

**FIRST METALS INC.**  
(A DEVELOPMENT STAGE COMPANY)

**(UNAUDITED)**

**RESTATED FINANCIAL STATEMENTS**

**SECOND QUARTER ENDED JUNE 30, 2007**

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**These interim financial statements for the period ended June 30, 2007 have been prepared by Management who take responsibility for them in accordance with Canadian generally accepted accounting principles and have not been reviewed by the auditors of the Company.**

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
(Unaudited)  
Balance Sheet  
Period ended June 30, 2007

	<b>RESTATED</b>	
	<b>(note 2)</b>	
	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,338,836	\$ 3,527,945
Restricted cash (note 9)	15,063,608	-
Accounts receivable	334,930	617,682
Deposits on contracts & prepaid expenses	319,481	671,358
	<b>17,056,855</b>	<b>4,816,985</b>
<b>Mineral interests (note 6)</b>	<b>17,749,929</b>	<b>7,864,383</b>
	<b>\$ 34,806,784</b>	<b>\$ 12,681,368</b>
<b>Liabilities and Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,422,783	\$ 814,002
Due on mineral properties (note 6)	250,000	250,000
Obligations under capital leases - current portion (note 7)	2,109,244	161,955
	<b>3,782,027</b>	<b>1,225,957</b>
<b>Obligations Under Capital Leases (note 7)</b>	<b>1,225,254</b>	<b>454,969</b>
<b>Senior Secured Notes (note 9)</b>	<b>16,177,166</b>	<b>-</b>
<b>Future Income taxes</b>	<b>1,396,881</b>	<b>1,396,881</b>
	<b>18,799,301</b>	<b>1,851,850</b>
<b>Shareholders' equity:</b>		
Share Capital (note 10)	10,660,854	8,549,252
Warrants (note 10)	3,449,653	1,732,091
Contributed Surplus (note 11 )	1,313,053	1,189,421
Deficit	( 3,198,104)	( 1,867,203)
	<b>12,225,456</b>	<b>9,603,561</b>
	<b>\$ 34,806,784</b>	<b>\$ 12,681,368</b>

Commitments and Contingencies (notes 6, 10, and 13)

**APPROVED ON BEHALF OF THE BOARD**

"Richard Williams"

"James Richardson"

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

(See accompanying notes to interim financial statements)

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

(Unaudited)

Statement of Loss and Deficit

Period ended June 30, 2007

	Three months ended June 30		RESTATED		Cumulative Feb. 23, 2006 through June 30, 2007
			(note 2)		
			2007	2006	
<b>Revenue</b>					
Interest income	\$ 10,789	\$ 9,260	\$ 21,185	\$ 9,260	\$ 116,963
Other revenue	616		4,711	-	4,711
	<b>11,405</b>	<b>9,260</b>	<b>25,896</b>	<b>9,260</b>	<b>121,674</b>
<b>Expenses</b>					
General and administration	194,494	20,694	436,809	20,694	775,697
Professional fees	143,432	11,700	271,892	11,700	574,947
Management fees	78,750	78,600	157,500	98,600	392,885
Registry and filing	39,936	10,000	71,449	10,000	227,307
Travel and accommodation	27,751	-	71,440	-	190,476
Stock-based compensation	280,262	-	343,542	-	1,148,075
Interest	(13,873)	-	4,165	-	10,391
<b>Total Expenses</b>	<b>750,752</b>	<b>120,994</b>	<b>1,356,797</b>	<b>140,994</b>	<b>3,319,778</b>
<b>Loss Before Income taxes</b>	<b>(739,347)</b>	<b>(111,734)</b>	<b>(1,330,901)</b>	<b>(131,734)</b>	<b>(3,198,104)</b>
Provision for income taxes	-	-	-	-	-
<b>Net Loss</b>	<b>(739,347)</b>	<b>(111,734)</b>	<b>(1,330,901)</b>	<b>(131,734)</b>	<b>(3,198,104)</b>
<b>Deficit - beginning of period</b>	<b>(2,458,757)</b>	<b>(20,000)</b>	<b>(1,867,203)</b>	<b>-</b>	<b>-</b>
<b>Deficit - end of period</b>	<b>\$ (3,198,104)</b>	<b>\$ (131,734)</b>	<b>\$ (3,198,104)</b>	<b>\$ (131,734)</b>	<b>\$ (3,198,104)</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.01)</b>	
<b>Weighted average number of common shares outstanding - basic and diluted (note 10)</b>	<b>31,391,932</b>	<b>16,945,055</b>	<b>31,129,805</b>	<b>14,486,188</b>	

See accompanying notes to interim financial statements

(See accompanying notes to interim financial statements)

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

(Unaudited)

