following four categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

i) Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. In addition, all derivatives, including warrants of publicly traded companies are classified as FVTPL. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value at each reporting period and changes are recognized in profit or loss.

ii) Held-to-maturity ("HTM")

HTM assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, then the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

INTERNATIONAL MINERALS CORPORATION
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Financial assets (cont'd...)

iv) Available-for-sale (“AFS”)

AFS assets are non-derivative financial assets not included in the above categories. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an AFS financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

The Company classifies its financial assets as follows:

Cash and equivalents and investments are classified as FVTPL.

Receivables and due from related party are classified as loans and receivables.

- Reclamation bonds are classified as HTM.

Financial liabilities:

Financial liabilities are classified into one of two categories: (i) Fair value through profit or loss (“FVTPL”); or (ii) Other financial liabilities.

i) Fair value through profit or loss (“FVTPL”)

This category comprises derivatives, if any, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

ii) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the corresponding period. The effective interest rate is the rate that exactly discounts to zero estimated future cash payments over the expected life of the financial liability, or where appropriate, a shorter period to the net carrying amount on initial recognition.

The Company classifies its accounts payable, accrued severance and payroll costs, due to related parties, accrued interest payable on convertible debentures, and convertible debentures as other financial liabilities.

Impairment of financial assets:

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

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INTERNATIONAL MINERALS CORPORATION
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Impairment of financial assets (cont'd...)

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets, with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized through profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Comprehensive income

Comprehensive income is the change in the Company's shareholders' equity that results from transactions and other events arising from anything other than the Company's normal operations. It includes items that would not normally be included in net earnings, such as unrealized gains and losses on AFS investments. Comprehensive income accounting recommendations require certain gains or losses that would otherwise be recorded as part of net earnings to be presented in other comprehensive income until it is considered appropriate to recognize such gains or losses in net earnings.

Accumulated other comprehensive income ("OCI") is presented as a separate component within shareholders' equity. The presentation of accumulated OCI in the shareholders' equity section of the consolidated statement of financial position is not required because the Company has not reported OCI for the periods presented.

Non-controlling interest

In prior years, a non-controlling interest existed in a Peruvian subsidiary of the Company that represented Hochschild's share of the carrying value of the subsidiary that owned the Inmaculada property in Peru. This non-controlling interest was eliminated in December 2010 when the Company sold an 11% interest in the subsidiary, thereby reducing its current interest to less than a controlling interest (see Note 8).

Future accounting pronouncements

Presentation of Financial Statements

In June 2011, the IASB issued IAS 1, Presentation of Items of OCI: Amendments to IAS 1 Presentation of Financial Statements. The amendments stipulate the presentation of net profit and OCI and also require the Company to group items within OCI based on whether the items may be subsequently reclassified to profit or loss. Amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company does not expect the adoption of the amendments to this standard to have a material impact on its financial statements.

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INTERNATIONAL MINERALS CORPORATION
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future accounting pronouncements (cont'd...)

Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements. This new standard defines the principle of control and established control as the basis for determining which entities are included in consolidated financial statements. The principle of control is based on three criteria: power over the investee; exposure to variable returns from involvement in the investee; and the ability of the investor to use its power to affect the amount of its returns. The standard requires control of an investee to be reassessed when the facts and circumstances indicate that there have been changes to one or more of the criteria for determining control. This new standard supersedes the requirements relating to consolidated financial statements in IAS 27, Consolidated and Separate Financial Statements (as amended in 2009) and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 is effective for the Company beginning on July 1, 2013, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9"), was issued by the IASB on November 12, 2009 and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

Joint Arrangements

IFRS 11, Joint Arrangements, was issued by the IASB in May 2011 and is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. Parties to a joint operation retain the rights and obligations to individual assets and liabilities of the operation, while parties to a joint venture have rights to the net assets of the venture.

Any arrangement which is not structured through a separate entity, or is structured through a separate entity but such separation is ineffective such that the parties to the arrangement have rights to the assets and obligations for the liabilities, will be classified as a joint operation. Joint operations shall be accounted for in a manner consistent with jointly controlled assets and operations whereby the Company's contractual share of the arrangement's assets, liabilities, revenues and expenses are included in the consolidated financial statements. Any arrangement structured through a separate vehicle that does effectively result in separation between the Company and the arrangement shall be classified as a joint venture and accounted for using the equity method of accounting. Under the existing IFRS standard, the Company has the option to account for its interests in joint ventures using proportionate consolidation or equity accounting. The Company currently uses equity accounting for its joint arrangements. Accordingly, adoption of

this standard is not expected to have any material impact on the Company's financial statements.

Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, Disclosure of Interests in Other Entities. This new standard requires enhanced disclosures about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 contains new disclosure requirements for the Company's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Required disclosures aim to provide readers of the financial statements with information to evaluate the nature of and risks associated with the Company's interests in

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future accounting pronouncements (cont'd...)

Disclosure of Interests in Other Entities (cont'd...)

other entities and the effects of those interests on the Company's financial statements. IFRS 12 is effective for the Company beginning after January 2013. It is expected that IFRS 12 will increase the current level of disclosure related to the Company's interests in other entities upon adoption.

