

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)

(UNAUDITED)

RESTATED FINANCIAL STATEMENTS

THIRD QUARTER ENDED SEPTEMBER 30, 2007

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These interim financial statements for the period ended September 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 September 30, 2007

	RESTATED	
	(note 2)	
	September 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,668,727	\$ 3,527,945
Restricted cash (note 6)	5,582,908	-
Accounts receivable	507,965	617,682
Deposits on contracts & prepaid expenses	204,014	671,358
	11,963,614	4,816,985
Mill refurbishment costs (note 6)	3,604,000	-
Mineral interests (note 7)	24,814,374	7,864,383
	\$ 40,381,988	\$ 12,681,368
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,230,188	\$ 814,002
Accrued mill refurbishment costs (note 6)	3,604,000	-
Due on mineral properties (note 7)	250,000	250,000
Obligations under capital leases - current portion (note 8)	2,854,255	161,955
	8,938,443	1,225,957
Obligations Under Capital Leases (note 8)	1,978,781	454,969
Senior Secured Notes (note 10)	16,283,245	-
Future Income taxes	1,396,881	1,396,881
	19,658,907	1,851,850
Shareholders' equity:		
Share Capital (note 11)	10,764,520	8,549,252
Warrants (note 11)	3,437,236	1,732,091
Contributed Surplus (note 12)	1,467,904	1,189,421
Deficit	(3,885,022)	(1,867,203)
	11,784,638	9,603,561
	\$ 40,381,988	\$ 12,681,368
Commitments and Contingencies (notes 7, 11, and 14)		
APPROVED ON BEHALF OF THE BOARD		
"Richard Williams"	"James Richardson"	
_____ Director	_____ Director	

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)

(Unaudited)

Statement of Loss and Deficit

Period ended September 30, 2007

	Three months September 30		RESTATED (note 2)		Cumulative From Feb 23, 2006 Sept. 2007
	2007	2006	Nine Months ended Sept. 2007	Feb. 23, 2006 Date of inception through Sept 30, 2006	
Revenue					
Interest income	\$ 61,875	\$33,358	\$ 83,060	\$ 42,618	\$ 178,838
Other revenue	2,066		6,777	-	6,777
	63,941	33,358	89,837	42,618	185,615
Expenses					
Stock-based compensation	154,851	161,180	498,393	161,180	1,302,926
General and administration	259,623	10,015	696,432	30,709	1,035,320
Professional fees	134,793	30,904	406,685	42,604	709,740
Management fees	98,750	100,200	256,250	198,800	491,635
Registry and filing fees	21,367	74,316	92,816	84,315	248,674
Travel and accommodation	57,538	8,700	128,978	8,700	248,014
Interest	(1,462)	170	2,703	170	8,929
Total Expenses	725,460	385,485	2,082,257	526,478	4,045,238
Loss Before Income taxes	(661,519)	(352,127)	(1,992,420)	(483,860)	(3,859,623)
Provision for income taxes	25,399	-	25,399	-	25,399
Net Loss	(686,918)	(352,127)	(2,017,819)	(483,860)	(3,885,022)
Deficit - beginning of period	(3,198,104)	(131,733)	(1,867,203)	-	-
Deficit - end of period	\$ (3,885,022)	\$ (483,860)	\$ (3,885,022)	\$ (483,860)	\$ (3,885,022)
Loss per share - basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.03)	
Weighted average number of common shares outstanding - basic and diluted (note 11)	33,499,139	18,001,583	31,929,831	18,007,883	

No separate calculation for diluted loss per share as it would be antidilutive.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)

(Unaudited)