Statement of Cash Flows

Period ended June 30, 2007

	<u>Three months ended June 30</u>		(note 2) Six Months ended June 30, 2007	Feb. 23, 2006 Date of inception through June 30, 2006	Cumulative Feb. 23, 2006 through June 30, 2007
	2007	2006			
<b>Cash provided by (used in)</b>					
<b>Operating Activities</b>					
Net loss for the period	\$ (739,347)	\$ (111,734)	\$ (1,330,901)	\$ (131,734)	\$ (3,198,104)
Adjustments for non-cash items				-	
Stock-based compensation - contributed surplus	280,262		343,542	-	1,148,075
Changes in non-cash working capital					
Accounts receivable	(40,892)	(58,097)	282,752	(58,097)	(334,930)
Deposits on contracts and prepaid expense	289,573	(28,400)	351,877	(28,400)	(319,481)
Accrued interest on Secured Notes	86,826		86,826	-	86,826
Accounts payable and accrued charges	(28,431)	126,545	608,781	126,545	1,422,783
<b>Net Cash from (used in) Operating Activities</b>	<b>(152,009)</b>	<b>(71,686)</b>	<b>342,877</b>	<b>(91,686)</b>	<b>(1,194,831)</b>
<b>Financing Activities</b>					
Issuance of common shares and warrants for cash	1,883,492	3,100,000	1,891,692	3,100,000	13,462,814
Issuance expenses	-	(244,718)		(244,718)	(1,240,101)
Warrants issued (net of exercise)	1,718,262		1,717,562	-	3,449,653
Deferred financing costs	-	(17,000)		(17,000)	-
Senior Secured Notes	16,090,340		16,090,340	-	16,090,340
Due to Globex	-	750,000		750,000	250,000
Increase in obligations under capital leases net of payments	1,633,010		2,717,574	-	3,334,498
Due to shareholder	-	(24,610)		(24,610)	-
	21,325,104	3,563,672	22,417,168	3,563,672	35,347,204
<b>Investing activities</b>					
Restricted cash (notes, 9, 13)	(15,063,608)		(15,063,608)		(15,063,608)
Mineral properties	(5,233,623)	(1,198,718)	(9,885,546)	(1,198,718)	(17,749,929)
<b>Increase (decrease) in Cash and Cash Equivalents</b>	<b>875,864</b>	<b>2,293,268</b>	<b>(2,189,109)</b>	<b>2,273,268</b>	<b>1,338,836</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 462,972</b>	<b>\$ 100</b>	<b>\$ 3,527,945</b>	<b>\$ 100</b>	<b>\$ -</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,338,836</b>	<b>\$ 2,293,368</b>	<b>\$ 1,338,836</b>	<b>\$ 2,273,368</b>	<b>\$ 1,338,836</b>
<b>Cash and cash equivalents</b>					
Cash	\$ (284,619)	\$ 146,813	\$ (284,619)	\$ 146,813	\$ (284,619)
Term deposits	1,623,455	2,146,555	1,623,455	2,126,555	1,623,455
	\$ 1,338,836	\$ 2,293,368	\$ 1,338,836	\$ 2,273,368	\$ 1,338,836
<b>Supplemental Information</b>					
Cash payments related to interest and income were as follows					
Interest costs - capitalized	\$ 418,491	\$ 267	\$ 418,491	\$ 418,758	\$ 418,758
Interest costs expensed	(13,873)	-	4,165	10,391	10,391
Income taxes	-	-	-	-	-

(See accompanying notes to the interim financial statements.)

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

(Unaudited)

Notes to Financial Statements

June 30, 2007

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**1. Nature of Operations and Development Stage Activities**

**First Metals Inc.** (the “Company”) was incorporated effective February 23, 2006 as 6527167 Canada Inc. By articles of amendment effective March 21, 2006, the Company changed its name to First Metals Inc. The Company is a junior mining exploration and development Company engaged in the acquisition, exploration and development of mineral prospects in Canada.

The principal current activity of the Company is the bringing to production of the Fabie Bay and Magusi River deposits acquired from Globex Mining Enterprises Inc. (“Globex”) in 2006. A more complete description of these activities is outlined in the Management Discussion & Analysis (“MD&A”).

**2. Restatement of previously issued financial statements**

Following a continuous review by the OSC, Management has determined that a restatement of the quarterly financial statements for the period ended June 30, 2007 was appropriate.

The restatement adjustments relate to; (a) the initial recording of the Secured Notes as well as the amortization of the transaction costs in accordance with the new financial instruments standards, (b) the recognition of Stock-based Compensation and (c) the transfer of fair value of option exercise from contributed surplus.

**Senior Secured Notes:**

The Financial Instruments accounting standard which became effective January 1, 2007 requires discounts on other liabilities to be excluded from the determination of the initial value of the liability. The rules also require the transaction costs be amortized over the expected life of the liabilities using the effective interest rate method. The Company had originally recorded the liabilities at the \$20,000,000 face value of the debt rather than at the fair value of the consideration received along with a deferred asset which included the discount and transaction costs.

The restatement has resulted in the elimination of the deferred debt financing, interest and insurance of \$4,300,084 which included a discount on the debt and transaction costs, a reduction in the Senior Secured Notes by \$3,822,834 to \$16,177,166 representing the amortized cost and an increase in the Mineral Interests of \$477,250 for accrued interest costs.

These adjustments have not impacted the Net Loss reported for the three month period ended June 30, 2007 or the year to date results for the six month period ended June 30, 2007.

**Stock-based Compensation:**

Management identified inconsistencies in some valuation assumptions and the timing of recognition of the stock-based compensation expense for 270,000 Director’s options exercisable at \$1.40 per share which were granted May 31, 2007. The stock-based compensation expense had been recorded in the period ended September 30, 2007 rather than at June 30, 2007.

The restatement has resulted in an increase in the stock-based compensation of \$218,249 for the three months ended June 30<sup>th</sup>, 2007 from \$62,013 to \$280,262 and a corresponding increase in the six month stock-based compensation to \$343,542 for the period ended June 30<sup>th</sup>

**Transfer of Fair Value for Options Exercised:**

The fair value of options which had previously been granted and exercised during the period ended June 30, 2007 was recorded in the period ended September 30, 2007 rather than at June 30, 2007.