Investments in Associates and Joint Ventures

In May 2011, the IASB issued amendments to IAS 28, Investments in Associates and Joint Ventures, which are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. Amendments to IAS 28 provide additional guidance applicable to accounting for interests in joint ventures or associates when a portion of an interest is classified as held-for-sale or when the Company ceases to have joint control or significant influence over an associate or joint venture. When joint control or significant influence over an associate or joint venture ceases, the Company will no longer be required to re-measure the investment at that date. When a portion of an interest in a joint venture or associate is classified as held-for-sale, the portion not classified as held-for-sale shall be accounted for using the equity method of accounting until the sale is completed, at which time the interest is reassessed for prospective accounting treatment. The Company does not expect the amendments to IAS 28 to have a material impact on the financial statements.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces fair value measurement guidance contained in individual IFRS guidance, providing a single source of fair value measurement guidance. The standard provides a framework for measuring fair value and establishes new disclosure requirements to enable readers to assess the methods and inputs used to develop fair value measurements and for recurring valuations that are subject to measurement uncertainty, the effect of those measurements on the financial statements. The Company intends to adopt IFRS 13 prospectively in its financial statements for its fiscal period beginning on July 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

Offsetting Financial Assets and Liabilities

In December 2011, the IASB published Offsetting Financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7 Financial Instruments: Disclosures. The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event, and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position, or subject to master netting arrangements or similar arrangements. The effective date for the amendments to IAS 32 is annual

periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively. The Company does not expect the amendments to IAS 32 to have a material impact on the financial statements.

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4. RE-PRESENTATION OF STATEMENT OF COMPREHENSIVE INCOME IN ACCORDANCE WITH IFRS

In August 2012, the Company reached an agreement with the Swiss Stock Exchange Regulation (the “SIX”) with respect to the Company incorrectly adopting the presentation requirements of IFRS for its interim consolidated financial statements for the quarters ended September 30, 2011, December 31, 2011 and March 31, 2012. The Company agreed with the findings of the SIX and has amended its presentation of its Consolidated Statement of Comprehensive Income to comply with IFRS requirements. The presentation changes made by the Company do not affect net income, earnings per share, operating, investing and financing cash flows or retained earnings as reported by the Company.

The errors in presentation as identified by the SIX and agreed to by the Company are as follows:

- (i) In accordance with IAS 1, the Statement of Comprehensive Income must include a line item that presents revenue for the period. The Company incorrectly reported royalty revenue as royalty income and has agreed to correct this misclassification.
- (ii) IAS 1 requires an entity to present an analysis of expenses using a classification based on either their nature or function within the entity, whichever provides information that is reliable and more relevant. The Company presented expenses as both nature and as their function (a “staggered” presentation). This Note 4 provides a reconciliation of expenses previously reported to the presentation format required by IFRS.
- (iii) In the notes to the financial statements, the Company disclosed that it held two investments which were valued using level 1 inputs, when in fact the carrying value disclosed was historical cost which is not a level 1 input. This disclosure error has been corrected.

The Company revised the presentation format on the Statement of Comprehensive Income to more fully comply with IFRS, such that the Statement of Comprehensive Income is presented by nature of income or expense. The tables below provide the detail for the previous presentation of the expenses.

Other income/(loss) includes gains/(losses) from investments, foreign exchange differences, gains from sale of resource properties and interest income previously grouped in other items:

	2012	2011
Foreign exchange (loss)	\$ (435,226)	\$ (1,825,252)
Unrealized gain (loss)/on investments	(2,162,135)	1,259,424
Realized gain on sale of investment	1,135,855	–
Realized gain on sale of interest in resource property	–	12,487,218
Interest income	283,071	285,174
Total other income/(loss)	\$ (1,178,435)	\$ 12,206,564

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4. RE-PRESENTATION OF STATEMENT OF COMPREHENSIVE INCOME IN ACCORDANCE WITH IFRS (cont'd...)

Expenses:

	2012	2011
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Amortization and Depreciation are non-cash costs which include amortization of non-reimbursable costs (previously shown as a deduction against income from associate), and depreciation of PPE (previously classified separately in expenses):

Depreciation of PPE	\$ 55,517	\$ 39,596
Amortization of non-reimbursable costs	721,468	721,467
Total amortization and depreciation	\$ 776,985	\$ 761,063

Salaries and employee benefits include costs incurred by the Company in the following categories:

Corporate and administrative	\$ 2,281,472	\$ 2,275,929
Monitoring costs	399,409	200,966
General exploration	339,408	4,582
Investor relations	367,083	367,078
Total salaries and employee benefits	\$ 3,387,372	\$ 2,848,555

Administrative costs include all general and administrative expenses (G&A) incurred by the Company to facilitate corporate activities and regional expenses not directly associated with specific resource properties or operating mines:

Monitoring costs - associate	\$ 94,208	\$ 974
General Exploration	273,156	19,713
Investor Relations	519,603	495,084
Office and General	1,043,832	505,301
Professional fees	1,115,630	768,827
Transfer agent and listing fees	180,589	164,952
Travel	147,810	143,549
Total administrative costs	\$ 3,374,828	\$ 2,098,400

Write-downs include property and asset write-downs, write-offs and recoveries and reflect management's decision to expense previously capitalized costs:

Write-off of resource properties	\$ 688,336	\$ 2,611,815
Recovery of resource properties	-	(763,863)
Write-down of investments	51,230	286,150
Total write-downs	\$ 739,566	\$ 2,134,102

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5. CASH AND EQUIVALENTS

Cash and equivalents include:

	June 30, 2012	June 30, 2011	July 1, 2010
Corporate bank accounts	\$ 23,439,267	\$ 13,578,298	\$ 481,124
Investment savings account (interest rates of 0.20% - 1.31%), various maturities	34,020,910	43,175,581	23,494,999
Bank notes and other (interest rates of 0.19% - 1.20%), various maturities	23,783,297	29,085,357	5,055,312
	\$ 81,243,474	\$ 85,839,236	\$ 29,031,435

The Company invests in guaranteed investment certificates and certificates of deposit which may have maturity dates greater than three months, but can be liquidated without penalty at the Company's option after thirty days. Because of the ability of the Company to liquidate these securities without interest or principal penalty, they are included in Bank notes as equivalents. Cash held in Ecuador has been transferred to discontinued operations.

6. INVESTMENTS

The following tables set out the movement of the Company's investments.

