FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **2005-05-02** | Period of Report: **2004-12-31**
SEC Accession No. 0001065949-05-000030

(HTML Version on secdatabase.com)

FILER

INDUSTRIAL MINERALS INC

CIK:**1035422**| IRS No.: **061474412** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K/A** | Act: **34** | File No.: **000-30651** | Film No.: **05789932**
SIC: **1040** Gold and silver ores

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

FORM 10-K/A
Amendment No. 2

ANNUAL REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

Industrial Minerals, Inc.

(Name of business issuer in its charter)

<TABLE>
<CAPTION>

<S>	<C>	<C>
Delaware	000-30651	06-1474412
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

</TABLE>

One Dundas Street West, Suite 2500, Toronto, ON, Canada M5G 1Z3

(Address of principal executive offices)

Issuer's telephone number: (416) 979-4621

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, no par value (Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [_]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of issuer's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). [X] Yes [ ] No

State issuer's revenues for its most recent fiscal year: $ 0

As of December 31, 2004, 85,424,936 shares of the Company's Common Stock, no par value per share, were held by non-affiliates, which, based upon market closing price on December 31, 2004, of $1.20 had a value of $102,509,923.20.

The number of shares of Common Stock of the Registrant outstanding as of December 31, 2004 were 111,587,966.

DOCUMENT INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

Website Access to Company's Reports

Industrial Minerals, Inc.'s internet website address is www.industrialmineralsinc.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are not yet available free of charge through our website. It is the intention of management to publish these reports on the Company's web site as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. Until the reports are available on the company's web site anyone can request the report from the Company at the above address and the Company will furnish the report free of charge.

TABLE OF CONTENTS

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

Background

The Company was formed November 6, 1996. The name of the Company was changed to PNW Capital, Inc. on May 16, 2000.

The Company is a successor registrant pursuant to Section 12(g) 3 of the Securities Exchange Act of 1934, by virtue of a statutory merger of the Parent, Winchester Mining Corp., a Delaware corporation, and its wholly owned subsidiary, Hi-Plains Energy Corp., a Wyoming corporation, with Winchester Mining Corporation being the survivor. There was no change to the issued and outstanding shares of Winchester Mining Corporation, and all shares of Hi-Plains Energy Corp. were retired by virtue of the merger.

On May 15, 2000, Winchester Mining Corp. completed a Share Purchase Agreement with shareholders of Hi-Plains Energy Corp. in which Winchester Mining Corp., a Delaware corporation, acquired all 780,000 shares outstanding of the Registrant for the purposes of accomplishing a Merger of Hi-Plains Energy Corp. and Winchester Mining Corp. The Merger was completed on May 15, 2000.

In 1996 the Company was listed on the OTCBB with the symbol WNCR. The prior management raised funds for a mining property in the Northwest Territories. The budget was spent and the Company remained inactive until March of 1999. In March of 1999, the Company raised $150,000 to invest in online gambling pursuant to Rule 504, Regulation D for US Investors and Pursuant to Regulation S for foreign investors. The Company has since divested itself of these acquisitions due to the questionable nature of the online gambling industry. In September of 1999, Wayne Miller became president of Winchester Mining, Corp. The Company commissioned Digicorp of Vancouver British Columbia, Canada to develop websites for the Company: Hollywoodmall.net and Pacificnorthwestmall.net. They have been under development since October of 1999. Radiant Communication of Vancouver was developing and managing these websites until work was terminated in late 2000.

Bullseye Communication Group was hired to develop an overall marketing plan for the Company and the two "mall" websites. All website and "mall" development work was terminated in the fall of 2000, due to lack of capital and difficulty of attracting business. According to Company records, Bullseye Communication Group was paid a total of $5000 for development of the website.

In fall of 2000 the Company acquired 100% of the issued and outstanding stock of PB&J Inc., a newly formed Colorado Corporation upon issuance of 47,460,000 shares of common stock to the principals of PB&J, who became the management and Directors of PNWC.

The PB&J transaction was brought to the Company by Messrs. Silva & McFarlane who were not officers and Directors or affiliates of the Company. The transaction was completed as a share exchange.

The Board of Directors determined that the consideration for the business concept of PB&J was adequate based upon the facts that: a) the company had no active business. b) the business plan appeared to have potential, c) the market price of the stock was very low. d) no other more promising businesses were willing to be acquired, when the company had no capital to invest. There was an arms length negotiation between the then Board of Directors and the principals of PB&J. Two owners of PB&J Messrs. Silva & McFarlane became officers, directors, and affiliates of the company after the PB&J transaction.

PB&J had developed magnetized package dispensing system for plastic bags and dryer sheets for location on kitchen refrigerators. The product was designed to offer enhanced convenience which management believed represented a marketable product.

PB&J, the now wholly owned subsidiary had no prior business operations in the prior two years, although the management did develop the concept and test market the product on a limited local basis. The product has never been placed in production nor significant marketing effort made due to lack of capital. PB&J held a trademark license on the name Peanut Butter + Jelly, Inc. by assignment from Joseph L. McFarlane the magnetic packaging and dispensing system.

On December 14, 2001, the shareholders adopted a reverse split of the then issued and outstanding shares on a 100 for one basis, except that no shareholder shall be reduced to less than 50 shares. The effective date of the reverse split was January 7, 2002.

On January 31, 2002, PNW Capital, Inc. ("PNW" or the "Company"), entered into a definitive acquisition agreement to acquire Industrial Minerals Incorporated ("IMI"), a private Nevada corporation, owner of certain mineral leases located in the Townships of Head, Clara and Maria in the County of Renfrew and the Province of Ontario, Canada. The Agreement for Share Exchange was executed January 31, 2002 and approved by the Board of Directors on January 31, 2002. The negotiation was at arms length.

Under the terms of the acquisition agreement, PNW exchanged a total of 31,511,700 shares of its common stock for 91% of the issued and outstanding shares of IMI. By February 20, 2002 the Company received executed documents from the participating shareholders of IMI representing 31,511,750 common shares (91%) for the exchange of shares of IMI for common shares of PNW on a one for one basis.

In the transaction IMI became a wholly owned subsidiary of PNW. The Company nor its subsidiary currently have any revenue producing operations. The stockholders of IMI became stockholders of PNW, and their rights as stockholders are governed by the PNW articles of incorporation and bylaws, as currently in effect, and the laws of the State of Delaware. Following the acquisition, PNW is continuing on IMI's operations under the changed company name to Industrial

Minerals Inc. PNW's then current board of directors resigned and a new board of directors was appointed after Notice pursuant to Section 14f of the Securities and Exchange Act of 1934 was mailed to shareholders. Shareholders did not vote on this appointment of directors.

The IMI transaction was introduced to the company by a shareholder of the company who was not an officer or director or affiliate. The transaction was approved by the Board, because the company had been unable to raise capital for the PB&J project. The purchase consideration was negotiated based upon a summary of report prepared by Ben Ainsworth of Ainsworth-Jenkins. This report prepared by Mr. Ainsworth summarized previous reports by Kilborn Engineering Ltd., KHD Canada Ltd., Pincock, Alan & Holt, Cominco Engineering Services Ltd and Environmental Applications Group Ltd.

The Board of Directors approved the acquisition of IMI on January 31, 2002 and authorized the issuance of the shares on February 20, 2002. The vote was unanimous to approve the agreement.

The PNW board of directors negotiated the acquisition agreement with IMI and authorized the issuance of the exchange shares totaling 31,511,750 in a transaction exempt from registration under Section 4(2), 4(6) and Regulation S as applicable because the board of directors believes that this acquisition will be to the benefit of shareholders.

The class of persons to whom the common shares of issuer were issued was the holders of 91% of the common stock of Industrial Minerals, Incorporated, a Nevada Corporation. The consideration for the issuance of issuers shares was to acquire (by exchange) 91% of the shares of Industrial Minerals, Incorporated, a Nevada Corporation. Subsequently, in May 2002, the subsidiary Industrial Minerals, Inc. was merged into issuer in a statutory merger of a subsidiary in to a parent pursuant to Section 253 of Delaware General Corporation Law.

On June 13, 2003, the officers and directors of the Company approved a resolution to forward split the common shares of the Company on a two shares for one basis, and a majority of the shareholders have indicated their written consent to such action.

On July 24, 2003, Industrial Minerals Canada, Inc., a wholly owned subsidiary of Industrial Minerals, Inc., and Mohawk Investment Group and Community of Southend Reserve No. 200 and 209 and Southend Reindeer Development Corporation signed a memorandum of understanding. The parties have agreed to form a limited partnership for the purpose of conducting a business involving the mining, milling, transportation, and the sale of graphite located on the reserve. The community of Southend would have 50% interest while the Mohawk Investment Group and Industrial Minerals Canada, Inc. would each have 25% of the partnership.

As of March 14, 2004, negotiations have ended regarding the Saskatchewan property. The parties to the memorandum of understanding signed July 24, 2003 have not been able to successfully negotiate the necessary contracts.

