

**First Metals Inc**  
**(A DEVELOPMENT STAGE COMPANY)**  
**(Incorporated under the Canada Business Corporations Act)**

**Financial Statements**  
**As at and for the 3 months ended**  
**June 30, 2006**  
**(Unaudited)**

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
Notes to Financial Statements  
June 30, 2006

**Balance Sheet (Unaudited)**  
**As of June 30, 2006**

	June 30, 2006
<b>ASSETS</b>	
Cash	229,568
Term deposit	2,043,800
Prepaid expenses	28,400
Taxes recoverable and deposits	59,707
	<u>2,361,475</u>
Mineral Properties	
Mining Property	1,000,080
Deferred exploration expenditures	171,467
Fixed assets	27,171
Deferred Financing Costs	20,000
	<u>3,580,193</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
<b>LIABILITIES</b>	
Accounts Payable and accrued	126,545
Due to Globex	750,000
<b>TOTAL LIABILITIES</b>	<u>876,545</u>
<b>SHAREHOLDERS' EQUITY</b>	
Share Capital	
-as at March 31, 2006	100
-issued for cash in 3 months ended June 30, 2006	3,100,000
-less costs associated with issue	264,718
-net thereof	2,835,282
	<u>2,835,382</u>
-total as at end of period	2,835,382
Deficit Accumulated in exploration & development period	-131,734
	<u>2,703,648</u>
Shareholders equity	2,703,648
	<u>3,580,193</u>
Total liabilities and shareholders equity	<u>3,580,193</u>

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**Statement of Profit and Loss (Unaudited)**  
**For 3 months ended June 30, 2006**

June 30, 2006  
(3 months)

REVENUE

Interest earned	<u>9,260</u>
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EXPENSES

Consulting fees	3,200
Management fees	78,600
Professional fees	8,500
Listing fees	10,000
Software	19,000
Miscellaneous expenses	1,693

Total expenses	<u>120,993</u>
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Net loss	<u>111,734</u>
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**FIRST METALS INC.**  
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**Statement of Cash flows (Unaudited)**  
**For the 3 months ended June 30, 2006**

	June 30, 2006 (3 months)
Cash Flows from Operating Activities	
Net loss	(111,734)
Adjustments for:	
Receivables	(58,097)
Prepaid expenses	(28,400)
Payables and accrued	126,545
Cash used for Operating Activities	<u>(71,686)</u>
Cash Flows from Financing Activities	
Issuance of common shares for cash	3,100,000
Issuance expenses	(264,718)
Due to shareholders	(24,610)
Deferred financing costs	(17,000)
Due to Globex	750,000
Cash Provided from Financing Activities	<u>3,543,672</u>
Cash Flows from Investing Activities	
Mineral properties	(1,171,547)
Acquisition of fixed assets	(27,171)
Cash used for Investing Activities	<u>(1,198,718)</u>
Net Increase in Cash	2,273,269
Cash and Cash Equivalents beginning of period	100
Cash and Cash Equivalents end of period	<u>2,273,369</u>

## **NATURE OF OPERATIONS**

1. 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 its current name “First Metals Inc.”, amended its share transfer restrictions to conform with the provisions of National Instrument 45-106 – Prospectus and Registration Exemptions, and changed the number of directors of the Company from one (1) director to a minimum of one (1) and a maximum of ten (10) directors. The Company is a junior mining exploration and development company engaged in the acquisition, exploration and development of mineral prospects in Canada.

The Company commenced formal business on March 10, 2006 with the execution of a letter of intent to acquire from Globex Mining Enterprise Inc. (“**Globex**”) the mining claims comprising the Fabie Bay, Magusi River and Duprat mineral projects located in Hébécourt, Montbray and Duprat townships in Québec, 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 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 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 SEDAR ([www.sedar.com](http://www.sedar.com)) in conjunction with the Company’s Initial Public Offering (“**IPO**”).

## **2. GOING CONCERN**

These financial statements have been prepared using Canadian generally accepted accounting principles 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. As at June 30, 2006, the Company had a net loss and accumulated deficit of \$131,734. The Company’s ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, achievement of profitable operations and the discovery, development and sale of mining reserves. Management’s plans to achieve profitable and self sustaining operations include the completion of the acquisition of the Fabie Bay, Magusi River and Duprat mining claims (see note 8 for further details), the completion of the Company’s Initial Public Offering (see note 8 for further details) and the necessary permitting to enable the Company’s mineral projects to enter into production. Although the Company plans to pursue additional financing, there can be no assurance that the Company will be able to secure financing when needed or to obtain such financing on terms satisfactory to the Company, if at all.