Company Name	Number of Shares	Carrying Value June 30, 2012	Carrying Value June 30, 2011	Carrying Value July 1, 2010
Galena International Resources	208,333	\$ 22,362	\$ 42,669	\$ 32,788
African Aura Mining*	98,125	--	-	95,467
Afferro Mining*	98,125	65,110	125,608	-
Aureus Mining*	98,125	84,260	100,486	-
Newstrike Capital	340,909	479,029	830,889	141,449
Colombian Mines Corp.	333,300	97,570	174,074	263,868
Continental Gold Limited	135,461	871,085	2,299,048	991,920
Sumatra Copper and Gold Limited	710,000	51,158	165,776	121,686
Santa Barbara Resources Limited (Note 12)	1,500,000	-	460,830	910,530
HMZ Metals Inc.	4,000,000	-	-	-
Oryx Mining and Exploration Limited	500,000	238,459	238,459	238,459
BuenaVista Gold plc	1,250,000	157,165	-	-
International Northair Mines	1,786,000	490,997	-	-
Caribbean Copper and Gold Corporation	1,200,000	-	-	286,150
		\$ 2,557,195	\$ 4,437,839	\$ 3,082,317

*African Aura Mining (original investment) was reorganized into Afferro Mining and Aureus Mining in April 2011.

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6. INVESTMENTS (cont'd...)

	June 30, 2012	June 30, 2011
Beginning balance	\$ 4,437,839	\$ 3,082,317
Acquisition of Santa Barbara Resources Limited shares	–	148,054
Acquisition of BuenaVista Gold plc shares	157,165	–
Acquisition of International Northair Mines shares	490,997	–
Sale of Continental Gold Limited shares	(166,601)	–
Unrealized gain/(loss)	(2,162,135)	1,259,424
Write down of investment	(51,230)	(286,150)
Effect of foreign exchange	(148,840)	234,194
Ending balance	\$ 2,557,195	\$ 4,437,839

During the year, the Company sold 170,400 common shares of Continental Gold Limited for total cash proceeds of \$1,295,517 (Cdn\$1,299,663) and paid \$6,940 in commissions. The Company recorded a total gain of \$1,135,855 (Cdn\$1,139,490). In June 2012, the Company purchased 1,786,000 common shares and 893,000 warrants of International Northair Mines for a cost of \$490,997 (Cdn\$500,080). Each warrant is exercisable to purchase an additional common share of International Northair Mines at Cdn\$0.40 until December 28, 2013, and as at June 30, 2012, the warrants had a value of \$nil.

During the year ended June 30, 2012, the Company wrote-off its investment in Santa Barbara Resources Limited. The Company's 1,500,000 shares of Santa Barbara Resource Limited carried a fair market value, before write-off, of \$51,230 (Cdn\$52,500). The initial cost of the investment was Cdn\$417,500. Santa Barbara Resource Limited has a director in common with the Company.

Oryx Mining and Exploration Limited, and BuenaVista Gold plc are private companies and the carrying value is estimated at cost.

7. DISCONTINUED OPERATIONS

During the year ended June 30, 2012, the Company designated two groups of assets or operations to be transferred into discontinued operations. The first was the Ruby Hill royalty interest and the second included all property interests, other assets and operations in Ecuador.

The Ruby Hill royalty was a 3% NSR royalty on the value of gold and silver produced from certain mining claims owned by Barrick comprising the Ruby Hill mine, located in Nevada, USA. Although the Company was not actively seeking buyers for this royalty interest, in early May 2012, the Company received an offer of \$38 million for the royalty. The Company evaluated this all-cash offer using risk-adjusted net present and future value methodologies and accepted the offer. The transaction was concluded in late May 2012. With the sale, the Company reclassified all royalty revenue and the recognized gain on the sale to discontinued operations for the current and comparative fiscal years.

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7. DISCONTINUED OPERATIONS (cont'd...)

The Ecuadorian properties consist of the Rio Blanco late-stage gold and silver exploration property and the earlier-stage Gaby gold property. The Company owns a 100% interest in the Rio Blanco concessions and variable interests between 50% and 100% of the Gaby mineral concessions.

In early 2008, following the election of a new President, the Ecuadorian government adopted a Mining Mandate, which suspended activities on all mineral concessions in Ecuador while a new Mining Law was being adopted. Following the introduction of the new Mining Law and regulations in 2009, the Company commenced negotiations in February 2011 for a production contract for the Rio Blanco property. The negotiations have been on-going for over 18 months without resolution of significant issues. As a result of the lack of progress in this critical negotiation, increasing social and community risks and activism, a lack of clarity with respect to the components of the taxation regime, concerns for the security of tenure for all concessions, and restrictive profit-sharing laws, in May 2012, the Company appointed two investment advisors to assist the Company in implementing its strategy to maximize the value of the resource properties in Ecuador, including their sale.

Because of this decision, the value of these properties and the decision of the Company to cease funding further exploration activities on these properties, they were reclassified as discontinued operations and an impairment charge of \$53,143,265 was recognized for the Ecuadorian properties. The remaining carrying value of \$39,976,344 represents the Company's best estimate of the aggregate recoverable value, less costs to sell, of the individual properties.

The fair market value for each property was determined, separately by the Company. Fair market value for Rio Blanco was determined using variable metal price net present value ("NPV") techniques with a discount applied to the NPVs representing the increased political and social risk of doing business in Ecuador. The Gaby property, being at an earlier stage of exploration does not lend itself to cash flow valuation techniques and therefore it was fair valued using the "comparative market approach". This method identified what similar properties in other high political risk jurisdictions, including Ecuador, were valued at, or recently sold at, on a per ounce contained gold basis. A per ounce value was then applied to Gaby and the resultant value was reduced further to account for the Ecuadorian political and social risk factors.