The restatement has resulted in an increase in the Share Capital of \$219,910 to \$10,660,854 and a corresponding reduction in the Contributed Surplus. The adjustment has not impacted the Net Loss reported for the three month period ended June 30, 2007 or the year to date results for the six month period ended June 30, 2007.

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

(Unaudited)

Notes to Financial Statements

June 30, 2007

**Balance Sheet – June 30, 2007**

	As previously Reported	Adjustments	As restated
<b>Assets</b>			
Cash and cash equivalents	\$ 1,338,836	\$ -	\$ 1,338,836
Restricted cash	15,063,608	-	15,063,608
Accounts receivable	334,930	-	334,930
Deposits on contracts & prepaid expenses	319,481	-	319,481
	<b>17,056,855</b>	-	<b>17,056,855</b>
Deferred debt financing, interest and insurance	<b>4,300,084</b>	( 4,300,084) (a)	-
Mineral Interests	<b>17,272,679</b>	477,250 (b)	<b>17,749,929</b>
	<b>\$ 38,629,618</b>	<b>\$ (3,822,834)</b>	<b>\$ 34,806,784</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,422,783	\$ -	\$ 1,422,783
Due on mineral properties	250,000	-	250,000
Obligations under capital leases - current portion	2,109,244	-	2,109,244
	<b>3,782,027</b>		<b>3,782,027</b>
<b>Obligations under Capital Leases</b>	<b>1,225,254</b>	-	<b>1,225,254</b>
<b>Senior Secured Notes</b>	<b>20,000,000</b>	( 3,822,834) (c)	<b>16,177,166</b>
<b>Future income taxes</b>	<b>1,396,881</b>		<b>1,396,881</b>
	<b>22,622,135</b>	( 3,822,834)	<b>18,799,301</b>
<b>Shareholders' equity:</b>			
Share Capital	10,440,944	219,910 (d)	10,660,854
Warrants	3,449,653	-	3,449,653
		( 219,910) (d)	
Contributed Surplus	1,314,714	218,249 (e)	1,313,053
Deficit	( 2,979,855)	( 218,249) (e)	( 3,198,104)
	<b>12,225,456</b>		<b>12,225,456</b>
	<b>\$ 38,629,618</b>	<b>\$ (3,822,834)</b>	<b>\$ 34,806,784</b>

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

(Unaudited)

Notes to Financial Statements

June 30, 2007

**Statement of Loss and Deficit for the Three Months ended June 30, 2007**

	As previously		
	Reported	Adjustments	As restated
<b>Revenue</b>			
Interest income	\$ 10,789	\$ -	\$ 10,789
Other revenue	616		616
	<b>11,405</b>	<b>-</b>	<b>11,405</b>
<b>Expenses</b>			
Stock-based compensation	62,013	218,249 (e)	280,262
General and administration	194,494		194,494
Professional fees	143,432		143,432
Management fees	78,750	-	78,750
Registry and filing	39,936		39,936
Travel and accommodation	27,751		27,751
Interest	(13,873)	-	(13,873)
<b>Total Expenses</b>	<b>532,503</b>	<b>218,249</b>	<b>750,752</b>
<b>Loss Before Income taxes</b>	<b>( 521,098)</b>	<b>( 218,249)</b>	<b>( 739,347)</b>
Provision for income taxes	-	-	-
<b>Net Loss</b>	<b>( 521,098)</b>	<b>( 218,249)</b>	<b>( 739,347)</b>
<b>Deficit - beginning of period</b>	<b>( 2,458,757)</b>		<b>( 2,458,757)</b>
<b>Deficit - end of period</b>	<b>\$ (2,979,855)</b>	<b>\$ (218,249)</b>	<b>\$ (3,198,104)</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding - basic and diluted (note 10)</b>	<b>31,391,932</b>	<b>31,391,932</b>	<b>31,391,932</b>

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
(Unaudited)  
Notes to Financial Statements  
June 30, 2007

**Statement of Loss and Deficit for the Six Months ended June 30, 2007**

	As previously		
	Reported	Adjustments	As restated
<b>Revenue</b>			
Interest income	\$ 21,185	\$ -	\$ 21,185
Other revenue	4,711		4,711
	<b>25,896</b>	<b>-</b>	<b>25,896</b>
<b>Expenses</b>			
Stock-based compensation	125,293	218,249 (e)	343,542
General and administration	436,809		436,809
Professional fees	271,892		271,892
Management fees	157,500	-	157,500
Registry and filing	71,449		71,449
Travel and accommodation	71,440		71,440
Interest	4,165	-	4,165
<b>Total Expenses</b>	<b>1,138,548</b>	<b>218,249</b>	<b>1,356,797</b>
<b>Loss Before Income taxes</b>	<b>( 1,112,652)</b>	<b>( 218,249)</b>	<b>( 1,330,901)</b>
Provision for income taxes	-	-	-
<b>Net Loss</b>	<b>( 1,112,652)</b>	<b>( 218,249)</b>	<b>( 1,330,901)</b>
<b>Deficit - beginning of period</b>	<b>( 1,867,203)</b>		<b>( 1,867,203)</b>
<b>Deficit - end of period</b>	<b>\$ (2,979,855)</b>	<b>\$ (218,249)</b>	<b>\$ (3,198,104)</b>
<b>Loss per share - basic and diluted</b>	<b>\$ (0.04)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>
<b>Weighted average number of common shares outstanding - basic and diluted (note 10)</b>	<b>31,129,805</b>	<b>31,129,805</b>	<b>31,129,805</b>