As of March 15, 2004, the Ministry of Environment of the Province of Ontario has requested a storm water management plan from the Company. The Company has retained Knight Piesold to author this plan and it is anticipated that this plan will be submitted to the Ministry of Environment by May 15, 2005.

In August 2004, the Company through its wholly owned subsidiary, Industrial Minerals Canada, Inc., received notice from the Ministry of Northern Development and Mines for the Province of Ontario that the Bissett Creek Graphite Project Certified Closure Plan as per Subsection 141. (3)(a) of the Mining Act for the Province of Ontario is now considered filed.

Industrial Minerals, Inc. through its wholly owned subsidiary Industrial Minerals Canada, Inc. may now begin production of graphite on its Bissett Creek Graphite Property. During production the Company must comply with the Bissett Creek Graphite Closure Plan as filed.

Certain Risks

The Company's business is subject to numerous risk factors, including the following:

The Company is in the process of developing its mineral property for graphite at its Bissett Creek property. The company has built it's processing building and installed equipment in preparation for attempted production of graphite.

There has been minimal graphite production to date by the Company which has occurred during the commissioning of the process. The Company has no purchase orders for graphite to be produced by the Company. The Company hopes to be in production for graphite before the end of its current fiscal year, which is December 31, 2005, at its Bissett Creek mineral property. (Please see "management discussion and analysis" as contained in Item 7 hereof.)

ITEM 2 - DESCRIPTION OF PROPERTY

After December 31, 2001 the Company has acquired and merged Industrial Minerals, Incorporation a Nevada corporation into itself. The Company owns mineral interests through its wholly owned subsidiary Industrial Minerals Canada, Inc. in a graphite mineral property in Canada as follows:

The Company is the "lessee" of lease number 364704 consisting of the following: All those parcels or tracts of land and land under water in the Township of Head, Clara and Maria, in the County of Renfrew and Province of Ontario, containing by admeasurement 564.569 hectares, be the same more or less, composed of those parts of lots 21, 22, 23, 24 and 25, Concessions IV and V, and part of the bed of Mag Lake and the bed of the unnamed lake, and lots 23, 24 and 25 and the north half of lots 21 and 22, Concession III as shown on the plan of the geographic Township of Maria, designated as parts 1, 2, 3 and 5 on a plan and a field notes deposited in the Land Registry Office at Pembroke as Plan 49R_11203, comprising mining claims EO 608306, EO 608346, EO 608347, EO 608374,

EO 608348, EO 608373, EO 608349, EO 608372, EO 608369, SO 998760, SO 1084577, EO 800884, EO 800880, EO 800881, EO 608350, EO 608371, EO 608367, EO 608370, EO 608376, EO 608368, EO 608302, SO 1117797, SO 998754, SO 1117798, SO 998755, SO 1117799, SO 998756 and SO 998757.

On June 20, 2002, the Company acquired the following unpatented graphite mining claims. SO 1249711 (11 units) SO 1249723 (3 units) SO 1234705 (2 units) They cover a total area of approximately 625 acres or 248 hectares. They are located in Maria township in Ontario, Canada. The Company acquired the graphite mining claims from Messrs. P. McLean and F. Tagliamonte and from the estate of P. Lacombe. The Company paid $50,000 (Canadian) for the property. The transaction to acquire the claims were at "arms length" with Sellers. Sellers are not and were not affiliates of IMI at the time of the transaction. The Company is responsible for a royalty in the amount of $20 (Canadian) per tonne of graphite produced. The Company must pay an advance royalty of $27,000 Canadian yearly which will be recaptured once the property is producing and there are sales.

The Company's mailing address is One Dundas Street West, Suite 2500, Toronto, ON M5G 1Z3.

ITEM 3 - LEGAL PROCEEDINGS

The Company is not a party to any legal proceedings, nor does management believe that any such proceedings are contemplated.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of shareholders held in Toronto on August 25, 2004, the shareholders elected John Melnyk, Stephen W. Weathers and Thomas S. Bamford and Larry Van Tol directors of the Corporation.

The shareholders also approved the appointment of Toski, Schaefer & Co., P.C. as auditors for the fiscal year ending December 31, 2004.

The officers and directors of the Company were authorized to amend the Company's Articles of Incorporation to increase the number of Common Shares authorized from one hundred million (100,000,000) to two hundred million (200,000,000).

Effective as of September 27, 2004, for all shareholders of record on September 27, 2004, the common stock of the Company was forward split on the basis of three shares for two shares issued and outstanding in the name of the shareholder, i.e. for each two shares owned, the shareholder will, upon surrender to the transfer agent of the old certificate, receive a new certificate which reflects the ratio of the forward split on two old shares for three new shares basis. Surrender of old certificates is required. Fractional

shares will be rounded up to the next whole share. The officers and directors of the Company authorized the appropriate Articles of Amendment.

There were 887,350 shares represented in person and 36,597,777 shares represented by proxy. Each of the directors elected received 100% of the votes of the shares present. There were no votes recorded against any of the directors elected at the meeting.

The shareholders voted to appoint Toski, Schaefer & Co., P.C. as auditors, 37,478,127 for, 7,000 abstain and no votes against were recorded.

The shareholders voted to authorize increase in capital to 200,000,000 shares from 100,000,000 there were 37,479,927 for, 200 against and 5,000 abstain.

The shareholders voted to authorize a forward split on the basis of 3 shares for every 2 shares held there were 37,484,927 for and 200 against.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) The Registrant's common stock is traded in the over-the-counter market under the symbol IDSM (OTC Bulletin Board Symbol). The table below sets forth the high and low bid prices of the Registrant's common stock for the periods indicated. Such prices are inter-dealer prices, without mark-up, mark-down or commissions and do not necessarily represent actual sales. (NOTE: Price adjusted for 3 for 2 forward split.)

2003	High	Low
1st quarter	0.67	0.55
2nd quarter	1.02	0.42
3rd quarter	2.02	0.93
4th quarter	2.22	1.38

2004	High	Low
1st quarter	2.14	1.65
2nd quarter	1.83	1.70
3rd quarter	2.03	1.60
4th quarter	2.10	1.02

(b) As of December 31, 2004, there were 313 shareholders of record of the Registrant's common stock.

(c) The Registrant has neither declared nor paid any cash dividends on its common stock, and it is not anticipated that any such dividend will be declared or paid in the foreseeable future.

Effective August 11, 1993, the Securities and Exchange Commission (the "Commission") adopted Rule 15g-9, which established the definition of a "penny stock," for purposes relevant to the Company, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require: (i) that a broker or dealer approve a person's account for transactions in penny stocks; and (ii) that the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased. In order to approve a person's account for transactions in penny stocks, the broker or dealer must (i) obtain financial information and investment experience and objectives of the person; and (ii) make a reasonable determination that the transactions in penny stocks are suitable for that person and that person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks. The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prepared by the Commission relating to the penny stock market, which, in highlight form, (i) sets forth the basis on which the broker or dealer made the suitability determination; and (ii) states that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Disclosure also has to be made about the risks of investing in penny stock in both public offerings and in secondary trading, and about commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Dividends

The Company has not paid any dividends to date, and has no plans to do so in the immediate future.

ITEM 6 - SELECTED FINANCIAL DATA

That in order to provide for the conversion of certain long term debt to equity, the Board has determined that it is appropriate to issue 3,492,115 shares of Restricted Common Stock, for total debt to be converted of $5,238,172.40 USD, consisting of principal in the amount of $4,969,891.16 USD and interest accrued in the amount of $268,281.24 USD.

That by issuing shares of Restricted Common Stock to the creditors in the amount of $5,238,172.40, the Board has determined that, in the exercise of their best business judgment, the Company is receiving full, fair and adequate consideration for the issuance of the shares.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

CONSOLIDATED RESULTS

Twelve month periods ending December 31, 2004, 2003 and 2002

The Company had no revenue for 2004, 2003 and 2002.

Total expenses for professional fees were $86,932, $91,858 and $86,275 for 2004, 2003 and 2002 respectively.

Total royalty expenses were $16,660, $18,775 and $17,550 for 2004, 2003 and 2002 respectively. These expenses are the result of the Bissett Creek Graphite property. The Company is required to pay a minimum yearly royalty of $21,600 whether graphite is produced or not. These payments are due semi-annually on March 6 and September 6 of each year. The Company has recorded a prepaid expense in the amount of $3,330 representing the January and February 2005 portion of the royalty payment paid on September 6, 2004. There was no prepaid expense recorded for the years ending December 31, 2003 and 2002 respectively. The fluctuations reported by the Company regarding this expense are due to the recent strength of the Canadian dollar versus the United States dollar. The Company is required to pay the royalty due in Canadian dollars and that minimum royalty is $27,000 Canadian annually.

Total depreciation expenses were $131,674, $68,717 and $56,193 for 2004, 2003 and 2002 respectively.

Total management fees and salaries were $124,400, $56,127 and $ NIL for 2004, 2003 and 2002 respectively. During 2004 a former CEO was paid a salary of $50,002 and $48,127 for 2003. During 2004 the current CEO was paid a management fee of $10,000. The CFO was paid $24,000 in 2004 and a management fee in the amount of $8,000 in 2003. The Company hired employees to begin commissioning the plant located on the Bissett Creek Graphite Property in October of 2004 paying these employees a total of $40,398 during 2004.