The table below illustrates the components included in discontinued operations:

Ecuador	June 30, 2012	June 30, 2011	July 1, 2010
Assets			
Cash and equivalents	\$ 194,564	\$ 287,826	\$ 67,909
Receivables	15,365	22,148	53,380
Prepaid expenses and deposits	12,346	3,196	10,090
PPE - other	245,355	253,244	263,444
Investment in associate	1,535	1,535	1,535
Resource properties	39,323,453	84,805,703	80,986,262
Reclamation bond	183,726	78,008	74,701

Total assets transferred to discontinued operations	\$	39,976,344	\$	85,451,660	\$	81,457,321
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INTERNATIONAL MINERALS CORPORATION
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7. DISCONTINUED OPERATIONS (cont'd...)

Ecuador	June 30, 2012	June 30, 2011	July 1, 2010
Liabilities			
Accounts payable	\$ 73,927	\$ 77,758	\$ 142,925
Accrued severance and payroll costs	1,023,682	783,808	1,461,250
Due to related parties	5,541	11,000	–
Total liabilities transferred to discontinued operations	\$ 1,103,150	\$ 872,566	\$ 1,604,175
Expenses			
Write-down of Ecuador assets	\$ (53,238,265)	\$ –	

Ruby Hill Royalty	June 30, 2012	June 30, 2011	July 1, 2010
Assets			
Receivables	\$ –	\$ 1,698,095	\$ 456,211
Prepaid expenses and deposits	–	51,416	32,358
PPE - Ruby Hill	–	11,402,904	13,409,126
Total assets transferred to discontinued operations	\$ –	\$ 13,152,415	\$ 13,897,695
Liabilities			
Accounts payable	\$ 113,152	\$ –	\$ –
Deferred tax liability	–	–	600,000
Total liabilities transferred to discontinued operations	\$ 113,152	\$ –	\$ 600,000
Income and (Expenses)			
Disposal gain	\$ 27,856,118	\$ –	
Revenue from royalty	3,660,281	5,303,592	
Depletion of royalty income	(1,291,364)	(2,006,222)	
Income taxes	–	600,000	
Net proceeds tax	(183,014)	(265,180)	
Total disposal gain and net royalty income	\$ 30,042,021	\$ 3,632,190	

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8. INVESTMENT IN ASSOCIATE

	June 30, 2012	June 30, 2011
Suyamarca Joint Venture - Pallancata		
Balance, beginning of year	\$ 56,734,010	\$ 36,666,973
Reinvestment of distributions	–	10,000,000
Distributions from Joint Venture	(46,000,000)	(46,000,000)
Equity income from Joint Venture	42,952,390	56,788,504
Amortization of non-reimbursable costs	(721,468)	(721,467)
Additional non-reimbursable costs	–	–
	52,964,932	56,734,010
Suyamarca Joint Venture - Inmaculada		
Balance, beginning of year	63,399,532	–
Initial investment	–	64,002,597
Recovery of costs	–	(603,065)
Gain on carried interest in Inmaculada	16,782,196	–
	80,181,728	63,399,532
Investment in associate balance, end of year	\$ 133,146,660	\$ 120,133,542

On June 30, 2006, the Company entered into a joint venture agreement with affiliated companies of Hochschild to fast-track development, permitting and production at the Company's Pallancata precious metals property in Peru. The Company and Hochschild formed Suyamarca to own the Pallancata property and associated assets. The common shares of Suyamarca are held 60% by Hochschild and 40% by the Company. Hochschild is the manager of Suyamarca.

In December 2010, the Company agreed to sell 11% of its 51% ownership in the Inmaculada property, also located in Peru, to its partner Hochschild for consideration of: \$17,650,000 (\$15 million cash was received in February 2011 and an additional \$2.65 million in August 2011); Hochschild's participation in a \$20 million private placement of the Company's common shares (completed in November 2010); and Hochschild's commitment to fund 100% of the first \$100 million in expenditures for the feasibility, planning, development and construction of a mining operation at Inmaculada. The Company recognized a gain of \$12,487,218 on its sale of this 11% interest in Minera Quellopata S.A.C. ("Quellopata") the Peruvian joint venture company which held the Inmaculada property. Subsequently, the parties have integrated the Quellopata net assets (principally Inmaculada) into Suyamarca.

Under the joint venture agreement between the Company and Hochschild, to purchase the additional 11% interest in the Inmaculada project, Hochschild is required to contribute 100% of the first \$100 million in capital funding before the joint venture partners begin contributing to the project proportionately. To recognize the Company's increased value in the joint venture project as a result of Hochschild's 100% contributions, an equity gain in carried interest is

recorded in Investment in Associate and Shareholder Equity sections of the statement of financial position.

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8. INVESTMENT IN ASSOCIATE (cont'd...)

The table below discloses select financial information for Suyamarca on a 100% basis before any adjustments for accounting policy differences. The Company's share of Suyamarca is 40% for all periods reported.

(\$ 000's)	Twelve months Ended June 30, 2012	Twelve months Ended June 30, 2011	Twelve months Ended June 30, 2010
Net revenue (100%)	\$ 290,379	\$ 338,125	\$ 209,000
Net income before taxes (100%)	159,180	199,243	105,750
Net income after taxes (100%)	105,056	144,467	68,664
Total assets (100%)	251,660	234,554	128,362
Total liabilities (100%)	73,849	68,222	49,497
Total equity (100%)	177,811	166,332	78,865
Total liabilities and equity (100%)	251,660	234,554	128,362
Distributions (100%)	115,000	115,000	59,000

9. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Office equipment and furniture	Computer hardware and software	Vehicles	Leasehold improvements	Total PPE
Cost					
Balance at July 1, 2010	\$ 66,889	\$ 656,014	\$ 173,037	\$ 4,627	\$ 900,567
Additions	7,983	16,337	73,097	19,394	116,811
Disposals	—	—	—	—	—
Balance at June 30, 2011	\$ 74,872	\$ 672,351	\$ 246,134	\$ 24,021	\$ 1,017,378
Additions	—	156,660	65,272	—	221,932
Disposals	—	—	—	—	—
Balance at June 30, 2012	\$ 74,872	\$ 829,011	\$ 311,406	\$ 24,021	\$ 1,239,310
Accumulated depreciation					
Balance at July 1, 2010	\$ 55,056	\$ 567,142	\$ 64,093	\$ 4,627	\$ 690,918
Depreciation for the year	4,398	37,140	33,163	970	75,671
Disposals	—	—	—	—	—

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Balance at June 30, 2011	\$ 59,454	\$ 604,282	\$ 97,256	\$ 5,597	\$ 766,589
Depreciation for the year	5,598	63,911	39,608	3,880	12,997
Disposals	–	–	–	–	–
Balance at June 30, 2012	\$ 65,052	\$ 668,193	\$ 136,864	\$ 9,477	\$ 879,586

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9. PROPERTY, PLANT AND EQUIPMENT (PPE) (cont'd...)