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

(Unaudited)

Notes to Financial Statements

June 30, 2007

**Cash Flow Statement for the Three Months Ended June 30, 2007**

	As previously Reported	Adjustments	As restated
<b>Cash provided by (used in)</b>			
<b>Operating Activities</b>			
Net loss for the period	\$ (521,098)	\$ (218,249) (e)	\$ (739,347)
Adjustments for non-cash items			
Stock-based compensation - contributed surplus	62,013	218,249 (e)	280,262
Changes in non-cash working capital			
Accounts receivable	( 40,891)	-	( 40,891)
Deposits on contracts and prepaid expense	289,573	-	289,573
Accrued interest on Secured Notes	86,826	-	86,826
Accounts payable and accrued charges	( 28,432)	-	( 28,432)
<b>Net Cash from (used in) Operating Activities</b>	<b>( 152,009)</b>	<b>-</b>	<b>( 152,009)</b>
<b>Financing Activities</b>			
Issuance of common shares and units for cash	1,883,492	- (d)	1,883,492
Warrants issued (net of exercise)	1,718,262		1,718,262
Deferred financing costs	( 4,300,084)	4,300,084 (a)	-
Senior Secured Notes	19,913,174	( 3,822,834) (c)	16,090,340
Increase in obligations under capital leases net of payments	1,633,010		1,633,010
	20,847,854	477,250	21,325,104
<b>Investing activities</b>			
Restricted cash	( 15,063,608)		( 15,063,608)
Mineral properties	( 4,756,373)	( 477,250) (b)	( 5,233,623)
<b>Increase (decrease) in Cash and Cash Equivalents</b>	<b>875,864</b>	<b>-</b>	<b>875,864</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 462,972</b>		<b>\$ 462,972</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,338,836</b>		<b>\$ 1,338,836</b>
<b>Cash and cash equivalents</b>			
Cash	\$ (284,619)		\$ (284,619)
Term deposits	1,623,455		1,623,455
	<b>\$ 1,338,836</b>		<b>\$ 1,338,836</b>
<b>Supplemental Information</b>			
Cash payments related to interest and income were as follows			
Interest costs - capitalized	\$ 400,082		\$ 418,491
Interest costs expensed	( 13,873)		( 13,873)
Income taxes	-		-

**FIRST METALS INC.**  
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(Unaudited)

Notes to Financial Statements

June 30, 2007

**Cash Flow Statement for the Six Months Ended June 30, 2007**

	As previously		
	Reported	Adjustments	As restated
<b>Cash provided by (used in)</b>			
<b>Operating Activities</b>			
Net loss for the period	\$ (1,112,652)	\$ (218,249) (e)	\$ (1,330,901)
Adjustments for non-cash items			
Stock-based compensation - contributed surplus	125,293	218,249 (e)	343,542
Changes in non-cash working capital			
Accounts receivable	282,752	-	282,752
Deposits on contracts and prepaid expense	351,877	-	351,877
Accrued interest on Secured Notes	86,826		86,826
Accounts payable and accrued charges	608,781	-	608,781
<b>Net Cash from (used in) Operating Activities</b>	<b>342,877</b>	<b>-</b>	<b>342,877</b>
<b>Financing Activities</b>			
Issuance of common shares and units for cash	1,891,692	-	1,891,692
Warrants issued (net of exercise)	1,717,562	-	1,717,562
Deferred financing costs	(4,300,084)	4,300,084 (a)	-
Senior Secured Notes	19,913,174	(3,822,834) (c)	16,090,340
Due to Globex	-		-
Increase in obligations under capital leases net of paym	2,717,574		2,717,574
	21,939,918	477,250	22,417,168
<b>Investing activities</b>			
Restricted cash	(15,063,608)		(15,063,608)
Mineral properties	(9,408,296)	(477,250) (b)	(9,885,546)
<b>Increase (decrease) in Cash and Cash Equivalents</b>	<b>(2,189,109)</b>	<b>-</b>	<b>(2,189,109)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 3,527,945</b>		<b>\$ 3,527,945</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,338,836</b>		<b>\$ 1,338,836</b>
<b>Cash and cash equivalents</b>			
Cash	\$ (284,619)		\$ (284,619)
Term deposits	1,623,455		1,623,455
	<b>\$ 1,338,836</b>		<b>\$ 1,338,836</b>
<b>Supplemental Information</b>			
Cash payments related to interest and income were as follows			
Interest costs - capitalized	\$ 400,082		\$ 418,491
Interest costs expensed	4,165		4,165
Income taxes	-		-

**Notes:**

- a) The adjustment to deferred debt financing, interest and insurance eliminates the discount on the notes which had been deferred. The transaction costs are being amortized over the term of the Secured Notes using the effective interest rate method.

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Notes to Financial Statements

June 30, 2007

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- b) Accrued interest costs have been deferred in the Mineral Interests in the Balance Sheet and will be amortized when commercial production commences.
- c) Reduces the carrying value of the Senior Secured Notes from the face value to the amortized cost at June 30, 2007.
- d) Reflects the fair value of options exercised in June 30<sup>th</sup>, but recorded in September 30, 2007 original financials.
- e) Recognizes corrections in the valuation assumptions and reflects a 270,000 Director's option grant with a fair value of \$212,220 in the period ended June 30<sup>th</sup>, 2007.

