



INDUSTRIAL MINERALS CORPORATION LTD.

# **INDUSTRIAL MINERALS CORPORATION LIMITED**

**ABN 26 108 029 198**

**ANNUAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2009**

## General Information

### Industrial Minerals Corporation Limited

ABN 26 108 029 198

### Directors

Jeremy David Shervington (Non-Executive Chairman)  
Philip James Garratt (Chief Executive Officer)  
Michael James Brindley Brickell (Non-Executive Director)  
Daniel Frank Smith (Chief Operating Officer)  
Cheryl Lynn Wilson (Executive Director)  
Alec Christopher Pismiris (Executive Director)

### Company Secretary

Alec Christopher Pismiris

### Registered Office

52 Ord Street  
West Perth WA 6005  
Australia

### Solicitors

Jeremy Shervington  
52 Ord Street  
West Perth WA 6005  
Australia

### Auditors

Ernst & Young  
11 Mount Street  
Perth WA 6000  
Australia

### Bankers

National Australia Bank Limited  
50 St George's Terrace  
Perth WA 6000  
Australia

### Share Registry

Computershare Investor Services Pty Ltd  
Level 2, RBA Building  
45 St George's Terrace  
Perth WA 6000  
Australia

### Stock Exchange Listing

The Company is listed on the Australian Stock Exchange Limited  
ASX Code: IDM

## Corporate Objective and Vision

### Industrial Minerals' Objective

To create and promote long-term sustainable value to all our stakeholders be they a member of the community in which we operate, a customer, employee or shareholder

### Industrial Minerals' Vision

To be the first producer in recent time, of a specialty Chromite product in the United States  
To recognise the importance of and support the development of economically sound minerals industries  
To commit to be stewards of the environment to promote responsible development of natural resources  
To partner with local communities to support economic growth and socially responsible programs

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**CHAIRMAN'S LETTER**

Dear Shareholder,

On behalf of your Board of Directors, I have pleasure in presenting the Annual Report and Financial Statements of Industrial Minerals Corporation Limited ("Industrial Minerals" or the "Company") and its controlled entity for the financial year ended 30 June 2009.

Industrial Minerals recorded a consolidated operating loss after tax of \$2,564,657 for the year ended 30 June 2009. The result was achieved on revenue of \$144,217 and operating expenses of \$2,708,874. The majority of the operating expenses incurred related to administration of the Company, including staff and executive employment costs and expenses associated with the issue of options pursuant to the Employee Share and Option Plan during the prior financial year.

During the year the Company continued with various aspects of project development including product testing, plant design, engineering and the acquisition of long lead equipment.

The management team has devoted considerable effort into arranging financing for the construction of the main processing plant. Due diligence investigations were undertaken by several potential financiers during the year, culminating in an offer from Macquarie Bank Limited to provide a US\$30,000,000 debt facility. The provision of the debt is conditional on the Company securing an additional US\$15,000,000 in equity to complete the financing requirements of the Oregon Heavy Minerals Project.

The Company recently completed capital raisings totalling \$5,000,000 which included a placement of ordinary shares to sophisticated investors and a share purchase plan. The offers were oversubscribed and the funds raised provide the Company with sufficient working capital to fund operations through to securing project finance for the construction and commissioning of the main processing facility at Coos Bay.

The 2009/2010 financial year should see the commencement of construction of the main processing plant and continuation of activities relating to the development of the Oregon Heavy Minerals Project. The Company may consider further investment opportunities that potentially complement the Company's existing operations.

The Board of Industrial Minerals is committed to pursuing a strategy that will deliver long-term growth to shareholders. Industrial Minerals is in a sound financial position with significant cash reserves and is well progressed with its strategy of raising the remainder of funds to finance the development of the Oregon Heavy Minerals Project.

I wish to extend my sincere thanks to the Board and management team of Industrial Minerals for their contributions and efforts through what has been a difficult year. Appreciation is also extended to our shareholders for their support and we look forward to continued success in the financial year ahead.



Jeremy Shervington  
Chairman

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**“Our objective is to create an enterprise that delivers value to all our stakeholders be they a member of the community in which we operate, a customer, employee or shareholder.”**

**REPORT FROM THE CHIEF EXECUTIVE OFFICER**

**THE YEAR IN REVIEW**

During this past year, we have advanced through to the mine operating permitting phase and have completed the engineering on our processing plant. The economic slowdown delayed our financing but recent progress in this area has been very positive. Senior debt financing of US\$30,000,000 has been secured and we expect the equity component of the funding to be secured in the near term. Based upon our current expectations on securing senior debt and the accompanying equity totalling US\$45,000,000, we would commence site works when the project funding is in place. The construction phase is nine months with initial production to commence 60 days thereafter. Outotec (USA) Inc. (“Outotec”), a leading global provider of process solutions, technologies and services for the mining and metallurgical industries has been contracted to undertake the engineering for the main processing plant. Components of the Outotec engineering contract are performance guarantees which incorporate appropriate product specification and recoveries. These guarantees and associated recoveries are well within the parameters generated from extensive test work and simulated production environments. The plant has been designed to accommodate the variations in Chromite grades which occur across the various deposits and is scalable for volume input so as to achieve a steady rate of product output through the life of the resource. This design will provide flexibility in managing product output to meet changes in market conditions and increase in Chromite production to accommodate future requirements for ultra low carbon feedstock development.

The significant and sudden changes in worldwide economic conditions translated into significant increases in mineral stockpiles and mine and processing shutdowns. During the latter stage of the third quarter of 2008, the steel and related ferrochrome market virtually evaporated forcing the major South African producers to close smelter capacity and mine output.

This brought a sudden end to the planned financing and our strategic alliance with Niemcor Africa Pty Ltd, who at the time was a producer of Chromite ore for that market. The knock on effect to equity values across all sectors severely impacted our second largest shareholder, resulting in the decision to liquidate their fund and underlying holdings. Their investment in Industrial Minerals Corporation was one of several sector portfolio holdings and this overhang coupled with the general stock market malaise contributed to more than a 80% decline in the share market price of the Company. Like most of our peers we were faced with uncertainty and endeavoured to put in place revised plans focused on survival based upon the then reality of a dearth of debt or equity.

During October 2008 the Company was successful in suspending engineering related to the plant design and construction pending project finance. Engineering was over 95% complete at the time the suspension was agreed. Fortunately the majority of the work had been completed and should project funding be provided any remaining tasks should be completed with little impact.

In July 2009 the Company completed capital raisings totalling \$5,000,000 which included \$4,000,000 under a placement of ordinary shares to sophisticated investors and a further \$1,000,000 under a share purchase plan under which eligible shareholders were offered the opportunity to subscribe for between \$1,000 and \$5,000 of new shares in various increments. These funds will be sufficient to maintain basic operations for the coming 12 months assuming no project funding is secured.

The Company engaged Bligh Capital Partners Pty Ltd to assist with the sourcing of a senior debt facility. Two banks provided indicative term sheets and commenced due diligence. At the date of this report Macquarie Bank Limited had presented a Committed Letter of Offer to provide a US\$30,000,000 debt facility which had been accepted by the Board of Industrial Minerals. The Company is currently working with Bligh Capital to secure US\$15,000,000 by way of equity to complete the requisite quantum of funding for the project construction.

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**REPORT FROM THE CHIEF EXECUTIVE OFFICER (CONTINUED)**

**MARKET**

What evolved in the larger scale Chromite markets commencing in the third quarter of 2008, provided an interesting insight into supply/ demand dynamics relative to the niche segments of foundry, chemical and refractory Chromite markets. A reduction of approximately 60% of the previous year total ore supply from 17,000,000 tonnes to approximately 10,000,000 tonnes meant the niche Chromite supply was reduced from 2,000,000 to 800,000 tonnes and specifically an estimated 265,000 tonnes for foundry. The Chromite foundry sand market demand had declined by approximately 55% from 750,000 to 337,000 tonnes and therefore a supply shortage of 70,000 tonnes. Inventory build during the good times, particularly in Europe, assisted somewhat but did not totally rectify the market imbalance. Consequently Chromite pricing did not decline in the same manner as other industrial minerals. Towards the end of the first quarter of 2009 prices firmed and inventories reduced, this has continued to date.

**SUMMARY OF WHAT WE HAVE**

- Alluvial deposits formed in ancient beach terraces resulting from hundreds of thousands of years of tidal and wave action which created minerals sands of a rounder, finer, grain size. This type of deposit makes extraction relatively simple. This grain and shape can give improved mechanical sand properties within a foundry and makes it a natural competitor to Zircon which typically sells for prices between 50% and 90% higher than conventional foundry Chromite sands.
- While the smaller grain size of the material will be perceived by some foundries as out of specification, it does present the opportunity for a good foundry engineer to blend the material creating niche product/s offering high performance and reduced after casting remediation.
- A multiple suite of valuable heavy minerals which assists by spreading costs over multiple commodities and mitigates individual commodity price swings.
- A highly focused management team comprising individuals with years of industry experience who are well equipped to meet the challenges of project development and building a long term valuable enterprise.
- Strategic relationships with well credentialed highly respected corporations well equipped to access and create new markets from our somewhat unique product suite.
- A unique and desirable chemical makeup of the Chromite is present in the Oregon deposits which enables us to position the material as a premium product and presents future opportunities.

**THE VALUE PROPOSITION**

While the price for conventional RSA Chromite foundry sand may be used as a platform or benchmark, it is very important to understand that our Chromite is in fact a unique specialty sand which performs as good or better than Zircon in certain foundry applications. This fact was established and confirmed by extensive testing including comparative analysis. Therefore a realistic benchmark would be the Zircon price reduced by a discount sufficient to gain market share and volume. Confirmation of this uniqueness is the Memorandum of Understanding with the leading North American producer and distributor of a range of products to the foundry industry ("HA International LLC" or "HAI"). This agreement covers not only the distribution of a significant portion of our planned production but the creation of a strategically important collaboration where HAI will introduce to the foundry industry several new and totally unique high performance products using our Chromite as a stand-alone product or a component of blended formulas. Innovative and cost conscious foundries which create large high value castings are expected to comprise the larger portion of sales volume.

MOU's and strategic alliances have been created with several firms who are well established in the supply of specialist materials to the foundry industry in Asia and Europe. One of these is IGC Technologies LLC who will create several new products incorporating our Hi-Iron/Ilmenite. One such product is expected to fit within and compliment their current offerings of "anti-veining" products.

*(An anti-veining product eliminates the surface defects on metal castings. Such defects are best described as a discontinuity on the surface of a casting appearing as a raised narrow linear ridge which forms upon the cracking of the sand mould or core, due to expansion of the sand during filling of the mould with molten metal)*

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**REPORT FROM THE CHIEF EXECUTIVE OFFICER (CONTINUED)**

Our initial production profile will consist of four products in order of volume:

- Chromite sand (55%);
- Hi-Iron Ilmenite (30%)
- Two Garnet products (differentiated by size) (11%); and
- Zircon sand (3%).

We expect to continue the evaluation of the economics and related requirements for the creation of an Ultra Low Carbon product from our produced Chromite. If feasible this development could commence in 2012 and offer further value to the enterprise.

**MOVING FORWARD**

Assuming our capital requirements are in place in the December 2009 quarter, we will continue with our principle objective of completing the construction and commissioning of the minerals separation and processing facility on time and within budget with a December 2010 quarter production start. We are committed to the investment and support required to undertake the test-work necessary to define potentially new and unique product offerings in the hope that we would be able to ultimately add value to our business and those of our collaborators. We are creating the platform for long term value accretion, similar to non-commoditised businesses with unique products and pricing power.

Management is highly confident that the plant when constructed will prove to be extremely robust and flexible and produce a multiple suite of valuable heavy minerals with little or no downtime for unscheduled maintenance. We are currently soliciting cost updates for prices previously provided for concrete and steel and expect there to be no increases. Hopefully some reduction in costs may have occurred.

We have adjusted our budgeted operational cost for diesel fuel and natural gas from the prior year estimates to reflect current forecast pricing. Our minerals extraction and transportation will be contracted to third parties and we expect that allowances for any increase or decrease in fuel costs will be reflected in final contract terms.

Our overall capital cost estimate has increased slightly due to the designing in of additional screening to enable production of a second Garnet product.

The majority of funds expended during the year relate to engineering design, legal and environmental consultants, product testing, exploration and assays.

During the recent times of uncertainty we are fortunate to have retained our loyal and highly motivated team and I am grateful for their commitment.

We expect to continue to invest and contribute positively to Oregon and Coos County in the coming months and years. Key management live and raise their families in the Coos Bay community and are committed to the vision of improving the opportunities for graduates of the community college and local high schools where possible. As stated in previous reports, we intend to provide summer school intern holiday positions to students that wish to learn our business and hopefully a full time career opportunity when they graduate. Hopefully the difficult economic conditions are in the past and we will be able to commence the construction phase and offer secure long term employment opportunities.

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**REPORT FROM THE CHIEF EXECUTIVE OFFICER (CONTINUED)**

**Summary**

Industrial Minerals has a unique heavy mineral resource, coupled with an experienced management who is capable of delivering consistent value over the long term. These attributes combined with our supportive institutional shareholder base bodes well for our current and future projects.

I wish to thank each of my colleagues for their focused effort and enthusiasm during the year as well as their ongoing commitment to building this enterprise for the benefit of all stakeholders. Our team is appreciative of the support provided by all our shareholders who have committed capital in support of this collective endeavour.



Philip James Garratt  
Chief Executive Officer

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**DIRECTORS' REPORT**

The directors of Industrial Minerals Corporation Limited ("Industrial Minerals" or "the Company") present their financial report with respect to the results of Industrial Minerals and its controlled entity ("the Group") for the year ended 30 June 2009 ("the Balance Date"). The Company's presentation currency functional currency is Australian dollars (AUD). The subsidiary's functional currency is US dollars (USD).

**DIRECTORS**

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire year unless otherwise stated.

**Names, qualifications experience and special responsibilities**

*Current Directors*

**Jeremy David Shervington**

**B.Juris., LLB.**

Non-Executive Chairman

Mr Shervington operates a legal practice in Western Australia. He specialises in the laws regulating companies and the securities industry in Australia. Mr Shervington has 28 years' experience as a lawyer, gained since his admission as a Barrister and Solicitor of the Supreme Court of Western Australia. Mr Shervington has since 1985 served as a director of various ASX listed companies as well as a number of unlisted public and private companies. Presently Mr Shervington also serves as a member of the Audit and Compliance Committee and chairman of the Finance Committee. During the past three years Mr Shervington has also served as a director of the following other listed companies:

- Altera Resources Limited\* - Appointed 8 August 2006
- Australian Zircon NL\* - Appointed 16 February 1998
- Biron Apparel Limited - Appointed 17 February 2002;  
Resigned 26 December 2006
- Colonial Resources Limited\* - Appointed 11 May 2006
- Emerald Oil & Gas NL\* - Appointed 23 January 2006
- Prairie Downs Metals Limited\* - Appointed 11 October 2002
- Western Uranium Limited\* - Appointed 11 May 2006

\* denotes current directorship

**Philip James Garratt**

Chief Executive Officer

Appointed 8 November 2006

Mr Garratt has over 25 years of experience at senior management levels in diverse enterprises. He is the President and Chief Executive Officer of Resource Finance and Investment Limited, currently the Company's largest shareholder.

He was responsible for the creation of Oregon Resources Corporation Inc. and oversaw the initial project development until 1993. He rejoined the Company in July 2004 as CEO and assembled the current management team which has brought the Oregon mineral sand project to its current stage of production development. One of several objectives he has set for the current year is the implementation of a growth strategy in projects related to the Company's core minerals and expertise. He serves as a director of several privately held corporations involved in downstream petroleum storage and distribution and investment. Presently Mr Garratt also serves as a member of the Finance Committee. During the past three years Mr Garratt has also served as a director of the following other listed companies

- Resource Finance and Investment Ltd\* - Appointed 1 June 2006

\* denotes current directorship

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**DIRECTORS' REPORT (CONTINUED)**

**Names, qualifications, experience and special responsibilities (continued)**

**Michael James Brindley Brickell**

**FCA.**

Deputy Chairman &  
Non-Executive Director  
Appointed 8 November 2006

Mr Brickell has over 40 years of experience at senior management levels in retail business enterprises in England, Europe and North America. He was the President of Resource Finance and Investment Limited from 1996 until June 2006 and is now Chairman of the Board. He is also Chairman and CEO of Cotswold Collections Limited a retail mail order company and Marilyn Moore Studio Limited a wholesale and retail fashion business both based in Cheltenham, England and is a Director of a Private Company. Mr Brickell is a Fellow of the Institute of Chartered Accountants in England & Wales. Presently Mr Brickell also serves as Chairman of the Audit and Compliance Committee and a member of the Finance Committee. During the past three years Mr Brickell has also served as a director of the following other listed companies:

- Cadillac Mining Corporation - Appointed 10 July 2006;  
Resigned 14 January 2008
- Resource Finance and Investment Ltd \* - Appointed 1 August 1995

\* denotes current directorship

**Daniel Frank Smith**

**B.S. Geology**

Chief Operating Officer  
Appointed 8 November 2006

Mr Smith has over 20 years of experience in the mineral resources industry and a diverse range of management experience including mine management, operations management, project engineering and minerals exploration. He most recently was mining manager responsible for operations based in Florida and Georgia for Iluka Resources Inc, a subsidiary of Iluka Resources Limited, an industry leader in the global production, processing and sales of Titanium Minerals and Zircon.

**Cheryl Lynn Wilson**

Executive Director  
Appointed 8 November 2006

Ms Wilson has over 19 years of experience in the mineral resources industry and a wide range of management experience in banking, law, marketing and corporate development. Ms Wilson has vast experience on the Oregon Heavy Mineral Sands Project. She is President of Oregon Resources Corporation Inc. and is responsible for overall management and operations. She has also managed the operations of Dynamex Resources Corporation, a base metal exploration project in Kentucky, USA. While continuing to oversee these projects, from 1998 through 2001, she was Vice President of Geovic Ltd., an Oregon corporation, established to explore and develop a cobalt and nickel mineral resource in Cameroon, Africa. Ms Wilson has also served as a director of the following other listed companies:

- Resource Finance and Investment Ltd - Appointed 1 September 2003; Resigned 23 January 2008

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**DIRECTORS' REPORT (CONTINUED)**

**Names, qualifications, experience and special responsibilities (continued)**

<p><b>Alec Christopher Pismiris</b>  <b>B.Comm., ICSA.</b> Executive Director &amp; Company Secretary Appointed 8 November 2006</p>	<p>Mr Pismiris is currently an executive director of Azure Capital Pty Ltd, a company which provides corporate advisory services. He is also the Company Secretary of several companies listed on ASX and company secretary of several public and private companies. Mr Pismiris completed a Bachelor of Commerce degree at the University of Western Australia and is an associate of Chartered Secretaries Australia. Mr Pismiris has over 20 years' experience in the securities, finance and mining industries. Presently Mr Pismiris also serves as a member of the Audit and Compliance Committee and Finance Committee. During the past three years Mr Pismiris has also served as a director of the following other listed companies:</p> <ul style="list-style-type: none"> <li>- Colonial Resources Limited* - Appointed 11 May 2006</li> <li>- Prairie Downs Metals Limited * - Appointed 16 October 2002</li> <li>- Sundance Resources Limited - Appointed 5 July 2006; Retired 28 November 2008</li> <li>- Western Uranium Limited* - Appointed 11 May 2006</li> </ul> <p>* denotes current directorship</p>
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**Interests in the shares and options of the Company and related bodies corporate**

At the date of this report, the interest of the Directors in the shares and options of Industrial Minerals Corporation Limited were:

<b>Director</b>	<b>Number of Ordinary Shares</b>	<b>Number of Options over Ordinary Shares</b>
J D Shervington	2,475,000	612,500
P J Garratt	16,121,455	2,487,500
M J B Brickell	1,000,000	Nil
D F Smith	Nil	1,312,500
C L Wilson	Nil	2,062,500
A C Pismiris	3,725,000	587,500

**EARNINGS PER SHARE**

Basic earnings per share	(1.54) cents
Diluted earnings per share	(1.54) cents

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**DIRECTORS' REPORT (CONTINUED)**

**CORPORATE INFORMATION**

**Corporate Structure**

Industrial Minerals Corporation Limited is a public company limited by shares that is incorporated and domiciled in Australia.

**Principal Activities**

The principal activities of the Group throughout the year have comprised of the following:

- continuation of design and engineering studies for construction and commissioning of the main processing plant for the Oregon Heavy Minerals Project;
- negotiating strategic alliances with several firms who are well established in the supply of specialist materials to the foundry industry in Asia and Europe;
- on-going testing products of Chromite, Zircon, Garnet and Magnetite that were sent to potential customers for evaluation;
- acquisition of plant, property and equipment necessary for commencement of full scale operation;
- negotiating to secure additional forest and agricultural land situated adjacent to current ore reserves;
- continuation of limited exploration activities on the Oregon Heavy Minerals Project;
- actively seeking to secure commitments for the provision of project financing for the construction and commissioning of the main processing plant;
- facilitation of due diligence investigations conducted by several financial institutions;
- raising \$4,000,000 by a placement of ordinary shares to sophisticated investors to continue with the development of the Oregon Heavy Minerals Project and provide working capital required through to securing project finance for the construction and commissioning of the main processing plant;
- implementing a share purchase plan to raise \$1,000,000 under which eligible shareholders were offered the opportunity to subscribe for between \$1,000 and \$5,000 of new shares in various increments;
- investing cash assets in interest bearing bank accounts; and
- general administration of the Company.

**DIVIDENDS**

No dividends in respect of the current or previous financial year have been paid, declared or recommended for payment.

**OPERATING AND FINANCIAL REVIEW**

In October 2008 the Company announced it had concluded negotiations for the procurement of a staged \$A48,500,000 funding package for the Oregon Heavy Minerals Project comprising of (i) an agreement with Niemcor Africa Pty Ltd ("Niemcor") to subscribe for a \$22,500,000 unsecured zero coupon convertible note issue, issued via two tranches and convertible to equal ranking ordinary shares at 35 cents per share and repayable 1 May 2011; and (ii) and a secured loan facility which was conditional upon Resource Finance & Investment Limited ("RFI"), the Company's largest shareholder and Niemcor entering into a conditional agreement prior to 13 October 2008 whereby RFI agreed to sell its entire holding of 70,000,000 ordinary shares to Niemcor for a price of 40 cents per share and to advance to Industrial Minerals a loan for the sum of \$26,000,000 from the proceeds.

On 31 October 2008 Niemcor advised the Company that it was unable to procure funding for its proposed acquisition of RFI's holding of 70,000,000 ordinary shares in Industrial Minerals due to a combination of the global banking crisis, adverse movements in the South African rand and significant falls in the price of chrome.

During November 2008 the Company engaged Bligh Capital to assist with securing a minimum of US\$45,000,000 for the construction and development of the main processing facilities for the Oregon Heavy Minerals Project. Bligh subsequently engaged Behre Dolbear & Company Inc. to prepare a comprehensive independent due diligence report on the Oregon Heavy Mineral Project for use by potential financiers.

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**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

On 8 November 2008 various securities which were held in escrow since official quotation of the Company's securities in 2006, were released.

During November 2008 a total of 3,437,500 options exercisable at 20 cents issued to executives and management under the Employee Share and Option Plan expired.

During December 2008 and January 2009 a total of 500,000 options exercisable at various prices issued under the Employee Share and Option Plan were forfeited due to the resignation of an employee.

On 28 February 2009 the 30,000,000 Performance Shares held by RFI were cancelled as a consequence of Oregon Resources Corporation Inc. not achieving its Performance Hurdle of an audited net profit after tax (after adjusting for depreciation and other similar non-cash items) of \$5,000,000 for the 12 month period ending 28 February 2009.

On 21 May 2009 the Company announced its intention to undertake a partially underwritten renounceable rights issue of one convertible note for every three existing shares held by shareholders at an issue price of six cents to raise approximately \$3,320,000 before costs. It was intended that the rights issue would be underwritten to \$1,500,000 by Vison Pty Ltd, a company controlled by Mr Philip Garratt.