	Office equipment and furniture	Computer hardware and software	Vehicles	Leasehold improvements	Total PPE
Continued...					
Carrying amounts					
At July 1, 2010	\$ 11,833	\$ 88,872	\$ 108,944	\$ –	\$ 209,649
At June 30, 2011	\$ 15,418	\$ 68,069	\$ 148,878	\$ 18,424	\$ 250,789
At June 30, 2012	\$ 9,820	\$ 160,818	\$ 174,542	\$ 14,544	\$ 359,724

Ruby Hill Royalty Interest

The Company sold its 3% net smelter return royalty from the Ruby Hill Mine for \$38 million in May 2012 to Royal Gold, Inc. and recorded a gain on disposition of \$27.9 million. This asset is reported as a discontinued operation (Note 7).

10. INVESTMENT IN RESOURCE PROPERTIES, EXPLORATION AND EVALUATION ASSETS

2012	Balance, Beginning of Year	Additions	Write-off	Balance, End of Year
Goldfield Property, USA	\$ 41,269,848	\$ 10,237,094	\$ –	\$ 51,506,942
Converse Property, USA	14,500,960	5,665,154	–	20,166,114
Other Resource Properties	1,043,328	373,045	(688,336)	728,037
Total Resource Properties	\$ 56,814,136	\$ 16,275,293	\$ (688,336)	\$ 72,401,093

2011	Balance, Beginning of Year	Additions	Transfer to investment in associate and Write-off	Balance, End of Year
Inmaculada Property, Peru	\$ 71,935,249	\$ 4,633,580	\$ (76,568,829)	\$ –
Goldfield Property, USA	34,405,664	6,864,184	–	41,269,848
Converse Property, USA	13,147,253	1,353,707	–	14,500,960
Other Resource Properties	1,789,056	1,866,087	(2,611,815)	1,043,328
Total Resource Properties	\$ 121,277,222	\$ 14,717,558	\$ (79,180,644)	\$ 56,814,136

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10. INVESTMENT IN RESOURCE PROPERTIES, EXPLORATION AND EVALUATION ASSETS (cont'd...)

Title to resource properties

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

Ecuador mining concessions are subject to the Ecuador Mining Law, which became effective on January 29, 2009 and its regulations, which were issued on November 4, 2009 (see Note 7).

Goldfield Project, Nevada, USA

With the acquisition of Metallic, the Company acquired a 100% interest in the Goldfield gold property located in Nevada, USA. This 100% interest in Goldfield was acquired by Metallic under a combination of agreements with underlying owners and direct ownership by Metallic. Certain resource deposits on the property are subject to NSR royalties ranging from zero to 5.0%, with certain buy-down provisions. The Company has estimated annual lease payments of \$145,000 to maintain the right to explore a portion of the property, pursuant to certain lease agreements. On July 17, 2012, the Company released a positive independent feasibility study on the Gemfield deposit which comprises a part of the Goldfield property holdings.

Converse Project, Nevada, USA

With the acquisition of Metallic, the Company acquired a 100% interest in the Converse gold property located in Nevada, USA. This 100% interest in Converse was acquired by Metallic under a combination of agreements with underlying owners and direct ownership by Metallic. The property is subject to NSR royalties ranging from zero to 5.0%, with certain buy-down provisions. The Company has estimated annual lease payments of \$100,000 to maintain the right to explore a portion of the property, pursuant to certain lease agreements. On December 19, 2011, the Company announced the results of a Preliminary Economic Assessment (scoping study) on the Converse property.

Other Resource Properties

Del Oro Project, Nevada

With the acquisition of Ventura in January 2010, the Company acquired an interest in the Del Oro gold project in Nevada. Ventura entered into an option agreement (the "Agreement") on November 14, 2007, with Columbus Gold Corporation ("Columbus") for Columbus' 100% owned Del Oro property.

Under the terms of the original Agreement, Ventura had an option to earn an initial 51% interest in the property by making a \$50,000 payment in cash or common shares to Columbus (125,418 common shares of Ventura were issued, currently representing 12,542 common shares of the Company) and by incurring \$2.0 million in exploration expenditures within a five year period.

On July 26, 2010, an amendment to the Agreement was negotiated and signed with Columbus. \$60,000 in cash was paid to Columbus to extend the Agreement, of which \$40,000 was applied to the \$200,000 in required work expenditures under the Agreement. Additional work expenditures required prior to December 31, 2010 were \$100,000 (incurred) and another \$25,000 was paid by June 30, 2011, to fulfill the required \$200,000 in work expenditures. The Company now has until November 14, 2013, to incur the remaining \$1.8 million in work expenditures in order to earn an initial 51% interest in the Property.

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11. RECLAMATION BONDS

In the United States, the Company has deposits in place with the State of Nevada totalling \$185,100 (June 30, 2011 - \$135,100; July 1, 2010 – \$138,000) as security for reclamation bonds.