Statement of Cash Flows

Period ended September 30, 2007

	Three months ended September 30		September 30, 2007	Feb. 23, 2006	Cumulative
	2007	2006		Date of inception	From
			September 30, 2007	through	Feb 23, 2006
				Sept. 30, 2007	Sept. 30, 2007
RESTATED					
(note 2)					
Nine					
Months					
ended					
through					
Sept. 30, 2007					
Cash provided by (used in)					
Operating Activities					
Net loss for the period	\$ (686,918)	\$ (352,127)	\$ (2,017,819)	\$ (483,860)	\$ (3,885,022)
Adjustments for non-cash items				-	
Stock-based compensation - contributed surplus	154,851	161,180	498,393	161,180	1,302,926
Changes in non-cash working capital					
Accounts receivable	(173,035)	59,707	109,717	-	(507,965)
Deposits on contracts and prepaid expense	115,467	(333,164)	467,344	(361,564)	(204,014)
Accrued mill refurbishment	3,604,000	-	3,604,000	-	3,604,000
Accrued interest on Secured Notes	106,079	-	192,905	-	192,905
Accounts payable and accrued charges	807,405	611,896	1,416,186	738,441	2,230,188
Net Cash from (used in) Operating Activities	3,927,849	147,492	4,270,726	54,197	2,733,018
Financing Activities					
Issuance of common shares and warrants for cash	91,249	10,200,000	1,995,358	13,300,000	13,566,480
Issuance expenses	-	(975,383)	-	(1,260,101)	(1,240,101)
Warrants issued (net of exercise)	-	-	1,705,145	-	3,437,236
Senior Secured Notes	-	-	16,090,340	-	16,090,340
Due to Globex	-	(500,000)	-	250,000	250,000
Increase in obligations under capital leases net of payments	1,498,538	-	4,216,112	-	4,833,036
Due to shareholder	-	-	-	-	-
	1,589,787	8,724,617	24,006,955	12,289,899	36,936,991
Investing activities					
Restricted cash for mill refurbishment	9,480,700	-	(5,582,908)	-	(5,582,908)
Mill refurbishment costs	(3,604,000)	-	(3,604,000)	-	(3,604,000)
Mineral properties	(7,064,445)	(1,822,293)	(16,949,991)	(3,021,011)	(24,814,374)
Increase (decrease) in Cash and Cash Equivalents	4,329,891	7,049,816	2,140,782	9,323,085	5,668,727
Cash and cash equivalents, beginning of period	\$ 1,338,836	\$ 2,273,369	\$ 3,527,945	\$ 2,273,369	\$ -
Cash and cash equivalents, end of period	\$ 5,668,727	\$ 9,323,185	\$ 5,668,727	\$ 11,596,454	\$ 5,668,727
Cash and cash equivalents					
Cash	\$ (707,756)	\$ 741,185	\$ (707,756)	\$ 146,813	\$ (707,756)
Term deposits	6,376,483	8,582,000	6,376,483	11,449,641	6,376,483
	\$ 5,668,727	\$ 9,323,185	\$ 5,668,727	\$ 11,596,454	\$ 5,668,727
Supplemental Information					
Cash payments related to interest and income were as follows					
Interest costs - capitalized	\$ 780,000	\$ 267	\$ 1,180,082	\$ 1,180,349	\$ 1,180,349
Interest costs expensed	(1,462)	170	2,703	10,391	10,391
Income taxes	-	-	-	-	-

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)

(Unaudited)

Notes to Financial Statements

September 30, 2007

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 September 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, and (b) adjustments to the Stock-based Compensation.

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.

During the three month period ended September 30th, the amortized cost of the Senior Secured Notes has been reduced by \$1,677,767 and the Mineral Interests has been reduced by \$1,677,767 for accrued interest and \$3,542 representing an adjustment to deferred insurance.

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 a reduction in the stock-based compensation of \$255,991 for the three months ended September 30th, 2007 from \$410,842 to \$154,851. On a year to date basis, the stock-based compensation has been reduced by \$37,742 from \$536,135 to \$498,393.

FIRST METALS INC.
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Notes to Financial Statements