Following consultation with a number of shareholders, the Company announced the appointment of Azure Capital Pty Ltd as Lead Manager to a capital raising comprising of a share placement to sophisticated and professional investors at an issue price of four cents per share. The share placement was being undertaken in preference to the rights issue.

On 12 June 2009 the Company announced that shareholders would be offered the opportunity to participate in an offer of shares under a share purchase plan ("SPP") at an offer price of four cents per share, which is the same price at which shares will be issued under the proposed share placement. The SPP was for a total offer of up to 25,000,000 fully paid ordinary shares where eligible shareholders were given the opportunity to subscribe for between \$1,000 and \$5,000 of new shares in various increments. The directors had discretion to place any shortfall pursuant to the SPP with sophisticated and professional investors.

On 23 June 2009 the Company announced that Oregon Resources Corporation Inc. had entered into a Memorandum of Understanding with HA International LLC ("HAI"), under which HAI would be the exclusive distributor of the Company's Chromite to the foundry market in North America. The Memorandum of Understanding was a prelude to a formal definitive agreement specifying the terms and conditions for a commercial relationship.

During the year the Company was engaged on lease negotiations for approximately 10,000 acres of forest and agricultural land situated adjacent to current ore reserves.

Throughout the year detailed engineering relating to the construction of the main processing plant continued with a significant component completed.

During the year the Company continued on marketing initiatives by sending products including Chromite, Zircon, Garnet and Magnetite to potential customers for evaluation.

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**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

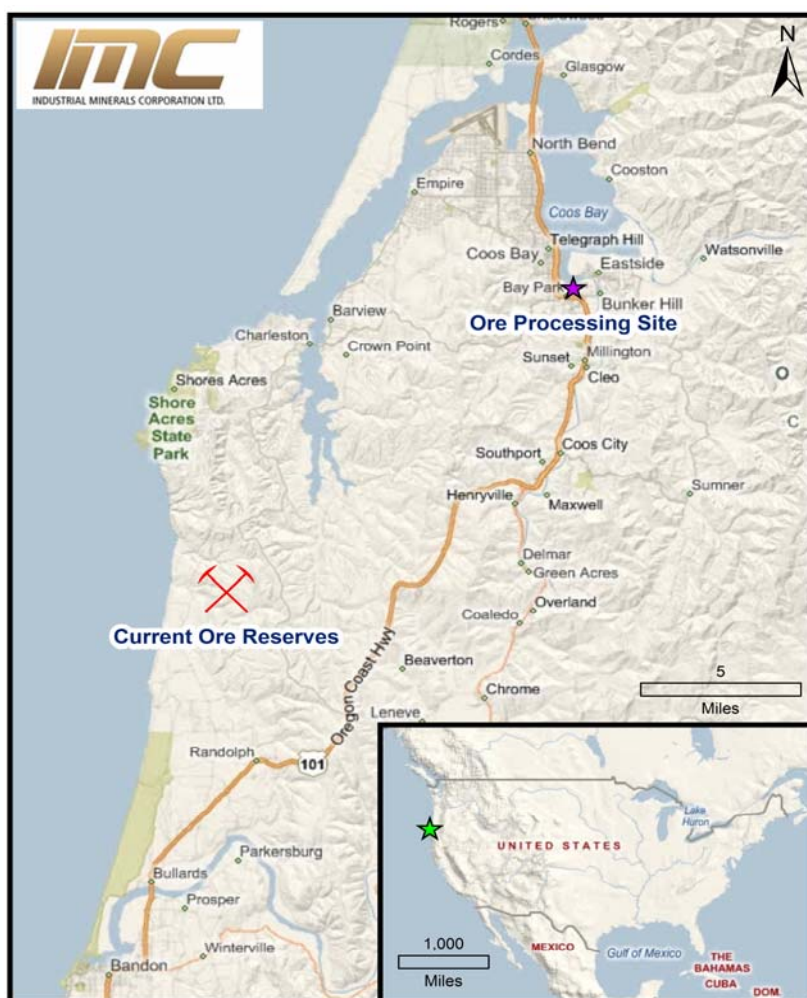
**OREGON HEAVY MINERALS PROJECT**

**Property and Mineral Interests**

The Oregon Heavy Minerals Project (the "Project") is situated in a favourable setting for national and international transportation and is located at a deep-sea shipping port (refer to Figure 1). The region has a well qualified work force experienced with technical equipment related to processing and milling of forest products. Abundant heavy equipment and repair facilities are located in the area. Most of the deposits are located within one-half mile of all-weather paved roads and are accessible by all-weather gravel roads.

Coos County has a mild and humid marine climate. From March through October the area is subject to prevailing winds from the northwest and from November through February winds come mainly from the southwest. Average annual temperatures range from a high of 35 °C to a low of 10°C with average annual precipitation of approximately 1,600 mm.

The Project is located in an area comprising of three elevated terraced deposits with approximate average elevation between 30 and 120 metres feet above sea level and largely consists of undeveloped timberlands that can, after mining, be reclaimed either to forest lands or alternate use.



**Figure 1: A map depicting the location of the Project.**

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**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**Previous Exploration**

Economic concentrations of placer heavy minerals have been evaluated and studied along the Oregon coastline for over a century, beginning with exploitation for gold. The beaches were small and irregular, routinely washed away by harsh winter storm events (Hornor 1918). In the 1920's, the beach deposits were followed upstream to their terrace origins and mined with little success due to high mining costs versus beach extraction.

Prior to the Company's involvement in the late 1980's, the most significant efforts to understand and develop these deposits were undertaken by Humphreys Gold Corporation and Krome Corporation. These developments (with support from the U.S. government) were driven by demand for Chromite in steel production. The first significant mining began in 1943 and produced 25% Cr<sub>2</sub>O<sub>3</sub> concentrate by wet gravity processing (Griggs 1945). This concentrate was then transferred to a downstream facility that further upgraded the material to approximately 40% Cr<sub>2</sub>O<sub>3</sub>. This processing operation was pioneering, in that Humphreys Gold Corporation developed and placed in operation the first "spiral concentrator" that is now broadly used in gravity concentration plants for sands, iron ore, coal and other minerals.

**Current Exploration and Mine Locations**

The existing ore reserves and mineral resources are located 18 to 24 miles southwest of the heavy mineral processing facility near Coos Bay. The two sites are connected by U.S. Highway 101, a major thoroughfare along the entire coast of Oregon.

Mining sites will be accessed via all-weather paved Coos County roads and well constructed gravel logging roads. Existing road conditions allow for the use of over-the-road haul trucks with no special requirements.

Exploration at present is focused adjacent to current ore reserves, however concentrations of Chromite bearing sands are found in the present beaches and paleo-marine terraces along the entire southern coast of Oregon. Identified deposits and known placer workings within these marine terraces are located between Coos Bay on the north and the Rogue River on the south, a total distance of 75 miles. The paleo-marine terraces are typically one to two miles inland from the present day beach and 100 to 500 feet above current mean sea level.

The Company is engaged on lease negotiations for approximately 10,000 acres of forest and agricultural land situated adjacent to current ore reserves. This will dwarf the approximately 2,000 acres leased and explored to date.

Future exploration targets continue to be paleo-marine terraces that have been identified by a combination of previous USGS, U.S. Bureau of Mines, and the Oregon Department of Geology and Mineral Industries ("DOGAMI") work in combination with applied LIDAR (light detection and ranging), GIS mapping, and field work on the part of Industrial Minerals.

Drilling will commence upon the completion of lease negotiations, which are on-going.

All previous exploration drilling reclamation was successful and recognized as such by DOGAMI (issuer of permit and holder of bonding). All exploration reclamation bonds were released by DOGAMI following a site inspection in April 2009.

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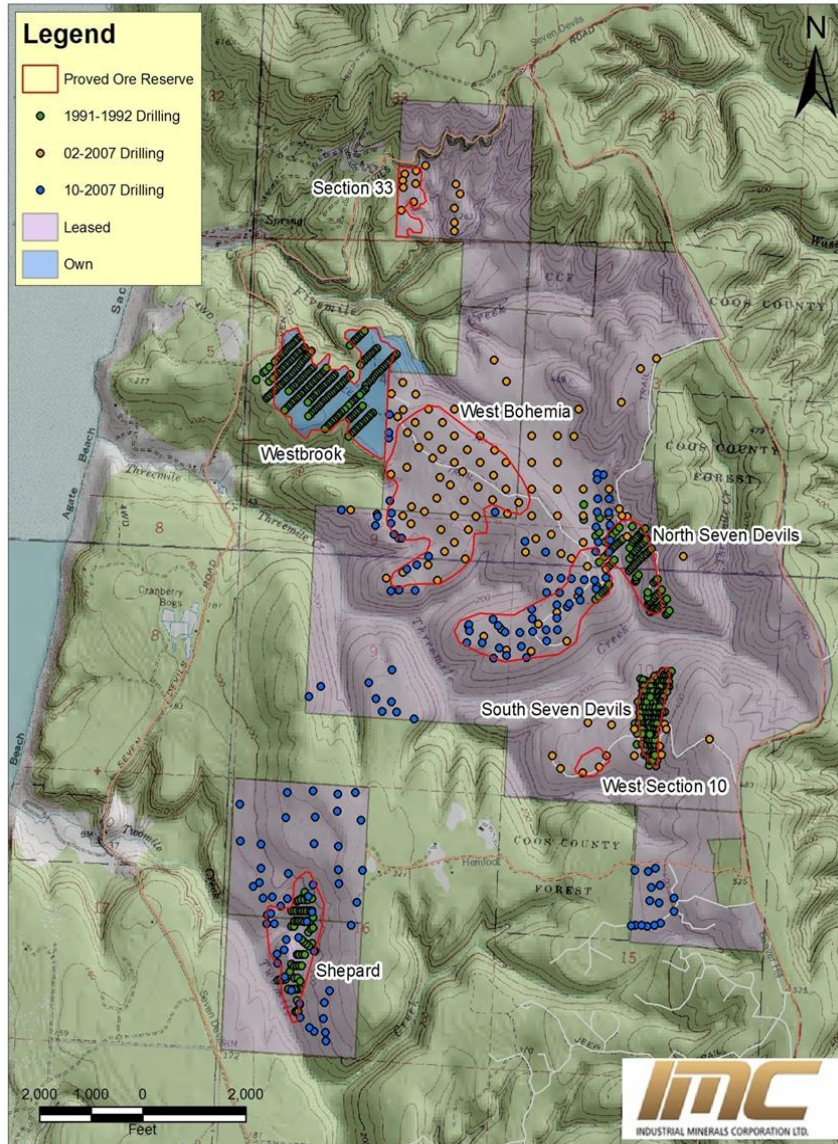


Figure 2: A map depicting the drilling locations and ore reserves

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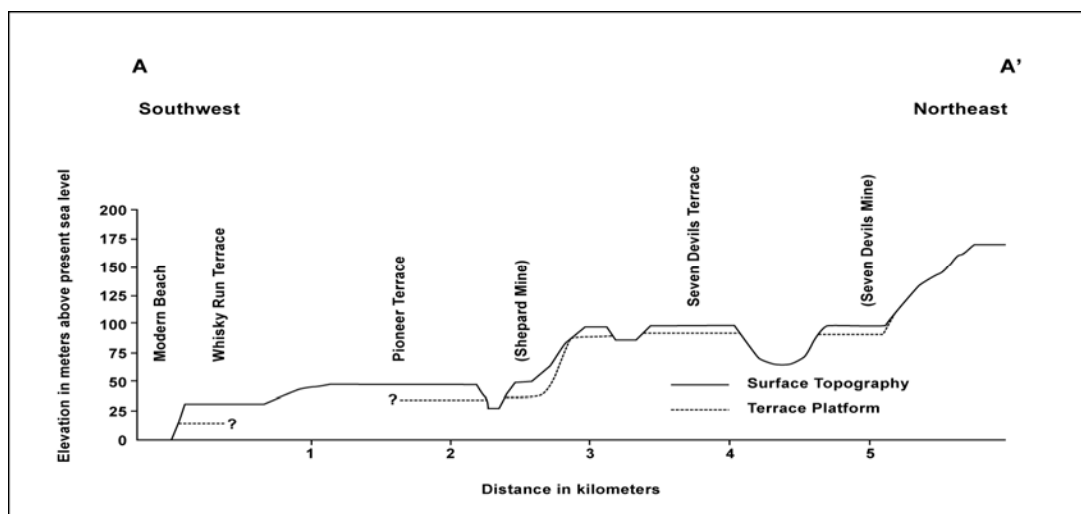
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**Geology and Mineralogy**

The heavy minerals of the placer deposits are sourced from the metamorphic and ultramafic rock of the Klamath mountains that hosted podiform Chromite deposits (Twenhofel 1943). Several small operations attempted to exploit these deposits with little success due to the podiform variability (Libbey 1963). Several major rivers, including the Chetco, Rogue, Elk, Sixes and the Coquille, drain from the Klamath Mountains and as the weathered sediments reach the Pacific Ocean, predominant longshore currents transport the material northward. Preferential deposition of the heavier minerals then occurs and the heavy storms, characteristic of the northwest Pacific coast, serve to further concentrate the heavy minerals through wind and wave action. Deposit preservation is suggested to be a result of transgressive sequences encroaching inland, followed by regression, sea standing and progradational beach formation (Petersen 1986).

There are several terraces that exist; the Company will be developing the reserves within the Seven Devils and Pioneer terraces (see Figure 3).



**Figure 3: Terrace geometry, cross section**

The Seven Devils terrace is at an elevation of approximately 80 meters above sea level, is five miles inland and is roughly parallel with the current beach. The Seven Devils ore bodies (North and South) have mineralized depths up to 30 meters, averaging 15 meters. West of these ore bodies on the Seven Devils terrace, we have investigated a few shallower ore bodies (Westbrook, West Bohemia, Section 33) that are at or near surface averaging 6 meters in depth. The younger Pioneer terrace contains the Shepard deposit.

The primary minerals of interest are Chromite, Garnet and Zircon with other recoverable minerals including alumina silicates. The deposits on the Seven Devils terrace contain higher concentrations of Chromite and Zircon in the heavy mineral assemblage than does the deposit of the Pioneer terrace. Our reserves analysis indicates that Chromite concentrations on the South Seven Devils terrace range from 33 to 43% in contrast to an average of 23% on the Pioneer terrace (Drew 2008). Zircon is similar, averaging 1.5 to 2.9% on the Seven Devils terrace and 1.4% on the Pioneer terrace. Interestingly, the Pioneer terrace contains a greater percentage of Garnet, averaging 12.6% versus the range of 4.6 to 9.8% found on the Seven Devils terrace (Drew 2008). While there is significant deposit-to-deposit and terrace-to-terrace variability in the concentration of these minerals, the sphericity, rounding and sizing is very consistent (Hoyt 2006).

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**Current Ore Reserves and Mineral Resources**

A summary of the current mineral resources and ore reserves are represented in Tables 1 and 2 below. The company has tested a total of 1,373 samples from 279 drill holes that were assayed at the SGS lab in Lakefield, Ontario for oversize, fines (-230 mesh), and heavy mineral percentage, with an additional 25% of all samples analysed with QemSCAN for mineralogy. The drilling primarily represented in-fill and step-out drilling of existing mineral resources and ore reserves as well as drilling designed to test the exploration model.

<b>Table 1: Summary of Ore Reserves</b>						
<b>Deposit</b>	<b>Reserve Category</b>	<b>Ore Tons (short tons)</b>	<b><i>In Situ Assemblage</i></b>			
			<b>HM Grade %</b>	<b>Chromite Grade %</b>	<b>Garnet Grade %</b>	<b>Zircon Grade %</b>
South Seven Devils	Proved	793,500	28.74	12.49	2.81	0.83
North Seven Devils	Proved	948,469	33.67	11.79	2.62	0.63
Shepard	Proved	755,859	42.87	10.05	5.41	0.60
Westbrook	Proved	824,344	21.90	8.53	1.00	0.43
Section 33 Deposit	Proved	205,664	19.48	8.54	1.41	0.34
West Bohemia	Proved	5,124,902	15.04	5.33	0.74	0.23
West Bohemia Section 10	Proved	30,000	18.00	6.00	1.00	0.30
<b>Grand Total</b>	<b>Proved</b>	<b>8,682,738</b>	<b>21.50</b>	<b>7.50</b>	<b>1.60</b>	<b>0.40</b>

<b>Table 2: Summary of Mineral Resources</b>						
<b>Deposit</b>	<b>Reserve Category</b>	<b>Ore Tons (short tons)</b>	<b><i>In Situ Assemblage</i></b>			
			<b>HM Grade %</b>	<b>Chromite Grade %</b>	<b>Garnet Grade %</b>	<b>Zircon Grade %</b>
South Slough	Indicated	2,593,080	-	7.40	-	-
Pioneer Eagle	Indicated	800,000	-	13.80	-	-
Section 36 Deposit	Indicated	121,400	-	7.30	-	-
Butler	Indicated	121,400	-	15.70	-	-
Rose	Indicated	38,900	-	14.40	-	-
<b>Grand Total</b>	<b>Indicated</b>	<b>3,674,780</b>	<b>-</b>	<b>9.10</b>	<b>-</b>	<b>-</b>

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Joseph Daniel Drew, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Drew is employed as Director of Geology by Oregon Resources Corporation Inc.*

*Mr Drew has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Drew consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

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**Tenement Information**

The Group's rights to mineral resources are provided by private parties under terms of leases held by Oregon Resources Corporation Inc. The federal and state governments do not own or control mineral rights on these private lands. However, permits from various governmental agencies are required in order to conduct mineral exploration or mining activities.

At the date of this report, the Company held leases with two private parties, Weyerhaeuser and Yoder.

In September 2007, Oregon Resources Corporation Inc. completed the acquisition of the Westbrook property. As a consequence, Oregon Resources Corporation Inc. will own 100% of the mineral resources at Westbrook subject to existing royalties on production.

**Terms of Lease Agreements**

**Weyerhaeuser:**

Effective date of lease:	1/1/2006
Base term of lease:	10 years
Royalty:	3.5% of gross receipts – mineral sands and 5% of gross receipts of any precious minerals.
Leased Area:	Approximately 1,856 acres

**Yoder:**

Effective date of lease:	9/1/2003
Base term of lease:	10 years
Royalty:	US\$0.875 per ton mined – Mineral Sands and 10% of net smelter returns of any precious minerals.
Leased Area:	Approximately 320 acres

**Process Development, Engineering and Plant Design**

***Sample Preparation and Characterisation***

The Oregon mineral sand placer deposits are relatively young and the very active geological environment has created a unique concentration of many different types of heavy minerals. The Company has identified many which are now economic and believes markets can be developed for additional products. Consequently a strategic decision was made to engineer a processing facility for the extremes of the deposits in terms of the range of grade and types of minerals. The norm in the mineral sand industry is large low grade and single or few product deposits. Oregon is unique with its high grade multiple product character.

Testing and process development requires representative samples from the deposits. In our situation the Company has multiple deposits which have been formed in different geological periods. Accordingly representative bulk samples from four different areas under consideration for future mining activity were selected based on a review of terrace deposition and mineralogy (The Shepard, North and South Seven Devils and Westbrook deposits).

The Shepard sample (SH) was from the lone delineated deposit area on the Pioneer terrace and represents the largest shift in mineralogy from the others. Two additional areas for samples on the Eastern side of the Seven Devils terrace was selected on the basis a north-south fault and associated mineralogical variation. They were prepared as "North" and "South" Seven Devils samples (N7D and S7D). Finally, from the Seven Devils terrace, the Westbrook sample (WB) was prepared representing the Western ore bodies.

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Each bulk sample was prepared by splitting drill hole interval samples using an in-ground average cut-off grade of 4% Chromite. Some interbedded sections of drill holes were included in the sample preparation process that had less than 4% Chromite to ensure the sample was realistic in representing as-mined material. Table 3 below presents the heavy mineral ("HM") content and associated mineralogy for the four samples selected for flow sheet development testing. Table 4 below outlines the practical particle size distribution of the four feed test samples, after appropriate oversize and undersize fraction removal.

Considerable effort was made to develop a robust process design. The goal of the flow sheet testing and design work was to create a process plant capable of producing a steady state 70,000 tons/year of high quality Chromite foundry sand and subsequent secondary products (Garnet, Zircon Hi-Iron Ilmenite), regardless of what deposit was being worked. At the input side of the plant this means a design capability to handle a range of 500,000 up to 1,500,000 tonnes of ore was required. Characterising and testing representative samples for each deposit was critical for understanding the range of processing requirements necessary to reach design goals keeping in mind all the potential feed variability. Simply taking all the drill hole samples and combining them into one large sample for testing would have resulted in some sort of design not suited to efficient treatment of the specific individual deposits. Table 3 demonstrates both the variability of heavy mineral concentration overall and within the specific mineral products, by terrace as well as deposit. It illustrates that S7D contains almost twice as much HM and Chromite as WB. An inflexible design based on one deposit would have been inappropriate when mining the next deposit. For this reason, the solids handling systems and wet plant feed capacity has an operating range of 70 to 140 tph. This table also illustrates that SH contains approximately three times as much HM as WB. A dry plant design based upon mining an average HM value would not have the required capacity when processing ore from a deposit with a large amount of low value "light-heavy" minerals, so for this reason the dry plant was designed with an operating range of 20-40 tph. This design process included a plant wide bottleneck analysis. An example need for this analysis is found by reviewing Garnet content in Table 3. If the solids handling capacity for the Garnet circuit were sized for WB feed, the entire process would suffer from capacity restrictions resulting in production loss and wasted product. Review of Table 4 shows that variation in oversize and slimes content requires appropriate design capacity and flexibility in feeding capacity, and slimes handling systems to be viably operable across the deposits.

**Table 3: Bulk samples HM and mineralogy**

As-Received/In-Ground	SH	WB	S7D	N7D	Average
<b>% HM</b>	<b>62.3</b>	<b>21.9</b>	<b>43.4</b>	<b>34.8</b>	<b>40.6</b>
% Epidote/Clinzoisite (petro)	30.5	12.3	18.6	20.9	20.6
<b>% Chromite (calc, AA)</b>	<b>14.5</b>	<b>10.3</b>	<b>18.9</b>	<b>11.9</b>	<b>13.9</b>
<b>% Garnet (petro)</b>	<b>10.1</b>	<b>1.0</b>	<b>6.0</b>	<b>1.7</b>	<b>4.7</b>
<b>% Zircon (calc, XRF)</b>	<b>1.2</b>	<b>0.6</b>	<b>1.8</b>	<b>1.2</b>	<b>1.2</b>
% Staurolite (petro)	1.5	0.4	0.3	0.7	0.7
% Ilmenite (petro)	1.0	1.1	4.3	0.5	1.7
% Leucoxene (petro)	0.5	0.5	0.3	0.8	0.5
% Rutile (petro)	0.2	0.2	0.5	0.4	0.3
% Magnetite (petro)	0.0	0.1	0.4	0.1	0.2
% Misc. Light Heavies (petro)	3.6	0.4	1.0	0.9	1.5

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**Table 4: Bulk samples particle size distribution**

	<b>SH</b>	<b>WB</b>	<b>S7D</b>	<b>N7D</b>	<b>Average</b>
% Pit Oversize (+4#, + 4.75mm)	1.3	4.0	3.1	2.6	3.1
% Plant Oversize (4x18#, 4.75mm x 1.0mm)	2.1	6.1	4.8	4.0	3.9
% Slimes (-230 mesh, -63 µm)	6.7	14.8	14.0	14.8	12.6
<b>% → Deslime/Gravity Circuit</b>	<b>89.9</b>	<b>75.1</b>	<b>78.1</b>	<b>78.6</b>	<b>80.4</b>
<b>Screen analysis of deslime to Gravity Circuit</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
+20 mesh (850 µm)	0.0	0.1	0.0	0.1	0.1
-20+30 mesh (600 µm)	0.2	2.7	0.8	0.4	1.0
-30+40 mesh (425 µm)	0.7	8.4	1.9	1.1	3.0
-40+50 mesh (300 µm)	5.6	28.3	6.9	8.1	12.2
-50+70 mesh (212 µm)	26.6	29.4	29.1	41.2	31.6
-70+100 mesh (150 µm)	43.4	17.8	33.7	30.7	31.4
-100+140 mesh (106 µm)	18.9	8.1	20.5	13.0	15.1
-140+200 mesh (75 µm)	3.7	3.3	5.5	3.7	4.1
-200+230 mesh (63 µm)	1.0	1.8	1.7	1.9	1.6

***Testing and Flow Sheet Development***

Path-finding test work for the entire flow sheet was conducted separately for each of the four deposit samples to obtain a clear understanding of the unique plant requirements for accepting feed from any deposit and still producing at the required capacity and grade.