Other general and administrative expenses totaled $1,249,218, $897,804 and $360,227 for 2004, 2003 and 2002 respectively.

The Company has had a net loss of $561,153, $1,133,197 and $520,242 for 2004, 2003 and 2002 respectively. During fiscal year ending December 31, 2004 the Company had a gain from the extinguishment of debt in the amount of $1,047,634. This gain along with interest income in the amount of $97 reduced the Company's net loss from operations by $1,047,731 from $1,608,884 to a net loss of $561,153. Investors should be cautioned that this is a one time gain and for discussions concerning operating results in this report management will discuss financial results from operations essentially ignoring this one time gain in the amount of $1,047,634.

Liquidity and Capital Resources

The Company has cash on hand of $27,726 and a receivable as at December 31, 2004 of $105,925. The receivable of $105,925 is a result of tax input credits owed to the company by the Government of Canada.

The Company has prepaid expenses of $15,540. This represents the unused portion of an insurance policy in the amount of $12,210 that the company carries for its building and equipment. This policy expires September 6, 2005. The Company also has $3,330 in a prepaid royalty expense.

The Company has total deposits in the amount of $11,789 as of December 31, 2004 compared to $65,242 for the twelve-month period ending December 31, 2003. This represents a decrease of $53,453. The Company has on deposit with its landlord $1,521 which represents one-month rent and common costs associated with its premises located at 2500 One Dundas Street West, Suite 2500, Toronto, Ontario, Canada M5G 1Z3. The Company has entered into a lease, which expires on April 30, 2005 at which time the Company will continue to rent office space on a month- to-month basis. The Company also has a deposit on equipment in the amount of $10,000 and an advance against expenses to an employee in the amount of $268.

The Company has a long-term deposit of $230,000 with the Ministry of Finance for the Province of Ontario. During the year ending December 31, 2004 a Mine Development and Closure Plan has been filed with, and accepted by, the Ministry of Northern Development and Mines, in accordance with the Mining Act, R.S.O. 1990, Ontario Regulation 240/00, including the standards, procedures and requirements of the Mining Code of Ontario. The Company's deposit in the amount of $230,000 is a financial guarantee to the Province of Ontario ensuring that there are enough funds on hand to effect a proper closure of the Bissett Creek Graphite property. A balance of $70,400 is still owed on this deposit and is reflected on the current balance sheet under accounts payable.

The Company had no revenue during the twelve-month period ending December 31, 2004 and expects to have no revenue during the first quarter ending March 31, 2005. The Company anticipates some revenue during the second quarter of 2005 ending June 30 however as a start up company management has no historical data to reasonably project the amount of revenue. Investors and potential investors should be aware that the Company is currently seeking customers for its graphite. Discussions are on going with potential customers for graphite but there are no contracts concluded at this time. There can be no guarantee that the Company will be successful in obtaining a contract for its graphite.

The Company has total current liabilities in the amount of $238,383 which is made up of accounts payable, $120,326, $11,787 due to related parties and $2,763 for the current portion of a mortgage payable. The Company also owes $90,796 and $12,711 in notes payable and accrued interest payable respectively. Investors and potential investors should be aware that the Company does not have the funds on hand to pay these current liabilities in an orderly fashion. The Company intends to continue to seek debt financing to complete this project from non-affiliates, and possibly officers, directors and shareholders. No

commitments of any type have been made by any person or entity to provide financing. Management has no plan to overcome the uncertainties surrounding the Company's ability to continue as a going concern for a reasonable period of time. Management will deal with issues as they arise but as a "start up" company in a graphite mining attempt, the Company can neither predict nor solve, in anticipation, the uncertainties of mining, capital raising, marketing or operations. All risks and uncertainties inherent in any start up company exist in the chosen area of the Company. The Company does not have any other plan in place to provide capital or financing for its operations.

During the fiscal year ending December 31, 2002 the company secured a first mortgage which has a balance outstanding of $15,395 as of December 31, 2004 included in this balance is the current principal payments required in fiscal 2005 of $2,763. A payment monthly payment of $320 is required including principal and interest for the next 32 months. The balance of $7,566 on August 29, 2007 is then due and payable. This mortgage carries an interest rate of 7% compounded semi-annually not in advance.

The Company had current loans payable of $90,796 as of December 31, 2004. The Company was granted an extension regarding this debt to July 31, 2005 during the twelve-month period ending December 31, 2003. Investors should be cautioned that virtually 100% of this debt is due and payable on July 31, 2005. The Company has not begun any discussions to negotiate terms more favorable to the Company concerning this debt. Should the Company not be able to retire this debt on July 31, 2005 investors should be cautioned that the Company might not be able to continue to operate.

During the twelve-month period ending December 31, 2004 the Company has been able to secure additional debt financing in the amount of $2,001,980 from a non-affiliated shareholder. On December 30, 2004 the Company issued 3,492,115 common shares in exchange for paying $4,969,891 and $268,281 in principal and accrued interest owed. After this transaction the company had loans payable in the amount of $90,796 and accrued interest in the amount of $12,711. Interest will continue to accrue at the rate of 7% per annum until July 31, 2005 when the total principal of $90,796 along with any accrued interest will become due and payable. The interest rate associated with this debt will be 7% yearly. Investors and potential investors should be aware that the Company does not have the funds on hand to pay these current liabilities in an orderly fashion.

2004 highlights include:

1. Acceptance of Mine Closure Plan by Ministry of Northern Development and Mines for the province of Ontario.
2. Completion of construction of process building and installation of processing equipment.
3. Beginning of the commissioning phase of the equipment at the Bissett

Creek Graphite Property.

While the Company has completed the above work on its Bissett Creek Property the Company has established a budget as follows for fiscal year ending December 31, 2005:

1. Installation of dryer	$ 60,000
2. Commissioning of plant	80,000
3. General & Administrative	900,000
4. Professional fees	87,000
5. Management Fees & Salaries	360,000
Total funds required	$ 1,487,000

Investors should be aware that the above are estimates only and could change as the project continues through the commissioning and start up phase leading to production. It should be noted that costs of mining for fiscal 2005 are included in general and administrative costs detailed in point 3 above.

Through December 31, 2004, the company has been able to obtain debt financing and was able to convert debt to equity.

As part of the financing discussed in the preceding paragraph the Company secured a first mortgage in the amount of $17,000 on a house and separate building during the fiscal year ending December 31, 2002. The balance of this mortgage was $15,395 at December 31, 2004. The payments on this mortgage are $320 monthly at an interest rate of 7% per annum, calculated semi-annually not in advance. This mortgage matures August 29, 2007.

In addition to the Company's cash on hand of $27,726, receivable of $105,925 at December 31, 2004 and subsequent to December 31, 2004 securing $202,500 in new loans from a non-affiliated shareholder, the Company requires additional financing in the amount of $1,150,849 to operate throughout fiscal year ending December 31, 2005. Investors should note this additional financing required assumes no revenue in fiscal 2005, as the Company has no historical figures to accurately project revenue. Management believes the Company will begin selling graphite, creating revenue beginning in the second quarter of fiscal 2005. Any revenue received by the Company will reduce the financing required.

Investors and potential investors should be aware that even though the Company has been able to raise funds to December 31, 2004, the Company may not be successful in obtaining satisfactory additional financing in the amount of $1,150,849. There are no financing commitments currently in place for the required funds in the amount of $1,150,849. The Company intends to continue to seek debt financing to complete this project from non-affiliates, and possibly officers, directors and shareholders. No commitments of any type have been made by any person or entity to provide financing. Management has no plan to overcome the uncertainties surrounding the Company's ability to continue as a going concern for a reasonable period of time. Management will deal with issues as they arise but as a "start up" company in a graphite mining attempt, the Company can neither predict nor solve, in anticipation, the uncertainties of mining, capital raising, marketing or operations. All risks and uncertainties inherent

in any start up company exist in the chosen area of the Company. The Company does not have any other plan in place to provide capital or financing for its operations.

Once production begins investors should be further cautioned that there might not be a market for the Company's graphite. The Company is currently seeking customers for its graphite. Several Companies have expressed interest in the graphite and some have requested production samples from the Company's Bissett Creek Graphite Property. Discussions are on going with potential customers for graphite but there are no contracts concluded at this time. There can be no guarantee that the company will be successful in obtaining a contract for its graphite.

Investors and potential investors should be further cautioned that the ultimate success of the Company relies on the Company's ability to successfully mine and market its graphitic resource at a profit.

Contractual Obligations and Other Long-Term Liabilities

Industrial Minerals, Inc. has the following minimum commitments under contractual obligations, including purchase obligations, as defined by the U.S. Securities and Exchange Commission. A "purchase obligation" is defined as an agreement to purchase goods or services that is enforceable and legally binding on Industrial Minerals, Inc. and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Other long-term liabilities are defined as long-term liabilities that are reflected on Industrial Minerals, Inc.'s balance sheet under GAAP. Based on this definition, the tables below include only those contracts, which include fixed or minimum obligations. It does not include normal purchases, which are made in the ordinary course of business.