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 could be material.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered particularly significant:

a) **Cash and Cash Equivalents**

Cash includes cash on account and highly liquid investments with a remaining terms to maturity of three months or less at the date of purchase.

b) **Deferred Financing Costs**

The Company defers the direct incremental costs of raising capital until such time as the offering is completed. At the time of completion of the offering, the costs are charged against the capital raised. Should the offering be terminated, deferred offering costs are charged to the operations during the period in which the offering is terminated.

c) **Mineral Interests**

Direct property acquisition costs, holding costs, field exploration and field supervisory costs relating to specific properties are deferred until the properties are brought into production, at which time, they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

c) **Mineral Interests (cont'd)**

In March 2002, the EIC of the Canadian Institute of Chartered Accountants (“CICA”) issued EIC-126 – “Accounting by Mining Enterprises for Exploration Costs” (“**EIC-126**”) which interprets how Accounting Guideline No. 11 entitled “Enterprises in the Development Stage” (“**AcG 11**”) affects mining companies with respect to the deferral of exploration costs. EIC-126 refers to CICA Handbook Section 3061 “Property, Plant and Equipment”, paragraph 21, which states that for a mining property, the cost of the asset includes exploration costs if the enterprise considers that such costs have the characteristics of property, plant and equipment. EIC-126 then states that a mining enterprise that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property, is not precluded from considering the exploration costs to have the characteristics of property, plant and equipment. EIC-126 also sets forth the Committee’s consensus that a mining enterprise in the development stage is not required to consider the conditions in AcG-11 regarding impairment in determining whether exploration costs may be initially capitalized. With respect to impairment of capitalized exploration costs, EIC-126 sets forth the Committee’s consensus that a mining enterprise in the development stage that has not established mineral reserves objectively, and therefore does not have a basis for preparing a projection of the estimated cash flow from the property is not obliged to conclude that capitalized costs have been impaired. However, such an enterprise should consider the conditions set forth in AcG-11 and CICA Handbook sections relating to long-lived assets in determining whether subsequent write-down of capitalized exploration costs related to mining properties is required. Any resulting write-downs are charged to the statement of operations.

The Company considers that its exploration costs have the characteristics of property, plant and equipment, and, accordingly, defers such costs. Furthermore, pursuant to EIC-126, deferred exploration costs would not automatically be subject to regular assessment of recoverability, unless conditions, such as those discussed in AcG 11 exist.

AcG 11 also provides guidance on measuring impairment of when pre-operating costs have been deferred. While this guidance is applicable, its application did not result in impairment.

Exploration and evaluation expenditures incurred by or on behalf of the Company are accumulated separately for each area of interest. Each area of interest is limited to an individual geological area which is related to a known or probable mineral resource and is considered to constitute a favorable environment for the presence of mineral deposits.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

c) **Mineral Interests (cont'd)**

Exploration and evaluation expenditure for each area of interest is carried forward provided that one of the following conditions is met:

- i) such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- ii) exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Exploration expenditure which no longer satisfies the above policy is written off. In addition, a provision is made against exploration expenditure where the directors are of the opinion that the carried forward net cost may not be recoverable under the above policy. The increase in the provision is charged against the results for the year.

Expenditure is not carried forward in respect of any area of interest unless the Company's rights of tenure to that area of interest are current.

d) **Income Taxes**

Income taxes are accounted for using the asset and liability method. Future taxes are recognized for the tax consequences of "temporary differences" by applying enacted or substantively enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and tax basis of existing assets and liabilities. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. In addition, the method requires the recognition of future tax benefits to the extent that the realization of such benefits is more likely than not.

e) **Earnings (Loss) Per Share**

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of Class A shares outstanding during the year. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

f) **Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of expenses during the reporting periods. Significant estimates include the carrying value of mining properties, certain accrued liabilities and the value of future income taxes. Actual results could differ from those estimates.

g) **Financial Instruments**

Concentration of Credit Risk

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

Interest rate risk

At June 30, 2006, the Company had no outstanding indebtedness that bears interest risk.

Fair Values

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

Foreign Currency Risk

The Company is not exposed to foreign currency risk as the Company does not hold any cash and cash equivalents on hand that are denominated in a foreign currency and there were no transactions during the period that were denominated in a foreign currency.

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**4. RELATED PARTY TRANSACTIONS**

Related party transactions are measured at the exchange amount, which approximates the fair value as agreed between management and the related parties.

The Company entered into four management service agreements and a financial advisory service agreement, each with either a shareholder or a company controlled by a shareholder. All of such shareholders are also Directors of the Company. Under the terms of the management services agreements, the shareholders are entitled to monthly fees ranging from \$3,000 to \$10,000 per month. At June 30, 2006, routine amounts were prepaid under these agreements by virtue of July fees having routinely been paid June 30 to a total of \$.