The first area of focus was the spiral path-finding test program. Many tests were conducted on a variety of different spirals to determine which spiral was most effective and at what specific operating conditions (feed rate and percent solids). Similar spiral testing was repeated over and over again to determine what sort of spiral circuit configuration would be required to meet the capacity and recovery objectives for all four deposits. It was noted that, while rougher spiral circuit performance did show significant differences in first-stage separation between deposits, the simple three-stage circuit shown in Figure 3 functioned effectively for all deposits in terms of valuable heavy mineral recovery (“VHM”, in this case Chromite and Zircon minerals). The spiral circuit employed is a low-recirculation circuit consisting of rougher, middlings cleaner, and tailings cleaner stages. The circuit allows concentrate from all three stages to go to final gravity concentrate, and tailings from both middling and tailings circuits to go directly to final tailings without recirculation, resulting in a streamlined and simple to manage gravity circuit. Table 5 below shows the resulting valuable heavy mineral recoveries for the wet processing circuit.

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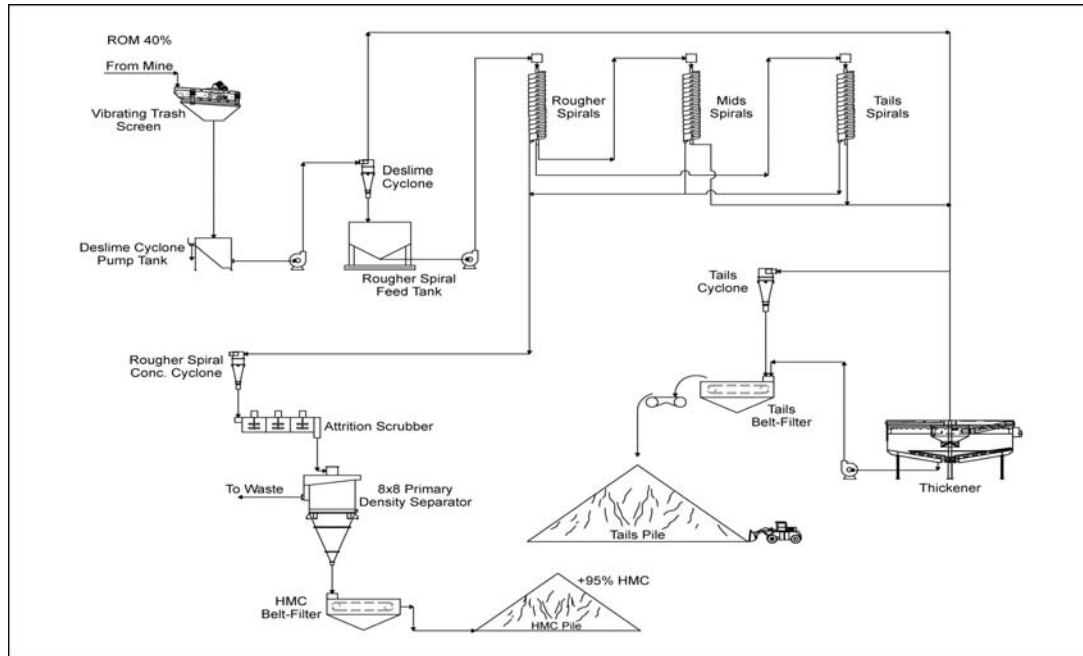


Figure 4: Wet process flow sheet

The next area of study focused on preparing the heavy mineral concentrate (“HMC”) for efficient dry separations. A series of attrition scrubbing and final classification tests using the Floatex Density Separator were conducted to ensure that the grain surfaces were best prepared for the downstream high-tension electrostatic separation process, with a bonus of rejecting any additional unwanted fine silica or “light-heavy” undesirable minerals prior to feeding the dry plant. The testing revealed that high-density attrition scrubbing, without the use of any additive chemicals, was all that was required to ensure effective electrostatic response in the dry process steps. The rinsing step conducted by the Floatex Density Separator was effective in removing the liberated clays as well as rejecting unwanted fine silica to improve the quality of the HMC, before the dry process, with essentially zero VHM loss. These process steps are shown in Figure 4 above.

Path-finding work for the dry process flow sheet was carried out in a detailed manner very similar to the work carried out for the wet gravity circuit, with all four deposits still being treated individually. The first step separation in the dry processing flow sheet, following drying and screening to remove deleterious oversize particles, is high-tension electrostatic separation (“HT”). This circuit is the heart of the dry processing plant with the main purpose of generating a very clean conductor fraction, void of non-conductive minerals to feed the Chromite concentration circuit. The HT circuit is essentially a three-stage circuit in a rougher, scavenger and scavenger-cleaner configuration. The Chromite circuit is a series of magnetic separation steps using rare-earth drum (“RED”) magnetic separators to isolate a high-grade Chromite foundry sand product as a non-magnetic product. As most non-conductor minerals would also report to the non-magnetic product in the Chromite circuit, it is critical that the HT circuit conductor fraction is managed carefully to ensure final Chromite quality. On the non-conductor side of the HT circuit, additional stages of magnetic separation, both REDs and rare-earth rolls (“RER”), are used to generate a Garnet product and to prepare a final non-conductor, non-magnetic stream rich in Zircon for additional downstream processing. The overall dry processing flow sheet is shown in Figure 5 below.

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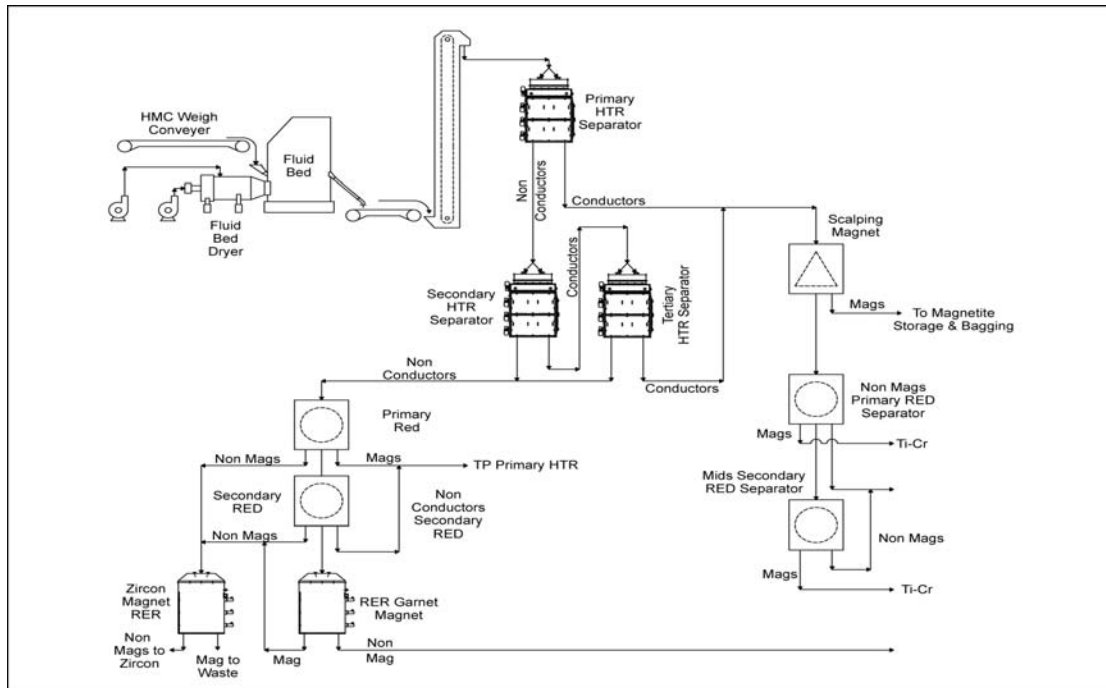
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**Table 5: Predicted valuable mineral recoveries**

2.14 x % Cr <sub>2</sub> O <sub>3</sub> = % Chromite Mineral	Cr <sub>2</sub> O <sub>3</sub> /Chromite Recovery to FS	1.52 x % ZrO <sub>2</sub> = % Zircon Mineral	ZrO <sub>2</sub> /Zircon Recovery
SH	74.2%	SH	67.3%
WB	79.8%	WB	80.6%
S7D	88.1%	S7D	71.5%
N7D	83.5%	N7D	74.0%

Once the basic flow sheet scenarios for each deposit sample were worked entirely through the testing program, the flow sheets reflected in Figures 4 and 5 became firm. The next step was to undergo a modeling exercise where unit operation performances were modeled (conditional recovery models) and validated against the bulk test runs conducted for each deposit sample. The main purpose of the modeling exercise was to ensure that a single practical flow sheet could be designed to effectively accept feed at varying capacities from any of the four deposits, and, with only minor adjustments, still be able to produce the required quantity and quality of Chromite foundry sand. The modeling work permitted study of recirculating loads and de-bottlenecking studies at various feed rates to ensure the number and sizing of the equipment was appropriate for the various "stretch" scenarios. Figure 6 below shows an example of the model flow sheet and Table 6 contains example model output during the de-bottlenecking studies. Once the modeling exercises were complete, all relevant engineering process data was extracted and carried forward as the process design basis for detailed design efforts. Table 5 above shows the final flow sheet predicted mineral recoveries based on the overall flow sheet design.



**Figure 5: Dry Process Flow Sheet**

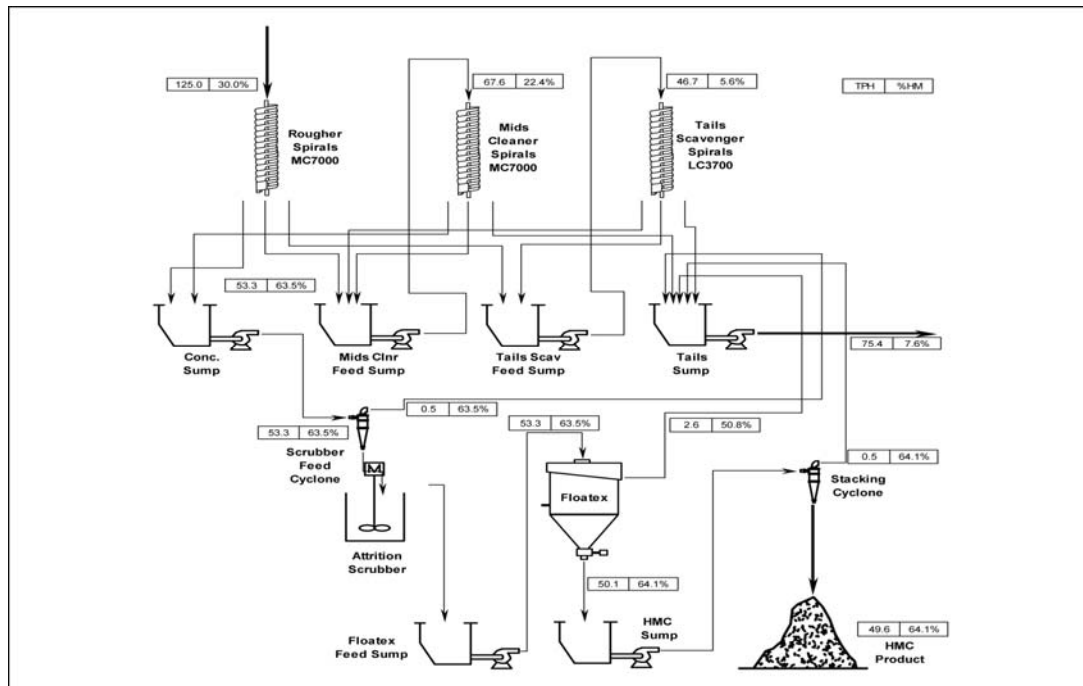
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**Table 6: Example model output sheet, de-bottlenecking**

Stream	ROM Plant Feed at 125 tph			WB Case	SH Case
	Max (TPH Solids)	Min. (TPH Solids)	Avg. (TPH Solids)	40 tph Product (TPH Solids)	40 tph Product (TPH Solids)
<b>From Rougher Feed Sump</b>	<b>112.8</b>	<b>96.3</b>	<b>102.2</b>	<b>150.0</b>	<b>70.0</b>
Rougher Con	58.7	22.1	38.9	33.8	36.4
Rougher Mids	34.8	14.0	27.8	52.5	14.0
Rougher Tails	40.4	19.6	29.1	63.8	19.6
<b>Mids Cleaner Feed</b>	<b>54.2</b>	<b>28.8</b>	<b>46.8</b>	<b>90.2</b>	<b>28.8</b>
Mids Clnr Con	13.9	4.6	9.0	9.0	8.6
Mids Clnr Mids	18.5	11.5	15.0	27.1	11.5
Mids Clnr Tails	33.6	8.6	22.8	54.1	8.6
<b>Tails Scav Feed</b>	<b>44.9</b>	<b>21.8</b>	<b>33.0</b>	<b>106.2</b>	<b>21.8</b>
Tails Scav Con	5.3	2.8	4.0	10.6	3.3
Tails Scav Mids	5.7	2.2	4.0	42.5	2.2
Tails Scav Tails	36.0	16.3	25.1	53.1	16.3
<b>Conc Pump Discharge</b>	<b>72.6</b>	<b>26.7</b>	<b>47.9</b>	<b>42.8</b>	<b>45.0</b>
Scrubber Feed	71.8	26.5	47.4	42.3	44.6
Scrubber Feed Cyc OF	0.7	0.3	0.5	0.4	0.5
Scrubber Product	71.8	26.5	47.4	42.3	44.6
Floatex Feed	71.8	26.5	47.4	42.3	44.6
<b>Floatex Underflow</b>	<b>68.3</b>	<b>25.1</b>	<b>45.0</b>	<b>40.2</b>	<b>42.4</b>
Floatex OF	3.6	1.3	2.4	2.1	2.2
<b>Product Cyclone Feed</b>	<b>68.3</b>	<b>25.1</b>	<b>45.0</b>	<b>40.2</b>	<b>42.4</b>
Product Cyclone UF	67.6	24.9	44.6	39.8	41.9
Product Cyclone OF	0.7	0.3	0.5	0.4	0.4
<b>Combined Wet Plant Tails</b>	<b>71.4</b>	<b>28.1</b>	<b>51.1</b>	<b>110.2</b>	<b>28.1</b>

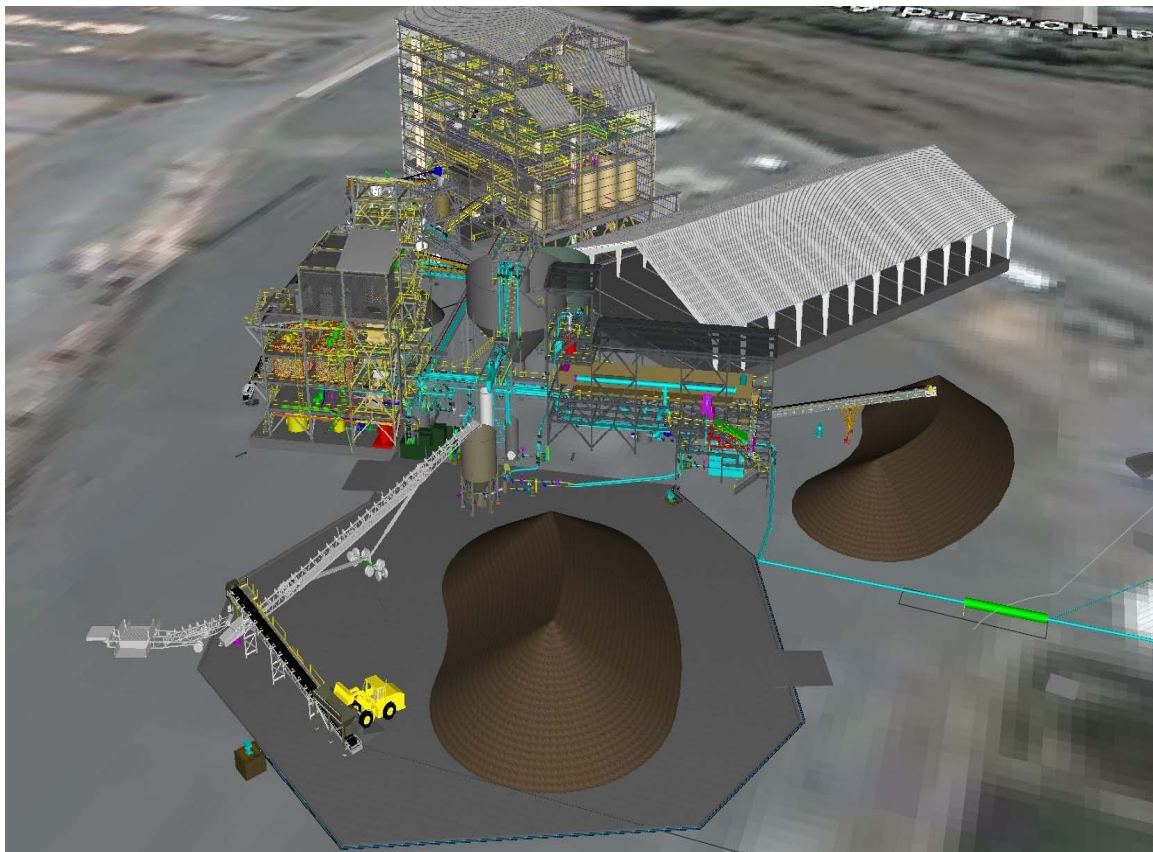


**Figure 6: Example wet plant model sheet**

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**Figure 7: A three dimensional view of the processing facility**

**Marketing and Sales**

***Chromite***

***Significant value and differentiating factors of Industrial minerals Chromite***

The Company's Chromite has been confirmed as a Zircon substitute in foundry applications due to the similarity in chilling, tensile strength and enhanced finish demonstrated in numerous comparison and stand alone tests. HA International LLC ("HAI"), a leading manufacturer and distributor of specialty coated sand and foundry products in the North American foundry market, has entered into an agreement for the distribution of our Chromite and next generation blended products. The first generation in the family of unique products will be targeted specifically at the foundries who currently consume Zircon in the creation of specialty castings. This product will be positioned in a price range at a discount to the Zircon price, offering similar performance characteristics, reliable supply and HAI technical support. The product offering strategy is expected to stimulate demand sufficient to displace a significant percentage of the current Zircon consumption in the metal casting industry. The world market for Zircon consumed in foundry applications including resin coatings is estimated at approximately 125,000 tons and currently commands in excess of US\$1,000 per s/ton.

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When South African Chromite foundry sand is blended with the Company's Chromite, the resulting castings have higher tensile strengths and better finish than castings produced without the Oregon Chromite. The introduction of the Company's stand alone Chromite and blended value added products will provide metal-casting customers with a product suite enabling them to obtain high quality castings produced cost effectively and efficiently by eliminating the after casting processes often endured when using conventional or lower quality sand. The Company's Oregon Chromite is more akin to a value additive or enhancer rather than a conventional Chromite foundry sand and will be positioned between conventional South African Chromite sand and Zircon to offer an attractive value proposition and achieve ready market acceptance.

In summary, the Company's unique Chromite can be classified as specialty sand offering end users quality and cost saving benefits with the option to transition from conventional lower cost/quality Chromite through blending and the more specialty foundries a Zircon replacement for most applications.

**Garnet**

The Company's Garnet, due to its sizing, is suitable as feedstock in water jet cutting applications. Water jets develop as high as 55,000PSI in a thin stream of water, when mixed with a hard abrasive (such as Garnet) can cut any products ranging from glass to stainless steel. Garnet is the preferred abrasive as it rates quite high on the MOHs hardness scale. The Company's Garnet has been tested against the leading water jet Garnets in comparison analysis. The Company's Garnet cuts at a comparable speed to the leading water jet Garnets. These Garnets, including the widely used Barton HPA#80, sell to customers ranging from US\$0.20 per lb to US\$0.27 per lb depending on the volume of sales.

**Zircon**

Marketing of the entire production volume of the Company's Zircon will be a straight forward exercise as there are a number of potential markets most of which have very good sales returns. The Company's Zircon has been tested in applications from the production of Zircon chemicals and metals to foundry applications. It has been demonstrated to be suitable as feedstock in the production of Zircon chemical and metals. The Company's Zircon has been tested in foundry applications against the leading Australian and South African foundry sands. The Company's Zircon was the equal of these Zircons in tensile and finish. The Company's Zircon has been blended with the Company's Chromite with excellent results and HAI has indicated that it would wish to utilize the Company's Zircon with a blend of the Company's Chromite in specialty foundry applications. The Company's Zircon could also be a stand alone foundry product. Currently foundries in the United States are paying in excess of US\$1,000 per s/ton for Zircon foundry sand.

**High Iron/Ilmenite**

The Company and IGC Technologies ("IGC") of Milwaukee Wisconsin recently completed a Memorandum of Understanding as a prelude to a definitive exclusive supply and distribution agreement. The terms in the definitive agreement cover a ten year period and a minimum take obligation with pricing adjusted to reflect increased volume above the minimum.

IGC is a leading marketer of an anti-veining foundry sand product used in producing smooth finish, high quality castings. The Company's High Iron/Ilmenite product has been tested by IGC as a substitute for a significant portion of its chemical composition of its anti-veining foundry products. These products are core additives which prevent veining and gas defects in iron castings caused by thermal expansion of chemically bonded core sands. Less veining defects means a lower percentage of scrap or reject material.

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**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**FINANCIAL OVERVIEW**

**Operating Results for the Year**

The Company's consolidated operating loss after income tax was \$2,564,657 (2008: \$2,068,731). This result was in line with expectations and reflected the operating costs incurred over the financial year and comprised largely of costs associated with the general administration of the Company and compliance expenses incurred during the year. There was an expense of \$170,282 (non-cash) (2008: \$1,143,385) recognised during the period, pursuant to the grant of options to eligible executives of the Group under the Employee Share and Option Plan during the prior financial year.

**Review of Financial Condition**

During the year the Company utilised funds in the following manner:

- continuation of design and engineering studies for construction and commissioning of the main processing plant for the Oregon Heavy Minerals Project;
- negotiating strategic alliances with several firms who are well established in the supply of specialist materials to the foundry industry in Asia and Europe;
- on-going testing products of Chromite, Zircon, Garnet and Magnetite that were sent to potential customers for evaluation;
- acquisition of plant, property and equipment necessary for commencement of full scale operation;
- negotiating to secure additional forest and agricultural land situated adjacent to current ore reserves;
- continuation of limited exploration activities on the Oregon Heavy Minerals Project;
- costs associated with negotiations to secure commitments for the provision of project financing for the construction and commissioning of the main processing plant;
- costs associated with facilitation of due diligence investigations conducted by several financial institutions;
- raising \$4,000,000 by a placement of ordinary shares to sophisticated investors to continue with the development of the Oregon Heavy Minerals Project and provide working capital required through to securing project finance for the construction and commissioning of the main processing plant;
- implementing a share purchase plan to raise \$1,000,000 under which eligible shareholders were offered the opportunity to subscribe for between \$1,000 and \$5,000 of new shares in various increments;
- meeting the expenses of the offer of shares from the prior financial year; and
- funds for the administration of the Group.