The following table provides aggregated information about Industrial Minerals, Inc.'s outstanding contractual obligations and other long-term liabilities as of December 31, 2004.

	2005	2006	2007
Mortgage Payable & Interest	$ 3,840	$3,840	$12,689
Office Lease (1)	$ 2,964	-	-
Loan Payable & Interest	$ 107,744	-	-
Contracts			
Technical support	$ 37,500	-	-
Environmental Assessments	$ 120,000	-	-
Financial Assurance (2)	$ 70,400	-	-
Equipment Purchase	$ 9,600	-	-
Total Contractual Commitments	$ 352,048	$3,840	$12,689

(1) As of May 1 2005 the Company will retain the office on a month to month basis.
(2) Outstanding balance of financial assurance due on or before May 31, 2005.

CRITICAL ACCOUNTING ESTIMATES

Accounting policies are integral to understanding this MD&A. The consolidated financial statements of Industrial Minerals, Inc. are prepared in conformity with GAAP, which requires the use of estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Industrial Minerals, Inc.'s accounting policies are described in Note 1 to the Consolidated Financial Statements. Critical accounting estimates are described in this section. An accounting estimate is considered critical if: the estimate requires management to make assumptions about matters that were highly uncertain at the time the estimate was made; different estimates reasonably could have been used; or if changes in the estimate that would have a material impact on the Corporation's financial condition or results of operations are reasonably likely to occur from period to period. Management believes that the accounting estimates employed are appropriate and resulting balances are reasonable; however, actual results could differ from the original estimates, requiring adjustments to these balances in future periods. The Corporation has discussed the development, selection and disclosures of these critical accounting estimates with the Audit Committee of Industrial Minerals, Inc.'s Board of Directors, and the Audit Committee has reviewed the Corporation's disclosures relating to these estimates.

Going Concern

The critical assumption made by management of the Company is that the Company will continue to operate as a going concern. The following is contained in the notes to the financial statements and the company's auditors have expressed a concern that the Company may not be able to continue as a going concern.

"The Company's financial statement has been presented on the basis that it is a going concern. The Company is in the exploration stage and has not earned any revenues from operations. The Company's current liabilities exceed current assets by $77,403 and the Company recorded a net loss amounting to $561,153 during the year ended December 31, 2004. The Company's ability to continue, as a going concern is dependent upon its ability to develop additional sources of capital to operate it's Bissett Creek Property and ultimately, achieve profitable operations. Management plans to obtain sufficient additional debt or equity financing to finance operations, capital improvements and other necessary activities to ensure the business becomes profitable. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties."

If the Company can not continue as a going concern the value of the Company's assets may approach a level close to zero. Investors should be cautioned that should the Company cease to operate the Company may recover a small fraction of the original costs of its assets should a liquidation of the Company's assets occur. Management estimates a recovery of approximately 5 cents on the dollar in the event of a wholesale liquidation. Should this type of liquidation occurred in 2004 an increase in loss of $1,946,868 would have occurred with a corresponding decrease in stockholders equity from $1,918,427 to a deficit position of $28,441.

Impairment of Long-Lived Assets

Industrial Minerals, Inc. periodically reviews the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of when events and circumstances warrant such a review. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not have any market risk sensitive instruments. Since operations in Canada are in Canadian dollar denominated accounts, we do believe that we have foreign currency risk in that as the Canadian dollar increases in value against the United States dollar our operating costs increase when reported in United States dollars.

Our product is quoted for sale in United States dollars.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted as a separate section of this report beginning on page F-1.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The evaluation included certain control areas in which we have made, and are continuing to make, changes to improve and enhance controls. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures were not effective because of a material weakness discussed below.

Internal Control Over Financial Reporting

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

The Securities and Exchange Commission rule making for the Sarbanes-Oxley Act of 2002 Section 404 requires that a company's internal controls over financial reporting be based upon a recognized internal control framework. While the Company has an internal control and procedures manual in place and management believes the controls and procedures are effective the manual is not based upon a recognized internal control framework, because we have not found one that fits the limited scope of operations of our small Company.

During the first half of the Company's fiscal year ending December 31, 2005 management will be revising the Company's internal and controls procedure document basing this revision upon a model framework created by the Committee of Sponsoring Organizations of the Treadway Commission (or "COSO") as is appropriate to our operations. This framework is entitled Internal Control-Integrated Framework. The COSO Framework, which is the common shortened title, was published in 1992 and we believe, will satisfy the Securities and Exchange Commission requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

To address these material weaknesses management is committed to re-writing it's internal controls and procedures manual based upon the Treadway Commission report as is appropriate to our operations during the first half of fiscal year ending December 31, 2005.

Except as noted above, there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B - OTHER INFORMATION

Not applicable.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The current Executive officers of Registrant at December 31, 2004 are:

NAME	POSITION HELD	TENURE
Larry Van Tol	President and CEO	Annual
John Melnyk	CFO, Secretary/Treasurer	Annual

The persons who are directors of the Registrant at December 31, 2004 are:

NAME	AGE
Larry Van Tol	61
John Melnyk	55
Stephen W. Weathers	44
Thomas S. Bamford	55

Business Experience

The following is a brief account of the business experience during at least the past five years of the persons designated to be new directors and officers of the Registrant, indicating the principal occupation and employment during that period by each, and the name and principal business of the organizations by which they were employed.

LARRY VAN TOL, age 61, graduated with a Bachelor of Science degree in Business Administration and Economics from the University of Minnesota in 1967. From 1976 to present Mr. Van Tol has been the owner operator of Hilltop Florist and Greenhouse in Mankato, Minnesota. Mr. Van Tol has been a director of Security State Bank in Mankato. He has held this directorship since 1999. Mr. Van Tol is a member of the audit, company policy, compensation, investment and loan approval committees of Security State Bank. Security State bank is privately held and the 3rd largest of Mankato's 28 Banks. Security State bank has one location and $100 million in assets. Mr. Van Tol is also a director of Bancommunity Service Corp. Bancommunity is the privately held holding company of First National Bank of St. Peter, MN and Security State Bank of Mankato. Mr. Van Tol has held this position since 1999. Mr. Van Tol was elected a Director of Industrial Minerals, Inc. on October 24, 2003 and appointed President and CEO on November 12, 2004.

JOHN MELNYK, age 55, studied Business Administration and Commerce at the University of Alberta from 1970 to 1974. From 1974 to 1978 he managed a sales territory for McQueen Sales Company, Ltd., a distributor of photographic products. From 1978 to 1982 he was a self-employed sales agent in the photographic industry. In 1982 he purchased an interest in a photo finishing lab which he sold in 1994. From 1994 to present he has been a self-employed business consultant. Mr. Melnyk also served as the President and a director of Murphy's Investment Corp. a privately held Corporation which invests in various ventures. He resigned his position in March 2002. Mr. Melnyk works full time for the Company.

STEPHEN W. WEATHERS, age 44, earned his B. S. in Geology from Boise State University. He has worked as an environmental geologist both in the mining industry and oil and gas industry. His duties included permitting, environmental compliance, environmental remediation/reclamation and natural gas asset acquisitions both in the United States and Canada. Mr. Weathers worked for Maxxim Environmental/Terracon from 1997 through 1999 and presently works in the environmental remediation division for a Duke Energy Field Services which is a natural gas processing company (1999-2002). Mr. Weathers also serves as a director of Sun River Mining, Inc. which is seeking a business acquisition.

THOMAS S. BAMFORD, age 55, obtained a Bachelor of Science in Geological Engineering from the University of Saskatchewan in 1971, Master of Science (Geology/Geophysics) from the University of Saskatchewan in 1973, and a Masters of Business Administration from the University of Saskatchewan in 1978.

Mr. Bamford is a member of the Association of Professional Engineers and Geoscientists of Saskatchewan (APEGS). He became affiliated with APEGS in 1975. In 1995 Mr. Bamford established and operated a Calgary-based management consulting and database/software development practice with emphasis on the process of analyzing operational and economic performance for the oil and gas industry. Current focus of this consulting practice is to design and organize private financing and structuring for tax-effective and traditional oil and gas investment vehicles in western Canada.

Mr. Bamford held the positions of President and CEO (1998-1999) and Chief Financial Officer (1997-1998) of Westlinks Resources Ltd. Mr. Bamford was a director of Westlinks Resources Ltd. from 1997 to 2000. Westlinks Resources Ltd. was an Alberta Stock Exchange traded junior oil and Gas Company, which grew through acquisition, merger and amalgamation.

Mr. Bamford began his career in 1975 with Saskatchewan Oil and Gas Corporation (Saskoil) and remained with Saskoil (now Wascana Energy Inc.) through 1995. He participated in various aspects of the technical, operating, administration and financial growth of a start-up, private, oil company (Saskoil) through its transition to a publicly traded senior production company (Wascana Energy). Career development during this period focused on the design and development of new business opportunities, processes, methods and systems as well as providing special project leadership to these initiatives.