### **3. Going Concern**

The Corporation is a development stage Company with two projects to be brought into production.

These interim financial statements have been prepared using Canadian generally accepted accounting principles (GAAP) applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to achieve profitable operations and/or the discovery, development and sale of mining reserves. The Company cannot reasonably expect to earn revenue in the development stage of operations. Only when the current construction stage of mine development is complete and commercial production is achieved, will the Company's viability as a going concern be established. Management's plans to achieve profitable and self sustaining operations include the completion of the necessary permitting to enable the Company's mineral projects to enter into production.

The financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments would be material.

### **4. Basis of Presentation and Accounting Policies**

These interim financial statements have been prepared by management following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2006, but do not contain all disclosures required for annual financial statements prepared in accordance with generally accepted accounting principles.

Accordingly, these interim financial statements should be read in conjunction with the Company's audited financial statements for the nine months ended December 31, 2006 which include a more comprehensive set of explanatory notes and the MD&A originally dated August 9, 2007, but reissued on January 18<sup>th</sup>, 2008.

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**5. Changes in significant accounting policies and estimates**

On January 1 2007, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook section 3855 – *Financial Instruments – Recognition and Measurement*, 1530 – *Comprehensive Income* and 3865 – *Hedges*, 3251 *Equity* and 3861 *Financial Instruments – Disclosure and Presentation*.

This new standard, Section 3855, "*Financial Instruments - Recognition and Measurement*" requires the Company to revalue all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value on the initial date of implementation and at each subsequent financial reporting date.

This standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings; b) held to maturity - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale - measured at fair value with changes in fair value recognized in other comprehensive income for the current period until realized through disposal or impairment; and d) loans and receivables - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired.

Classification choices for financial liabilities include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings and b) other - measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Subsequent measurements for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

In accordance with the new standard, the Company's financial assets and liabilities are generally classified and measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Measurement</u>
Cash	Available for sale	Fair value
Cash equivalents	Held to maturity	Amortized cost
Receivables	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Senior Secured Notes	Other liabilities	Amortized cost

The methods used by the Company in determining the fair value of financial instruments are unchanged as a result of implementing the new standard.

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Other balance sheet accounts, such as deposits on contracts and prepaid expenses, long-term lease obligations and future income taxes are not within the scope of the new accounting standards as they are not financial instruments.

Transaction costs related to Other Financial Liabilities are netted against the carrying value of the liability and are then amortized over the expected life of the instrument using the effective interest method.

The Company has no financial instruments or activities that give rise to other comprehensive (income) loss.

**6. Mineral Interests**

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
Property acquisition costs	\$ 1,024,361	\$ 1,005,083
Deferred development and exploration	3,862,886	1,063,593
Infrastructure, plant and equipment	12,385,432	5,795,707
Deferred interest costs	418,757	-
Deferred insurance	58,493	-
<b>Balance, end of period</b>	<b>\$17,749,929</b>	<b>\$7,864,383</b>

The Company commenced activities in early March 10, 2006 with the execution of a letter of intent to acquire from Globex Mining Enterprise Inc. ("Globex") a 100% interest in the following mining claims. On April 26, 2006, the Company acquired the Fabie Bay, Magusi River and Duprat Mining claims and certain neighbouring additional claims from Globex for cash consideration of \$1,000,000 and the additional consideration as described below.

To date, \$750,000 has been paid and the remaining \$250,000 is due within 30 days of attaining commercial production at any one of the mining claims. The balance is non interest bearing and unsecured. Management expects to achieve production at Fabie Bay by the end of 2007. The claims are located in Hébécourt, Montbray and Duprat townships in the Abitibi Greenstone Belt Region near Rouyn-Noranda, Quebec, Canada.

The Fabie Bay project contains a body of copper ore previously mined in the late 1970's until low metal prices resulted in the shut down of mining operations. The Magusi River project contains a previously unexploited body of zinc and copper ore. No significant exploration activities have been carried out on the Duprat project. A technical report with respect to each of the Fabie Bay and Magusi River projects conforming to the requirements of National Instrument 43 101 has been completed and is summarized in the Company's preliminary prospectus filed on September 1, 2006 in conjunction with the Company's Initial Public Offering ("IPO") and in its Annual Information Form filed March 31, 2007.

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Pursuant to the terms of the purchase agreement, Globex is also entitled to acquire, for no additional consideration, 10% of the issued and outstanding common shares of the Company on the date on which commercial production is first achieved at any of the mining claims. Following achievement of commercial production at any of the mining claims, Globex is also entitled to receive 2% net metal return on any minerals, metals or concentrates extracted and derived from the ore mined from such mining claims. Following recoupment of \$10,000,000 in net project capital, Globex is entitled to receive 10% net profit interest on any earnings from the mining claims.

**7. Obligations Under Capital Leases**

The Company has entered into various equipment leases which transfer substantially all of the benefits and risks of ownership from the lessor and as a result, the assets and obligations have been recorded in the financial statements.