September 30, 2007

Balance Sheet – September 30, 2007

	As previously Reported	Adjustments	As restated
Assets			
Cash and cash equivalents	\$ 5,668,727	\$ -	\$ 5,668,727
Restricted cash	5,582,908	-	5,582,908
Accounts receivable	507,965	-	507,965
Deposits on contracts & prepaid expenses	204,014	-	204,014
	11,963,614	-	11,963,614
Mill refurbishment costs	3,604,000	-	3,604,000
Mineral Interests	26,495,683	(1,681,309) (a)	24,814,374
	\$ 42,063,297	\$ (1,681,309)	\$ 40,381,988
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	\$ 2,230,188	\$ -	\$ 2,230,188
Accrued mill refurbishment costs	3,604,000	-	3,604,000
Due on mineral properties	250,000	-	250,000
Obligations under capital leases - current portion	2,854,255	-	2,854,255
	8,938,443		8,938,443
Obligations under Capital Leases	1,978,781	-	1,978,781
Senior Secured Notes	17,961,012	(1,677,767) (a)	16,283,245
Future income taxes	1,396,881		1,396,881
	21,336,674	(1,677,767)	19,658,907
Shareholders' equity:			
Share Capital	10,764,520	-	10,764,520
Warrants	3,437,236	-	3,437,236
		-	
Contributed Surplus	1,505,646	(37,742) (b) 37,742 (b)	1,467,904
Deficit	(3,919,222)	(3,542) (a)	(3,885,022)
	11,788,180		11,784,638
	\$ 42,063,297	\$ (1,681,309)	\$ 40,381,988

FIRST METALS INC.
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Notes to Financial Statements

September 30, 2007

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

	As previously		
	Reported	Adjustments	As restated
Revenue			
Interest income	\$ 61,875	\$ -	61,875
Other revenue	2,066		2,066
	63,941	-	63,941
Expenses			
Stock-based compensation	410,842	(255,991) (c)	154,851
General and administration	256,081	3,542 (a)	259,623
Professional fees	134,793		134,793
Management fees	98,750	-	98,750
Registry and filing	21,367		21,367
Travel and accommodation	57,538	-	57,538
Interest	(1,462)	-	(1,462)
Total Expenses	977,909	(252,449)	725,460
Loss Before Income taxes	(913,968)	252,449	(661,519)
Provision for income taxes	25,399	-	25,399
Net Loss	(939,367)	252,449	(686,918)
Deficit - beginning of period	(2,979,855)	(218,249)	(3,198,104)
Deficit - end of period	\$ (3,919,222)	\$ 34,200	\$ (3,885,022)
Loss per share - basic and diluted	\$ (0.03)	\$ 0.01	\$ (0.02)
Weighted average number of common shares outstanding - basic and diluted (note 11)	33,499,139	33,499,139	33,499,139

FIRST METALS INC.
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(Unaudited)
Notes to Financial Statements
September 30, 2007

Statement of Loss and Deficit for the Nine Months ended September 30, 2007

	As previously		
	Reported	Adjustments	As restated
Revenue			
Interest income	\$ 83,060	\$ -	\$ 83,060
Other revenue	6,777		6,777
	89,837	-	89,837
Expenses			
Stock-based compensation	536,135	(37,742) (b)	498,393
General and administration	692,890	3,542 (a)	696,432
Professional fees	406,685		406,685
Management fees	256,250		256,250
Registry and filing	92,816		92,816
Travel and accommodation	128,978		128,978
Interest	2,703		2,703
Total Expenses	2,116,457	(34,200)	2,082,257
Loss Before Income taxes	(2,026,620)	34,200	(1,992,420)
Provision for income taxes	25,399	-	25,399
Net Loss	(2,052,019)	34,200	(2,017,819)
Deficit - beginning of period	(1,867,203)		(1,867,203)
Deficit - end of period	\$ (3,919,222)	\$ 34,200	\$ (3,885,022)
Loss per share - basic and diluted	\$ (0.06)	\$ 0.00	\$ (0.06)
Weighted average number of common shares outstanding - basic and diluted (note 11)	31,929,831	31,929,831	31,929,831

FIRST METALS INC.
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Notes to Financial Statements