He held the following positions at Wascana Energy, Inc. (formerly askoil), Reserves and Evaluations Engineer (04/1975-09/1977), Educational Leave (09/1977_04/1978), Reservoir Engineer (04/1978-12/1979), Director Planning and Special Projects (01/1980-04/1983), Acting Vice-President, Finance (11/1981-04/1982), Manager, Exploration Geology (04/1983-11/1985), Manager, Business Development (11/1985-06/1987), Manager, Corporate Planning (06/1987-08/1989), Manager, Research (05/1992-04/1994), Manager, Special Projects (05/1992-04/1994) and Manager, Budgets and Reserves, (05/1994-12/1995).

Mr. Bamford was appointed a Director of Industrial Minerals, Inc. on October 24, 2003.

No appointee for a director position has been found guilty of any civil regulatory or criminal offense or is currently the subject of any civil regulatory proceeding or any criminal proceeding.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires that the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent stockholders are required by regulation to furnish to the Company copies of all Section 16(s) forms they file.

The following persons failed to file forms on a timely basis during the past two fiscal years as required under Section 16(a) as follows:

None.

Conflicts of Interest

Members of the Company's management are associated with other firms involved in a range of business activities. Consequently, there are potential

inherent conflicts of interest in their acting as officers and directors of the Company. Insofar as the officers and directors are engaged in other business activities, management anticipates it will devote only a minor amount of time to the Company's affairs.

The Company's Board of Directors has adopted a policy that the Company will not seek a merger with, or acquisition of, any entity in which any officer or director serves as an officer or director or in which they or their family members own or hold a controlling ownership interest. Although the Board of Directors could elect to change this policy, the Board of Directors has no present intention to do so.

There can be no assurance that management will resolve all conflicts of interest in favor of the Company.

ITEM 11- EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

Cash Compensation.

Compensation paid for all services provided up to December 31, 2004 (1) to each of our executive officers and (2) to all officers as a group.

Name and Principal Position	Year	Salary	Bonus	Consulting Fees/Other Fees ($)	Number of Shares	Securities Underlying Options/ SARS (#)	Long Term Compensation/ Option
Robert A. Stoutley (Terminated as President 2004)	2002	0	0	0	0	0	0
	2003	$48,127	0	0	0	0	0
	2004	$50,002	0	0	0	0	0
Larry Van Tol, President & CEO	2002	0	0	0	0	0	0
	2003	0	0	0	0	0	0
	2004	0	0	$10,000	0	0	0
John Melnyk, CFO Secretary/Treasurer	2002	0	0	0	0	0	0
	2003	0	0	$8,000	0	0	0
	2004	$24,000	0	0	0	0	0
Officers as a Group	2002	0	0	0	0	0	0
	2003	$48,127	0	$8,000	0	0	0
	2004	$74,002	0	$10,000	0	0	0

SUMMARY COMPENSATION TABLE OF DIRECTORS
(to December 31, 2004)

Name	Year	Annual Retainer Fees ($)	Meeting Fees ($)	Consulting Fees/Other Fees ($)	Number of Option Shares Exercised	Securities Underlying Options/SARS (#)
Larry Van Tol, Director	2002	0	0	0	0	0
	2003	0	0	0	0	0
	2004	0	0	0	0	0
John Melnyk, Director	2002	0	0	0	0	0
	2003	0	0	0	0	0
	2004	0	0	0	0	0
Stephen W. Weathers, Director	2002	0	0	0	0	0
	2003	0	0	0	0	0
	2004	0	0	0	0	0
Thomas S. Bamford, Director	2002	0	0	0	0	0
	2003	0	0	0	0	0
	2004	0	0	0	0	0
Robert A. Stoutley (Former Director)	2002	0	0	0	0	0
	2003	0	0	0	0	0
	2004	0	0	0	0	0
Richard H. Woodhead (Former Director)	2002	0	0	0	0	0
	2003	0	0	0	0	0
	2004	0	0	0	0	0
Directors as a Group	2002	0	0	0	0	0
	2003	0	0	0	0	0
	2004	0	0	0	0	0

The following committees have been formed as of March 18, 2004 and membership as of December 31, 2004 is as follows:

1) Nominating Committee - Members are Larry Van Tol, Stephen W. Weathers and Thomas S. Bamford. Thomas S. Bamford and Stephen W. Weathers are independent Directors as defined by the Sarbanes-Oxley Act of 2002. Larry Van Tol ceased to be an independent director as of his appointment to the position of CEO on November 12, 2004.

2) Audit Committee - Members are Larry Van Tol and Thomas S. Bamford. Thomas S. Bamford is an independent Director as defined by the Sarbanes-Oxley Act of 2002. Larry Van Tol ceased to be an independent director as of his appointment to the position of CEO on November 12, 2004.

3) Compensation Committee - Members are Stephen W. Weathers and Thomas S. Bamford. All Committee Members are independent Directors as defined by the Sarbanes-Oxley Act of 2002. As the compensation committee was discussing compensation surrounding the appointment of Mr. Van Tol to the position of CEO, Mr. Van Tol resigned from this committee on October 20, 2004.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

<TABLE>
<CAPTION>

The following table shows the share ownership of officers, directors and 5% or greater shareholders as of December 31, 2004.

<S> <C> <C>

Name and Address of Beneficial Ownership	Amount and Nature of Beneficial Ownership	Percent of Class
Larry Van Tol, President, CEO & Director One Dundas Street West Suite 2500 Toronto, Ontario, Canada M5G 1Z3	647,250	Less than .1%
John Melnyk, CFO Secretary/Treasurer One Dundas Street West Suite 2500 Toronto, Ontario, Canada M5G 1Z3	5,701,200 (1)	5.1%
Stephen W. Weathers, Director One Dundas Street West Suite 2500 Toronto, Ontario, Canada M5G 1Z3	26,575	Less than .1%
Thomas S. Bamford, Director One Dundas Street West Suite 2500 Toronto, Ontario, Canada M5G 1Z3	450,000 (2)	Less than .1%
Richard H. Woodhead, (resigned Director) One Dundas Street West Suite 2500 Toronto, Ontario, Canada M5G 1Z3	0	Less than .1%
Robert A. Stoutley, (Former President and CEO) One Dundas Street West Suite 2500 Toronto, Ontario, Canada M5G 1Z3	0	0%
Krystar International P.O. Box N-8198 East Bay Street Management International Building Nassau, Bahamas BWI	19,494,000	17.5
Directors as a Group	6,825,025	5.2%

</TABLE>

(1) Includes Murphy's Investment Corp. and Olympic View Investments (beneficially John Melnyk's wife)
(2) Includes 150,000 shares through the Bamford Family Trust

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On January 31, 2002, PNW Capital, Inc. ("PNW" or the "Company"), entered into a definitive acquisition agreement to acquire Industrial Minerals Incorporated ("IMI"), a private Nevada corporation, owner of certain mineral leases located in the Townships of Head, Clara and Maria in the County of Renfrew and the Province of Ontario, Canada. The Agreement for Share Exchange was executed January 31, 2002 and approved by the Board of Directors on January 31, 2002. The negotiation was at arms length.

Under the terms of the acquisition agreement, PNW exchanged a total of 31,511,700 shares of its common stock for 91% of the issued and outstanding shares of IMI. By February 20, 2002 the Company received executed documents from the participating shareholders of IMI representing 31,511,750 common shares (91%) for the exchange of shares of IMI for common shares of PNW on a one for one basis.

In the transaction IMI became a wholly owned subsidiary of PNW. The Company nor its subsidiary currently have any revenue producing operations. The stockholders of IMI became stockholders of PNW, and their rights as stockholders are governed by the PNW articles of incorporation and bylaws, as currently in effect, and the laws of the State of Delaware. Following the acquisition, PNW is continuing on IMI's operations under the changed company name Industrial Minerals, Inc. PNW's then current board of directors resigned and a new board of directors was appointed after Notice pursuant to Section 14f of the Securities and Exchange Act of 1934 was mailed to shareholders. Shareholders did not vote on this appointment of directors.

The class of persons to whom the common shares of issuer were issued was the holders of 91% of the common stock of Industrial Minerals, Inc., a Nevada Corporation. The consideration for the issuance of issuers shares was to acquire (by exchange) 91% of the shares of Industrial Minerals, Inc., a Nevada Corporation. Subsequently, in May 2002 the subsidiary, Industrial Minerals, Inc. was merged into issuer in a statutory merger of a subsidiary in to a parent pursuant to Section 253 of Delaware General Corporation Law.

The officers and directors of the Company approved a resolution to forward split the common shares of the Company on a two shares for one basis effective June 13, 2003 based upon a majority of the shareholders giving their written consent to such action.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

General. Toski, Schaefer, & Co., P.C. ("TSC") is the Company's principal auditing firm. The Company's Board of Directors has considered whether the provisions of audit services is compatible with maintaining TSC's independence.

Audit Fees. The following table sets out fees billed to the Company by TSC.