12. RELATED PARTY TRANSACTIONS

The Company's related parties with whom the Company had transactions with during the year, are as follows:

Related Parties	Relation with the Company	Nature of Transaction
Suyamarca	Associate	Reimbursement of costs / Payment of cash distribution
Jorge Paz - Paz Horowitz Inc.	Director	Legal consulting
Rod McKeen - Axium Law Corp.	Director	Legal consulting

During the fiscal year ended June 30, 2012, the Company entered into the following transactions with related parties:

- Paid or accrued legal fees of \$238,069 (2011 - \$308,146) for services provided by firms in which two directors of the Company are partners or principals. The Company expensed \$150,948 (2011 - \$156,118) of these fees and the remainder was capitalized. As at June 30, 2012, the accounts payable to these firms totalled \$23,190 (June 30, 2011 - \$73,079), of which \$5,541 (June 30, 2011 - \$11,000) has been transferred to discontinued operations (Note 7).
- At June 30, 2012, the Company held 1,500,000 (2011 - 1,500,000) common shares of Santa Barbara Resources Limited (which has a director, Rod McKeen, in common with the Company).
- At June 30, 2012, cash distributions of \$6,000,000 and cost reimbursements totalling \$210,377 (2011 - \$557,367) were due from Suyamarca. During the year, the Company recorded a total of \$848,147 (2011 - \$681,308) as recovery of costs from Suyamarca. The Company is a 40% shareholder of Suyamarca.
- Paid or accrued directors' fees of \$289,241 (2011 - \$142,292). During the year, the Company granted 200,000 (2011 – nil) options to its directors for which it recorded stock-based compensation of \$83,103 (2011 - \$nil).

The summary of amounts payable to and from related parties is as follows:

	Year Ended June 30, 2012	Year Ended June 30, 2011	As at July 1, 2010
Accounts receivable due from Suyamarca for cost reimbursements	\$ 210,377	\$ 557,367	\$ –

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Accounts receivable for cash distributions from Suyamarca*	6,000,000	–	–
Accounts payable to related parties for fees	(17,649)	(62,079)	(11,819)

*A cash distribution to the Company totaling \$6 million was received in July 2012.

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12. RELATED PARTY TRANSACTIONS (cont'd...)

The total remuneration and benefits recorded on an accrual basis by the Company to its key executives is as follows:

	Year Ended June 30, 2012	Year Ended June 30, 2011
Short-term remuneration	\$ 1,100,000	\$ 846,500
Stock-based compensation	182,968	178,796
Total remuneration	\$ 1,282,968	\$ 1,025,296

The key executives with the power and responsibility directly or indirectly, to plan, direct and control the operations of the Company are its President and CEO, CFO and VP Corporate Development.

13. CONVERTIBLE DEBENTURES

On May 17, 2012, the Company retired in cash at maturity \$39,577,883 principal amount of convertible debentures ("Debentures"). The Debentures bore interest at an annual rate of 5.50%, payable semi-annually on May 31 and November 30 of each year, commencing November 30, 2006 through May 19, 2012, when they matured. Using an acceptable pricing model, the Debentures were segregated based on the respective fair values of their debt and equity components on the date the Debentures were issued. The Debentures were originally segregated into a debt component of \$30,766,089 and an equity component of \$4,945,008. The debt component, representing the value allocated to the liability at inception, was initially recorded as a long-term liability, and at June 30, 2011, became a current liability. The remaining component, representing the value ascribed to the holders' option to convert the principal amount into common shares, which was previously classified in shareholders' equity as "Equity component of convertible debentures", has been reversed through retained earnings. Over the term of the debt obligation, the debt component was accreted to the face value of the Debentures by the recording of additional interest expense.

Prior to the maturing of the Debentures in May 2012, Cdn\$58,000 principal amount of debentures was converted into 8,429 common shares of the Company.

Convertible Debentures	June 30, 2012	June 30, 2011	July 1, 2010
Principal amount	\$ –	\$ 35,692,527	\$ 35,711,097
Effect of foreign exchange rate	–	5,251,661	2,371,155
Unamortized accreted amount	–	–	(1,039,969)
Deferred finance costs, net	–	–	(395,740)
Net carrying amount	\$ –	\$ 40,944,188	\$ 36,646,543

14.

CAPITAL STOCK AND STOCK OPTIONS

a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

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14. CAPITAL STOCK AND STOCK OPTIONS (cont'd...)

b) Issuances

During the year ended June 30, 2012, 278,000 (2011 - 1,396,620) common shares were issued for cash proceeds totaling \$1,067,518 (2011 - \$5,395,893) pursuant to the exercise of incentive stock options and \$526,481 (2011 - \$2,675,574) was allocated to capital stock from reserves. During the year ended June 30, 2012, 5,813 (2011 - 2,616) common shares were issued pursuant to conversion of convertible debentures, for a total of \$40,425 (Cdn\$40,000) (2011 - \$18,570 (Cdn\$18,000)) in converted debentures.

During the year ended June 30, 2011, 3,655,746 shares were issued to Hochschild for a private placement of \$20,000,000 in connection with Hochschild purchasing the additional 11% interest in the Inmaculada project.

c) Share buyback program

On October 17, 2011, the Company commenced a normal course issuer bid (or share repurchase program) to purchase, through the market on the Toronto Stock Exchange (the "TSX"), a maximum of 3,000,000 of its common shares ("Shares"), representing approximately 2.5% of the Company's 120,457,576 issued and outstanding Shares as at October 17, 2011. Following the end of each subsequent quarter, all Shares repurchased were cancelled.

As of June 30, 2012, a total of 3,000,000 shares had been repurchased by the Company on the TSX through the normal course issuer bid at an average price of Cdn\$5.70 per share, for a total cost of Cdn\$17,103,740 (\$16,923,880).

This completed the share buyback program. All Shares were cancelled during the year. Retained earnings were reduced by \$10,813,665 representing the excess of the purchase price of the Shares over their average carrying value.

d) Stock options

The Company has an incentive stock option plan in place under the rules of the TSX pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up to a maximum of 12,500,000 common shares of the Company. Under the plan, the exercise price of each option is not less than the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.