September 30, 2007

Cash Flow Statement for the Three Months Ended September 30, 2007

	As previously		
	Reported	Adjustments	As restated
Cash provided by (used in)			
Operating Activities			
Net loss for the period	\$ (938,100)	\$ 251,182	\$ (686,918)
Adjustments for non-cash items			
Stock-based compensation - contributed surplus	409,575	(254,724) (d)	154,851
Fair value of options and warrants exercised	(219,910)	219,910 (e)	-
			-
Changes in non-cash working capital			-
Accounts receivable	(173,037)		(173,037)
Deposits on contracts and prepaid expense	115,467		115,467
Accrued mill refurbishment costs	3,604,000		3,604,000
Accrued interest on Secured Notes	-	106,079 (f)	106,079
Accounts payable and accrued charges	807,406		807,406
Net Cash from (used in) Operating Activities	3,605,401	322,447	3,927,848
Financing Activities			
Issuance of common shares and warrants for cash	323,576	(232,327) (e)	91,249
Warrants issued (net of exercise)	(12,417)	12,417 (e)	-
Deferred financing costs	4,300,084	(4,300,084) (g)	-
Senior Secured Notes	(2,038,988)	2,038,988 (g)	-
Due to Globex	-	-	-
Increase in obligations under capital leases net of payments	1,498,538		1,498,538
	4,070,793	(2,481,006)	1,589,787
Investing activities			
Restricted cash for mill refurbishment	-	9,480,700 (g)	9,480,700
Mill refurbishment costs	(3,604,000)	-	(3,604,000)
Mineral properties	(9,223,004)	2,158,559 (g)	(7,064,445)
Increase (decrease) in Cash and Cash Equivalents	(5,150,810)	9,480,700	4,329,890
Cash and cash equivalents, beginning of period	\$ 10,819,536	\$ (9,480,700)	1,338,836
Cash and cash equivalents, end of period	\$ 5,668,726	\$ -	\$ 5,668,726
Cash and cash equivalents			
Cash	\$ (707,755)		\$ (707,755)
Term deposits	6,376,481		6,376,481
	\$ 5,668,726		\$ 5,668,726
Supplemental Information			
Cash payments related to interest and income were as follows			
Interest costs - capitalized	\$ 780,000		\$ 780,000
Interest costs expensed	(1,462)		(1,462)
Income taxes	-		-

FIRST METALS INC.
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Notes to Financial Statements

September 30, 2007

Cash Flow Statement for the Nine Months Ended September 30, 2007

	As previously		
	Reported	Adjustments	As restated
Cash provided by (used in)			
Operating Activities			
			(a)
Net loss for the period	\$ (2,052,019)	\$ 34,200	(b) \$ (2,017,819)
Adjustments for non-cash items		-	-
Stock-based compensation - contributed surplus	536,135	(37,742)	(b) 498,393
Fair value of stock options exercised	(219,910)	219,910	(e) -
Changes in non-cash working capital		-	-
Accounts receivable	109,717	-	109,717
Deposits on contracts and prepaid expense	467,344	-	467,344
Accrued mill refurbishment	3,604,000	-	3,604,000
Accrued interest on Secured Notes	-	192,905	(f) 192,905
Accounts payable and accrued charges	1,416,184	2	1,416,186
Net Cash from (used in) Operating Activities	3,861,451	409,275	4,270,726
Financing Activities			
Issuance of common shares and units for cash	2,215,268	(219,910)	(e) 1,995,358
Warrants issued (net of exercise)	1,705,145	-	1,705,145
Senior Secured Notes	17,961,012	(1,870,672)	(g) 16,090,340
Due to Globex	-	-	-
Increase in obligations under capital leases net of payments	4,216,112	-	4,216,112
	26,097,537	(2,090,582)	24,006,955
Investing activities			
Restricted cash for mill refurbishment	(5,582,908)	-	(5,582,908)
Mill refurbishment	(3,604,000)	-	(3,604,000)
Mineral properties	(18,631,300)	1,681,309	(g) (16,949,991)
Increase (decrease) in Cash and Cash Equivalents	2,140,780	2	2,140,782
Cash and cash equivalents, beginning of period	\$ 3,527,945		\$ 3,527,945
Cash and cash equivalents, end of period	<u>\$ 5,668,725</u>		<u>\$ 5,668,727</u>
Cash and cash equivalents			
Cash	\$ (707,756)		\$ (707,756)
Term deposits	6,376,481		6,376,481
	<u>\$ 5,668,725</u>		<u>\$ 5,668,725</u>
Supplemental Information			
Cash payments related to interest and income were as follows			
Interest costs - capitalized	\$ 1,180,082		\$ 1,180,082
Interest costs expensed	2,703		2,703
Income taxes	-		-

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Notes to Financial Statements

September 30, 2007

Certain items in the September 30th financial statements have been regrouped for consistency purposes with the June 30th restated financial statements.