	2004	2003	2002
Audit Fees	$12,000	$9,000	$4,000
Audit Related Fees	$5,000	$4,800	$4,800

The Company had no audit committee for 2002 and 2003 thus the Board of Directors acted as the audit committee for the years 2002 and 2003. The Board had no "pre-approval policies and procedures" in effect for the auditors' engagement for the audit year 2002 and 2003.

The audit committee for the year 2004 recommended TSC for the audit year 2004 and the shareholders at an annual meeting held in Toronto, Ontario, Canada appointed TSC the company's auditors for the 2004 audit year.

The auditors' full time employees performed all audit work.

PART IV

ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) See attached Financial Statements.
(2) Not applicable.
(3) See (b) below.

(b) Exhibits filed with this annual report.

Exhibit No.	Description
3.1	Bylaws (1)
14.1	Code of Ethics (2)
31.1	Section 302 Certification (CEO)
31.2	Section 302 Certification (CFO)
32.1	Section 906 Certification (CEO)

32.2 Section 906 Certification (CFO)

(1) Incorporated by reference from the exhibits included with the Company's prior Report on Form 8K filed with the Securities and Exchange Commission, dated March 16, 2004.

(2) Incorporated by reference from the exhibits included with the Company's prior Report on Form 8K filed with the Securities and Exchange Commission, dated January 6, 2004.

(c) Not applicable.

Signatures

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

Industrial Minerals, Inc.

Date: May 2, 2005 By:/s/Larry Van Tol

Larry Van Tol, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: May 2, 2005 By:/s/Larry Van Tol

Larry Van Tol, President and CEO

Date: May 2, 2005 By:/s/John Melnyk

John Melnyk, Secretary/Treasurer, CFO

DIRECTORS:

Date: May 2, 2005 By:/s/Larry Van Tol

Larry Van Tol

Date: May 2, 2005 By:/s/John Melnyk

John Melnyk

Date: May 2, 2005 By:/s/Stephen W. Weathers

Stephen W. Weathers

INDUSTRIAL MINERALS, INC.
AND SUBSIDIARY
(An Exploration Stage Company)
FINANCIAL STATEMENTS TABLE OF CONTENTS
December 31, 2004

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
555 International Drive
Williamsville, New York 14221

Telephone (716) 634-0700
Fax (716) 634-0764

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Industrial Minerals, Inc. and Subsidiary
(An Exploration Stage Company):

We have audited the accompanying consolidated balance sheets of Industrial Minerals, Inc. and Subsidiary (formerly PNW Capital, Inc.) (An Exploration Stage Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of PNW Capital, Inc. as of December 31, 2001, including the amounts presented for the period from inception (November 6, 1996) to December 31, 2001, were audited by other auditors whose report dated February 13, 2002 on those statements included an explanatory paragraph that described the Company's ability to continue as a going concern as discussed in note 8 to the financial statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis of our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Industrial Minerals, Inc. and Subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 8 to the financial statements, the Company is in the exploration stage and has not earned revenues from operations. Those conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/Toski, Schaefer & Co., P.C.

Williamsville, New York
March 4, 2005
(except for note 12, as to which
date is March 15, 2005)

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
555 International Drive
Williamsville, New York 14221

Telephone (716) 634-0700
Fax (716) 634-0764

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Industrial Minerals, Inc. and Subsidiary
(An Exploration Stage Company):

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting that Industrial Minerals, Inc. and Subsidiary did not maintain effective internal control over financial reporting as of December 31, 2004, as the Company has not assessed its internal control based upon a recognized internal control framework. Industrial Minerals, Inc. and Subsidiary's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weakness has been identified and included in management's assessment. As of December 31, 2004, management identified a deficiency in the Company's internal control over financial reporting that its internal control and procedures manual is not based upon a recognized internal control framework. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 consolidated financial statements, and this report does not affect our report dated March 4, 2005 on those financial statements.

In our opinion, management's assessment that Industrial Minerals, Inc. and Subsidiary did not maintain effective internal control over financial reporting as of December 31, 2004 is fairly stated, in all material respects, as it has not assessed it's internal control based upon a recognized internal control framework. Also, in our opinion, because of the effect of the material weakness described above on the lack of a recognized internal control framework, Industrial Minerals, Inc and Subsidiary has not maintained effective internal control over financial reporting as of December 31, 2004.

We do not express an opinion or any other form of assurance on management's statements included in the third and fourth paragraphs of the accompanying Management's Report on Internal Control Over Financial Reporting.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Industrial Minerals, Inc. and Subsidiary at December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 and in our report dated March 4, 2005 we expressed an unqualified opinion thereon.

/s/Toski, Schaefer & Co., P.C.

Williamsville, New York

March 4, 2005

INDUSTRIAL MINERALS, INC.
AND SUBSIDIARY
(An Exploration Stage Company)
Consolidated Balance Sheets
December 31, 2004 and December 31, 2003

<TABLE>
<CAPTION>

	December 31 2004 (Audited)	December 31 2003 (Audited)
Assets:		
Current assets:		
<S>	<C>	<C>
Cash	$ 27,726	$ 585,934
Receivables	105,925	40,267
Prepaid expenses	15,540	10,462
Deposits	11,789	65,242
Total current assets	160,980	701,905
Long-term deposits	230,000	-
Building and equipment, at cost, less accumulated depreciation of $256,167 in 2004 and $124,493 in 2003	1,778,462	911,652
Total assets	$ 2,169,442	$ 1,613,557
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 120,326	$ 165,753
Accrued interest payable	12,711	-
Loans payable	90,796	-
Due to related parties	11,787	-
Current installments of mortgages payables	2,763	2,144
Total current liabilities	238,383	167,897
Accrued interest payable	-	83,579
Loans payable	-	3,058,707
Mortgage payable, excluding current installments	12,632	14,332
Total liabilities	$ 251,015	$ 3,324,515
Stockholders' equity:		
Common Stock, par value $.0001; 200,000,000 shares authorized; 111,587,966 shares issued and outstanding for 2004 and 72,063,896 shares issued and outstanding for 2003	3,949	3,600
Additional paid-in capital	4,204,331	14,142
Deficit accumulated during exploration stage	(2,289,853)	(1,728,700)
Total stockholders' equity (deficit)	1,918,427	(1,710,958)
Total liabilities and stockholders' equity	$ 2,169,442	$ 1,613,557

</TABLE>

See accompanying notes to consolidated financial statements.

<TABLE>
<CAPTION>

INDUSTRIAL MINERALS, INC.
AND SUBSIDIARY
(An Exploration Stage Company)
Consolidated Statements of Operations (Audited)
Twelve months ended December 31, 2004, 2003 and 2002
and for the period from November 6, 1996 (Date of Inception) to
December 31, 2004

	2004	2003	2002	Nov. 6, 1996 (inception) to Dec. 31, 2004
<S>	<C>	<C>	<C>	<C>
Revenue	$ -	$ -	$ -	$ 15,537
Expenses:				
Cost of revenues	-	-	-	76,201
Professional fees	86,932	91,858	86,275	1,198,594
Royalty fees	16,660	18,775	17,550	52,985
Depreciation and amortization	131,674	68,717	56,193	264,876
Impairment of long-lived assets	-	-	-	582,176
Management fees and salaries	124,400	56,127	-	180,527
Other general and administrative	1,249,218	897,804	360,227	2,698,149
Total expenses	1,608,884	1,133,281	520,245	5,053,508
Loss from operations	(1,608,884)	(1,133,281)	(520,245)	(5,037,971)
Other income:				
Interest income	97	84	3	2,908
Gain from extinguishment of debt	1,047,634	-	-	1,047,634
Other income	-	-	-	594
Total other income	1,047,731	84	3	1,051,136
Net loss	$ (561,153)	$ (1,133,197)	$ (520,242)	$(3,986,835)
Net loss per common share issued	$ (0.01)	$ (0.02)	$ (0.02)	
Weighted average common shares outstanding	81,649,078	55,549,253	31,810,566	

</TABLE>

See accompanying notes to consolidated financial statements.