**5. SHARE CAPITAL**

Authorized  
Unlimited Common shares, no par value, voting

Issued and Outstanding

At March 31, 2006:		
100common shares (subsequently subdivided into 12,000,000 shares, as noted below)	\$	<b>100</b>
Issued in 3 months ended June 30, 2006;		
4,000,000 Special Warrants, Class A		600,000
5,000,000 Special Warrants, Class B		2,500,000
Less cost associated with issue		(264,718)
Total Issued and Outstanding as at June 30, 2006		2,835,282

During the quarter the common shares were subdivided on the basis of 120,000 shares for one old share without the payment of any additional consideration, resulting in the number of shares outstanding prior to the Special Warrant issues being 12,000,000.

Each Class A Special Warrant is exchangeable (and will be so exchanged upon completion of the IPO) without payment of further consideration into a unit comprised of one common share and one half of one common share purchase warrant each such whole warrant being exercisable for the purchase of an additional Common share at the price of \$.30 per share for a period from six months following the IPO until October 19, 2007.

Each Class B Special Warrant is exchangeable (and will be so exchanged upon completion of the IPO) without payment of further consideration into a unit comprised of one common share and one half of one common share purchase warrant each such whole warrant being exercisable for the purchase of an additional Common share at the price of \$.75 per share at any time following the IPO until November 10, 2007 and are redeemable by the Company in certain events as described more fully in the Prospectus.

The total number of shares outstanding as at June 30 represented by Common shares and Special Warrants representing a call on Common shares is 21,000,000.

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**6. INCOME TAXES**

The Company accounts for income taxes using the asset and liability method. Tax asset and liability account balances are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rate. The effects of future changes in tax losses are not anticipated.

The provision for income taxes has been computed as follows:

Expected income tax recovery at the statutory rate of 34.56%	\$ (45,527)
Valuation allowance	<u>45,527</u>
Provision for income taxes	<u>\$ -</u>

The components of future income taxes are as follows:

Future income tax assets	
Net operating loss carried forward	\$ 45,527
Valuation allowance	<u>(45,527)</u>
	<u>\$ -</u>

The Company has tax losses available to be applied against future years' income. In order to record a future income tax benefit, it must be more likely than not that the future tax asset resulting from the tax losses available for carryforward will be realized. Given the Company's classification as a development stage company and future uncertainty regarding profitability, it is appropriate to set up a 100% valuation allowance in respect of the future income tax asset.

**7. COMMITMENTS AND CONTINGENCIES**

- a) At June 30, 2006 the Company was committed to Micon International Limited in the sum of \$5,000 (plus GST) for the completion of the NI 43-101 technical report being completed in respect of the Fabie Bay project.
- b) The Company entered into four management service and investor relations agreements, each with either a shareholder or a company controlled by a shareholder. All of such shareholders are also Directors of the Company. The agreements are effective up to and including June 30, 2008 and result in a minimum commitment of \$276,000 per year.

## 7. COMMITMENTS AND CONTINGENCIES (cont'd)

- c) The Company and one of its shareholders entered into a financial advisory services agreement for which the Company will have a commitment of \$60,000 per year. Pursuant to the terms of the agreement, the agreement has no expiry date but may be terminated by either party upon 60 days written notice.
- d) The Company has entered into a lease of office premises calling for monthly rental of \$6,570.56 (subject to change for certain out of pocket cost elements) commencing August 1, 2006 and expiring July 31, 2008.

## 8. SUBSEQUENT EVENTS

- i. The Company has entered into an engagement letter with Jennings Capital Inc. as lead agent for the placement of \$10,000,000 combined of:
  - (a) Units comprised of one common share and one half common share purchase warrant, each whole common share purchase warrant and \$1.25 entitling the holder thereof to the issue of a further common share for a period of two years after issue and subject to callability in certain events, and
  - (b) Flow through common shares at a price of \$1.10 per flow through common share entitling the purchaser thereof to receive certain tax benefits by virtue of the Company's renunciation of an equal amount of CEE. The value of the tax benefit will be recognized by splitting the proceeds received into the tax benefit amount (which will be credited to contribute surplus) and the balance to share capital.
- . The Company has agreed to compensation to be paid to the Agent in the amount of 7% of the gross proceeds raised from the Initial Public Offering, plus agent's options to acquire that number of Common Shares equal to 7% of the total number of Flow-Through Common Shares and Units distributed pursuant thereto. The company has also undertaken to pay all reasonable expenses incurred by the Agent in conjunction with the Initial Public Offering.
  - ii. The Toronto Stock Exchange ("TSX") has given its conditional approval to the listing of the Company's common shares on the TSX subject to the satisfaction of certain events including the successful completion of the Company's Initial Public Offering consisting of the securities identified in i, above.