Notes:

- a. Reduction in the amortized costs of the Senior Secured Notes (\$1,677,767) and Mineral Interests (\$1,677,767) as well as a minor adjustment in the deferred insurance included in the Mineral Interests of \$3,542.
- b. Year to date reduction in the Stock-based compensation expense.
- c. Impact of reflecting 270,000 May 31, 2007 Director's option grant in the period ended June 30th, 2007 along with corrections to assumptions which impacted the fair value estimates.
- d. Impact of the movement of the option grant as outlined in (c) immediately above along with a minor adjustment of \$1,267.
- e. Non-cash fair value of options transferred from contributed surplus.
- f. Reflect accrued interest on Secured Notes as a non-cash item.
- g. Adjustments to reflect consistent treatment with the restated June 30th financial statements that were also restated.

3. Going Concern

The Company 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.

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Notes to Financial Statements

September 30, 2007

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 nine month MD&A dated November 14, 2007, but reissued on January 18, 2008.

5. Change in accounting policy

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

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Notes to Financial Statements

September 30, 2007

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

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. Restricted Cash and Mill refurbishment costs

Restricted cash

On, June 4, 2007, an agreement was signed with Xstrata Copper Canada Limited (Xstrata) a division of Falconbridge Limited for the custom milling of the Fabie Bay ore. In accordance with the agreement, \$5,582,908 was placed in escrow to cover the mill refurbishment and start-up costs. During the refurbishment period Xstrata agreed to fund these expenditures and the agreement provides for an approval process and release of funds held in escrow to reimburse Xstrata for these expenditures after the final completion of the project.

Mill refurbishment costs

At September 30, 2007, deferred mill refurbishment costs of \$3,604,000 had been incurred and as a result reflected in the balance sheet along with the offsetting liability. At the period end, the project was approximately 85% complete and November 17th 2007 has been established as start-up date.

At this time, after considering the anticipated costs to completion including those referred to in note 14, Subsequent Events, management's best estimate of the final costs is less than the total \$5,582,908 held in escrow. However, management does not have sufficient information available to assess the possibility of recovery of any excess funds in escrow.

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Notes to Financial Statements

September 30, 2007

7. Mineral Interests

	September 30 2007	December 31, 2006
Property acquisition costs	\$ 1,026,363	\$ 1,005,083
Deferred development & exploration	6,273,105	1,063,593
Infrastructure, plant & equipment	16,145,228	5,795,707
Deferred interest & insurance	1,369,678	-
	\$ 24,814,374	\$ 7,864,383

The Company commenced activities in early March 2006 and on March 10, 2006 executed a letter of intent to acquire from Globex Mining Enterprises Inc. ("Globex") a 100% interest in certain Quebec mining claims referred to herein. 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 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 commercial production at Fabie Bay prior to 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 mineralization previously mined in the late 1970's until low metal prices resulted in the shut down and closure of mining operations. The Magusi River project contains a previously unexploited body of zinc and copper mineralization. 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 August 26, 2006 in conjunction with the Company's Initial Public Offering ("IPO") and in its Annual Information Form filed March 31, 2007.

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 one 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.

The deferred interest and insurance costs are incremental to basic administrative costs and they will be recoverable through future cash flows from the Fabie Bay and Magusi ore bodies. Amortization of these costs will begin once the Fabie Bay Deposit achieves commercial production which is anticipated in the fourth quarter of 2007. It is estimated at this time that they will be written off over six years.

