

FIRST METALS INC.
(A DEVELOPMENT STAGE CORPORATION)

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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AUDITORS' REPORT

To the Shareholders of
First Metals Inc.
(A Development Stage Corporation)

We have audited the balance sheets of First Metals Inc. (the "Company") as at December 31, 2007 and 2006 and the statements of comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SF Partnership, LLP

Toronto, Canada
March 3, 2008

LICENSED PUBLIC ACCOUNTANTS

FIRST METALS INC.
(A DEVELOPMENT STAGE CORPORATION)
Balance Sheet

ASSETS	December 31, 2007	December 31, 2006
Current:		
Cash and cash equivalents	\$ 3,557,666	\$ 3,527,945
Restricted cash (note 5)	6,086,871	-
Amounts and settlements receivable (note 6)	5,553,972	-
Accounts receivable	319,371	617,682
Inventories (note 7)	269,462	-
Deposits on contracts and prepaid expenses	172,321	671,358
	15,959,663	4,816,985
Mineral interests (note 8)	9,271,542	2,068,676
Property, plant and equipment (note 9)	23,907,573	5,795,707
	\$ 49,138,778	\$ 12,681,368
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 4,088,638	\$ 814,002
Accrued mill refurbishment costs (note 5)	6,896,395	-
Due on mineral properties (note 10)	250,000	250,000
Obligations under capital leases - current portion (note 11)	3,044,780	161,955
	14,279,813	1,225,957
Obligations Under Capital Leases (note 11)	1,654,306	454,969
Senior Secured Notes (note 12)	16,394,611	-
Future Income Taxes (note 13)	2,461,329	1,396,881
	34,790,059	3,077,807
SHAREHOLDERS' EQUITY		
Share Capital (note 15)	14,008,907	8,549,252
Warrants (note 15)	3,419,019	1,732,091
Contributed Surplus (note 16)	1,774,134	1,189,421
Deficit accumulated during the development stage	(4,853,341)	(1,867,203)
	14,348,719	9,603,561
	\$ 49,138,778	\$ 12,681,368

Going Concern (note 2)
Commitments and Contingencies (notes 5, 8, 10, 15, and 19)

APPROVED ON BEHALF OF THE BOARD

" Richard Williams"
Director

" James Richardson"
Director

See accompanying notes to financial statements.

FIRST METALS INC.
(A DEVELOPMENT STAGE CORPORATION)
Statement of Comprehensive Loss and Deficit

	Twelve Months ended December 31, 2007	Nine Months From April 1, through December 31, 2006	Cumulative From Feb 23, 2006 December 31, 2007
Revenue			
Interest income	\$ 143,416	\$ 95,778	\$ 239,194
Other revenue	6,777	-	6,777
	150,193	95,778	245,971
Expenses			
Stock-based compensation (note 16)	761,755	804,533	1,566,288
General and administration	1,011,532	338,888	1,350,420
Professional fees	669,406	303,055	972,461
Management fees (note 17)	335,417	215,385	570,802
Registry and filing fees	113,158	155,858	269,016
Travel and accommodation	190,524	119,036	309,560
Interest	11,950	6,226	18,176
Total Expenses	3,093,742	1,942,981	5,056,723
Loss Before Income taxes	(2,943,549)	(1,847,203)	(4,810,752)
Provision for Part XII.6 taxes (note 19 (e))	42,589	-	42,589
Net Loss and comprehensive loss	(2,986,138)	(1,847,203)	(4,853,341)
Deficit, beginning of period	(1,867,203)	(20,000)	-
Deficit, end of period	\$ (4,853,341)	\$ (1,867,203)	\$ (4,853,341)
Loss per share - basic and diluted	\$ (0.09)	\$ (0.09)	
Weighted average number of common shares outstanding - basic and diluted (note 15)	32,839,399	20,475,223	

No separate calculation for diluted loss per share as it would be anti-dilutive.

See accompanying notes to financial statements.

FIRST METALS INC.
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Statement of Cash Flows

	Twelve Months ended Dec. 31, 2007	Nine Months From April 1 through Dec. 31, 2006	Cumulative from Feb 23, 2006 through Dec. 31, 2007
Cash provided by (used in)			
Operating Activities			
Net loss for the period	\$ (2,986,138)	\$ (1,847,203)	\$ (4,853,341)
Adjustments for non-cash items		-	
Stock-based compensation - contributed surplus	761,755	804,533	1,566,288
Interest accretion on senior secured notes	304,270	-	304,270
Changes in non-cash working capital			
Amounts and settlements receivable	(5,553,972)	-	(5,553,972)
Accounts receivable	298,311	(617,682)	(319,371)
Inventories	(269,462)	-	(269,462)
Deposits on contracts and prepaid expenses	499,037	(671,358)	(172,321)
Accounts payable and accrued liabilities	3,274,636	814,002	4,088,638
Net Cash from (used in) Operating Activities	(3,671,563)	(1,517,708)	(5,209,271)
Financing Activities			
Issuance of common shares and warrants for cash	6,100,365	13,303,213	19,403,578
Issuance expenses	(170,653)	(1,240,101)	(1,410,754)
Warrants issued for cash	2,104,277	-	2,104,277
Senior secured notes	16,090,340	-	16,090,340
Due on mineral properties	-	250,000	250,000
Due to shareholders	-	(20,000)	-
Obligations under capital leases	(2,686,198)	(681,503)	(3,367,701)
	21,438,131	11,611,609	33,069,740
Investing activities			
Restricted cash	(6,086,871)	-	(6,086,871)
Mineral interests	(7,202,865)	(2,068,676)	(9,271,541)
Property, plant and equipment	(4,447,111)	(4,497,280)	(8,944,391)
	(17,736,847)	(6,565,956)	(24,302,803)
Increase in cash and cash equivalents	29,721	3,527,945	3,557,666
Cash and cash equivalents, beginning of period	\$ 3,527,945	\$ -	\$ -
Cash and cash equivalents, end of period	\$ 3,557,666	\$ 3,527,945	\$ 3,557,666
Cash and cash equivalents			
Cash	\$ 1,127,437	\$ 1,133,641	\$ 1,127,437
Term deposits	2,430,229	2,394,304	2,430,229
	\$ 3,557,666	\$ 3,527,945	\$ 3,557,666