***Liquidity and Capital Resources***

The consolidated cash flow statement illustrates that there was a decrease in cash and cash equivalents in the year ended 30 June 2009 of \$1,366,666 (2008: decrease of \$12,692,769). Operating activities generated \$2,358,939 (2008: \$1,990,920) of net cash out-flows. During the financial year the net cash out-flow from investing activities of \$2,482,260 (2008: \$10,278,300) was mainly attributable to payments for the construction of plant, purchases of property, plant and equipment and expenditure relating to exploration and evaluation of the Oregon Heavy Minerals Project. There was a \$3,474,533 net cash in-flow (2008: \$423,549 net cash out-flow) from financing activities during the year.

The significant cash flow items for the Group during the financial year consisted of:

- interest income from interest bearing bank accounts;
- funds received from the placement of ordinary shares offered to sophisticated investors;
- payments relating to securing commitments for the provision of project financing;
- payments relating to the construction of plant;
- payments relating to the evaluation of the Oregon Heavy Minerals Project;
- payments for plant, property and equipment; and
- payments to employees, contractors and suppliers.

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**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

*Treasury Policy*

The Board with assistance from the Group Chief Financial Officer is responsible for the treasury function and managing the Group's currency risks and finance facilities management. Treasury management is a regular agenda item at meetings of the Board.

*Risk Management*

The Board with assistance from the Group Chief Financial Officer takes a pro-active approach to management and mitigation of risk. The Board is responsible for ensuring that risks and also opportunities are identified on a timely basis and the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process and as such has not established a separate risk management committee. Risk management is a regular agenda item at meetings of the Board. The following risks are considered on a regular basis by the Board:

- legal and regulatory compliance;
- financial;
- human resources;
- occupational health;
- operational risks; and
- management of environmental issues.

*Summary of Shares and Options on the date of the Directors' Report*

As a result of the various issue of shares and options during the financial year and since the Balance Date, the Company has the following securities on issue as at the date of the Directors' Report.

<b>Security Description</b>	<b>Number of Securities</b>
Fully paid shares	290,894,500
Options exercisable at 20 cents expiring 31 December 2009	8,793,000
Options exercisable at 6 cents expiring 30 June 2012	2,000,000
Employee Share Option Plans:	
Options exercisable at 25 cents expiring 02 November 2009	6,875,000
Options exercisable at 30 cents expiring 02 November 2010	3,437,500

*Unissued shares*

As at the date of this report, there were 21,105,500 unissued ordinary shares under options (19,105,500 at Balance Date). Refer to the remuneration report for further details of options outstanding.

Option holders do not have any right, by virtue of the options, to participate in any share issue of the Company or any related body corporate.

*Shares issued as a result of the exercise of options*

There were no shares issued during the financial year on the exercise of options.

As at the date of this report there have been no shares issued since the Balance Date on the exercise of options.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Except as otherwise set out in this report, the Directors are unaware of any significant changes in the state of affairs or principal activities of the Company that occurred during the period under review.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

On 2 July 2009 the Company announced the \$4,000,000 share placement offered to sophisticated and professional investors at an issue price of 4 cents per share had closed oversubscribed.

On 10 July 2009 the Company announced that it had entered into a Memorandum of Understanding with IGC Technologies LLC ("IGC"). The MOU outlined the terms for a definitive agreement governing the commercial relationship between the companies and specifically addressed the High Iron/Ilmenite product, its market development and introduction as a value added component to IGC's existing product lines as well as trademarks & intellectual property development contribution and co-ownership.

On 17 July 2009 the share purchase plan offering eligible shareholders the opportunity to subscribe for between \$1,000 and \$5,000 of new shares in various increments at an offer price of 4 cents per share closed oversubscribed with 302 applications received from shareholders, representing a total of \$1,339,000.

At a general meeting of shareholders held on 22 July 2009, approval for the issue of 125,000,000 shares pursuant to the share placement and share purchase plan was obtained. Shareholders also approved the issue of 2,000,000 options to Azure Capital Pty Ltd, in accordance with the terms of its engagement as Lead Manager to the share placement.

On 2 September 2009 the Company announced that it has received a Committed Letter of Offer ("Offer") from Macquarie Bank Limited to provide a debt facility of US\$30,000,000 to partially fund the development of the Oregon Heavy Minerals project. The Offer which was accepted by the Board of Industrial Minerals was subject to conditions that were customary for a debt facility, including, but not limited to:

- approvals for the issue of options to Macquarie Bank Limited representing a component of the fee pursuant to the provision of a debt facility;
- all necessary regulatory and other approvals required for the commencement and development of the Oregon Heavy Minerals Project;
- US\$15,000,000 equity component being finalised;
- a minimum of 40% of forecast production of Chromite and High Iron/Ilmenite products for the first year of operations shall be committed for sale; and
- satisfactory due diligence (including but not limited to technical and legal due diligence).

In September 2009 the Company concluded negotiations for a one year extension to the sale agreement to acquire the Westbrook property for an additional payment of US\$150,000. The final settlement date for the acquisition of the Westbrook property has been extended to 2 February 2011.

Other than the matters detailed above no circumstance has arisen since the Balance Date which has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company, in subsequent financial years.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Board of Directors intends to continue with development of the Oregon Heavy Minerals Project, including securing the equity component of the project financing requirements. The Company will seek to identify new investment opportunities in the resources sector that will complement the Group's existing operations.

Further information on likely developments in the operations of the Group has not been included in this report because at this stage the directors believe it would be likely to result in unreasonable prejudice to the Group.

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**DIRECTORS' REPORT (CONTINUED)**

**OPERATING AND FINANCIAL REVIEW (CONTINUED)**

**ENVIRONMENTAL REGULATION**

The Group's operations are not subject to any significant environmental regulations under Federal, Commonwealth or State legislation in Australia.

The Group's operations are subject to certain environmental regulations under Federal and State legislation in the United States.

There have been no significant known breaches of the Group's environmental regulations to which it is subject to.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (AUDITED)**

The information in this section is audited.

This Remuneration Report outlines the director and executive remuneration arrangements of Industrial Minerals Corporation Limited and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purpose of this report Key Management Personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the four executives in the parent and the group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives, general managers and secretaries of the Company and the Group.

(i) Directors

Jeremy David Shervington	Chairman (non-executive)
Philip James Garratt	Chief Executive Officer
Michael James Brindley Brickell	Director (non-executive)
Daniel Frank Smith	Chief Operating Officer
Cheryl Lynn Wilson	Director (executive)
Alec Christopher Pismiris	Director (executive)

(ii) Executives

Steven Michael Blacklock	Chief Financial Officer
James Joseph Dingman	Director of Marketing & Sales
Joseph Daniel Drew	Chief Geologist
Todd Matthew Lessard	Director of Engineering & Processing

There were no other changes to key management personnel after the reporting date and before the financial report was authorised for issue.

**Remuneration Philosophy**

The Board of Directors of Industrial Minerals Corporation Limited is currently responsible for determining and reviewing compensation arrangements for the directors and senior executives of the Group. The Board's remuneration policy has been implemented to ensure that the remuneration package properly reflects the person's duties and responsibilities, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The policy seeks to provide remuneration and benefits that encourage high standards of performance and demonstrate the value the Group places on its officers by being equitable, consistent with individual performance and experience, and market competitive. Such officers are given the opportunity to receive their base emolument in a variety of forms. It is intended that the manner of payment chosen will be optimal for the recipient without creating any additional cost to the Company.

To assist in achieving these objectives, the Board has adopted the following principles in its remuneration framework:

- Provide competitive rewards to attract executives of the high calibre;
- Link executive rewards to shareholder value;
- Place a significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks; and
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Remuneration Structure**

In accordance with best practice corporate governance, the structure of non-executive director and senior executive remuneration is separate and distinct.

**Non-Executive Director Remuneration**

*Objective*

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

*Structure*

The Constitution specifies that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was in the constitution adopted on 11 May 2006 which approved an aggregate remuneration of \$150,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a Director of the Company. Directors who are called upon to perform extra services beyond the director's ordinary duties may be paid additional fees for those services. During the year legal fees of \$136,466 were paid under normal terms and conditions to Jeremy Shervington Barrister and Solicitor of which Jeremy Shervington is a partner for the provision of legal services at normal commercial rates.

Non-executive directors are encouraged by the board to hold shares in the Company. It is considered good governance for directors to have a stake in the Company on whose board he or she sits. The non-executive directors of the Company can participate in the Employee Share Option Plan which provides incentives where specified criteria are met.

Due to the nature of the Company's operations to date which have largely consisted of minerals exploration and development, the remuneration of directors and executives, at present, does not include performance-based incentives. At present, the vesting of options is only based on completion of service requirements.

The remuneration of non-executive directors for the year ending 30 June 2009 is detailed in the table on page 32 of this report.

**Senior Executive Remuneration**

*Objective*

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- reward executives for Company, business unit and individual performance;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

*Structure*

In determining the level and make-up of executive remuneration, the Board obtains independent advice from external consultants on market levels of remuneration for comparable executive roles. It is the Board's policy that employment contracts are entered into with the Chief Executive Officer and all senior executives.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Fixed Remuneration**

The fixed remuneration of executives is comprised of a base salary and superannuation. The fixed remuneration of executives is reviewed annually.

**Variable Remuneration – Long Term Incentives**

*Objective*

The objectives of long term incentives are to:

- align executives remuneration with the creation of shareholder wealth;
- recognise the ability and efforts of the directors, employees and consultants of the Company who have contributed to the success of the Company and to provide them with rewards where deemed appropriate;
- provide an incentive to the directors, employees and consultants to achieve the long term objectives of the Company and improve the performance of the Company; and
- attract persons of experience and ability to employment with the Company and foster and promote loyalty between the Company and its directors, employees and consultants.

*Structure*

Long term incentives granted to senior executives are delivered in the form of options issued under the Employee Share and Option Plan.

*Company Performance*

It is not possible at this time to evaluate the Company's financial performance using generally accepted measures such as profitability, total shareholder return or peer company comparison as the Company is at a very early stage in the implementation of the corporate strategy. This assessment will be developed over the next few years.

The following information provides a summary of the Company's financial performance since listing in November 2006:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
	\$	\$	\$
Loss before income tax	(2,564,657)	(2,068,731)	(1,312,038)
Earnings per share	(1.51)	(1.25)	(1.15)
Last sale price at Balance Date	0.06	0.35	0.505

*Relationship of Reward and Performance*

The value of options will represent a significant portion of an executive's salary package. The ultimate value to the executives of the options depends on the share price of Industrial Minerals. The share price is the key performance criteria for the long term incentive as the realised value arising from options issued is dependent upon an increase in the share price to above the exercise price of the options.

*Short Term Incentive to Performance*

The objective of the shorter term incentive plan is to reward executives in a manner which aligns reward with the creation of shareholder wealth. As such this reward is only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

*Long Term Incentive to Performance*

The objective of the long term incentive plan is to reward executives in a manner which aligns reward with the creation of shareholder wealth. As such this reward is only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

Long term incentives are delivered in the form of options. At present, the grant issued under the Employee Share and Option Plan do not include performance-based incentives and the vesting of options is only based on completion of service requirements. However, the strike price of options are determined so as to ensure that the options only have value if there is an increase in shareholder wealth over time.

None of the director's shareholdings in the Company are subject to hedging. The Company has adopted a policy that strictly prohibits directors from hedging their shareholdings in the Company.

**Employment Contracts**

*Chief Executive Officer*

The Company and Mr Garratt have entered into a Services Agreement under which the services of Mr Garratt as a director and in the capacity of Chief Executive Officer are to be provided. The agreement provides for Mr Garratt to be remunerated at the rate of \$250,000 per annum commencing from 2 November 2006. The Company is obliged to reimburse Mr Garratt for all reasonable and necessary expenses incurred in the performance of his duties.

The term of Mr Garratt's appointment is from 2 November 2006 and will continue thereafter unless terminated on not less than six months' notice given at any time. The Company may pay the salary in lieu of notice.

In the event the Company terminates the Employment Services Agreement immediately on grounds of insolvency, incapacitation, unsatisfactory performance, misconduct or commits a fraud, a fee is payable for the period up to the date of dismissal only. In accordance with the terms of the Employee Share and Option Plan, any options issued to Mr Garratt as remuneration will automatically expire 3 months after the termination of the Employment Services Agreement. Mr Garratt may exercise any of the options during that 3 month period.

*Other Executives (standard contracts)*

Other executives have rolling contracts. The Company may terminate the executive's employment contracts by providing up to 6 months written notice or providing payment in lieu of the notice period (based on the fixed component of the executive's remuneration). On termination on notice by the Company, any options that have vested during the notice period will be released. Options that have not vested will be forfeited. Where termination with cause occurs, the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Remuneration of key management personnel**

**Table 1: Remuneration for the year ended 30 June 2009**

	Short Term			Post Employment Superann- uation	Share Based Payment Options	Total	Performance Related
	Salary & Fees	Non Monetary Benefits	Consulting Fees				
	\$	\$	\$				
<b>Non-executive directors</b>							
J D Shervington	60,000	-	136,466	-	-	196,466	-
M J B Brickell	36,000	-	-	-	-	36,000	-
	<b>96,000</b>	<b>-</b>	<b>136,466</b>	<b>-</b>	<b>-</b>	<b>232,466</b>	
<b>Executive directors</b>							
P J Garratt	249,996	-	-	-	-	249,996	-
D F Smith	156,788	10,360	-	-	-	167,148	-
C L Wilson	133,648	-	-	-	-	133,648	-
A C Pismiris	100,000	-	-	-	-	100,000	-
	<b>640,432</b>	<b>10,360</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>650,792</b>	
<b>Other key management personnel</b>							
S M Blacklock	180,000	-	-	-	-	180,000	-
J J Dingman	80,211	-	-	-	70,089	150,300	-
J D Drew	97,590	10,360	-	-	39,043	146,993	-
T M Lessard	120,316	9,692	-	-	39,043	169,051	-
	<b>478,117</b>	<b>20,052</b>	<b>-</b>	<b>-</b>	<b>148,175</b>	<b>646,344</b>	
<b>Totals</b>	<b>1,214,549</b>	<b>30,412</b>	<b>136,466</b>	<b>-</b>	<b>148,175</b>	<b>1,529,602</b>	

**Table 2: Remuneration for the year ended 30 June 2008**

	Short Term			Post Employment Superann- uation	Share Based Payment Options	Total	Performance Related
	Salary & Fees	Non Monetary Benefits	Consulting Fees				
	\$	\$	\$				
<b>Non-executive directors</b>							
J D Shervington	60,000	-	-	-	-	60,000	-
M J B Brickell	36,000	-	-	-	-	36,000	-
	<b>96,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>96,000</b>	
<b>Executive directors</b>							
P J Garratt	249,996	-	-	-	-	249,996	-
D F Smith	139,473	-	-	-	-	139,473	-
C L Wilson	111,550	-	-	-	-	111,550	-
A C Pismiris	90,000	-	284,000	-	-	374,000	-
	<b>591,019</b>	<b>-</b>	<b>284,000</b>	<b>-</b>	<b>-</b>	<b>875,019</b>	
<b>Other key management personnel</b>							
S M Blacklock	200,000	-	-	-	487,135	687,135	-
J J Dingman	71,345	-	-	-	129,150	200,495	-
J D Drew	90,077	-	-	-	163,763	253,840	-
T M Lessard	108,783	-	-	-	163,763	272,546	-
	<b>470,205</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>943,811</b>	<b>1,414,016</b>	
<b>Totals</b>	<b>1,157,224</b>	<b>-</b>	<b>284,000</b>	<b>-</b>	<b>943,811</b>	<b>2,385,035</b>	

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**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Table 3: Compensation options: Granted and vested during the year ended 30 June 2009**

	Granted		Terms & Conditions for each Grant				Vested	
	Number	Grant Date	Fair Value per option at grant date \$	Exercise price per option \$	Expiry Date	First Exercise Date	Number	%
<b>Executives</b>								
J J Dingman	-	-	-	-	-	-	500,000	100
J D Drew	-	-	-	-	-	-	500,000	100
T M Lessard	-	-	-	-	-	-	500,000	100
<b>Total</b>	<u>-</u>						<u>1,500,000</u>	

Note: No Other executives or directors had compensation options that were granted and vested during the year.

**Table 4: Compensation options: Granted and vested during the year ended 30 June 2008**

	Granted		Terms & Conditions for each Grant				Vested	
	Number	Grant Date	Fair Value per option at grant date \$	Exercise price per option \$	Expiry Date	First Exercise Date	Number	%
<b>Executives</b>								
S M Blacklock	-	-	0.235	0.20	2 Nov 2008	1 May 2008	625,000	100
	-	-	0.232	0.25	2 Nov 2009	1 May 2008	1,250,000	100
	-	-	0.236	0.30	2 Nov 2010	1 May 2008	625,000	100
J J Dingman	250,000	16 Aug 2007	0.216	0.20	2 Nov 2008	2 Apr 2008	250,000	100
	500,000	16 Aug 2007	0.213	0.25	2 Nov 2009	2 Apr 2009	500,000	-
	250,000	16 Aug 2007	0.218	0.30	2 Nov 2010	2 Apr 2010	-	-
J D Drew	250,000	16 Aug 2007	0.207	0.20	2 Nov 2008	15 Aug 2007	250,000	100
	500,000	16 Aug 2007	0.204	0.25	2 Nov 2009	15 Aug 2008	500,000	-
	250,000	16 Aug 2007	0.210	0.30	2 Nov 2010	15 Aug 2009	-	-
T M Lessard	250,000	16 Aug 2007	0.207	0.20	2 Nov 2008	15 Aug 2007	250,000	100
	500,000	16 Aug 2007	0.204	0.25	2 Nov 2009	15 Aug 2008	500,000	-
	250,000	16 Aug 2007	0.210	0.30	2 Nov 2010	15 Aug 2009	-	-
<b>Total</b>	<u>3,000,000</u>						<u>4,750,000</u>	

Note: No Other executives or directors had compensation options that were granted and vested during the year.

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**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (AUDITED) (CONTINUED)**

**Table 5: Options granted as part of remuneration during the year ended 30 June 2008\***

	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Remuneration consisting of options for the year %
<b>Executives</b>				
J J Dingman	214,902	-	-	64.4
J D Drew	206,108	-	-	64.5
T M Lessard	206,108	-	-	60.1

\* For details on the valuation of the options, including models and assumptions, refer to Note 24.

There were no compensation options granted during the financial year ended 30 June 2009.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

There were 500,000 compensation options forfeited during the year on the resignation of an employee.

The maximum grant which will be payable is equal to the number of options multiplied by the fair value at the grant date.

**Share issued on Exercise of Compensation Options**

There were no shares issued on the exercise of compensation options during the financial years ended 30 June 2009 or 30 June 2008.

**INDUSTRIAL MINERALS CORPORATION LIMITED  
2009 ANNUAL REPORT**

**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' MEETINGS**

The number of meetings of the Directors (including the Audit and Compliance committee) held during the year which each director was eligible to attend. The number of meetings attended by each director was as follows:

	<b>Board of Directors</b>		<b>Audit &amp; Compliance Committee</b>		<b>Finance Committee</b>	
	<b>Held</b>	<b>Attended</b>	<b>Held</b>	<b>Attended</b>	<b>Held</b>	<b>Attended</b>
<b><i>Current Directors</i></b>						
J D Shervington	3	2	2	2	6	6
P J Garratt	3	3	-	-	6	6
M J B Brickell	3	3	2	2	6	6
D F Smith	3	3	-	-	-	-
C L Wilson	3	3	-	-	-	-
A C Pismiris	3	3	2	2	6	6

**Committee membership**

During the year the Board adopted a Finance Committee to co-ordinate, assess, negotiate and make recommendations on alternate project financing proposals that were considered during the period. Members appointed to the Finance Committee were J D Shervington, P J Garratt, M J B Brickell, and A C Pismiris.

Members of the Audit & Compliance Committee during the year were M J B Brickell (Chairman), J D Shervington and A C Pismiris.

Other directors and officers may attend meetings of the Audit and Compliance Committee at the invitation of the Chairman. The details of the functions and membership of the Audit and Compliance Committee of the Board are included in the Statement of Corporate Governance Practices.

**INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

The Company has entered into Deeds of Indemnity with the Directors indemnifying them against certain liabilities and costs to the extent permitted by law.

The Company has paid premiums totalling \$14,000 in respect of Directors' and Officers' Liability Insurance and Company Reimbursement policies, which cover all directors and officers of the Company. The policy conditions preclude the Company from any detailed disclosures.

**CORPORATE GOVERNANCE**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Industrial Minerals Limited adhere to principles of corporate governance. The Company's corporate governance statement is included on page 38 of this annual report.

**AUDITOR INDEPENDENCE**

The Directors received the declaration included on page 37 of this annual report from the auditor of Industrial Minerals Corporation Limited.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
**2009 ANNUAL REPORT**

**DIRECTORS' REPORT (CONTINUED)**

**NON-AUDIT SERVICES**

The following non-audit services were provided by the Group's auditor, Ernst & Young. The Directors are satisfied the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not comprised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services	\$ 2,500 <hr/> 2,500 <hr/>
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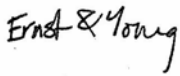
Signed in accordance with a resolution of the Directors.



Jeremy Shervington  
Director  
Perth, Western Australia  
29<sup>th</sup> day of September 2009

## Auditor's independence declaration to the directors of Industrial Minerals Corporation Limited

In relation to our audit of the financial report of Industrial Minerals Corporation Limited for the year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'J C Palmer'.

J C Palmer  
Partner  
Perth  
29 September 2009

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Industrial Minerals Corporation Limited (“Industrial Minerals”) adhere to strict principles of corporate governance.

The Board of Directors of Industrial Minerals is responsible for the overall corporate governance of the Company, guiding and monitoring the business and affairs of Industrial Minerals on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Corporate Governance Statement is structured with reference to the Australian Stock Exchange Corporate Governance Council’s (“Council”) Principles of Good Corporate Governance and Best Practice Recommendations and the revised second edition of the ASX Principles and Recommendations. In accordance with the recommendations of the Council, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the year. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Industrial Minerals’ Corporate Governance Statement has been structured with reference to the Council’s principles and recommendations. The following is a summary of Industrial Minerals’ adherence to the Council’s principles and recommendations:

**Principle 1. Lay the foundations for management and oversight**

Industrial Minerals largely complies with this recommendation except the Board and senior management of Industrial Minerals actively participate in the operations of the Company due to the nature of the Company’s current operations.

**Principle 2. Structure the Board to add value**

Industrial Minerals does not comply with this recommendation. Industrial Minerals does not have an independent director on the Board. Further the Nomination Committee due to the scale and nature of its current operations. It is envisaged that on commencement of development of the Oregon Heavy Minerals Project the Board will establish a Nomination Committee.

**Principle 3. Promote ethical and responsible decision making**

Industrial Minerals complies with this recommendation.

**Principle 4. Safeguard integrity in financial reporting**

Industrial Minerals does not comply with this recommendation of having at least three non-executive directors on the Audit and Compliance Committee. Industrial Minerals is a small company that does not have a fully operational business. Industrial Minerals’s Audit and Compliance Committee is comprised of an executive director and two non-executive directors.

**Principle 5. Make timely and balanced disclosure**

Industrial Minerals complies with this recommendation.

**Principle 6. Respect the rights of shareholders**

Industrial Minerals complies with this recommendation.

**Principle 7. Recognise and manage risk**

Industrial Minerals complies with this recommendation.

**Principle 8. Remunerate fairly and responsibly**

Industrial Minerals complies with this recommendation except that it has not established a Remuneration Committee. The objective of granting options is to ensure maximum stakeholder benefit is achieved from the retention of a high quality Board and to provide incentive to directors identify new commercial opportunities for the Company.

The Industrial Minerals Corporate Governance Policies and Procedures are largely consistent with the Council’s best practice recommendations. The process to achieve consistency with the Council’s recommendations are gradual and where the Company’s corporate governance practices do not correlate with the practices recommended by the Council, the Company does not consider that the practices are appropriate for the Company due to the scale and nature of the Company’s operations.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered.