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8. 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	Leased Value at September 30, 2007
a. Caterpillar Generator	Nov/2008	8.10%	1,586	\$ 6,900	\$ 25,953
b. Cubex Drill	Dec/2009	8.90%	15,813	115,738	491,787
c. Service Vehicle Scissor Lift	Sep/2008	7.45%	14,854	-	171,261
d. Toro Scooptram 1400 #1	Sep/2008	7.45%	53,770	-	619,936
e. Toro Scooptram 1400 #2	Dec/2008	7.45%	53,770	-	767,858
f. Toro 50 Ton Truck #1	Dec/2008	7.45%	48,188	-	688,148
g. Compressor Equipment and accessories	Feb/2009	10.75%	3,285	10	57,153
h. Komatsu Loader WA 320	Aug/2012	5.95%	2,539	-	129,578
i. Komatsu Loader WA500	Aug/2012	7.25%	7,211	-	356,969
j. Toro 50 Ton Truck #2	Sep/2009	8.40%	47,359	-	921,902
k. Toro Scooptram LH307	Sep/2009	8.40%	25,205	-	490,656
l. Kubota RTV900 (2 units)	Jul/2010	2.90%	1,678	1	54,700
m. Kubota Tractor L5740HST	Aug/2010	0%	1,633	1	57,138
Total					4,833,037
Less Current portion					(2,854,255)
Long-term portion					\$ 1,978,782

Future aggregate minimum payments are due as follows:

2007	\$ 552,731
2008	2,895,287
2009	946,415
2010	254,927
Future periods	<u>183,677</u>
	\$ <u>4,833,037</u>

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9. 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 September 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.

10. Senior Secured Notes

	Annual interest rate	Earliest Callable Date	Maturity Date	Principal	Fair Market Value at outset	Amortized Cost at September 30, 2007
Senior Secured Notes	14%	May, 4, 2009	July 31, 2012	\$20,000,000	\$16,090,340	\$16,283,245

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.

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

The amortized cost of the Senior Secured Notes of \$16,283,245 as reported at September 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 have been established. Interest is paid quarterly.

11. Share Capital

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

Issued and outstanding common shares	September 30, 2007		December 31, 2006	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of period	30,836,705	\$8,549,252	100	\$100
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)	2,101,500	1,160,375	4,150	3,113
Fair value of warrants (see (a) below)		196,855	-	(1,732,091)
Issued pursuant to exercise of share options (Broker & Consultants)	638,129	638,129		
Fair value of shares issued (see (b) below)		219,910		
Share issue costs	-	-	-	(1,624,989)
Expenses renounced through the issuance of flow-through shares	-	-	-	(1,396,881)
Balance, end of the period	33,576,334	\$10,764,521	30,836,705	\$8,549,252

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- (a) During the period, 1,025,000 shares from the exercise of Series I Warrants were issued at \$0.30 each (proceeds - \$307,500); 985,500 shares from the exercise of Series II Warrants were issued at \$0.75 per share (proceeds - \$739,125) 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 2,101,500 shares for proceeds of \$1,160,375 as reflected in the increase in share capital along with a credit of \$196,855 representing the fair value of the warrants exercised. The fair value was determined at the time that the warrants were issued using the Black-Scholes option pricing model.

- (b) During the nine 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.

Stock Options

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

	September 30, 2007		December 31, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	3,468,678	\$ 1.00		
Granted	887,500	\$ 1.23	3,468,678	\$ 1.00
Exercised	(638,129)	\$ 1.00	-	-
Forfeited and adjustment to outstanding number of options	20,000	\$ 1.00	-	-
Expired	-	-	-	-
Balance, end of period	3,738,049	\$ 1.06	3,468,678	\$ 1.00

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.

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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 27th, 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.

On August 30th, 2007, the Company granted 345,000 stock options exercisable at \$0.94 per share (fair value per share of \$0.661) for a period of five years. The fair values were calculated using the Black-Scholes pricing model with the following assumptions; estimated life of 5 years respectively (2006 - 2.47 years), risk-free interest rate of 4.3% (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.

Forfeitures and adjustments represents a net increase of 70,000 in Stock options which were not included in the outstanding at the beginning of the year as well as a reduction for 50,000 Stock Options which were forfeited as a result of the termination of consulting services prior to the vesting period.

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.

The outstanding and exercisable stock options are as follows:

Grant Date	Expiry Date	Outstanding	Exercisable	Exercise Price
September 1, 2006	September 1, 2008	650,549	650,549	\$ 1.00
September 8, 2006	September 8, 2009	700,000	700,000	1.00
September 27, 2006	September 27, 2009	100,000	100,000	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
August 30, 2007	August 30, 2012	345,000	-	0.94
		3,738,049	2,420,549	\$ 1.04

As at September 30, 2007, the weighted - average remaining contractual life of outstanding options was approximately 2.52 years and a total of 2,420,549 options were exercisable at a weighted average exercise price of \$1.04.