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

	Number of Options	Weighted Average Exercise Price (\$Cdn)
Balance, July 1, 2010	4,046,020	\$ 4.34
Granted	280,000	7.00
Exercised	(1,396,620)	3.87
Expired / forfeited	(130,000)	5.31

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Balance, June 30, 2011	2,799,400	\$	4.80
Granted	1,311,500		5.81
Exercised	(278,000)		3.84
Expired / forfeited	(7,500)		5.28
Balance outstanding at June 30, 2012	3,825,400	\$	5.21
Options exercisable, June 30, 2012*	2,468,900	\$	4.86

* 1,356,500 options were not-vested as at June 30, 2012.

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14. CAPITAL STOCK AND STOCK OPTIONS (cont'd...)

The weighted average fair value of options granted during fiscal year 2012 was Cdn\$1.52 (2011 – Cdn\$2.29).

The following stock options were outstanding at June 30, 2012:

Expiry date	Exercise Price (\$Cdn)	Number of Options
July 24, 2012	3.65	5,000
May 22, 2013	1.80	50,000
February 11, 2014	4.58	250,000
March 27, 2014	2.80	47,500
February 1, 2015	4.00	257,500
December 6, 2015	4.48	50,000
October 4, 2016	4.70	50,000
November 6, 2016	5.25	100,000
February 26, 2017	5.78	770,000
November 2, 2017	5.62	25,000
February 23, 2019	3.73	483,900
May 20, 2020	4.00	150,000
November 30, 2020	6.41	50,000
January 10, 2021	7.04	190,000
May 12, 2021	7.55	40,000
November 29, 2021	5.86	150,000
January 30, 2022	5.80	1,156,500
		3,825,400

e) Stock-based compensation

The total stock-based compensation recognized under the fair value method for options granted in 2012 was \$1,994,037 (2011 - \$638,738), using the Black-Scholes option-pricing model. Together with amortization of options awarded in previous periods, the Company expensed a total of \$627,506 (2011 - \$662,768) during the fiscal year ended June 30, 2012.

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

	2012	2011
Risk-free interest rate	1.96%	3.16%
Expected life of options	6.1 years	6.1 years
Annualized volatility	25.47%	25.28%
Dividend	0%	0%

The Company has no share purchase warrants outstanding.

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14. CAPITAL STOCK AND STOCK OPTIONS (cont'd...)

f) Earnings per share

Earnings per share, calculated on a basic and diluted basis for the years ended June 30, 2012 and 2011, is as follows:

	Year Ended June 30, 2012	Year Ended June 30, 2011
Earnings per share from continuing operations		
Basic	\$ 0.23	\$ 0.48
Diluted	\$ 0.23	\$ 0.48
Earnings per share from discontinued operations		
Basic	\$ (0.19)	\$ 0.03
Diluted	\$ (0.19)	\$ 0.03
Earnings per share - total		
Basic	\$ 0.04	\$ 0.51
Diluted	\$ 0.04	\$ 0.51
Net income		
Net earnings available to common shareholders - basic and diluted	\$ 4,791,634	\$ 60,321,210
Weighted average shares outstanding		
Weighted average shares outstanding – basic	119,726,674	118,222,472
Dilutive securities		
Stock options	571,672	761,782
Convertible debentures	–	–
Weighted average shares outstanding – diluted	120,298,346	118,984,254
Weighted average shares excluded		
Stock options	280,000	230,000
Convertible debentures	–	5,808,804

15. CAPITAL RISK MANAGEMENT

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

The Company considers its shareholders' equity to be its capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets of the Company. In order to maintain or adjust its capital structure, the Company may issue new shares through private or public placements, repurchase shares, sell assets, incur debt, or pay dividends to shareholders.

Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration and development activities. Due to the cyclical nature of the industry, there is no guarantee that when the Company needs to raise capital, there will be funds available at that time.

16. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

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

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

Liquidity risk

Liquidity risk is managed by the Company by maintaining sufficient cash balances to meet current working capital requirements which included the retirement of the convertible debentures in cash on May 19, 2012 and other expenditures in the ordinary course of business. The Company holds a 40% interest in a mine in production in Peru but may require additional funding in order to continue other exploration and development programs as they arise, for example construction funding at the Inmaculada property in Peru. Despite previous success in acquiring this funding, there is no guarantee of obtaining future funding. The Company's cash and equivalents are invested in business accounts with quality financial institutions primarily in Canada, U.S. and Peru and are available on demand for the Company's programs. The Company believes it has sufficient capital resources to meet its planned operational and administrative expenses for the next fiscal year.

Credit risk

The Company's credit risk is primarily attributable to its liquid financial assets and Suyamarca's concentrate sales contracts. Credit risk may arise from the non-performance by counterparties of contractual financial obligations and those entities purchasing Suyamarca's metal concentrates. The Company limits its exposure to credit risk on liquid assets by maintaining its cash, equivalents and reclamation bonds with high-credit quality financial institutions. Suyamarca's concentrate sales and receivables are not considered a material credit risk as its buyers are large well-established smelter companies. The Company's receivables are not considered a material credit risk as they are mainly due from Suyamarca. Investments currently include thirteen junior exploration companies (eleven public and two private) and these securities remain subject to market fluctuations, market liquidity, changing market values and illiquidity issues for the private companies.

Currency risk

The Company's funds are held in US, Peruvian and Canadian currencies. Its operations are in the United States, Ecuador and Peru. Foreign exchange or currency risk results from multiple currency transactions and the Company's financial statements which are reported in US dollars.

The Company does not currently use derivative instruments to reduce its currency risk.

Sensitivity analysis

The Company is exposed to foreign currency risk on fluctuations related to cash and equivalents, investments and accounts payable which are denominated in Canadian dollars. As at June 30, 2012, net financial assets totaling \$18,325,319 were held in Canadian dollars.