<b>Recommendation</b>	<b>Section</b>
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 1.2 Senior Executive Evaluation	1.3
Recommendation 1.3 Reporting on Principle 1	2.6
Recommendation 2.1 Independent Directors	Not Applicable
Recommendation 2.2 Independent Chair	Not Applicable
Recommendation 2.3 Role of the Chair and CEO	Not Applicable
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Board and Individual Director Evaluation	1.4.10
Recommendation 2.6 Reporting on Principle 2	The Directors' Report
Recommendation 3.1 Code of Conduct	2.5
Recommendation 3.2 Company Securities Trading Policy	1.4.9
Recommendation 3.3 Reporting on Principle 3	1.1
Recommendation 4.1 Establishment of Audit Committee	2.1
Recommendation 4.2 Structure of the Audit Committee	2.1
Recommendation 4.3 Audit Committee Charter	2.1
Recommendation 4.4 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	2.6
Recommendation 6.1 Communications Strategy	1.4.8 and 2.6
Recommendation 6.2 Reporting on Principle 6	1.4.8 and 2.6
Recommendation 7.1 Policies on Risk Oversight and Management	2.1
Recommendation 7.2 Risk Management Report	1.4.11
Recommendation 7.3 CEO and CFO Assurance	1.4.11
Recommendation 7.4 Reporting on Principle 7	2.6
Recommendation 8.1 Establishment of Remuneration Committee	2.3
Recommendation 8.2 Executive and Non-Executive Director Remuneration	2.3
Recommendation 8.3 Reporting on Principle 8	2.6

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**1. Board of Directors**

**1.1 Role of the Board**

The Board's current role is to collectively govern and manage the Company. The Directors must act in the best interests of the Company as a whole. It is the role of the Board to govern and manage the Company in accordance with the stated objectives of the Company.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors in the performance of their roles.

**1.2 Composition of the Board**

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated on pages 6 to 8 of the Directors' Report. Directors are appointed based on their experience and on the independence of their decision-making and judgment.

The Company's Constitution provides for the appointment of a minimum number of directors as three with the maximum determined by the Board. Currently the Company has six directors comprising four executive directors. The Constitution does not require a shareholding qualification for directors.

The Company recognises the importance of non-executive directors and the external perspective and advice that non-executive directors can offer, however due to the scale and nature of the Company's operations, there are no independent directors on the Board of Industrial Minerals. The current directors bring skills and knowledge that are critical to the success of the Company's current operations.

An independent director:

- Is a non-executive director and:
- Is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or another company member, or been a Director after ceasing to hold any such employment;
- Within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another company member, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Company or another company member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has no material contractual relationship with the Company or other company member other than as a Director of the Company;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Mr Garratt holds the position of Chief Executive Officer and is responsible for management of the Company, negotiating arrangements with third parties, advising the Board on the strategic direction of the Company, assessing new opportunities and risks and monitoring the operating performance of the Company and therefore does not meet the Company's criteria for independence.

Mr Smith holds the position of Chief Operating Officer and is responsible for management the Companies overall operations and therefore does not meet the Company's criteria for independence.

Mr Brickell is a Non-Executive Director and holds the position of Deputy Chairman. Mr Brickell is a director of Resource Finance and Investment Ltd, a major shareholder of the Company and does not meet the Company's criteria for independence.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
**2009 ANNUAL REPORT**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

Ms Wilson holds the position of Executive Director and President of Oregon Resources Corporation Inc. and is responsible for management of the Company's US operations, negotiating arrangements with third parties, advising the Board on the strategic direction of the Company, assessing new opportunities and risks and monitoring the operating performance of the Company and therefore does not meet the Company's criteria for independence.

Mr Pismiris is an Executive Director and also holds the position of Company Secretary. Mr Pismiris is responsible for the overall administration and financial management of the Company and therefore does not meet the Company's criteria for independence.

Mr Shervington is a Non-executive Director and also holds the position of Chairman. Mr Shervington provides legal services to the Company at normal commercial rates and therefore does not meet the Company's criteria for independence.

**1.3 Responsibilities of the Board**

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- (i) Leadership of the organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
- (ii) Strategy formulation: working to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- (iii) Overseeing planning activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long-term budgets.
- (iv) Shareholder liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- (v) Monitoring, compliance and risk management: overseeing the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- (vi) Company finances: approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
- (vii) Human resources: appointing, and, where appropriate, removing Chief Executive Officer and Chief Financial Officer as well as reviewing their performance and monitoring the performance of senior management in their implementation of the Company's strategy.
- (viii) Ensuring the health, safety and well-being of employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- (ix) Delegation of authority: where appropriate delegating appropriate powers to the Company's executives to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of any Committees of the Board.

**1.4 Board Policies**

**1.4.1 Conflicts of Interest**

Directors must disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company and if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest. If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the Corporations Act, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

*1.4.2 Commitments*

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

*1.4.3 Confidentiality*

In accordance with legal requirements and agreed ethical standards, Directors of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

*1.4.4 Continuous Disclosure*

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

- Concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- That would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

Upon confirmation of receipt from the ASX, the Company is able to publish the information in accordance with this policy.

*1.4.5 Education and Induction*

New Directors undergo an induction process in which they are given a full briefing on the Company. Information conveyed to new Directors includes:

- Details of the roles and responsibilities of a Director with an outline of the qualities required to be a successful Director;
- Formal policies on Director appointment as well as conduct and contribution expectations;
- Details of all relevant legal requirements;
- A copy of the Board Charter;
- Guidelines on how the Board processes function;
- Details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
- Background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
- An analysis of the Company;
- A synopsis of the current strategic direction of the Company including a copy of the current strategic plan and annual budget; and
- A copy of the Constitution of the Company.

*1.4.6 Independent Professional Advice*

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

*1.4.7 Related Party Transactions*

Related party transactions include any financial transaction between a Director and the Company and will be reported in writing to each Board meeting. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

*1.4.8 Shareholder Communication*

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- (i) Communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- (ii) Giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- (iii) Making it easy for shareholders to participate in general meetings of the Company; and
- (iv) Requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company has a website at [www.industrialminerals.com.au](http://www.industrialminerals.com.au) and also makes available a telephone number for shareholders to make enquiries of the Company.

*1.4.9 Trading in Company Shares*

The Company has a Share Trading Policy under which Directors are required to discuss their intention to trade in the Company's securities with the Chairman prior to trading. Consideration will be given in these discussions to any special circumstances (eg financial hardship).

Directors must not trade in the shares of any other entity if inside information on such entity comes to the attention of the director by virtue of holding office as a director of the Company.

The following guidelines are to be observed by Directors and employees of Industrial Minerals:

- Securities may be purchased or sold during the two week period immediately following the release of Industrial Minerals', half-yearly and final results ("results announcements") (subject to observing the additional approval requirements set out below).
- Securities should not be purchased or sold during the two week period preceding any results announcements.
- Securities should not be purchased or sold preceding any material ASX announcement by Industrial Minerals, if the employee is aware that it is likely that such an announcement will be made.
- Securities should not be purchased or sold for the purpose of short term speculation.
- Securities may be purchased or sold at other times (subject to additional disclosure requirements established by the Board).

In addition, consistent with the law, designated officers are prohibited from trading in the Company's securities while in the possession of unpublished price sensitive information concerning the Company. Unpublished price sensitive information is information regarding the Company of which the market is not aware and that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Notice of an intention to trade must be given prior to trading in the Company's securities as well as a confirmation that the person is not in possession of any unpublished price sensitive information. The completion of any such trade by a Director must also be notified to the Company Secretary who in turn advises the ASX.

*1.4.10 Performance Review/Evaluation*

The Board intends to commence an evaluation of its performance annually.

There was no evaluation conducted during the financial year.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
**2009 ANNUAL REPORT**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

*1.4.11 CEO and CFO certification*

In accordance with section 295A of the *Corporations Act*, the chief executive officer and chief financial officer have provided a written statement to the board that:

- their view provided on the Group's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board;
- the Group's risk management and internal compliance and control system is operating effectively in all material respects.

The board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

In response to this, internal control questions are required to be completed by the key management personnel to support of these written statements.

**2. Board Committees**

**2.1 Audit & Compliance Committee**

The Board has adopted an Audit and Compliance Committee which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company to deal with the effectiveness and efficiency of business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The Board has delegated the responsibility for the establishment and maintenance of the internal control framework and ethical standards to the Audit and Compliance Committee. The committee's responsibilities include the following:

- Oversee and appraise the independence, quality and extent of the total audit effort;
- Perform an independent overview of the financial information prepared by Company management for shareholders and prospective shareholders;
- Evaluate the adequacy and effectiveness of the Company's and the Company's risk management and financial control, and other internal control systems and evaluate the operation thereof;
- Review and endorse the annual and half year attestation statements in accordance with regulatory requirements;
- The appointment of external auditors;
- Review and implement risk management and internal control structures appropriate to the needs of Industrial Minerals;
- Monitor compliance issues applicable laws and regulations, particularly compliance with the Stock Exchange Listing Rules;
- Review all public releases to the ASX of material consequence, prior to release to the market; and
- Review of Corporate Governance Practices.

The members of the Audit and Compliance Committee during the year were Messrs M J B Brickell, J D Shervington and A C Pismiris.

Mr Brickell (FCA.) has over 40 years of experience at senior management levels in retail business enterprises in England, Europe and North America. He is also a director of a number of public listed companies and is a Fellow of the Institute of Chartered Accountants in England & Wales.

Mr J D Shervington (B.Juris., LLB.) has been a practicing lawyer for 25 years and has extensive experience in the area of corporate law. He is also a director of a number of public companies where as part of his role, he serves as a member of audit committee.

Mr A C Pismiris (B.Comm., ICSA.) has significant experience in the management and administration of public companies where his roles have included Financial Controller. He is also a director of a number of public companies where as part of his role, he serves as a member of audit committee.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
**2009 ANNUAL REPORT**

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

**2.2 Finance Committee**

During the year the Board adopted a Finance Committee to co-ordinate, assess, negotiate and make recommendations on alternate project financing proposals that were considered during the period.

The members of the Finance Committee appointed during the year were Messrs J D Shervington , P J Garratt, M J B Brickell, and A C Pismiris.

**2.3 Remuneration Committee**

The Directors have elected not to appoint a Remuneration Committee due to the scale and nature of the Company's activities.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board by remunerating directors fairly and appropriately with reference to relevant market conditions. To assist in achieving this objective, the Board attempts to link the nature and amount of directors' emoluments to the Company's performance. The outcome of the remuneration structure is:

- Reward executives for Company and individual performance against appropriate benchmarks;
- Review and evaluation performance of executives;
- Align the interests of the executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure remuneration is comparable to market standards.

For details of the amount of remuneration and all monetary and non-monetary components for each of the directors during the financial year, refer to page 32 of the Directors' Report.

There is no scheme to provide retirement benefits, other than statutory superannuation, to directors.

**2.4 Nomination Committee**

The Directors have elected not to appoint a Nomination Committee due to the scale and nature of the Company's activities.

Subject to the provision of the Company's Constitution, the issues of Board composition and selection criteria for directors are dealt with by the full Board. The Board continues to have the mix of skills and experience necessary for the conduct of the Company's activities.

The Constitution provides for events whereby directors may be removed from the Board. Similarly shareholders have the ability to nominate, appoint and remove directors. In addition, the Constitution provides for the regular rotation of directors which ensures that directors seek re-election by shareholders at least once every three years.

Given these existing regulatory requirements, directors are not appointed for a specified term and directors' continuity of service is in the hands of shareholders.

**2.5 Company Code of Conduct**

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. This Code includes the following:

*Responsibilities to Shareholders and the Financial Community Generally*

The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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**CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

*Responsibilities to Clients, Customers and Consumers*

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers. The Company for its part is committed to providing clients, customers and consumers with fair value.

*Employment Practices*

The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

*Obligations Relative to Fair Trading and Dealing*

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages its employees to strive to do the same.

*Responsibilities to the Community*

As part of the community the Company is committed to conducting its business in accordance with applicable environmental laws and regulations and encourages all employees to have regard for the environment when carrying out their jobs.

*Responsibility to the Individual*

The Company is committed to keeping private information collected during the course of its activities, confidential and protected from uses other than those for which it was provided.

*Conflicts of Interest*

Employees and Directors must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

*How the Company Complies with Legislation Affecting its Operations*

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

*How the Company Monitors and Ensures Compliance with its Code*

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

**2.6 Shareholder Communication**

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- The Annual Financial Report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The Board ensures that the annual report includes relevant information about the operations of the Company during the financial year, changes in the state of affairs of the Company and details of future developments, in addition to other disclosures required by the Corporations Act 2001;
- Release of a Half-Yearly Report to the Australian Stock Exchange Limited
- The Company's website at [www.industrialminerals.com.au](http://www.industrialminerals.com.au); and
- Proposed major changes in the economic entity which may impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Shareholders are responsible for voting on appointment of directors, appointment of auditors, level of remuneration of Non-Executive Directors and any matters of special business.

**INDUSTRIAL MINERALS CORPORATION LIMITED  
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**Financial Statements**  
**FOR THE YEAR ENDED 30 JUNE 2009**

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
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## Balance Sheet

AS AT 30 JUNE 2009

	Notes	CONSOLIDATED		PARENT	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	10	4,168	5,514	4,153	5,411
Trade and other receivables	11	21	59	16	59
Prepayments		55	35	14	16
Other current assets	12	17	-	17	-
<b>Total Current Assets</b>		<b>4,261</b>	5,608	<b>4,200</b>	5,486
<b>Non-current Assets</b>					
Receivables	11	-	-	18,663	10,046
Other financial assets	13	-	-	20,000	20,000
Property, plant and equipment	14	23,736	13,502	-	-
Exploration and evaluation	15	22,753	18,617	-	-
<b>Total Non-current Assets</b>		<b>46,489</b>	32,119	<b>38,663</b>	30,046
<b>TOTAL ASSETS</b>		<b>50,750</b>	37,727	<b>42,863</b>	35,532
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	16	8,109	963	222	86
Share subscriptions received in advance	17	17	-	17	-
Loans and borrowings	18	-	25	-	-
<b>Total Current Liabilities</b>		<b>8,126</b>	988	<b>239</b>	86
<b>Non-current Liabilities</b>					
Trade and other payables	16	-	1,293	-	-
Loans and borrowings	18	-	-	-	-
<b>Total Non-current Liabilities</b>		<b>-</b>	1,293	<b>-</b>	-
<b>TOTAL LIABILITIES</b>		<b>8,126</b>	2,281	<b>239</b>	86
<b>NET ASSETS</b>		<b>42,624</b>	35,446	<b>42,624</b>	35,446
<b>EQUITY</b>					
<b>Equity attributable to equity holders of the parent</b>					
Contributed equity	19	46,450	42,552	46,450	42,552
Reserves	20	2,177	(3,668)	1,972	1,748
Accumulated losses	20	(6,003)	(3,438)	(5,798)	(8,854)
<b>TOTAL EQUITY</b>		<b>42,624</b>	35,446	<b>42,624</b>	35,446

The above balance sheet should be read in conjunction with the accompanying notes.

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## Income Statement

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	CONSOLIDATED		PARENT	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Interest revenue	5	<b>144</b>	878	<b>144</b>	874
		<b>144</b>	878	<b>144</b>	874
Other administration expenses		<b>(798)</b>	(494)	<b>(555)</b>	(280)
Board expenses		<b>(382)</b>	(382)	<b>(382)</b>	(382)
Compliance expenses		<b>(168)</b>	(180)	<b>(168)</b>	(180)
Employment expenses	6(a)	<b>(472)</b>	(1,361)	<b>(199)</b>	(1,145)
Occupancy expenses		<b>(66)</b>	(56)	-	-
Travel expenses		<b>(136)</b>	(169)	<b>(67)</b>	(72)
Other expenses	6(b)	<b>(394)</b>	(217)	<b>(105)</b>	(28)
Interest expenses	6(c)	<b>(293)</b>	(87)	-	-
Impairment gain/(loss)		-	-	<b>4,388</b>	(6,677)
<b>Gain/(loss) before income tax</b>		<b>(2,565)</b>	(2,068)	<b>3,056</b>	(7,890)
Income tax expense	7	-	-	-	-
<b>Net gain/(loss) for the period</b>		<b>(2,565)</b>	(2,068)	<b>3,056</b>	(7,890)
<b>Gain/(loss) attributable to members of the parent</b>		<b>(2,565)</b>	(2,068)	<b>3,056</b>	(7,890)
<b>Earnings per share for gain/(loss) attributable to the ordinary equity holders of the Company:</b>					
Basic loss per share (cents per share)	9	<b>(1.51)</b>	(1.25)		
Diluted loss per share (cents per share)	9	<b>(1.51)</b>	(1.25)		

The above income statement should be read in conjunction with the accompanying notes.

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## Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2009

Consolidated	Note	Issued Capital \$'000	Reserves \$'000	Accumulated Losses \$'000	Total \$'000
<b>Balance at 1 July 2007</b>		37,586	182	(1,370)	36,398
Foreign currency translation		-	(4,994)	-	(4,994)
Total income and expense recognised directly in equity		-	(4,994)	-	(4,994)
Loss for the year		-	-	(2,068)	(2,068)
Total recognised income and expense for the period		-	(4,994)	(2,068)	(7,062)
Share based payments	20	-	1,144	-	1,144
Shares issued during the year	19				
- Ordinary shares		5,256	-	-	5,256
- Costs of issue		(290)	-	-	(290)
<b>Balance at 30 June 2008</b>		<b>42,552</b>	<b>(3,668)</b>	<b>(3,438)</b>	<b>35,446</b>
<b>Balance at 1 July 2008</b>		<b>42,552</b>	<b>(3,668)</b>	<b>(3,438)</b>	<b>35,446</b>
Foreign currency translation		-	5,621	-	5,621
Total income and expense recognised directly in equity		-	5,621	-	5,621
Loss for the year		-	-	(2,565)	(2,565)
Total recognised income and expense for the period		-	5,621	(2,565)	3,056
Share based payments	20	-	170	-	170
Shares issued during the year	19				
- Ordinary shares		4,000	-	-	4,000
- Costs of issue		(102)	54	-	(48)
<b>Balance at 30 June 2009</b>		<b>46,450</b>	<b>2,177</b>	<b>(6,003)</b>	<b>42,624</b>
<b>Parent</b>					
<b>Balance at 1 July 2007</b>		37,586	604	(964)	37,226
Profit/(loss) for the year		-	-	(7,890)	(7,890)
Total recognised income and expense for the period		-	-	(7,890)	(7,890)
Share based payments	20	-	1,144	-	1,144
Shares issued during the year	19				
- Ordinary shares		5,256	-	-	5,256
- Costs of issue		(290)	-	-	(290)
<b>Balance at 30 June 2008</b>		<b>42,552</b>	<b>1,748</b>	<b>(8,854)</b>	<b>35,446</b>
<b>Balance at 1 July 2008</b>		<b>42,552</b>	<b>1,748</b>	<b>(8,854)</b>	<b>35,446</b>
Profit/(loss) for the year		-	-	3,056	3,056
Total recognised income and expense for the period		-	-	3,056	3,056
Share based payments	20	-	170	-	170
Shares issued during the year	19				
- Ordinary shares		4,000	-	-	4,000
- Costs of issue		(102)	54	-	(48)
<b>Balance at 30 June 2009</b>		<b>46,450</b>	<b>1,972</b>	<b>(5,798)</b>	<b>42,624</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

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## Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2009

	Notes	CONSOLIDATED		PARENT	
		2009	2008	2009	2008
		\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>					
Payments to suppliers and employees		(2,357)	(1,986)	(1,179)	(941)
Interest paid		(2)	(5)	-	-
<b>Net cash flows used in operating activities</b>	21	<b>(2,359)</b>	<b>(1,991)</b>	<b>(1,179)</b>	<b>(941)</b>
<b>Cash flows from investing activities</b>					
Advances to other entities		-	-	-	-
Interest received		198	881	197	877
Other income received		-	-	-	-
Proceeds from sale of property, plant and equipment		-	2	-	-
Payments for construction		(1,667)	(9,009)	-	-
Purchase of plant and equipment		(88)	(600)	-	-
Payments for exploration and evaluation		(925)	(1,553)	-	-
<b>Net cash flows (used in)/from investing activities</b>		<b>(2,482)</b>	<b>(10,278)</b>	<b>197</b>	<b>877</b>
<b>Cash flows from financing activities</b>					
Acquisition of Oregon Resources Corporation Inc.		-	-	-	-
Repayment of borrowings		(30)	(23)	-	-
Lease payments		(447)	(167)	-	-
Proceeds from issue of shares	19	-	57	-	57
Proceeds from share subscriptions received in advance	19	4,000	-	4,000	-
Payment of share issue costs	19	(48)	(290)	(48)	(290)
Advance to subsidiary		-	-	(4,228)	(12,204)
<b>Net cash flows from/(used in) financing activities</b>		<b>3,475</b>	<b>(424)</b>	<b>(276)</b>	<b>(12,437)</b>
Net decrease in cash and cash equivalents		(1,366)	(12,693)	(1,258)	(12,501)
Net foreign exchange differences		20	112	-	-
Cash and cash equivalents at beginning of financial year		5,514	18,095	5,411	17,912
<b>Cash and cash equivalents at end of financial year</b>	10	<b>4,168</b>	<b>5,514</b>	<b>4,153</b>	<b>5,411</b>

The above cash flow statement should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 1 CORPORATE INFORMATION

The financial report of Industrial Minerals Limited for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 29 September 2009.

Industrial Minerals Corporation Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange Limited.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

The address of the registered office is 52 Ord Street, West Perth, WA, 6005.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **Basis of preparation**
- (b) **Basis of consolidation**
- (c) **Statement of compliance**
- (d) **Going concern**
- (e) **Cash and cash equivalents**
- (f) **Foreign currency translation**
- (g) **Trade and other receivables**
- (h) **Investments and other financial assets**
- (i) **Exploration, evaluation and development expenditure**
- (j) **Property, plant and equipment**
- (k) **Provisions**
- (l) **Leases**
- (m) **Impairment of non-financial assets other than goodwill**
- (n) **Trade and other payables**
- (o) **Share based payment transactions**
- (p) **Contributed equity**
- (q) **Revenue recognition**
- (r) **Income tax and other taxes**
- (s) **Earnings per share**

### (a) **Basis of Preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Industrial Minerals Corporation Limited and its controlled subsidiary as at 30 June each year (“the Group”).

Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

The subsidiary is fully consolidated from the date on which control is obtained by the Group and would cease to be consolidated from the date of which control is transferred out of the Group.

#### (c) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for accounting reporting periods beginning on or before 1 July 2008. These Standards and Interpretations had no impact on the financial position and performance of the Group and Company.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2009. These are outlined in the following table.