A summary of the various capital leases is outlined below:

Lease/Equipment	Lease Maturity	Interest Rate	Monthly Principal & Interest	Residual Value	Capitalized Value at June 30, 2007
a. Caterpillar Generator	Nov-08	8.10%	\$ 1,586	\$ 6,900	\$ 30,129
b. Cubex Drill	Dec-09	8.90%	15,813	115,738	527,727
c. Service Vehicle	Sep-08	7.45%	14,854	-	212,125
d. Toro Scooptram	Sep-08	7.45%	53,770	-	767,858
e. Toro Scooptram	Dec-08	7.45%	53,770	-	913,059
f. Toro 50 Ton Truck	Dec-08	7.45%	48,188	-	818,275
g. Compressor Equipment and accessories	Feb-09	10.75%	3,285	-	65,325
Total					3,334,498
Less Current portion					(2,109,244)
Long-term portion					\$ 1,225,254

Future aggregate minimum payments are due as follows:

2007	\$ 1,034,619
2008	1,987,423
2009	182,722
2010	<u>129,734</u>
	<u>\$ 3,334,498</u>

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## 8. Financial Instruments

### Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. The Company has no reason to believe credit loss will arise from any of the above financial instruments. The maximum loss which may possibly be realized is the carrying value of the financial instruments.

### Interest rate risk

At June 30, 2007, the Company had no outstanding indebtedness that bears interest risk.

### Fair Values

The carrying value of financial instruments approximates their fair value due to the short maturity of these instruments.

## 9. Senior Secured Notes

	Annual interest rate	Earliest Callable Date	Maturity Date	Principal	Fair Market Value at outset	Amortized Cost at June 30, 2007
Senior Secured Notes	14%	May, 4, 2009	July 31, 2012	\$20,000,000	\$16,090,340	\$16,177,166

On May 4, 2007, First Metals Inc. issued \$20,000,000 in Senior Secured Notes with interest payable at 14%. Each \$1,000 Note, which has a term of five (5) years and one (1) day from the Escrow Release date (July 30, 2007), was offered at a purchase price of 98% of the principal amount thereof and is callable by the Company at any time following 24 months from the closing.

In addition, for each \$1,000 in principal amount of Notes acquired, the purchasers also received, for no additional consideration, a share purchase warrant to acquire a total of one hundred common shares of the Company at an exercise price of \$1.35 per share expiring five (5) years and one (1) day from the date the Escrow Release Conditions were achieved on July 30, 2007. A total of 2 million share purchase warrants have been issued.

At the issue date, the Company received gross proceeds of \$19,600,000 and incurred transaction costs of \$1,607,660 (Jennings Capital Inc. received a \$400,000 advisory fee and a 4% cash commission of \$800,000, legal costs of \$407,660) which resulted in net proceeds of \$17,992,340. In determining the initial carrying value for the Secured Notes, the Company separated the warrants from the Notes and ascribed \$1,902,000 to the attached Warrants based on a Black-Scholes option pricing calculation and the value of the Senior Secured Notes was established at \$16,090,340.

The transaction costs are amortized over the period to the expected maturity July 31<sup>st</sup>, 2012, of the instrument using the effective interest rate method.

The amortized cost of the Senior Secured Notes of \$16,177,166 as reported at June 30, 2007 represents the amount at which the liability was measured at the initial recognition plus the amortization using the effective interest method of the difference between the initial amount and the maturity amount of the notes minus principal repayments. The amortization amounts are initially included as interest expense and recognized in interest and other expenses, net. During the preproduction stage, these expenses have been capitalized in the Mineral Interests as reported on the Balance Sheet.

The Senior Secured Notes contain certain financial maintenance covenants including a restriction on borrowings without Noteholder approval. A Collateral Agent has been appointed and a lien over all of the property and assets of the Company has been established. Interest is paid quarterly.

### **Escrowed Proceeds**

In accordance with the Escrow Agreement, at June 30, 2007, \$15,068,000 of proceeds Senior Secured Notes issued on June 4, 2007 were restricted and remained in Escrow subject to the Company executing a Custom Milling Agreement with Xstrata Copper Canada Limited, a division of Falconbridge Limited for the custom milling of the Fabie Bay ore, and attainment of a Bail Minier (Mining License) to put the Fabie Bay orebody into production.

On, June 4, 2007, a definitive agreement was signed with Xstrata Copper Canada Limited. The Bail Minier was signed on July 16, 2007 and the Escrow Release Conditions were fully satisfied and the release from Escrow took place on July 30, 2007 which sets both the Warrant expiry and Senior Secured Note Maturity dates.

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**10. Share Capital**

**Authorized (Unlimited common shares, no par value, voting)**

Issued and outstanding common shares	June 30, 2007		December 31, 2006	
	Number of shares	Amount	Number of shares	Amount
<b>Balance, beginning of period</b>	<b>30,836,705</b>	<b>\$8,549,252</b>	<b>100</b>	<b>\$100</b>
1 for 120,000 stock split	-	-	11,999,900	-
Issued pursuant to private placement	-	-	4,000,000	600,000
Issued pursuant to private placement	-	-	5,000,000	2,500,000
Issued pursuant to the IPO	-	-	9,832,555	10,200,000
Issued in connection with exercise of warrants (see (a) below)	1,894,833	1,069,125	4,150	3,113
Value of warrants (see (a) below)		184,438	-	(1,732,091)
Issued pursuant to exercise of share options (Broker & Consultants)	638,129	638,129		
Fair value of options exercised (see (b) below)		219,910		
Share issue costs	-	-	-	(1,624,989)
Expenses renounced through the issuance of flow-through shares	-	-	-	(1,396,881)
<b>Balance, end of the period</b>	<b>33,369,667</b>	<b>\$10,660,854</b>	<b>30,836,705</b>	<b>\$8,549,252</b>