Based on the above net exposure as at June 30, 2012, and assuming all other variables remain constant, a 10% depreciation or appreciation of the US dollar against the Canadian dollar would result in an increase/decrease of approximately \$1,808,686 in the Company's net income.

The Company is not exposed to significant foreign currency risk in Peru as the Company's net monetary assets denominated in Peruvian Soles are minimal. Ecuador uses the US dollar as its functional currency and Ecuador's operations are funded on an "as-needed" basis.

Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and equivalents. Cash and equivalents have been invested in short-term investments to maintain liquidity and preserve capital. There is minimal risk that the Company would recognize any loss as a result of the decrease in the fair value of any banker's acceptance

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

notes, guaranteed investment certificates, money market funds or term deposits included in cash equivalents as they are held with large high-quality credit financial institutions, primarily in Canada, USA and Peru.

Price risk

The Company is exposed to price risk with respect to equity prices reported as investments and the commodities used in, or sold by, its mining operation in Peru. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities and also a change in revenue and income due to concentrate sales having forward quotational period price fixing (typically priced one to two months after arrival at the smelter). The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

The Company's investments are subject to fair value fluctuations arising from changes in the equity markets. The Company currently does not use derivatives to hedge its commodity price risk.

Financial assets

The fair value of cash and equivalents and investments are based on Level 1 (quoted prices readily and regularly available) inputs of the fair value hierarchy, except for privately held investments (Oryx Mining and Exploration Ltd. and BuenaVista Gold plc) which are carried at historical cost.

The estimated fair value of receivables, reclamation bonds and due from related party are equal to their carrying values due to their short term nature. The exposure of the Company's financial assets to interest rate and currency risk at June 30, 2012 is as follows:

Stated in US Dollars	Level	Canadian Dollar	US Dollar	Peruvian Soles	Other	Total
Cash and equivalents						
Floating rate financial assets	1	\$ 16,207,924	\$ 47,102,005	\$ 5,048	\$ –	\$ 63,314,977
Fixed rate financial assets	1	–	17,928,497	–	–	17,928,497
Subtotal		16,207,924	65,030,502	5,048	–	81,243,474
Other financial assets						
Investments – tradeable*	1	2,110,414	–	–	51,158	2,161,572
Investments - private	3	238,458	–	–	157,165	395,623
Receivables		65,938	3,200	9,967	–	79,105

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Due from related party	–	6,210,377	–	–	6,210,377
Reclamation bonds	–	185,100	–	–	185,100
Total	\$ 18,622,734	\$ 71,429,179	\$ 15,015	\$ 208,323	\$ 90,275,251

*The shares and warrants of International Northair Mines were restricted from trading as at June 30, 2012.

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

Financial liabilities

The estimated fair value of all of the Company's financial liabilities is equal to their carrying values due to their short-term nature. The exposure of the Company's financial liabilities to interest rate and currency risk at June 30, 2012, is as follows:

Stated in US Dollars	Canadian Dollar	US Dollar	Peruvian Soles	Total
Accounts payable	\$286,296	\$1,061,735	\$49,430	\$1,397,461
Due to related parties	11,119	6,530	–	17,649
Accrued severance and payroll costs	–	555,348	181,152	736,500
Total	\$297,415	\$1,623,613	\$230,582	\$2,151,610

17. SEGMENTED INFORMATION

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

	Property, plant and equipment	Investment in resource properties	Investment in associate	Discontinued operations
June 30, 2012				
USA	\$ 359,724	\$ 72,207,683	\$ –	\$ –
Ecuador	–	–	–	39,976,344
Peru	–	193,410	133,146,660	–
	\$ 359,724	\$ 72,401,093	\$ 133,146,660	\$ 39,976,344
June 30, 2011				
USA	\$ 250,789	\$ 56,110,151	\$ –	\$ 13,152,415
Ecuador	–	–	–	85,451,660
Peru	–	703,985	120,133,542	–
	\$ 250,789	\$ 56,814,136	\$ 120,133,542	\$ 98,604,075
July 1, 2010				
USA	\$ 209,649	\$ 47,691,548	\$ –	\$ 13,897,695
Ecuador	–	–	–	81,457,321
Peru	–	73,585,674	36,666,973	–

\$ 209,649 \$ 121,277,222 \$ 36,666,973 \$ 95,355,016

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17. SEGMENTED INFORMATION (cont'd...)

Earnings and equity income are summarized as follows:

	Year Ended June 30, 2012	Year Ended June 30, 2011
Continuing operations		
Equity income from associate - Peru	\$ 42,952,390	\$ 56,788,504
Discontinued operations		
Gain and income from mine royalty - USA	\$ 30,042,021	\$ 3,632,190
Write-down of discontinued operations – Ecuador resource properties	(53,238,265)	–

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended June 30, 2012, the Company paid income taxes of \$2,292,474 (2011 - \$nil).

Significant non-cash transactions for the Company for the year ended June 30, 2012, were as follows:

- a) Included in investment in resource properties are the following amounts: \$57,192 which relates to amortization of other PPE and \$1,450,154, which relates to accounts payable and accrued severance and payroll costs.
- b) The Company allocated \$526,481 for incentive stock options exercised during the year to capital stock from reserves.
- c) The Company charged \$10,813,665 to retained earnings for repurchased shares cancelled in the year and \$4,945,008 for equity component of convertible debentures.
- d) The Company recorded \$16,782,196 to equity gain on carried interest related to its investment in Suyamarca and increased the investment in associate based on Hochschild's 100% contribution for the costs of the Inmaculada project. (Note 8)
- e) The Company accrued a \$6 million distribution from Suyamarca which was received in July 2012 and decreased its investment in associate. (See Note 22)

Significant non-cash transactions for the Company for the year ended June 30, 2011, were as follows:

- a) Included in investment in resource properties are the following amounts: \$nil which relates to amortization of property and equipment and \$938,089, which relates to accounts payable and accrued severance payroll costs and \$557,367, which relates to resource property reimbursements.