INDUSTRIAL MINERALS, INC.
AND SUBSIDIARY
(An Exploration Stage Company)

Consolidated Statements of Cash Flows (Audited)

Twelve months ended December 31, 2004, 2003 and 2002
and for the period from November 6, 1996 (Date of Inception)
to December 31, 2004

<TABLE>
<CAPTION>

	Twelve Months Ended December 31, 2004	2003	2002	Nov. 6, 1996 (inception) to Dec.31, 2004
Cash flows from operating activities:				
<S>	<C>	<C>	<C>	<C>
Net loss	$ (561,153)	$(1,133,197)	$(520,242)	$(3,986,835)
Adjustments to reconcile net loss to cash used in operating activities:				
Depreciation and amortization	131,674	68,717	56,193	256,584
Provision for bad debts	-	-	-	49,676
Stock issued for services	-	-	-	414,606
Impairment of long-lived assets	-	-	-	297,882
Gain on extinguishment of debt	(1,047,634)	-	-	(1,047,634)
Changes in:				
Receivables	(65,658)	(20,673)	(19,594)	(110,094)
Inventory	-	-	-	(5,527)
Prepaid expenses	(5,079)	(4,062)	(6,400)	(16,080)
Deposits	53,453	(64,446)	(796)	(11,789)
Accounts payable and accrued expenses	(115,827)	161,908	(38,243)	(38,102)
Due to related parties	11,787	(180,000)	(20,000)	406,787
Net cash used in operating activities	(1,598,437)	(1,171,753)	(549,082)	(3,790,526)

Cash flows from investing activities:				
Purchase of building and equipment	(998,484)	(614,355)	(217,207)	(1,834,206)
Investment in Multiplex	-	-	-	(75,000)
Acquisition of goodwill	-	-	-	(149,057)
Loan to related party	-	-	-	(50,000)
Loan repayments	-	-	-	4,493
Long-term deposits	(159,600)	-	-	(159,600)
Net cash used in investing activities	(1,158,084)	(614,355)	(217,207)	(2,263,370)
Cash flows from financing activities:				
Net proceeds from sale of common stock	-	-	-	744,859
Net proceeds from loans payable	2,001,980	2,283,335	754,920	5,040,235
Proceeds from mortgage	-	-	17,000	17,000
Principal payments on mortgage	(1,081)	(409)	(115)	(1,605)
Accrued interest payable	197,414	83,579	-	280,993
Cash acquired in acquisition of Peanut Butter & Jelly, Inc.	-	-	-	140
Net cash provided by financing activities	2,198,313	2,366,505	771,805	6,081,622

(continued)

</TABLE>

See accompanying notes to consolidated financial statements.

INDUSTRIAL MINERALS, INC.
AND SUBSIDIARY
(An Exploration Stage Company)

Consolidated Statements of Cash Flows (Audited)

Twelve months ended December 31, 2004, 2003 and 2002
and for the period from November 6, 1996 (Date of Inception)
to December 31, 2004 (continued)

<TABLE>
<CAPTION>

	Twelve Months Ended December 31,			Nov. 6, 1996 (inception) to Dec.31,
	2004	2003	2002	2004
<S>	<C>	<C>	<C>	<C>
Net increase (decrease) in cash	$ (558,208)	$ 580,397	$ 5,516	$ 27,726
Cash, beginning of period	585,934	5,537	21	-
Cash, end of period	$ 27,726	$ 585,934	$ 5,537	$ 27,726
Supplemental cash flow disclosures:				
Cash paid for interest	$ -	$ -	$ -	$ 113
Cash paid for income taxes	$ -	$ -	$ -	$ -
Non-cash investing and financing activities:				
Shares issued for debt	4,969,891	-	-	5,564,891
Shares issued for services	-	-	-	414,606
Shares issued for investment	-	-	-	30
Shares issued for accrued interest	268,281	-	-	268,281
Long term deposits financed by accounts Payable	70,400	-	-	70,400
Property costs financed by issuance of common stock	$ -	$ -	$ -	$ 30,000
Equipment financed by:				
Accounts payable	-	-	-	200,000

Issuance of common stock	-	-	-	5,000
	$ -	$ -	$ -	$ 205,000

</TABLE>

See accompanying notes to consolidated financial statements.

INDUSTRIAL MINERALS, INC.
AND SUBSIDIARY
(An Exploration Stage Company)

Consolidated Statement of Stockholders' Equity (Audited)
December 31, 2004

<TABLE>
<CAPTION>

<S>	<C> Common Stock # of Shares	<C> Common Stock Amount	<C> Additional Paid-In Capital	<C> Deficit Accumulated During the Exploration Stage	<C> Totals
Inception - November 6, 1996	-	$ -	-	-	-
Balance at December 31, 1998	252,500	25	505,143	(750,830)	(245,662)
Issuance of stock for cash	30,000	3	146,618	-	146,621
Issuance of stock for services	55,000	6	274,994	-	275,000
Net loss	-	-	-	(259,404)	(259,404)
Balance at December 31, 1999	337,500	34	926,755	(1,010,234)	(83,445)
Issuance of stock for cash	84,900	8	413,062	-	413,070
Issuance of stock for services	70,000	7	349,993	-	350,000
Issuance of stock for Multiplex stock	3,000	1	29	-	30
Issuance of stock for acquisition	475,463	47	4,699	-	4,746
Net loss	-	-	-	(694,758)	(694,758)
Balance at December 31, 2000	970,863	97	1,694,538	(1,704,992)	(10,357)
Issuance of stock for compensation	30,000	3	59,997	-	60,000
Net loss	-	-	-	(67,251)	(67,251)
Balance at December 31, 2001	1,000,863	100	1,754,535	(1,772,243)	(17,608)
Issuance of stock in connection with acquisition of Industrial Minerals Incorporated	35,000,000	3,500	(1,740,393)	1,696,982	(39,911)
Minimum 50 shares post-split allocation	30,758	-	-	-	-
Net loss	-	-	-	(520,242)	(520,242)
Balance at December 31, 2002	36,031,621	3,600	14,142	(595,503)	(577,761)
Minimum 50 shares post-split allocation	327	-	-	-	-
2-for-1 split	36,031,948	-	-	-	-
Net loss	-	-	-	(1,133,197)	(1,133,197)
Balance at December 31, 2003	72,063,896	3,600	14,142	(1,728,700)	(1,710,958)
3-for-2 split	36,031,948	-	-	-	-
Allocation on round-up of shares	7	-	-	-	-
Issuance of stock in settlement of debt	3,492,115	349	4,190,189	-	4,190,538
Net loss	-	-	-	(561,153)	(561,153)
Balance at December 31, 2004	111,587,966	$ 3,949	4,204,331	(2,289,853)	1,918,427

</TABLE>

See accompanying notes to consolidated financial statements.

INDUSTRIAL MINERALS, INC.
AND SUBSIDIARY
(An Exploration Stage Company)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Organization
The Company was incorporated on November 6, 1996, as Winchester Mining Corporation in the State of Delaware. On May 13, 2000, in connection with its merger with Hi-Plains Energy Corp. the Company changed its name from Winchester Mining Corporation to PNW Capital, Inc. On January 31, 2002, the Company acquired 91% of the outstanding shares of Industrial Minerals, Incorporated. On May 2, 2002, the Company merged the remaining 9% of Industrial Minerals, Incorporated into PNW Capital, Inc. and changed its name to Industrial Minerals, Inc.

(b) Nature of Operations
The Company is in the graphite mining industry, and has mineral rights on the Company's Bissett Creek Graphite property in Ontario, Canada. Commissioning of the plant began in September 2004 and it is expected that production will begin in fiscal 2005.

(c) Basis of Presentation - Exploration Stage Company
The Company has not earned significant revenues from limited principal operations. Accordingly, the Company's activities have been accounted for as those of a "Development Stage Enterprise" as set forth in Financial Accounting Standards Board (SFAS) No. 7. Among the disclosures required by SFAS No. 7 are that the Company's consolidated statements of operations, stockholders' equity and cash flows disclose activity since the date of the Company's inception. Since the Company has not entered into production, it is classified as an "Exploration Stage Company."

(d) Basis of Accounting
The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(e) Cash and Equivalents
For the purpose of the consolidated statement of cash flows, the Company considers all highly liquid debt instruments, purchased with an original maturity of three months or less, to be cash equivalents.

(f) Estimates
The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(g) Property and Equipment
Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, from 3 to 20 years. Significant improvements are capitalized, while expenditures for maintenance, repairs and replacements are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation and gains and losses are reflected in the consolidated statements of operations.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicated that the carrying amount of the assets may not be recoverable. In determining whether there is an impairment of long-lived assets, the Company compares the sum of the expected future net cash flows (undiscounted and without interest charges) to the carrying amount of the assets. At December 31, 2004, no impairment in value has been recognized.

(h) Net Loss Per Share
Net loss per share is based on the weighted average number of common shares and common share equivalents outstanding during the year.

(i) Other Comprehensive Income
The Company has no material components of comprehensive income (loss) and accordingly, net loss is equal to comprehensive loss in all periods.

(j) Fair Value of Financial Instruments
The fair value of the Company's financial instruments approximated their carrying values at December 31, 2004 and 2003.

(k) Segment Information
The Company's operating segments all involve the development of mineral rights on the Company's Bissett Creek Graphite property for future production and sale of large crystalline flake graphite.

(l) Income Taxes
The Company is liable for income taxes on future taxable income generated. As of December 31, 2004, the Company has net loss carry forwards of $3,986,835, which will be used as an offset to future taxable income. Due to the Exploration Stage nature of the Company, a deferred tax asset has not been recorded at December 31, 2004.

(m) Principles of Consolidation
The consolidated financial statements include all accounts of Industrial Minerals, Inc. and its wholly owned subsidiary, Industrial Minerals Canada, Inc. All material inter-company transactions have been eliminated.