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 8 and AASB 2007-3	<i>Operating Segments</i> and consequential Amendments to other Australian Accounting Standards	New Standard replacing AASB 114 Segment Reporting, which adopts a management reporting approach to segment reporting.	1 January 2009	The amendments to AASB 8 <i>Operating Segments</i> is a disclosure standard so will have no direct impact on the Group's financial statements.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	<i>Borrowing Costs</i> and consequential Amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	The amendments to AASB 123 <i>Borrowing Costs</i> require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial statements.	1 July 2009

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Statement of compliance (continued)**

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	<i>Presentation of Financial Statements</i> and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	The amendments to AASB 101 <i>Presentation of Financial Statements</i> are expected to substantially affect the presentation and terminology of the Group's primary financial statements but will not have a material impact on the measurement and recognition of amounts under the current AASB 101. The Group has not determined at this stage whether to present the new statement of comprehensive income as one or two statements.	1 July 2009
AASB 3 (Revised)	<i>Business Combinations</i>	The revised standard changes the way in which an entity will account for business combinations. The key changes being to allow entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	Adoption of AASB 3 (Revised) is likely to result in substantial changes in the way in which the Group accounts for business combinations. The entity has not yet determined the financial impact of this change.	1 July 2009

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 127 (Revised)	<i>Consolidated and Separate Financial Statements</i>	<p>The key changes from the previous AASB 127, outlined in AASB 127 (Amended), are:</p> <p>(a) The term minority interest was replaced by the term non-controlling interest, with a new definition.</p> <p>(b) An entity must attribute total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.</p> <p>(c) Requirements were added to specify that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions.</p> <p>(d) Requirements were added to specify how an entity measures any gain or loss arising on the loss of control of a subsidiary. Any such gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.</p> <p>(e) The application of AASB 3 (Revised) and AASB 127 (Amended) will supersede Interpretation 1001 Consolidated Financial Reports in relation to Pre-Date-of-Transition Dual Listed Company Arrangements, Interpretation 1002 Post-Date-of-Transition Stapling Arrangements and Interpretation 1013 Consolidated Financial Reports in relation to Pre- Date-of-Transition Stapling Arrangements.</p>	1 July 2009	Adoption of AASB 127 (Amended) is not likely to result in changes in the way in which the Group accounts for changes to <i>Consolidated and Separate Financial Statements</i> .	1 July 2009

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2008- 1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transaction are not vesting conditions. It also specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.	1 January 2009	Adoption of the revised AASB 2008-1 will not result in a change in accounting policy for the entity as AASB 2008-1 only clarifies an existing treatment the entity had already complied with.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 and ASB 127 above.	1 July 2009
AASB 2008-5	Amendments to Australian Accounting Standards arising from Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part I deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact. This was the first omnibus of amendments issued by the IASB arising from the Annual Improvements Project and it is expected that going forward, such improvements will be issued annually to remove inconsistencies and clarify wording in the standards. The AASB issued these amendments in two separate amending standards; one dealing with the accounting changes effective from 1 January 2009 and the other dealing with amendments to AASB 5, which will be applicable from 1 July 2009 [refer below AASB 2008-6].	1 January 2009	Adoption of Part I amendments flowing from Improvements to IFRS are expected to have the following impacts: <i>Presentation of Financial Statements:</i> No impact as the Group do not have any financial liabilities held for trading; <i>Discontinued Operations</i> – No impact as the Group do not anticipate disposal of the only subsidiary; <i>Property, Plant and Equipment</i> – No impact as the Group is not involved in the rental out of property, plant and equipment; <i>Investment in Associates</i> - No impact as the Group does not have any investments in associates and further has other investments and assets that it controls and recognises; <i>Intangible Assets</i> – No impact as the Group does not engage in advertising and promotional activities that enhance or create internally generated brands or customer relationships, which in turn generate revenues; and <i>Investment Property</i> – No impact as the Group is not involved in the investment property business. As with the IASB's views, the Part II amendments are not expected to have any impact on the Group's financial statement	1 July 2009

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from Annual Improvements Project	This was the second omnibus of amendments issued by the IASB arising from the Annual Improvements Project. Refer to AASB 2008-5 above for more details.	1 July 2009	Refer to AASB 2008-5 above.	1 July 2009
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the “cost method” and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity’s separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	No reorganisation of the Group is envisaged. The 2006 investment in the subsidiary is carried at cost at the time of acquisition. The subsidiary has not paid or expected to pay dividends in the foreseeable future. Accordingly, these amendments are not expected to have any impact on the Group’s financial report.	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	AASB 2008-8 amends the application guidance of AASB 139 Financial Instruments: Recognition and Measurement to clarify how the existing principles underlying hedge accounting apply to the designation of: (a) a one-sided risk in a hedged item; and (b) inflation as a hedged risk or portion in particular circumstances.	1 July 2009	Adoption of the AASB 2008-8 is not expected to have any impact on the Group’s financial statements as the Group does not have any hedged items.	1 July 2009

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2009-2	Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	<p>The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy:</p> <ul style="list-style-type: none"> <li>- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);</li> <li>- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and</li> <li>- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).</li> </ul> <p>These amendments arise from the issuance of <i>Improving Disclosures about Financial Instruments (Amendments to IFRS 7)</i> by the IASB in March 2009. The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.</p>	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	Adoption of the AASB 2009-2 is not expected to have any impact on the Group's financial statements as the Group.	1 July 2009
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.</p> <p>The main amendment of relevance to Australian entities is that made to IFRIC 16 which allows qualifying hedge instruments to be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements in AASB 139 that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment.</p>	1 July 2009	Adoption of the AASB 2009-4 is not expected to have any impact on the Group's financial statements as the Group.	1 July 2009

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Statement of compliance (continued)

		These amendments arise from the issuance of the IASB's Improvements to IFRSs. The amendments pertaining to IFRS 5, 8, IAS 1, 7, 17, 36 and 39 have been issued in Australia as AASB 2009-5 (refer below).			
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	<p>The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main amendment of relevance to Australian entities is that made to AASB 117 by removing the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible v property, plant and equipment) needs to be determined.</p> <p>These amendments arise from the issuance of the IASB's Improvements to IFRSs. The AASB has issued the amendments to IFRS 2, IAS 38, IFRIC 9 as AASB 2009-4 (refer above).</p>	1 January 2010	Adoption of the AASB 2009-5 is likely to result in changes in the way in which the Group accounts for land leases. The Group has not yet determined the financial impact of this change.	1 July 2010
Amendments To International Financial Reporting Standards	Amendments to IFRS 2	<p>The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular:</p> <ul style="list-style-type: none"> <li>- the scope of AASB 2; and</li> <li>- the interaction between IFRS 2 and other standards.</li> </ul> <p>An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.</p> <p>A "group" has the same meaning as in IAS 27 <i>Consolidated and Separate Financial Statements</i>, that is, it includes only a parent and its subsidiaries.</p>	1 January 2010	Amendments to IFRS 2 are not expected to have any impact on the Group's financial statements as the Group	1 July 2010

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Statement of compliance (continued)

		The amendments also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2— <i>Group and Treasury Share Transactions</i> . As a result, IFRIC 8 and IFRIC 11 have been withdrawn.			
AASB Int. 17 and AASB 2008-13	Distributions of Non cash Assets to Owners and consequential amendments to other Australian Accounting Standards	Int. 17 provides guidance on how an entity should measure distributions of assets other than cash when it pays dividends to its owners, except for common control transactions. It also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The issuance this Interpretation 17 also necessitates consequential amendments to AASB 5 and AASB 110. These amendments are in respect of the classification, presentation and measurement of non-current assets held for distribution to owners in their capacity as owners and the disclosure requirements for dividends that are declared after the reporting period but before the financial statements are authorised for issue, respectively.	1 July 2009	Adoption of the AASB Int. 17 AASB 2008-13 is not expected to have any impact on the Group's financial statements as the Group does not hold any non-current assets for distribution to owners. Further the Group has not declared and is not expecting to declare any dividends in the foreseeable future.	1 July 2009

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Going Concern

As at 30 June 2009 the Group has a working capital deficiency of \$3,865,821 and has utilised approximately \$4,841,200 of cash during the year as part of its operating and investing activities. Commitments for the 12 month period ended 30 June 2010 are approximately \$1,282,211.

The working capital deficiency is a result of payments owing to Outotec (USA) Inc. ("Outotec") for long lead items, totalling \$5,702,983. The Group has entered into an agreement with Outotec to defer settlement of this amount until the earlier of the Group securing project finance, or 13 months from 31 March 2009.

The cash utilised from operating activities is primarily due to ongoing expenditure relating to the administration of the Group and meeting its governance and statutory obligations.

The cash utilised from investing activities is primarily due to the ongoing development of the Oregon Heavy Minerals Project and associated plant and equipment.

Management and the Directors are satisfied the Company and the Group can continue on a going concern basis. This opinion is based on the following matters:

- i) In July 2009 the Company completed capital raisings totalling \$5,000,000 which included \$4,000,000 under a placement of ordinary shares to sophisticated investors and a further \$1,000,000 under a share purchase plan under which eligible shareholders were offered the opportunity to subscribe for between \$1,000 and \$5,000 of new shares in various increments;
- ii) On 22 July 2009, shareholders approved the issue of 125,000,000 shares pursuant to the share placement and share purchase plan completed after the Balance Date. As a consequence of obtaining this shareholder approval, the Company has reinstated its capacity to issue up to 15% of its issued capital in accordance with ASX Listing Rules without shareholder approval;
- iii) Management are confident that major shareholders have the capacity to provide short term finance if required;
- iv) As at the date of this report the Company had received and accepted an offer from Macquarie Bank Limited for a debt facility of US\$30,000,000 to partially fund the development of the Oregon Heavy Minerals Project which was conditional on an equity contribution of US\$15,000,000; and
- v) Management are confident that Bligh Capital ("Bligh") who were responsible for procuring the offer of debt from Macquarie Bank Limited in addition to having engaged with several parties who have indicated a desire to provide all or part of the planned US\$15,000,000 equity, will secure the equity component of the project finance.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should the Company and the Group not be able to continue as a going concern.

#### (e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Foreign currency translation

##### *(i) Functional and presentation currency*

The functional and presentation currency of Industrial Minerals Corporation Limited is Australian dollars (AUD). The functional currency of Oregon Resources Corporation Inc. is United States dollars (USD).

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### *(ii) Transactions & balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

##### *(iii) Translation of foreign operations*

As at the reporting date the assets and liabilities of Oregon Resources Corporation Inc. ("ORC") are translated into the presentation currency of Industrial Minerals Corporation Limited at the rate of exchange ruling at the balance sheet date and its income statements are translated at the exchange rate ruling at the date of transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On consolidation, exchange differences arising from the translation of the net investment in ORC and of borrowings designated as hedges of hedges of the hedges of net investment are taken to the foreign currency translation reserve.

If ORC was sold, the exchange differences would be transferred out of equity and recognised in the income statement.

#### (g) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Company will not be able to collect the debt.

#### (h) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial instruments: Recognition and measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

##### *(i) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised costs using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Exploration, evaluation and development expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method.

Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either;

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

##### *Impairment*

The carrying value of capitalised exploration and evaluation expenditure is assessed for impairment at the cash generating unit level whenever facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount.

An impairment exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Any impairment losses are recognised in the income statement.

#### (j) Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalization when the cost of replacing the part is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight line and diminishing value basis over the estimated useful life of the assets as follows:

- Land – not depreciated
- Pilot plant – 10 years straight line
- Office furniture and equipment – 7 years straight line
- Motor vehicles – over 5 years diminishing value

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The Company performs impairment testing on property, plant and equipment of as at 30 June each year. Should impairment indicators exist, then all impairment tests must be performed in the functional currency of the Company within which the asset resides, then converts to A\$ at the exchange rate prevailing as at that date, and any resultant charge recognised in the income statement.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

##### *(i) Employee benefits*

###### *Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of the employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

###### *Long service leave*

The liability for long service leave is recognised and measured as the present value of expected payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### (l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

##### *(i) Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Industrial Minerals conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

#### (n) Trade and other payables

Trade payables and other payables are carried at amortised costs. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (o) Share-based payment transactions

##### *(i) Equity settled transactions:*

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Group has adopted an Employee Share and Option Plan to provide these benefits to directors, executives, employees and consultants.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using either a binomial or Black and Scholes model.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the market price of the shares of Industrial Minerals.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employees turnover during the vesting period and the likelihood of non-market performance conditions being met; and (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer award vested than were originally expected to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Share-based payment transactions (continued)

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangements, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it has vested on the date on cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

#### (p) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (q) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### (i) Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### (r) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Income tax and other taxes (continued)

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### *Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flow arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (s) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the Company, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by the management in the preparation of these financial statements are outlined below:

#### *(i) Significant accounting judgments*

##### *(a) Determination of minerals resources and ore reserves*

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortization rates and provision for decommissioning and restoration. Industrial Minerals estimates its mineral and ore reserves in accordance with the *Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserve 2004* (the 'JORC code'). The information on minerals resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserved and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

##### *(ii) Significant accounting estimates and assumptions*

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities:

##### *(a) Impairment of capitalised exploration and evaluation expenditure*

The future recoverability of capitalised exploration expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

#### *(ii) Significant accounting estimates and assumptions (continued)*

##### *(b) Impairment of property, plant and equipment*

Property, plant and equipment is reviewed if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices; and
- future cash costs of production.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

##### *(c) Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a binomial or Black and Scholes model, with the assumption detailed in note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities within the next annual reporting period but may impact expenses and equity.

##### *(d) Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experiences as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

### 4 SEGMENT INFORMATION

The Group operates in the mining and exploration industry segment, with all operations located in United States.

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

**5 REVENUE AND OTHER INCOME**

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Bank interest	<b>144</b>	878	<b>144</b>	874
	<b>144</b>	878	<b>144</b>	874

**6 EXPENSES**

**(a) Employment expenses**

Salary and wages	<b>268</b>	179	-	-
Share based payments	<b>170</b>	1,144	<b>170</b>	1,145
Other employment expenses	<b>34</b>	38	<b>29</b>	-
	<b>472</b>	1,361	<b>199</b>	1,145

**(b) Other expenses**

Depreciation and amortisation expense	<b>180</b>	139	-	-
Financing expenses	<b>104</b>	-	102	-
Marketing expenses	<b>60</b>	41	-	-
Other expenses	<b>50</b>	37	<b>3</b>	28
	<b>394</b>	217	<b>105</b>	28

**(c) Interest expenses**

Imputed interest on deferred payment for land purchase (refer note 16)	<b>291</b>	82	-	-
Bank loan	<b>2</b>	4	-	-
Other	<b>-</b>	1	-	-
	<b>293</b>	87	-	-

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 7 INCOME TAX

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
The major components of income tax expense are:				
<b>Income Statement</b>				
Current income tax charge/benefit	-	-	-	-
Deferred income tax charge/benefit	-	-	-	-
Income tax expense reported in the income statement	-	-	-	-
<b>Amounts charged or credited directly to equity</b>				
Share issue costs	(14)	(87)	(14)	(87)
Income tax benefit not recognised	14	87	14	87
Income tax benefit reported in equity	-	-	-	-
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate as follows:				
Accounting profit/(loss) before tax from continuing operations	(2,565)	(2,068)	3,056	(7,890)
At the parent entity's statutory income tax rate of 30% (2008: 30%):	(770)	(621)	917	(2,367)
Foreign tax rate adjustment (USA: 35%)	(27)	(42)	-	-
Provision for non-recoverability of intercompany loans	-	-	(1,317)	2,003
Share based payments	51	343	51	343
Other non-deductible expenses	85	40	81	8
Tax losses and timing differences not brought to account	661	280	268	13
	-	-	-	-

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 7 INCOME TAX (CONTINUED)

	BALANCE SHEET		INCOME STATEMENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Deferred Income Tax</b>				
Deferred income tax at 30 June relates to the following:				
<i>Consolidated</i>				
<i>Deferred tax liabilities</i>				
Exploration tenements	(1,168)	(612)	1,883	302
Property, plant and equipment	(64)	-	64	-
	<b>(1,232)</b>	<b>(612)</b>		
<i>Deferred tax assets</i>				
Accrued audit fees	12	8	(17)	(3)
Other accruals	10	-	(51)	-
Share issue costs	263	367	104	19
Property, plant and equipment	-	38	38	(38)
Revenue tax losses – US	2,223	1,319	(1,226)	(843)
Revenue tax losses – Australia	684	322	(362)	37
Deferred tax assets not recognised	(1,960)	(1,442)	(433)	526
	<b>1,232</b>	<b>612</b>		
Deferred tax (income)/expense			-	-
Net deferred tax recognised in Balance Sheet	-	-		
<i>Parent</i>				
<i>Deferred tax assets</i>				
Accrued audit fees	12	8	(4)	(3)
Other accruals	10	-	(10)	-
Share issue costs	263	367	104	19
Revenue tax losses – current year	684	322	(362)	37
Provision for impairment	687	2,003	1,316	(2,003)
Deferred tax assets not recognised	(1,656)	(2,700)	(1,044)	1,950
	-	-		
Deferred tax (income)/expense			-	-
Net deferred tax recognised in Balance Sheet	-	-		

The Consolidated Group has tax losses of \$2,907,250 (2008: \$1,640,836) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

At 30 June 2009, there is no recognised or unrecognised deferred income tax liability (2008: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiary, as the Group has no liability for additional taxation should such amounts be remitted.

As a result of the change in control of the Oregon Resources Corporation, following the acquisition by the Company, in 2007 some tax losses arising in Oregon Resources Corporation may be limited for US income tax purposes.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 8 DIVIDENDS PAID AND PROPOSED

No dividends in respect of the current or previous financial period have been paid, declared or recommended for payment.

### 9 EARNINGS PER SHARE

#### (a) Loss used in calculating loss per share

	CONSOLIDATED	
	2009	2008
	\$'000	\$'000
For basic and diluted earnings per share:		
<i>Net loss attributable to ordinary equity holders of the parent</i>	(2,565)	(2,068)

#### (b) Weighted average number of shares

	2009 Number (Thousands)	2008 Number (Thousands)
<i>Weighted average number of ordinary shares for basic earnings per share</i>	170,004	164,911
Effect of dilution:		
Share options	-	-
Performance shares	-	-
<i>Weighted average number of ordinary shares adjusted for the effect of dilution</i>	170,004	164,911

As at 30 June 2009, the Company had on issue 19,105,500 (2008: 23,043,000) options over unissued capital and has incurred a net profit. These potential ordinary shares have not been included in the calculation of diluted earnings per share as they are anti-dilutive for all periods presented.

There are no instruments (eg share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for both of the periods presented.

#### (c) Information on the classification of securities

##### (i) Options

Options granted to key management personnel as described in note 23 are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

Options issued to shareholders pursuant to offers made under disclosure documents in prior financial periods are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic loss per share.

All share options are not considered dilutive as the conversion of options to ordinary shares will result in a decrease in the net loss per share.

The Company engaged Azure Capital Pty Ltd ("Azure") to act as Lead Manager in connection with the placement of 100,000,000 shares at an issue price of 4 cents to sophisticated and professional investors. Under the terms of Azure's engagement, the Company agreed to issue 2,000,000 Options exercisable at 6 cents each on or before 30 June 2012 on completion of the placement. These options were approved by shareholders at a general meeting held on 22 July 2009 and issued to nominees of Azure on 22 July 2009.

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## Notes to the Financial Statements (continued)

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### 9 EARNINGS PER SHARE (CONTINUED)

*(ii) Performance shares*

The 30,000,000 performance shares issued to Resource Finance & Investment Limited representing consideration for the acquisition of Oregon Resources Corporation Inc. are considered to be potential ordinary shares. These shares have not been included in the determination of basic loss per share. These shares are not considered dilutive as their inclusion will result in the decrease in the net loss per share.

The performance shares were cancelled during the financial year as a consequence of Oregon Resources Corporation Inc. not achieving its Performance Hurdle of an audited net profit after tax (after adjusting for depreciation and other similar non-cash items) of \$5,000,000 for the 12 month period ending 28 February 2009.

### 10 CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash at bank and in hand	4,053	406	4,038	303
Short-term deposits	115	5,108	115	5,108
	<b>4,168</b>	<b>5,514</b>	<b>4,153</b>	<b>5,411</b>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Due to the short term return of these deposits, their carrying value approximates their fair value.

The Group had no unused borrowing facilities at balance date.

### 11 TRADE & OTHER RECEIVABLES

**Current**

Trade and other receivables (a)	5	54	1	54
GST receivable	16	5	15	5
	<b>21</b>	<b>59</b>	<b>16</b>	<b>59</b>

**Non-current**

Receivable from controlled entity (b)	-	-	20,952	16,723
Allowance for impairment loss (c)	-	-	(2,289)	(6,677)
	-	-	<b>18,663</b>	<b>10,046</b>

(a) Trade receivables are non-interest bearing and are generally on 30-90 days terms. The carrying amounts of trade and other receivables represent fair value.

(b) For the terms and conditions of related party receivables refer to note 22.

(c) An impairment gain of \$4,388,457 (2008: loss of \$6,677,369) was recognised by the Company in the year and recorded separately in the Income Statement.

### 12 OTHER CURRENT ASSETS

Share subscriptions received	17	-	17	-
	<b>17</b>	<b>-</b>	<b>17</b>	<b>-</b>

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 13 OTHER FINANCIAL ASSETS

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Investment in controlled entity (note 22) – at cost	-	-	20,000	20,000
	-	-	20,000	20,000

### 14 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amounts at the beginning and end of the period:

	CONSOLIDATED				PARENT	
	Land and improvements	Plant and equipment	Construction in progress	Motor vehicles	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2009</b>						
At 1 July 2008, net of accumulated depreciation	2,855	1,026	9,563	58	13,502	-
Additions	73	12	8,045	1	8,131	-
Depreciation charge for the year	-	(156)	-	(24)	(180)	-
Disposals	-	-	-	-	-	-
Transfers from Exploration and Evaluation	-	-	465	-	465	-
Reclassifications	(177)	(52)	229	-	-	-
Net exchange differences	579	214	1,013	12	1,818	-
At 30 June 2009, net of accumulated depreciation	3,330	1,044	19,315	47	23,736	-
<b>At 30 June 2009</b>						
Cost	3,330	1,341	19,315	112	24,098	-
Accumulated depreciation	-	(297)	-	(65)	(362)	-
Net carrying amount	3,330	1,044	19,315	47	23,736	-

- (i) The purchase of motor vehicles by Oregon Resources Corporation Inc. is financed by a fixed rate loan, as disclosed in note 18, which is secured by a charge over motor vehicles with a carrying amount of \$47,093.
- (ii) Land with a carrying value of \$1,941,169 is pledged as security for the payment of the balance of the purchase price of the land as disclosed in note 16.

#### Year ended 30 June 2008

At 1 July 2007, net of accumulated depreciation	1,281	1,235	958	80	3,554	-
Additions	1,849	51	9,301	6	11,207	-
Depreciation charge for the year	-	(119)	-	(20)	(139)	-
Disposals	-	(2)	-	-	(2)	-
Reclassifications	-	-	49	-	49	-
Net exchange differences	(275)	(139)	(745)	(8)	(1,167)	-
At 30 June 2008, net of accumulated depreciation	2,855	1,026	9,563	58	13,502	-
<b>At 30 June 2008</b>						
Cost	2,855	1,153	9,563	94	13,665	-
Accumulated depreciation	-	(127)	-	(36)	(163)	-
Net carrying amount	2,855	1,026	9,563	58	13,502	-

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FOR THE YEAR ENDED 30 JUNE 2009

### 15 EXPLORATION AND EVALUATION

Reconciliation of carrying amounts at the beginning and end of the period:

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Balance at beginning of financial period	18,617	21,193	-	-
Acquisition of subsidiary	-	-	-	-
Additions	1,018	1,634	-	-
Transfers to property, plant & equipment	(465)	-	-	-
Reclassifications	-	(49)	-	-
Net exchange differences	3,583	(4,161)	-	-
Balance at end of financial period	<u>22,753</u>	<u>18,617</u>	-	-
Cost	22,753	18,617	-	-
Accumulated impairment	-	-	-	-
Net carrying amount	<u>22,753</u>	<u>18,617</u>	-	-

The value of the Company's interest in exploration expenditure is dependent upon:

- the continuance of the Company's rights to tenure of the areas of interest;
- the results of future exploration activities; and
- the recoupment of costs through successful development and exploitation of the areas of interest or, alternatively, by their sale.

### 16 TRADE AND OTHER PAYABLES

#### Current

Trade payables (a)	6,339	210	148	62
	<u>6,339</u>	<u>210</u>	<u>148</u>	<u>62</u>
Other	258	753	74	24
Fair Value of Westbrook property loan (b)	1729	-	-	-
Less: extension fee	(217)	-	-	-
	<u>1,770</u>	<u>753</u>	<u>74</u>	<u>24</u>
Total current payables	<u>8,109</u>	<u>963</u>	<u>222</u>	<u>86</u>

#### Non-current

Other payables (b)	-	1,293	-	-
	<u>-</u>	<u>1,293</u>	<u>-</u>	<u>-</u>

- (a) Trade payables are non-interest bearing and are normally settled on 60 - 90 day terms. Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value. Trade payables include amounts owing to Outotec (USA) Inc. ("Outotec") for long lead items, totalling \$5,702,983. The Company has entered into an agreement with Outotec to defer settlement of this amount until the earlier of the Company securing project finance, or 13 months from 31 March 2009.
- (b) Final payment for the purchase of land that was due for settlement in July 2009. Settlement was subsequently extended to February 2010.