- (a) During the period, 883,333 shares from the exercise of Class A Special Warrants were issued at \$0.30 (proceeds - \$265,000); 920,500 shares from the exercise of Class B Special Warrants were issued at \$0.75 (proceeds - \$690,375) and 91,000 shares from the exercise of IPO Warrants were issued at \$1.25 (proceeds - \$113,750). These transactions resulted in the issuance of 1,894,833 shares for proceeds of \$1,069,125 and a corresponding increase in share capital of \$1,069,125. The fair value of options (\$.097 per share) was determined at the time that the options were granted using the Black-Scholes pricing model.
- (b) During the six month period, a total of 638,129 options granted to Brokers and Third Party consultants were exercised at \$1.00 per share resulting in an increase in share capital of \$638,129 along with a credit of \$219,910 representing the fair value of the options exercised. The fair value of options (\$.345 per share) was determined at the time that the options were granted using the Black-Scholes pricing model.

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**Stock Options**

The following table shows stock options granted, exercised, forfeited and expired during the periods.

	June 30, 2007		December 31, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
<b>Balance, beginning of period</b>	<b>3,468,678</b>	<b>\$ 1.00</b>		
Granted	542,500	\$ 1.45	3,468,678	\$ 1.00
Exercised	(638,129)	\$ 1.00	-	-
Forfeited and adjustment to outstanding number of options	(80,000)	\$ 1.00	-	-
Expired	-	-	-	-
<b>Balance, end of period</b>	<b>3,293,049</b>	<b>\$ 1.07</b>	<b>3,468,678</b>	<b>\$ 1.00</b>

On May 31, 2007, 270,000 stock options exercisable at \$1.40 per share were granted to Directors. The fair value was calculated at \$0.786 per share using the Black-Scholes pricing model with the following assumptions; weighted average estimated life of 3 years (2006 - 2.47 years), risk-free interest rate of 4.5% (2006 - 4.5%), expected volatility of 87% (2006 - 87%) and no expected dividends. The options vested immediately and as a result, \$212,220 has been reflected in the salary-based compensation expense and contributed surplus.

On June 14, 2007, an officer of the Company was granted 140,000 stock options exercisable at \$1.50 per share (fair value per share of \$0.66) for a period of three years and on June 27<sup>th</sup>, 2007, a further 132,500 stock options were granted to another officer at the same price (fair value per share of \$0.83) for a period of five years. The fair values were calculated using the Black-Scholes pricing model with the following assumptions; estimated life of 3 years and 5 years respectively (2006 - 2.47 years), risk-free interest rate of 4.7% and 4.6% respectively (2006 - 4.5%), expected volatility of 87% (2006 - 87%) and no expected dividends. The fair value of the options is being amortized over the 2 year vesting period.

Stock options totaling 50,000 were forfeited as a result of the termination of consulting services provided to the Company prior to the completion of the vesting period and the outstanding balance was reduced by 30,000 options which reflected an error in a grant allotment. .

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measures of the fair value of the Corporation's stock options.

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The outstanding and exercisable stock options are as follows:

<b>Grant Date</b>	<b>Expiry Date</b>	<b>Outstanding</b>	<b>Exercisable</b>	<b>Exercise Price</b>	
September 1, 2006	September 1, 2008	650,549	650,549	\$	1.00
September 8, 2006	September 8, 2009	700,000	700,000		1.00
November 6, 2006	November 6, 2009	100,000	100,000		1.00
December 18, 2006	December 18, 2011	700,000	-		1.00
December 18, 2006	December 18, 2007	600,000	600,000		1.00
May 31, 2007	May 31, 2010	270,000	270,000		1.40
June 14, 2007	June 14, 2010	140,000	-		1.50
June 27, 2007	June 27, 2012	132,500	-		1.50
		<b>3,293,049</b>	<b>2,320,549</b>	<b>\$</b>	<b>1.03</b>

As at June 30, 2007, the weighted - average remaining contractual life of outstanding options was approximately 2.56 years and a total of 2,320,549 options were exercisable at a weighted average exercise price of \$1.03.

**Weighted average number of shares outstanding**

The reconciliation of the number of share used in the basic and diluted loss per share calculations is as follows.

	<b>Three months ended June 30</b>		<b>Six months ended June 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Shares outstanding for entire period	30,836,705	12,000,000	30,836,705	12,000,000
Weighted average impact of				
Shares issued under 1st & 2nd Financings		4,945,056		2,486,187
1st Financing warrants exercised	278,526	-	154,259	
2nd Financing warrants exercised	212,297		106,735	
IPO Warrantes exercised	31,890		16,033	
Options exercised	32,514		16,073	
Weighted average number of shares for earnings (loss) per share calculations	<b>31,391,932</b>	<b>16,945,056</b>	<b>31,129,805</b>	<b>14,486,187</b>

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**Warrants**

The movements in share purchase warrants during the period were as follows:

	June 30, 2007			December 31, 2006		
	Number of warrants	Weighted average exercise price	Fair value	Number of warrants	Weighted average exercise price	Fair value
Balance, beginning of period	7,574,900	\$ 0.83	\$ 1,732,091			\$ -
Granted	2,000,000	\$ 1.35	1,902,000	7,579,050	\$ 0.83	1,732,623
Exercised	(1,894,833)	\$ 0.56	(184,438)	(4,150)	\$ 0.75	(532)
Balance, end of period	7,680,067	\$ 1.04	\$3,449,653	7,574,900	\$ 0.83	\$1,732,091

During the second quarter of 2007, 2 million share purchase warrants were granted in connection with the issue of Senior Secured Notes as outlined in note 8. The fair value of these warrants was estimated using the Black - Scholes pricing model with the following assumptions: estimated life of 5 years (2006 - 1.5 years for Special Warrants and 2 years for IPO warrants), risk-free interest rate of 4.5% (2006 - 4.5% for Special Warrants and 4.1% for IPO Warrants), expected volatility of 87% (2006 - 77%) and no expected dividends.