(n) Recent Pronouncements
In April 2004, the EITF released Issue No. 03-06, Participating Securities and the Two Class Method under SFAS No. 128, Earnings per Share, which addressed a number of questions regarding the computation of earnings per share by companies that have issued securities other than common stock that contractually entitle the holder to participate in dividends and earnings of the company when, and if, it declares dividends on its common stock. It requires that undistributed earnings for the period be allocated to a participating security based on the contractual participation rights of the security to share in those earnings as if all the earnings for the period had been distributed in calculating earnings per share. EITF Issue No. 03-06 is effective for fiscal periods beginning after March 15, 2004. It requires that prior period earnings per share amounts be restated to ensure comparability year over year. The adoption of EITF Issue No. 03-06 did not have an impact on the Company's financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4. The standard requires that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. The provision is effective for fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 153, Exchanges of Nonmonetary Assets, an amendment of APB No. 29, Accounting for Nonmonetary Transactions. SFAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

In December 2004, the FASB released its final revised standard, SFAS No. 123R, Share-Based Payment. SFAS 123R requires that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. A public entity will initially measure the cost of liability based service awards based on its current fair value; the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. Adoption of SFAS 123R is required for fiscal periods beginning after June 15, 2005. The Company is evaluating SFAS 123R and believes it does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

NOTE 2 - BUILDING AND EQUIPMENT

Building and equipment are recorded at cost. A summary of building and equipment at December 31, 2004 are as follows:

Building and improvements	$ 551,521
Equipment	1,483,108

Total building and equipment	2,034,629
Less accumulated depreciation	256,167
Net building and equipment	$ 1,778,462

NOTE 3- LOANS PAYABLE

<TABLE>
<CAPTION>

Loans payable at December 31, 2004 and 2003 consists of the following:

<S>	<C> 2004	<C> 2003
Non-affiliated shareholder, unsecured, interest at 7%. No monthly installments are required. Principal and accrued interest due July 2005. The entire amount, including accrued interest, was Repaid through the issuance of common shares on December 30, 2004 (Note 11)	$ -	$2,967,911
Non-affiliated shareholder, unsecured, interest at 7%. No monthly installments are required. Principal and accrued interest due July 2005.	$ 90,796	$ 90,796
Total loans payable	$ 90,796	$3,058,707
Less current portion	$(90,796)	$ -
Loans payable non-current	$ -	$3,058,707

</TABLE>

NOTE-4 MORTGAGE PAYABLE

Mortgage payable, seller, monthly payments of $320 with interest at 7% beginning September 2002 through August 2007 and a balloon payment for the remaining balance due at August 2007. Secured by real property located in Bissett Creek, Ontario, Canada.	$ 15,395
Less current installments	2,763
Mortgage payable, less current installments	$ 12,632

The aggregate maturity of the mortgage payable for the three years following December 31, 2005 is as follows:

2005	$ 2,763
2006	2,955
2007	9,677
	$15,395

NOTE-5 RELATED PARTY TRANSACTION

The Company was liable to two officers of the Company, for business related expenses. The balance of this accounts payable amounted to $11,787 at December 31, 2004.

NOTE-6 COMMITMENTS

(a) Office Space

The Company is obligated under the terms of a lease for its Toronto office space for monthly rent of $741 until April 30, 2005. After April 30, 2005, the Company will occupy the premises on a month-to-month basis.

(b) Leased Mineral Claim

In connection with leased mineral claims, the Company is required to make royalty payments to the seller of $20 (Canadian dollars) per ton of graphite carbon concentrate produced and 2.5% of net smelter return payable on any other minerals derived from the property. An advance royalty of $27,000 (Canadian dollars) per annum will be paid to the seller in semi-annual installments.

(c) Marketing

The Company is committed to pay to $7,500 monthly for marketing services. This commitment ends on May 31, 2005.

(d) Mine Development and Closure

A Mine Development and Closure Plan has been filed with, and accepted by, the Ministry of Northern Development and Mines, in accordance with the Mining Act, R.S.O. 1990, Ontario Regulation 240/00, including the standards, procedures and requirements of the Mining Code of Ontario. A financial assurance in the amount of $230,000 has been accounted for as a long term deposit. The Company has paid $159,600 to the Minister of Finance for the Province of Ontario leaving a balance of $70,400 which is due and payable on or before May 31, 2005. This financial assurance represents the amount that would be required to restore the Company's Bissett Creek Graphite Property to it's original environmental state. The money pledged for this financial assurance will be returned to the Company once the Ministry of Northern Development and Mines is satisfied that the obligations contained in the Mine Development and Closure Plan have been performed by the Company. Should the Company not perform it's obligations contained in the Mine Development and Closure Plan the Ministry of Northern Development and Mines will restore the Company's Bissett Creek Graphite property site to it's original environmental state using the $230,000 financial assurance.

NOTE-7 CAPITAL STOCK

The Company issued 36,031,948 shares of common stock as the result of a 3 for 2 forward stock split. The forward stock split was effective on September 27, 2004. Shares and per share amounts were restated to reflect this forward stock split. The Company issued an additional 7 shares so that no shareholder would have a fraction of a share as a result of this 3 for 2 forward split.

The Company issued 3,492,115 shares of common stock to a non-affiliated shareholder to convert $5,238,172 of debt to equity (Note 3 and 11).

NOTE 8- GOING CONCERN

The Company's financial statement has been presented on the basis that it is a going concern. The Company is in the exploration stage and has not earned any revenues from operations. The Company's current liabilities exceed current assets by $77,403 and the Company recorded a net loss amounting to $561,153 during the year ended December 31, 2004. The Company's ability to continue, as a going concern is dependent upon its ability to develop additional sources of capital to operate it's Bissett Creek Property and ultimately, achieve profitable operations. Management plans to obtain sufficient additional debt or equity financing to finance operations, capital improvements and other necessary activities to ensure the business becomes profitable. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

NOTE 9- TRANSLATION OF FOREIGN CURRENCIES

The assets and liabilities of subsidiaries located outside of the United States are translated in U.S. dollars at the rates of exchange at the balance sheet dates. Foreign currency transaction gains or losses are reflected in the results of operations.

NOTE 10-INCOME TAXES

The Company has made no provision for income taxes because the Company has incurred operating losses in all periods and for all jurisdictions.

The FASB has issued Statement of Financial Accounting Standards Number 109 (SFAS 109) "Accounting for Income Taxes", which requires a change from the deferred method to the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing liabilities.

The net deferred income tax asset consisted of the following components at December 31, 2004 and 2003:

	2004	2003
Deferred tax asset:		
Net operating loss carryforwards	$3,986,835	3,425,682
Valuation allowance	(3,986,835)	(3,425,682)
Net deferred income tax asset	$ -	-

At December 31, 2004, the Company had net operating loss carryforwards of approximately $3,986,835 for federal income tax purposes. These carryforwards if not utilized to offset taxable income will begin to expire in 2018.

NOTE-11 EXTRAORDINARY GAIN FROM EXTINGUISHMENT OF DEBT

The Company converted $5,238,172 of debt consisting of $4,969,891 and $268,281 of principal and interest respectively into 3,492,115 restricted common shares of the Company. This was converted at $1.50 per share and the Company's common shares closed on December 30, 2004 at $1.20. The difference of $.30 per share at the date of this transaction resulted in a gain of $1,047,634.

NOTE-12 SUBSEQUENT EVENT

During the first quarter of the Company's fiscal year ending December 31, 2005, additional financing in the amount of $202,500 at annual interest rate of 10% has been obtained. The principal along with accrued interest is due and payable on December 31, 2005. A non-affiliated shareholder has advanced these funds.

EXHIBIT 31.1
SECTION 302 CERTIFICATION

CERTIFICATIONS

I, Larry Van Tol, certify that:

1. I have reviewed this amended annual report on Form 10K/A of Industrial Minerals, Inc.;

2. Based on my knowledge, this amended annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this amended annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this amended annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amended annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amended annual report (the "Evaluation Date"); and

c) presented in this amended annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this amended annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 2, 2005

/s/Larry Van Tol

Larry Van Tol, Chief Executive Officer, President and Director

EXHIBIT 31.2
SECTION 302 CERTIFICATION

CERTIFICATIONS

I, John Melnyk, certify that:

1. I have reviewed this amended annual report on Form 10K/A of Industrial Minerals, Inc.;

2. Based on my knowledge, this amended annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this amended annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this amended annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amended annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this amended annual report (the "Evaluation Date"); and

c) presented in this amended annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this amended annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 2, 2005

/s/John Melnyk

John Melnyk, Chief Financial Officer, Secretary/Treasurer and Director

EXHIBIT 32.1
SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the amended periodic report on Form 10-K/A for the period ended December 31, 2004 (the "Report") of Industrial Minerals, Inc. (the "Company") I, Larry Van Tol, Chief Executive Officer and President of the Company, certify, pursuant to 18USC ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 2, 2005

/s/Larry Van Tol

Larry Van Tol, Chief Executive Officer and President

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

EXHIBIT 32.2
SECTION 906 CERTIFICATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the amended periodic report on Form 10-K/A for the period ended December 31, 2004 (the "Report") of Industrial Minerals, Inc. (the "Company") I, John Melnyk, Chief Financial Officer, Secretary and Treasurer of the Company, certify, pursuant to 18USC ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 2, 2005

/s/John Melnyk

John Melnyk, Chief Financial Officer, Secretary and Treasurer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.