Information regarding interest rate, foreign exchange and liquidity risk is set out in note 25.

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FOR THE YEAR ENDED 30 JUNE 2009

### 17 SHARE SUBSCRIPTIONS RECEIVED IN ADVANCE

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Share subscriptions – share placement (a)	2	-	2	-
Share subscriptions – share purchase plan (b)	15	-	15	-
	<b>17</b>	<b>-</b>	<b>17</b>	<b>-</b>

(a) As at 30 June 2009 the Group had received share subscriptions totalling \$4,002,000 from investors which had agreed to participate in the share placement during the financial year. Of the amount received at the Balance Date, \$2,000 represented oversubscriptions. The issue of shares pursuant to the placement was dependent on the approval of shareholders.

The share placement which comprised of an issue of 100,000,000 shares at an issue price of 4 cents per was approved by shareholders at a general meeting and completed on 22 July 2009.

The oversubscriptions were refunded to the unsuccessful share applicants.

(b) As at 30 June 2009 the Group had received share applications totalling \$15,000 from shareholders who wished to participate in the share purchase plan announced during the financial year.

The share purchase plan which comprised of an issue of 25,000,000 shares at an issue price of 4 cents per was approved by shareholders at a general meeting and completed on 22 July 2009.

### 18 LOANS AND BORROWINGS

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Current</b>				
Term bank debt	-	25	-	-
	<b>-</b>	<b>25</b>	<b>-</b>	<b>-</b>
<b>Non-current</b>				
Term bank debt	-	-	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Information regarding the effective interest rate risk of the bank loan is set out in note 24.

The carrying amount of the Group's borrowings approximates their fair value.

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## Notes to the Financial Statements (continued)

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### 19 CONTRIBUTED EQUITY

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Ordinary shares	40,450	36,552	40,450	36,552
Performance shares	6,000	6,000	6,000	6,000
	<b>46,450</b>	<b>42,552</b>	<b>46,450</b>	<b>42,552</b>

	Number	Number	Number	Number
	<b>(a) Ordinary shares</b>			
Issued and fully paid	<b>165,894</b>	165,894	165,894	<b>165,894</b>

		Number (Thousands)	\$'000
<i>Movement in ordinary shares on issue</i>			
At 1 July 2007		152,600	31,586
Exercise of options	(i)	244	48
Share issues	(ii)	13,000	5,200
Auction of forfeited partly paid shares	(iii)	50	8
Transaction costs	(v)	-	(290)
<b>At 30 June 2008</b>		<b>165,894</b>	<b>36,552</b>

		Number (Thousands)	\$'000
<i>Movement in ordinary shares on issue</i>			
At 1 July 2008		<b>165,894</b>	<b>36,552</b>
Exercise of options		-	-
Subscription proceeds from share to be issued	(iv)	-	<b>4,000</b>
Transaction costs	(v)	-	<b>(102)</b>
<b>At 30 June 2009</b>		<b>165,894</b>	<b>40,450</b>

- (i) The following shares were issued on the exercise of options during the financial year ended 30 June 2008:
- on 2 August 2007 there were 119,500 shares issued on the exercise of 20 cent options expiring 31 December 2009;
  - on 4 October 2007 there were 31,250 shares issued on the exercise of 20 cent options expiring 31 December 2009;
  - on 5 December 2007 there were 31,250 shares issued on the exercise of 20 cent options expiring 31 December 2009; and
  - on 7 December 2007 there were 62,500 shares issued on the exercise of 20 cent options expiring 31 December 2009.
- (ii) The following shares were issued during the financial year ended 30 June 2008:
- 13,000,000 shares issued in July 2007 at an issue price of \$0.40 to sophisticated investors pursuant to the Prospectus dated 8 June 2007.
- (iii) In February 2008, the Company issued 50,000 ordinary shares following the auction of 50,000 partly paid shares of which ownership reverted to the Company in 2008 after the shareholders failed to pay the final call of 15 cents per share.
- (iv) At 30 June 2009 the Company had received applications for 100,000,000 ordinary shares at an issue price of 4 cents pursuant to an offer of shares under a placement to sophisticated and professional investors. The shares were issued following receipt of shareholder approval at a general meeting held on 22 July 2009.
- (v) Transaction costs represent the costs of issuing the shares.

## Notes to the Financial Statements (continued)

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### 19 CONTRIBUTED EQUITY (CONTINUED)

#### Capital Risk Management

Capital is comprised of shareholders equity as disclosed in the Balance Sheet.

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain capital structure that ensures the lowest cost of capital available to the entity.

In order to maintain or adjust the capital structure, the entity may, where applicable, adjust the amount of dividends to shareholders, return of capital to shareholders, issue new shares, enter into joint ventures or sell assets.

The entity does not have a defined share buy-back plan.

No dividends were paid in 2009 and no dividends are expected in 2010.

The Group is not subject to any externally imposed capital requirements.

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
<b>(b) Partly paid shares</b>				
Issued and paid to \$0.01	-	-	-	-
	Number			
	(Thousands)	\$'000		
<i>Movement in partly paid shares on issue</i>				
At 1 July 2007	50	1		
Auction of forfeited partly paid shares	(50)	(1)		
At 30 June 2008	-	-		
<i>Movement in partly paid shares on issue</i>				
At 1 July 2008	-	-		
<b>At 30 June 2009</b>	-	-		

- (i) In February 2008, the Company issued 50,000 ordinary shares following the auction of 50,000 partly paid shares of which ownership reverted to the Company in 2008 after the shareholders failed to pay the final call of 15 cents per share.

## Notes to the Financial Statements (continued)

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### 19 CONTRIBUTED EQUITY (CONTINUED)

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
(c) <b>Performance shares</b> Issued and fully paid	<b>6,000</b>	6,000	<b>6,000</b>	6,000
	Number (Thousands)	\$'000		
<i>Movement in performance shares on issue</i>				
At 1 July 2007	-	-		
Share issues	30,000	6,000		
At 30 June 2008	30,000	6,000		
<i>Movement in performance shares on issue</i>				
At 1 July 2008	30,000	6,000		
Cancellation of shares	(i)	-		
<b>At 30 June 2009</b>	<b>-</b>	<b>6,000</b>		

- (i) On 28 February 2009 the 30,000,000 Performance Shares held by RFI were cancelled as a consequence of Oregon Resources Corporation Inc. not achieving its Performance Hurdle of an audited net profit after tax (after adjusting for depreciation and other similar non-cash items) of \$5,000,000 for the 12 month period ending 28 February 2009. No adjustment was made to equity as a result of the cancellation on the basis that the performance shares did not represent contingent consideration for the acquisition of ORC, but instead cash equivalent payment for the acquisition of an asset.

The terms of the performance shares are set out below:

- (a) The performance shares are a separate class of shares in Industrial Minerals that will convert into ordinary shares on satisfaction of an agreed performance hurdle (see below);
- (b) (i) If paragraph (a) of the performance hurdle definition is achieved, each performance share will, subject to clause (d) below, automatically convert to one Share which will have the same rights as, and rank equally with, other shares then on issue and the Company will apply for the quotation of the shares so created within the time frame specified in the ASX Listing Rules;
- (ii) if paragraph (b) of the performance hurdle definition is achieved, subject to paragraph (d) below, the performance shares will convert to such number of shares as equates to 10% of the total diluted number shares then on issue and each such converted share will have the same rights as, and rank equally with, other shares then on issue and the Company will apply for the quotation of the Shares so created within the time frame specified in the ASX Listing Rules;
- (c) The holders of performance shares:
- (i) do not have the right to receive dividends or other distributions of capital in the Company;
- (ii) do not have the right to receive notices or attend general meetings of the Company; and
- (iii) do not have voting rights in respect of the performance shares;
- (iv) on a creditor's winding up, have the same entitlements as holders of shares and on any other winding up, have no entitlements;
- (d) If there is a variation of the issued capital of the Company including a capitalisation or rights issue, subdivision, consolidation or reduction of share capital, the reduction of share capital, the number of the performance shares may be adjusted in the same manner and proportion as shares and in accordance with the ASX Listing Rules (if applicable) and in any case in a manner which will not result in any benefits being conferred on the holder which are not conferred on shareholders;

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 19 CONTRIBUTED EQUITY (CONTINUED)

#### (c) Performance shares (continued)

- e) In the event that a takeover bid is made in respect of the securities of the Company, the performance shares will remain the subject of the performance hurdle unless and until the party making any such bid has acquired:
  - (i) the performance shares; and
  - (ii) sufficient of the shares to enable it to proceed to compulsory acquisition of the balance of the shares; in which case each performance share will, subject to clause (d) above, automatically convert to such number of shares as equates to 10% of the total diluted number shares then on issue and each such converted share will have the same rights as, and rank equally with, other shares then on issue and the Company will apply for the quotation of the shares so created within the time frame specified in the ASX Listing Rules;
- f) The Company would not apply for quotation of performance shares;
- g) The performance shares are not transferable;
- h) If none of the performance hurdles have been achieved by 28 February 2009 all of the performance shares will be cancelled in full.

The definition of performance hurdle is:

- a) the achievement by Oregon Resources Corporation Inc. as recorded in its audited accounts for the 12 calendar months ending 28 February 2009 of net profit after tax (after adjusting for depreciation and other similar non-cash items) of \$5,000,000, subject to any extension beyond 28 February 2009 agreed by Resource Finance and Investment Limited and the Company or as a result of a force majeure event occurring which delays completion of the acquisition of Oregon Resources Corporation Inc. by the Company occurring by 30 September 2006 through no fault of Resource Finance and Investment Limited or Oregon Resources Corporation Inc; or
- b) a third party acquiring sufficient of the shares to acquire a relevant interest in the issued voting shares in Industrial Minerals Corporation Limited of more than 50% and the consideration paid by the third party being more than 40 cents for each share.

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## Notes to the Financial Statements (continued)

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**20 ACCUMULATED LOSSES AND RESERVES**

**(a) Movement in accumulated losses were as follows:**

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Balance 1 July	(3,438)	(1,370)	(8,854)	(965)
Net gain/(loss)	(2,565)	(2,068)	3,056	(7,889)
Balance 30 June	<b>(6,003)</b>	<b>(3,438)</b>	<b>(5,798)</b>	<b>(8,854)</b>

**(b) Other reserves**

	CONSOLIDATED			PARENT	
	Option Issue Reserve	Foreign currency translation	Total	Option Issue Reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2007	604	(422)	182	604	604
Share based payment	1,144	-	1,144	1,144	1,144
Currency translation differences	-	(4,994)	(4,994)	-	-
At 30 June 2008	1,748	(5,416)	(3,668)	1,748	1,748
Share based payment	224	-	224	224	224
Currency translation differences	-	5,621	5,621	-	-
At 30 June 2009	<b>1,972</b>	<b>205</b>	<b>2,177</b>	<b>1,972</b>	<b>1,972</b>

**(c) Nature and purpose of reserves**

*Option Issue Reserve*

The option issue reserve is used to record the value of share based payments provided to employees, including key management personnel, as part of their remuneration. Refer to note 24 for further details of the Employee Share and Option Plan.

As a consequence of the Company receiving all applications pursuant to the share placement, the Company had an obligation to issue 2,000,000 options to Azure Capital Pty Ltd, in accordance with the terms of its engagement as Lead Manager to the share placement. The options were issued following receipt of shareholder approval at a general meeting held on 22 July 2009.

*Foreign currency translation*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign subsidiary.

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### 21 CASH FLOW RECONCILIATION

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>(a) Reconciliation of net loss after tax to net cash flows from operations</b>				
Net profit/(loss)	(2,565)	(2,068)	3,056	(7,890)
<i>Adjustments for:</i>				
Depreciation and amortisation	180	139	-	-
Interest income classified as investing cash flow	(144)	(878)	(144)	(873)
Share based payments	170	1,144	170	1,144
Provision for impairment	-	-	(4,388)	6,677
Imputed interest on deferred payment for land	166	81	-	-
Income partly paid shares	-	(1)	-	-
<i>Changes in assets and liabilities</i>				
Decrease/(Increase) in trade and other receivables	(15)	42	(10)	42
Decrease/(Increase) in prepayments	(20)	(9)	2	(3)
Increase/(Decrease) in trade and other payables	(131)	(441)	135	(38)
Net cash from operating activities	<u>(2,359)</u>	<u>(1,991)</u>	<u>(1,179)</u>	<u>(941)</u>
<b>(b) Non-cash financing and investing activities</b>				
Deferred payment for land purchase (refer note 16)	-	1,305	-	-

### 22 RELATED PARTY DISCLOSURE

#### (a) Subsidiaries

The consolidated financial statements include the financial statements of Industrial Minerals Corporation Limited and its subsidiary listed in the following table.

Name	Country of Incorporation	Equity %		Investment (\$'000)	
		2009	2008	2009	2008
Oregon Resources Corporation Inc.	United States	100	100	20,000	20,000

#### (b) Ultimate parent

Industrial Minerals Corporation Limited is the parent entity.

#### (c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 23.

#### (d) Related Party transactions

The parent entity made payments and received funds on behalf of the subsidiary by way of intercompany loan accounts with the subsidiary. These loans are unsecured, bear no interest and are repayable on demand. However, demand for repayment is not expected in the next 12 months. Aggregate amounts receivable from the subsidiary are set out in note 11. An allowance for impairment gain of \$4,388,457 (2008: loss of \$6,677,369) has been provided for this amount.

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### 23 KEY MANAGEMENT PERSONNEL

#### (a) Details of Key Management Personnel

*(i) Directors*

Jeremy David Shervington	Chairman (non-executive)
Philip James Garratt	Chief Executive Officer
Michael James Brindley Brickell	Director (non-executive)
Daniel Frank Smith	Chief Operating Officer
Cheryl Lynn Wilson	Director (executive)
Alec Christopher Pismiris	Director (executive)

*(ii) Executives*

Steven Michael Blacklock	Chief Financial Officer
James Joseph Dingman	Director of Marketing & Sales
Joseph Daniel Drew	Chief Geologist
Todd Matthew Lessard	Director of Engineering & Processing

#### (b) Compensation of Key Management Personnel

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Short-term employee benefits	1,382	1,441	762	636
Post-employment benefits	-	-	-	-
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	148	944	-	944
	<b>1,530</b>	<b>2,385</b>	<b>762</b>	<b>1,580</b>

#### (c) Option holdings of Key Management Personnel (Consolidated)

30 June 2009	<i>Balance at beginning of period 01 Jul 08</i>	<i>Granted as Remune- ration</i>	<i>Options Exercised</i>	<i>Net Change Other <sup>1</sup></i>	<i>Balance at end of period 30 Jun 09</i>	<i>Exercisable</i>	<i>Not Exercisable</i>
<b>Directors</b>							
J D Shervington	612,500	-	-	-	612,500	612,500	-
P J Garratt	3,125,000	-	-	(637,500)	2,487,500	2,487,500	-
M J B Brickell	-	-	-	-	-	-	-
D F Smith	1,750,000	-	-	(437,500)	1,312,500	1,312,500	-
C L Wilson	2,750,000	-	-	(687,500)	2,062,500	2,062,500	-
AC Pismiris	575,000	-	-	-	575,000	575,000	-
<b>Executives</b>							
S M Blacklock	2,500,000	-	-	(625,000)	1,875,000	1,875,000	-
J J Dingman	1,000,000	-	-	(250,000)	750,000	500,000	250,000
J D Drew	1,000,000	-	-	(250,000)	750,000	500,000	250,000
T M Lessard	1,000,000	-	-	(250,000)	750,000	500,000	250,000
<b>Total</b>	<b>14,312,500</b>	<b>-</b>	<b>-</b>	<b>(3,137,500)</b>	<b>11,175,000</b>	<b>10,425,000</b>	<b>750,000</b>

Notes:

- 1 On 2 November 2008 options exercisable at 20 cents issued to executives and management under the Employee Share and Option Plan expired.

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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 23 KEY MANAGEMENT PERSONNEL (CONTINUED)

#### (c) Option holdings of Key Management Personnel (Consolidated) (continued)

30 June 2008	<i>Balance at beginning of period 01 Jul 07</i>	<i>Granted as Remune- ration</i>	<i>Options Exercised</i>	<i>Net Change Other <sup>1</sup></i>	<i>Balance at end of period 30 Jun 08</i>	<i>Exercisable</i>	<i>Not Exercisable</i>
<b>Directors</b>							
J D Shervington	612,500	-	-	-	612,500	612,500	-
P J Garratt	3,125,000	-	-	-	3,125,000	3,125,000	-
M J B Brickell	-	-	-	-	-	-	-
D F Smith	1,750,000	-	-	-	1,750,000	1,750,000	-
C L Wilson	2,750,000	-	-	-	2,750,000	2,750,000	-
AC Pismiris	575,000	-	-	-	575,000	575,000	-
<b>Executives</b>							
S M Blacklock	2,500,000	-	-	-	2,500,000	2,500,000	-
J D Drew	-	1,000,000	-	-	1,000,000	250,000	750,000
G Gabriel	-	1,000,000	-	-	1,000,000	250,000	750,000
T M Lessard	-	1,000,000	-	-	1,000,000	250,000	750,000
<b>Total</b>	<b>11,312,500</b>	<b>3,000,000</b>	<b>-</b>	<b>-</b>	<b>14,312,500</b>	<b>12,062,500</b>	<b>2,250,000</b>

Notes:

1 Represents on-market acquisitions of listed options.

#### (d) Shareholdings of Key Management Personnel (Consolidated)

(i) Fully paid ordinary shares

30 June 2009	<i>Balance 01 Jul 08</i>	<i>Granted as Remuneration</i>	<i>On Exercise of Options</i>	<i>Net Change Other <sup>1</sup></i>	<i>Balance 30 Jun 09</i>
<b>Directors</b>					
J D Shervington	1,475,000	-	-	-	1,475,000
P J Garratt	1,337,805	-	-	7,564,900	8,902,705
M J B Brickell	-	-	-	-	-
D F Smith	-	-	-	-	-
C L Wilson	-	-	-	-	-
AC Pismiris	1,650,000	-	-	-	1,650,000
<b>Executives</b>					
S M Blacklock	-	-	-	-	-
J J Dingman	-	-	-	-	-
J D Drew	-	-	-	-	-
T M Lessard	-	-	-	-	-
<b>Total</b>	<b>4,462,805</b>	<b>-</b>	<b>-</b>	<b>7,564,900</b>	<b>12,027,705</b>

Notes:

1 Represents acquisitions of shares on-market.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 23 KEY MANAGEMENT PERSONNEL (CONTINUED)

#### (d) Shareholdings of Key Management Personnel (Consolidated) (continued)

30 June 2008	<i>Balance 01 Jul 07</i>	<i>Granted as Remuneration</i>	<i>On Exercise of Options</i>	<i>Net Change Other <sup>1</sup></i>	<i>Balance 30 Jun 08</i>
<b>Directors</b>					
J D Shervington	1,475,000	-	-	-	1,475,000
P J Garratt	1,252,805	-	-	85,000	1,337,805
M J B Brickell	-	-	-	-	-
D F Smith	-	-	-	-	-
C L Wilson	-	-	-	-	-
AC Pismiris	1,650,000	-	-	-	1,650,000
<b>Executives</b>					
S M Blacklock	-	-	-	-	-
J J Dingman	-	-	-	-	-
J D Drew	-	-	-	-	-
T M Lessard	-	-	-	-	-
<b>Total</b>	<b>4,377,805</b>	<b>-</b>	<b>-</b>	<b>85,000</b>	<b>4,462,805</b>

Notes:

- 1 Represents acquisitions of shares on-market.

All equity transactions with key management personnel have been entered into under terms no more favourable than those the Group would have adopted if dealing at arm's length.

#### (e) Other transactions and balances with Key Management Personnel and their related parties

##### *Purchases*

During the year fees of \$72,000 (2008: \$24,000) exclusive of GST were accrued and paid under normal terms and conditions to Azure Capital Pty Ltd of which Mr A C Pismiris is a director, for the provision of his services in his capacity as a director and company secretary at normal commercial rates. The fees were included as part of the remuneration to Mr A C Pismiris.

During the year fees of \$28,000 (2008: \$8,000) exclusive of GST were accrued and paid under normal terms and conditions to Azure Capital Pty Ltd of which Mr A C Pismiris is a director, for the provision of accounting services at normal commercial rates. The fees were included as part of the remuneration to Mr A C Pismiris.

During the year ended 30 June 2008 fees of \$284,000 were paid under normal terms and conditions to Capital Investment Partners Pty Ltd of which Mr A C Pismiris was a director, for the provision of corporate advisory services pursuant to the capital raisings completed during the year at normal commercial rates.

During the year ended 30 June 2008 fees of \$52,000 were paid under normal terms and conditions to Capital Investment Partners Pty Ltd of which Mr A C Pismiris was a director, for the provision of services in his capacity as a director and company secretary at normal commercial rates.

During the year ended 30 June 2008 fees of \$6,000 were paid under normal terms and conditions to Capital Investment Partners Pty Ltd of which Mr A C Pismiris was a director, for the provision of accounting services at normal commercial rates.

During the year fees of \$249,996 (2008: \$249,996) exclusive of GST were accrued and paid under normal terms and conditions to Cadogan Consulting Group Ltd of which Mr P J Garratt is a director, for the provision of services in his capacity as chief executive officer at normal commercial rates. The fees were included as part of the remuneration to Mr P J Garratt.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 23 KEY MANAGEMENT PERSONNEL (CONTINUED)

During the year fees of \$180,000 (2008: \$166,667) were paid under normal terms and conditions to West Coast Business Advisory Services of which Mr S M Blacklock is a principal, for the provision of services by Mr S M Blacklock in his capacity as chief financial officer at normal commercial rates.

During the year ended 30 June 2008 fees of \$33,333 were paid under normal terms and conditions to Cadogan Consulting Group Ltd of which Mr P J Garratt is a director, for the provision of services by Mr S M Blacklock in his capacity as chief financial officer at normal commercial rates. The fees were included as part of the remuneration to Mr S M Blacklock.

During the year ended 30 June 2009 legal fees of \$136,466 (2008: Nil) were paid under normal terms and conditions to Jeremy Shervington Barrister and Solicitor of which Jeremy Shervington is a partner for the provision of legal services at normal commercial rates. The fees were included as part of the remuneration to Mr J D Shervington.

### 24 SHARE BASED PAYMENT PLANS

#### (a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Expense arising from equity-settled share-based payment transactions	<b>170</b>	1,144	<b>170</b>	1,144
Total expense arising from share-based payment transactions	<b>170</b>	1,144	<b>170</b>	1,144

The share-based payment plan is described below. There have been no modifications to the plan during the year.