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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:

	Three months ended Sept 30		Nine months ended Sept. 30,	
	2007	2006	2007	2006
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		2,868,132		959,559
IPO Financing		3,133,452		1,048,324
1st Financing warrants exercised	986,083	-	435,199	4,000,000
2nd Financing warrants exercised	947,222	-	389,945	-
IPO Warrantes exercised	91,000	-	41,449	-
Options exercised	638,129	-	226,534	-
Weighted average number of shares for earnings (loss) per share calculations	33,499,139	18,001,583	31,929,832	18,007,883

Warrants

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

	September 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			\$ -
Issued	2,000,000	\$ 1.35	1,902,000	7,579,050	\$ 0.83	1,732,623
Exercised	(2,101,500)	\$ 0.55	(196,855)	(4,150)	\$ 0.75	(532)
Balance, end of period	7,473,400	\$ 1.04	\$3,437,236	7,574,900	\$ 0.83	\$1,732,091

During 2007, 2 million share purchase warrants were issued in connection with the issue of Senior Secured Notes as outlined in note 9. The fair value of these warrants (Total value - \$1,902,000; \$95 each) 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.

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

Description	Number of warrants	Exercise price	Expiry date
1 st Financing (Series I Warrants)	975,000	\$ 0.30	October 19, 2007
2 nd Financing (Series II Warrants)	1,510,350	\$ 0.75	November 10, 2007
IPO Warrants	2,988,050	\$ 1.25	September 1, 2008
Secured Note Warrants	2,000,000	\$ 1.35	July 31, 2012
	7,473,400		

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 September 30th financial statements, Globex would be entitled to 3,357,633 shares. Accordingly, the actual number of shares to be issued will be at least equal to this number of shares.

12. Stock-Based Compensation and Contributed Surplus

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$1,189,421	\$ -
Stock-based compensation expense	498,393	804,533
Fair value of stock-based compensation options exercised	(198,600)	
Agent's Options representing share issuance expense		\$ 384,888
Fair value of Agent's options exercised	(21,310)	
Balance, end of period	\$1,467,904	\$1,189,421

For the nine month period ended September 30, 2007, stock-based compensation expense of \$498,393 was recorded in the statement of loss and deficit in respect of options being expensed over their vesting period netted for forfeitures. 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.

13. Related Party Transactions

- a) The Company entered into five management service agreements and a financial advisory

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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. The individual fees have been mutually agreed to and reflect the individual's level of service and do not exceed market comparable rates for such services. A total of \$306,000 (2006 - \$195,000) was paid during the period ended September 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.

14. 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 (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 (3 months)	\$ 19,710
2008	78,490
2009	<u>45,500</u>
	\$ <u>143,700</u>

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- 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 (3 months)	\$	150,885
2008		307,679
2009		274,664
2010		<u>237,837</u>
	\$	<u>970,065</u>

- e) The Company has expenditure commitments at September 30, 2007 of approximately \$275,000 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.
- f) Under the terms of the flow-through share financing completed on September 1, 2006, the Company was obligated to incur approximately \$4,041,900 of qualifying Canadian Exploration Expenses by December 31, 2007. The total of the qualifying expenditures were renounced to shareholders at December 31, 2006 and during the following nine months, the Company incurred the qualified expenditures. Accordingly, the Company has recorded a \$25,398 expense for Part XII.6 tax levied on unspent flow-through expenditures during the period. As at September 30, 2007, \$4,500,000 of qualifying expenditures has been incurred.

15. Subsequent Events:

- a. During the period following September 30th, 960,000 1st Financing (Series I Warrants) were exercised at \$0.30 and 1,495,350 2nd Financing (Series II Warrants) were exercised at \$0.75 which generated total proceeds of \$1,409,512.
- b. The Company has received notification by Xstrata Copper that the initial start-up of the Horne Mill is scheduled for November 17, 2007.
- c. During the period from September 30th, 2007, to November 13th, 2007, an additional \$1,100,000 of costs has been incurred on the Mill refurbishment bringing the total incurred costs to \$4,700,000 at the date that the financial statements were approved by the Board.