At June 30, 2007, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price	Expiry date
1,116,667	\$ 0.30	October 19, 2007
1,575,350	\$ 0.75	November 10, 2007
2,988,050	\$ 1.25	September 1, 2008
2,000,000	\$ 1.35	July 17, 2012
<b>7,680,067</b>		

**Additional Share Commitments**

As an element of the purchase price to be paid to Globex, at the attainment of Commercial Production a number of shares equal to 10% of the then issued and outstanding number of shares will be issued to Globex for no additional consideration. Based on the June 30<sup>th</sup> financial statements, Globex would be entitled to 3,336,967 shares. Accordingly, the actual number of shares when issued will be at least equal to this number of shares.

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**11. Stock-Based Compensation and Contributed Surplus**

For the six month period ended June 30, 2007, stock-based compensation expense of \$343,542 was recorded in the statement of operations (in respect of options being expensed over their vesting period netted for forfeitures) and the corresponding credit was reflected in contributed surplus.

As a result, of the exercise of stock-based compensation options (\$198,600) and Agent's Options (\$21,310), contributed surplus was reduced by the fair value of these options and the balance end of the period show an increase from December 31, 2006 to June 30, 2007 as reported below.

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
<b>Balance, beginning of period</b>	<b>\$1,189,421</b>	<b>\$ -</b>
Stock-based compensation expense	343,542	804,533
Fair value of stock-based compensation options exercised	(198,600)	
Fair value of Agent's Options exercised	(21, 310)	
Agent's Options representing share issuance expense		\$ 384,888
<b>Balance, end of period</b>	<b>\$1,313,053</b>	<b>\$1,189,421</b>

**12. Related Party Transactions**

- a) The Company entered into five management service agreements and a financial advisory service agreement, each with an insider or a Company controlled by an insider. The management service agreements were designed during the development stage to provide the company with strategic direction, overall financing strategies, financial planning and reporting, operations planning, mine development strategies and investor relations and marketing strategies.

Under the terms of the management service agreements, the shareholder or the Company controlled by a shareholder is entitled to monthly fees ranging from \$3,600 to \$11,600 per month, including car and home office allowance.

A total of \$207,900 (2006 - \$87,100) was paid during the period ended June 30, 2007 in connection with these agreements.

- b) On May 3, 2007, a shareholder who is also an Officer, Director and Promoter of the Company who had loaned the Company \$30,000 on an unsecured basis and completely free of interest or other consideration, was repaid in full without interest or other consideration.

These transactions are measured at the exchange amount, which approximates the fair value as agreed between management and the related parties, except to the extent that the Related parties may have willingly given value greater than received in order to benefit the Company.

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**13. Commitments and Contingencies**

- a) The Company entered into five management service agreements, each with either a shareholder or a Company controlled by a shareholder. All such shareholders are also directors and or senior management of the Company. The agreements are effective up to and including June 30, 2008 and result in a minimum commitment of \$415,800 per year.
- b) The Company and one of its shareholders entered into a financial advisory service agreement for which the Company has a commitment of \$60,000 per year. Pursuant to the terms of the agreement, it has no expiry date, but may be terminated by either party upon 60 days written notice.
- c) The Company has entered into a lease of office premises calling for monthly rental of \$6,570.00 (subject to change for certain out of pocket cost elements) commencing May 1, 2006 and expiring July 31, 2008. During the quarter, the term of the lease was extended for a further year. Future minimum annual payments (exclusive of taxes, insurance and maintenance costs) under these leases are as follow:

2007 (6 months)	\$ 39,420
2008	78,490
2009	<u>45,500</u>
	\$ <u>163,410</u>

- d) The Company is committed to equipment lease obligations, with various expiry dates up to December 2010. Future minimum annual payments (exclusive of taxes, insurance, maintenance costs and residual values) under these leases are as follow:

2007 (6 months)	\$ 435,948
2008	311,030
2009	264,815
2010	<u>236,362</u>
	\$ <u>1,248,155</u>

- e) The Company has expenditure commitments at June 30 2007 of approximately \$540,000 representing work to be undertaken in relation to a 7,000 meter drill program. The program commenced in April 2007 and it is expected to be completed prior to the year-end.

#### **14. Subsequent Events**

On July 16, 2007, the Ministry of Natural Resources and Wildlife of the Province of Quebec issued a surface and underground mining license to the Company. The 20 year mining license applies to an area covering 11.467 hectares which encompasses the Fabie Copper Deposit near Rouyn-Noranda Quebec.

The receipt of the mining license satisfies the condition precedent to the release from escrow of the funds generated through the issuing of Senior Secured Notes as described in note 9.

On July 30, 2007, \$15.0 M. of Escrowed funds were released as a result of the completion of various conditions as required under the Escrow agreement and a further \$5.5 M. was placed in escrow to cover the mill refurbishment costs pursuant to the Xstrata Custom Milling Agreement. The Corporation received \$9.5 M.