#### (b) Types of share-based payment plans Employee Share and Option Plan ("ESOP")

The Company has established the ESOP to assist in the retention and motivation of employees by providing them with the opportunity to acquire Shares. Under the ESOP, options over unissued shares are offered to eligible executives, employees and contractors of the Group. The principal terms of the ESOP are as follows:

- (a) The persons who are eligible to participate in the ESOP are employees and contractors of the Company (including the directors of the Company from time to time) ("Eligible Employee") or their nominee who have been selected by the Board to participate in the ESOP;
- (b) The ESOP Options will not be transferable or assignable to any person other than an Eligible Employee's nominee;
- (c) The ESOP Options may be subject to a vesting period which is determined by the Board;
- (d) The ESOP Options may be exercised wholly or in part, and if exercised in part multiples of 500 must be exercised on each occasion;
- (e) The ESOP Options may be exercised by notice in writing to the Company received at any time during the relevant exercise period together with a cheque for the exercise price and the option certificate (if any) for those ESOP Options for cancellation by the Company;
- (f) The Company shall allot the number of Shares the subject of any exercise notice and apply at its cost for listing of the Shares within 14 days of the allotment of the Shares;
- (g) The ESOP Options will be exercisable after admission of the Company to the ASX, at a price and with an exercise period to be determined in the absolute discretion of the Board;
- (h) Shares issued on the exercise of the ESOP Options will rank pari passu with all existing Shares of the Company from the date of issue;
- (i) The maximum number of ESOP Options that may be offered to participants under the ESOP is 10% of the issued capital at the time of the issue of the ESOP Options;
- (j) It will be a condition of the ESOP that no participant is entitled to more than 5% of the Company's securities as a result of the issue of any ESOP Options under the ESOP;

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 24 SHARE BASED PAYMENTS PLANS (CONTINUED)

#### (b) Types of share-based payment plans (continued)

- (k) The holder will be permitted to participate in any new pro-rata issue of securities of the Company on prior exercise of the ESOP Options in which case the holder will be afforded the period of at least 9 Business Days prior to and inclusive of the record date to determine entitlements to the issue to exercise the ESOP Options;
- (l) The ESOP Options do not confer on the holder any right to participate in dividends until Shares are allotted pursuant to the exercise of the ESOP Options;
- (m) In the event of a reorganisation of the issued capital of the Company, the ESOP Options will be reorganised in accordance with the Listing Rules (if applicable) and in any case in a manner which will not result in any benefits being conferred on holders which are not conferred on Shareholders;
- (n) The number of Shares to be issued pursuant to the exercise of ESOP Options will be adjusted for bonus issues made prior to exercise of the ESOP Options so that, upon exercise of the ESOP Options the number of Shares received by the option holder will include the number of bonus Shares that would have been issued if the ESOP Options had been exercised prior to the record date for the bonus issues. The exercise price of the ESOP Options shall not change as a result of any such bonus issues;
- (o) Quotation of ESOP options on the ASX will not be sought;
- (p) Subject to paragraph (n) above the Options do not confer on the holder any right to a change in the exercise price of the Options or a change to the number of underlying securities over which the Options can be exercised.
- (q) In the case of an employee who ceases to be an employee of the Company the ESOP Options will automatically expire 3 months after the cessation of such employment provided that nothing in this paragraph will prevent the holder of any such ESOP Options exercising any of those Options during that 3 month period.

#### (c) Summaries of options granted under the Employee Share Option Plan

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, the share options granted during the year:

	2009 No.	2009 WAEP	2008 No.	2008 WAEP
Outstanding at the beginning of the year	14,250,000	0.25	10,000,000	0.25
Granted during the year	-	-	4,250,000	0.25
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(3,937,500)	0.20	-	-
	<b>10,312,500</b>	<b>0.2667</b>	14,250,000	0.25
Exercisable at the end of the year	<b>9,562,500</b>	<b>0.2667</b>	10,930,000	0.25

The outstanding balance of options that are exercisable as at 30 June 2009 is represented by:

- 6,875,000 options exercisable on or before 02 November 2009 at an exercise price of \$0.25 each;
- 2,687,500 options exercisable on or before 02 November 2010 at an exercise price of \$0.30 each.

The outstanding balance of options that are not exercisable at 30 June 2009 is represented by:

- 750,000 options exercisable on or before 02 November 2010 at an exercise price of \$0.30 each.

#### (d) Weighted average remaining contractual life

The weighted average contractual life for the share options outstanding as at 30 June 2009 is 0.6667 years (2008: 1.333 years).

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 24 SHARE BASED PAYMENTS PLANS (CONTINUED)

#### (e) Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.25 to \$0.30 (2008: \$0.20 to \$0.35).

#### (f) Weighted average fair value

The weighted average fair value for options granted and issued during the year was nil (2008: \$0.21).

#### (g) Option pricing model

The fair value of the equity-settled share options granted under the ESOP is estimated as at the grant date using the Binomial or Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted.

The following table lists the inputs to the models for the year ended 30 June 2008:

	<b>ESOP 2008</b>
Grant date	16 Aug 2007
Share price	35 cents
Exercise price	20 to 30 cents
Dividend Yield	0.0%
Expected volatility	65.0%
Risk-free interest rate	6.0%
Expected life	2.5 years
Weighted average fair value	20.9 cents
Model used	Black-Scholes

#### (h) Other share based payments

During the year there were no other share based payments.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 25 FINANCIAL RISK MANAGEMENT

**(a) Financial risk management policies and objectives**

The Group's principal financial instruments comprise cash and short-term deposits and bank loans.

The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board regularly reviews and agrees policies for managing each of these risks as summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in notes 2 and 3 to the financial statements.

**(b) Fair values**

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their net fair values, determined in accordance with the accounting policies disclosed in note 1.

**(c) Cash flow interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash assets held primarily in short term cash deposits with fixed and floating interest rates. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Group does not engage in any hedging or derivative transactions to manage interest rate risk.

The tables contained in the following section entitled sensitivity analysis sets out the Company and Group exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

Also included is the effect on profit and equity, after tax, if interest rates on that date had been 50 basis points higher or 50 basis points lower with all other variables held constant as a sensitivity analysis.

A sensitivity of 50 basis points has been selected as this is considered reasonable in the current environment and would represent a movement of approximately 15%. Market expectations appear to favour an increase in rates over the next 12 months rather than a decrease.

The Group constantly analyses its interest rate exposure to ensure the appropriate mix of fixed and variable rates.

The Group has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the Group continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternate investments and the mix of fixed and variable rates.

At balance date, the Group had the following financial assets exposed to interest rate risk that are not designated as cash flow hedges:

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	<b>4,168</b>	5,514	<b>4,153</b>	5,411
	<b>4,168</b>	5,514	<b>4,153</b>	5,411

No financial liabilities are exposed to variable interest rate risk.

The Group has not entered into any hedging activities to cover interest rate risk. In regard to interest rate risk, the Group continuously analyses its exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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### 25 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (d) Foreign exchange risk

As a result of significant investment operations in the United States, the Group's balance sheet can be affected significantly by movements in the USD/AUD exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by borrowing in USD.

The financial assets and liabilities of Oregon Resources Corporation Inc. are held in USD being the functional currency, therefore there is no foreign exchange risk.

#### (e) Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group and financial instruments are spread amongst a number of financial institutions.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group minimises credit risk by undertaking a detailed review of its potential customers' financial position and the viability of the underlying project prior to entering into material contracts.

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash deposits and other financial assets. The Group places its cash deposits with high credit-quality financial institutions, being in Australia only the major Australian (big four) banks. Cash holdings in other countries are generally not significant. The Group's cash deposits all mature within twelve months and attract a rate of interest at normal short-term money market rates.

The maximum amount of credit risk the Group considers it would be exposed to would be \$5,573,296, being the total of its carrying values of cash and cash equivalents and other financial assets.

#### (f) Commodity price risk

The Group's exposure to this risk is minimal, however on commencement of production from the Oregon Heavy Minerals Project the Group's earnings will be sensitive to movements in the prices of Chromite, Garnet, Zircon and High Iron/Ilmentite.

It is envisaged the commodity price risk will be managed by the Group entering into agreements with distributors for the sale of Chromite, Garnet, Zircon and High Iron/Ilmentite.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 25 FINANCIAL RISK MANAGEMENT (CONTINUED)

**(g) Liquidity Risk**

The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank overdrafts, bank loans, finance leases and hire purchase contracts.

The contractual maturities of the Group's financial liabilities are shown in the table below. Undiscounted cash flows for the respective years are presented.

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Within one year	6,416	989	197	87
After one year but not more than five years	1,512	1,293	-	-
More than five years	-	-	-	-
	<b>7,928</b>	2,282	<b>197</b>	87

Management and the Board monitor the Group's liquidity on the basis of expected cash flow. The information that is prepared by senior management and reviewed by the Board includes:

- (i) Annual cash flow budgets; and
- (ii) Ten year cash flow forecasts.

**(h) Sensitivity analysis**

The following tables summarise the sensitivity of the Group's financial assets and liabilities to interest rate risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post tax profit and equity would have been affected as shown. The analysis has been performed on the same basis for 2009 and 2008.

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## Notes to the Financial Statements (continued)

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### 25 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (h) Sensitivity analysis (continued)

**CONSOLIDATED**  
**30 June 2009**

	Note	Carrying Amount \$'000	Interest Rate Risk		Interest Rate Risk	
			-50 Basis Points		+50 Basis Points	
			Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial Assets</b>						
Cash and cash equivalents	1	4,168	(21)	(21)	21	21
Trade and other receivables	2	20	-	-	-	-
Prepayments	3	55	-	-	-	-
<b>Financial Liabilities</b>						
Trade and other payables	4	8,109	-	-	-	-
Share subscriptions received in advance	5	17	-	-	-	-
<b>Total increase / (decrease)</b>			<b>(21)</b>	<b>(21)</b>	<b>21</b>	<b>21</b>

Notes:

- Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates. At balance date, \$4.1m was denominated in AUD and \$0.1m was denominated in USD.
- All trade and other receivables are denominated in AUD and USD.
- All prepayments are denominated in AUD and USD.
- Trade and other payables include \$0.2m denominated in AUD and \$6.4m denominated in USD.  
Trade and other payables include the loan that relates to the purchase of the Westbrook property.
- Share subscriptions received are denominated in AUD.

**CONSOLIDATED**  
**30 June 2008**

	Note	Carrying Amount \$'000	Interest Rate Risk		Interest Rate Risk	
			-50 Basis Points		+50 Basis Points	
			Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial Assets</b>						
Cash and cash equivalents	1	5,514	(28)	(28)	28	28
Trade and other receivables	2	59	-	-	-	-
Prepayments	3	35	-	-	-	-
<b>Financial Liabilities</b>						
Trade and other payables	4	2,256	-	-	-	-
Loans and borrowings	5	25	-	-	-	-
<b>Total increase / (decrease)</b>			<b>(28)</b>	<b>(28)</b>	<b>28</b>	<b>28</b>

Notes:

- Cash and cash equivalents include deposits at call at floating and short-term fixed interest rates. At balance date, \$5.4m was denominated in AUD and \$0.1m was denominated in USD.
- All trade and other receivables are denominated in AUD and USD.
- All prepayments are denominated in AUD and USD.
- Trade and other payables include \$0.1m denominated in AUD and \$2.2m denominated in USD.
- Loans and borrowings are denominated in USD. The bank loan for motor vehicles is at a fixed rate of 8.75%.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 25 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (h) Sensitivity analysis (continued)

PARENT 30 June 2009		Note	Carrying Amount \$'000	Interest Rate Risk		Interest Rate Risk	
				-50 Basis Points		+50 Basis Points	
				Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial Assets</b>							
Cash and cash equivalents	1	4,153	(20)	(20)	20	20	
Trade and other receivables	2	16	-	-	-	-	
Prepayments	3	14	-	-	-	-	
Receivables from controlled entities	4	18,663	-	-	-	-	
<b>Financial Liabilities</b>							
Trade and other payables	5	222	-	-	-	-	
Share subscriptions received in advance	6	17	-	-	-	-	
<b>Total increase / (decrease)</b>			<b>(20)</b>	<b>(20)</b>	<b>20</b>	<b>20</b>	

Notes:

- 1 Cash and cash equivalents are denominated in AUD and include deposits at call at floating and short-term fixed interest rates.
- 2 All trade and other receivables are denominated in AUD.
- 3 All prepayments are denominated in AUD.
- 4 Receivables from controlled entities are denominated in AUD.
- 5 All trade and other payables are denominated in AUD.
- 6 Share subscriptions received are denominated in AUD.

PARENT 30 June 2008		Note	Carrying Amount \$'000	Interest Rate Risk		Interest Rate Risk	
				-50 Basis Points		+50 Basis Points	
				Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial Assets</b>							
Cash and cash equivalents	1	5,411	(27)	(27)	27	27	
Trade and other receivables	2	59	-	-	-	-	
Prepayments	3	16	-	-	-	-	
Receivables from controlled entities	4	10,064	-	-	-	-	
<b>Financial Liabilities</b>							
Trade and other payables	5	86	-	-	-	-	
<b>Total increase / (decrease)</b>			<b>(27)</b>	<b>(27)</b>	<b>27</b>	<b>27</b>	

Notes:

- 1 Cash and cash equivalents are denominated in AUD and include deposits at call at floating and short-term fixed interest rates.
- 2 All trade and other receivables are denominated in AUD.
- 3 All prepayments are denominated in AUD.
- 4 Receivables from controlled entities are denominated in AUD.
- 5 All trade and other payables are denominated in AUD.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 26 COMMITMENTS AND CONTINGENCIES

#### (a) Commitments

##### (i) Leasing commitments

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2009 are as follows:

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within one year	59	49	-	-
After one year but not more than five years	10	55	-	-
More than five years	-	-	-	-
<b>Total minimum lease payments</b>	<b>69</b>	<b>104</b>	<b>-</b>	<b>-</b>

##### (ii) Property, plant and equipment commitments

The Group had no contractual obligations to purchase plant and equipment at the balance date (2008: \$24,105).

Future minimum commitments for property and equipment as at 30 June 2009 are as follows:

Within one year	186	2,627	-	-
After one year but not more than five years	1,615	1,352	-	-
More than five years	-	-	-	-
<b>Total</b>	<b>1,801</b>	<b>3,979</b>	<b>-</b>	<b>-</b>

##### (iii) Remuneration commitments

Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable are as follows:

Within one year	959	265	642	265
After one year but not more than five years	-	-	-	-
More than five years	-	-	-	-
<b>Total</b>	<b>959</b>	<b>265</b>	<b>642</b>	<b>265</b>

## **Notes to the Financial Statements (continued)**

**FOR THE YEAR ENDED 30 JUNE 2009**

### **26 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

#### **(a) Commitments (continued)**

##### *(iii) Remuneration commitments (continued)*

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of directors and executives referred to in note 23 that are not recognised as liabilities and are not included in the directors' or executives' remuneration.

##### *(iv) Other expenditure commitments – Mineral leases*

The Group has minimum expenditure commitments relating to mineral leases for the Oregon Heavy Minerals Project. Expenditure commitments at 30 June 2009 but not recognised as liabilities are as follows:

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
Within one year	78	65	-	-
After one year but not more than five years	420	352	-	-
More than five years	124	104	-	-
<b>Total</b>	<b>622</b>	521	-	-

The expenditure commitments above relate to minimum lease payments applicable to leases held with two private parties, Weyerhaeuser and Yoder. Under the terms of the lease agreements, the Company will further be required to meet minimum royalty advances based on future production and sales derived from production. These royalty advances have been excluded expenditure commitments as they cannot be reliably quantified.

#### **(b) Contingencies**

The Group has no contingent assets and liabilities, other than the royalties referred to above.

### **27 EVENTS AFTER THE BALANCE SHEET DATE**

On 2 July 2009 the Company announced the \$4,000,000 share placement offered to sophisticated and professional investors at an issue price of 4 cents per share had closed oversubscribed.

On 10 July 2009 the Company announced that it had entered entering into a Memorandum of Understanding (“MOU”) with IGC Technologies LLC. (“IGC”). The MOU outlined the terms for a definitive agreement governing the commercial relationship between the companies and specifically addressed the High Iron/Ilmenite product, its market development and introduction as a value added component to IGC’s existing product lines as well as trademarks & intellectual property development contribution and co-ownership.

On 17 July 2009 the share purchase plan offering eligible shareholders the opportunity to subscribe for between \$1,000 and \$5,000 of new shares in various increments at an offer price of 4 cents per share closed oversubscribed with 302 applications received from shareholders, representing a total of \$1,339,000.

At a general meeting of shareholders held on 22 July 2009, approval for the issue of 125,000,000 shares pursuant to the share placement and share purchase plan was obtained. Shareholders also approved the issue of 2,000,000 options to Azure Capital Pty Ltd, in accordance with the terms of its engagement as Lead Manager to the share placement.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

### 27 EVENTS AFTER THE BALANCE SHEET DATE (CONTINUED)

On 2 September the Company announced that it has received a Committed Letter of Offer (“Offer”) from Macquarie Bank Limited to provide a debt facility of US\$30,000,000 to partially fund the development of the Oregon Heavy Minerals project. The Offer which was accepted by the Board of Industrial Minerals was subject to conditions that were customary for a debt facility, including, but not limited to:

- approvals for the issuance of options to Macquarie Bank Limited representing a component of the fee pursuant to the Offer;
- all necessary regulatory and other approvals required for the commencement and development of the Oregon Heavy Minerals Project;
- US\$15,000,000 equity component being finalised;
- a minimum of 40% of forecast production of Chromite and High Iron/Ilmenite products for the first year of operations shall be committed for sale; and
- satisfactory due diligence (including but not limited to technical and legal due diligence).

In September 2009 the Company concluded negotiations for a one year extension to the sale agreement to acquire the Westbrook property for an additional payment of US\$150,000. The final settlement date for the acquisition of the Westbrook property has been extended to 2 February 2011.

There have been no other significant events that have occurred since Balance Date.

### 28 AUDITORS' REMUNERATION

The auditor of Industrial Minerals Corporation Limited is Ernst & Young.

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	\$'000	\$'000	\$'000	\$'000
<i>Amounts received or due and receivable by Ernst &amp; Young for</i>				
- an audit or review of the financial report of the entity and any other entity in the consolidated group (Australia)	62	103	62	67
- an audit or review of the financial report of the entity and any other entity in the consolidated group (Vancouver)	41	29	-	-
- other services in relation to the entity and any other entity in the consolidated group (Australia)				
• tax compliance	3	4	3	4
	<b>106</b>	136	<b>65</b>	71

**INDUSTRIAL MINERALS CORPORATION LIMITED**  
**2009 ANNUAL REPORT**

**DIRECTORS' DECLARATION**

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In accordance with a resolution of the directors of Industrial Minerals Corporation Limited, I state that:

- 1 In the opinion of the directors:
  - (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the financial position of Industrial Minerals Corporation Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - (b) subject to matters outlined in Note 2(d), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  
- 2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2009.

On behalf of the Board



Jeremy Shervington  
Director  
Perth, Western Australia  
29<sup>th</sup> day of September 2009

## Independent auditor's report to the members of Industrial Minerals Corporation Limited

### Report on the financial report

We have audited the accompanying financial report of Industrial Minerals Corporation Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(c), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

## Auditor's opinion

In our opinion:

1. the financial report of Industrial Minerals Corporation Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the financial position of Industrial Minerals Corporation Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## Inherent uncertainty regarding continuation as a going concern

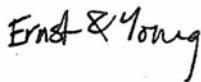
Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2(d), there is significant uncertainty whether the company and the consolidated entity will be able to continue as a going concerns and therefore whether they will pay their debts as and when they fall due and realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report of Industrial Minerals Corporation Limited does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as a going concerns.

## Report on the remuneration report

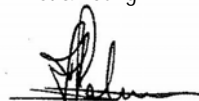
We have audited the Remuneration Report included in pages 28 to 34 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Auditor's opinion

In our opinion the Remuneration Report of Industrial Minerals Corporation Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.



Ernst & Young



J C Palmer  
Partner  
Perth  
29 September 2009

## ASX Additional Information

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Additional information required by the Australian Stock Exchange Ltd Listing Rules and not shown elsewhere in this report is as follows. The information is current as at 21 August 2009.

**(a) Distribution of equity securities**

*(i) Ordinary share capital*

- 290,894,500 fully paid ordinary shares are held by 691 individual shareholders.  
All issues ordinary shares carry one vote per share and carry rights to dividends.

*(ii) Options*

- 8,793,000 listed options are held by 113 individual holders.  
Options do not carry a right to vote.

The number of holders of securities, by size of holding in each class are:

	<b>No. of holders</b>	<b>Fully paid ordinary shares</b>	<b>No. of holders</b>	<b>No. of options</b>
1 – 1,000	20	3,273	Nil	Nil
1,001 – 5,000	29	93,455	1	3,125
5,001 – 10,000	41	337,913	98	616,417
10,001 – 100,000	261	11,048,895	36	1,849,808
100,000 and over	310	279,410,964	16	6,323,650
<b>Total Holders</b>	<b>661</b>	<b>290, 894,500</b>	<b>151</b>	<b>8,793,000</b>

There were 76 shareholders holding less than a marketable parcel of shares.

**(b) Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

<b>Ordinary shareholders</b>	<b>Fully paid</b>	
	<b>Number</b>	<b>Percentage</b>
Resource Finance & Investment Limited	70,000,000	24.06%
LFG Holdings Pty Lt	16,600,000	5.71%
Vison Pty Ltd	16,121,455	5.54%

## ASX Additional Information (continued)

**(c) Twenty largest holders of quoted equity securities**

Ordinary shareholders	Fully paid	
	Number	Percentage
Resource Finance & Investment Limited	70,000,000	24.06
UBS Wealth Management Australia Nominees Pty Ltd	18,705,482	6.43
UBS Nominees Pty Ltd	16,600,000	5.71
National Nominees Limited	13,212,711	4.54
Vison Pty Ltd	7,961,955	2.74
Pylara Pty Ltd	6,000,000	2.06
Finesilk Holdings Pty Ltd	5,000,000	1.72
Vison Pty Ltd	4,093,750	1.41
ANZ Nominees Limited	4,073,635	1.40
Jersey Investments (WA) Pty Ltd	3,785,000	1.30
Sentient Executive GP II Ltd	3,762,500	1.29
Sentient Executive GP III Ltd	3,762,500	1.29
ACP Investments Pty	3,500,000	1.20
Mr Mervyn Ian Leo Bassett & Mrs Shirley Ethel Bassett	3,474,750	1.19
Mr David Brian Argyle & Mrs Elizabeth Ann Argyle	3,000,000	1.03
Dr Salim Cassim	2,893,990	0.99
HSBC Custody Nominees (Australia) Limited	2,810,000	0.97
Paticoa Nominees Pty Ltd	2,615,750	0.90
Vison Pty Ltd	2,593,750	0.89
Kingsreef Pty Ltd	2,500,000	0.86
Total	<u>180,345,773</u>	<u>62.00%</u>
Shares on issue at 21 <sup>st</sup> August 2009	<u>290,894,500</u>	

**(d) Twenty largest holders of quoted options**

Option holders	Options	
	Number	Percentage
RBC Dexia Investor Services Australia Nominees Pty Limited	1,250,000	14.22
Mr Gavin John Argyle	750,000	8.53
Panga Pty Ltd	612,500	6.97
Zumeca Investments Inc	600,000	6.82
Bayonet Investments Pty Ltd	550,000	6.25
ACP Investments Pty Ltd	500,000	5.69
Vison Pty Ltd	325,000	3.70
Euro Asian Capital Ltd	300,000	3.41
Joseph Super Pty Ltd	271,250	3.08
Epsico Inc	225,000	2.56
Citicorp Nominees Pty Limited	175,000	1.99
Clodene Pty Ltd	163,775	1.86
Bayonet Investments Pty Ltd	158,125	1.80
Mr Alan Gordon Coulthard	150,000	1.71
Mr Mark John Joseph	148,000	1.68
Mr David Brian Argyle & Mrs Elizabeth Ann Argyle	145,000	1.65
Mr Gavin John Argyle	100,000	1.14
Intent Traders Ltd	100,000	1.14
National Nominees Limited	100,000	1.14
Vison Pty Ltd	100,000	1.14
Total	<u>6,723,650</u>	<u>76.47%</u>
Options on issue at 21 <sup>st</sup> August 2009	<u>8,793,000</u>	

## ASX Additional Information (continued)

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(e) **Unlisted options on issue**

Options issued by the Company which are not listed on the Australian Stock Exchange are as follows:

- 2,000,000 options exercisable on or before 30 June 2012 at an exercise price of \$0.06 each
- 6,875,000 options exercisable on or before 02 November 2009 at an exercise price of \$0.25 each
- 3,437,500 options exercisable on or before 02 November 2010 at an exercise price of \$0.30 each