See accompanying notes to financial statements.

FIRST METALS INC.
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Notes to Financial Statements
December 31, 2007

1. Nature of Operations and Development Stage Activities

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

The principal current activity of the Corporation is the bringing to production of the Fabie Bay and Magusi River deposits acquired from Globex Mining Enterprises Inc. (“Globex”) in 2006.

On November 20, 2007, ore from the Fabie Bay Deposit began to be processed at the Horne Mill. During November and December 2007, the average processing rate of the mill was approximately eight hundred tonnes of ore per day which was less than sixty percent of the design capacity of the mine infrastructure. On this basis, management concluded that commercial production had not yet been achieved and the financial statements have been prepared on the basis that the Corporation remains in the development stage as of December 31, 2007.

2. Going Concern

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assumes that the Corporation 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 December 31, 2007, the Corporation had a net loss and accumulated deficit of \$2,986,138 and \$4,853,341 respectively.

The Corporation'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/or the discovery, development and sale of mining reserves.

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:

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a) Cash and Cash Equivalents

Cash and cash equivalents include net cash at a bank and highly liquid investments. The Corporation considers all highly liquid investments with a remaining term to maturity of three months or less at the date of purchase to be cash equivalents.

b) Restricted Cash

Represents cash held in escrow to fund the refurbishment of the Horne Mill.

c) Inventories

Inventories are carried at the lower of cost and net realizable value. The major classifications of inventories are as follows:

(i) In-process inventory:

In-process inventory represents materials that are currently at the mill in the process of being converted to saleable concentrate. Costs include the direct material and labour that are charged by Xstrata based on an estimate of the material in process at the period end.

(ii) Ore stockpile:

Ore stockpiled in order to maintain a continuous feed to the mill, is valued at the lower of the weighted average mining costs and the net realizable value.

(iii) Materials and supplies:

Materials and supplies are valued at the lower of weighted average cost or net realizable value. Cost includes applicable taxes and freight.

d) Deferred Financing Costs

The Corporation defers 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 financing costs are charged to operations during the period in which the offering is terminated.

e) Mineral Interests

Mineral interests represent capitalized expenditures relating to the acquisition, exploration, development and operation of specific mineral properties including plant and equipment. Such costs 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 to operations.

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All administrative costs that do not directly relate to specific exploration and development activity are expensed as incurred. Interest costs are not capitalized until the decision to develop a property is made. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Corporation to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

Exploration and evaluation expenditures incurred by or on behalf of the Corporation 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 favourable environment for the presence of mineral deposits.

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 expenditures which no longer satisfy the above policy are written off. In addition, a provision is made against exploration expenditures where management is 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 earnings for the year. Expenditures are not carried forward in respect of any area of interest unless the Corporation's rights of tenure to that area of interest are current.

f) **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less accumulated amortization. Costs recorded for assets under construction include all expenditures in connection with the development and construction of the assets. No amortization is recorded until the assets are substantially complete and ready for use. Amortization, based on the estimated useful lives of the assets, is provided using the undernoted annual rates and methods:

<u>Category</u>	<u>Rate</u>	<u>Method</u>
Furniture and fixtures	5 years	Straight line
Computer and telecommunication equipment	3 years	Straight line
Mining infrastructure		Units of production
Mining equipment under capital leases	7 years	Straight line
Mill refurbishment costs		Units of production over the term of the custom milling contract

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g) Revenue Recognition

Revenue from the sale of metal in concentrate is recognized when persuasive evidence of a sales agreement exists, the title and risk is transferred to the customer, collection is reasonably assured, and the price is reasonably determinable.

Revenue from the sale of metal is subject to adjustment upon final settlement of shipment weights, assays and estimated metal prices. Under the terms of the sales contract, the final metal prices are based on average London Metal Exchange prices specified on a future date after the shipment date. Revenue is initially recorded based on market prices prevailing at the time of shipment (“provisional price”). The terms of the contract result in embedded derivatives because of the timing difference between the provisional price and the final settlement price. These derivatives are adjusted to their final value through revenue each month until the date of final price determination.

During the periods prior to achieving commercial production, net revenues are recorded as a reduction of the pre-production and mine development costs.

Interest income is recorded on an accrual basis.

h) Asset Retirement Obligations

The Corporation follows the recommendations in CICA Handbook Section 3110 – “Asset Retirement Obligations” with respect to asset retirement obligations. Under Section 3110, legal obligations associated with the retirement of tangible long-lived assets are recorded as liabilities. The liabilities are calculated using the net present value of the cash flows required to settle the obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion which is included in cost of sales and operating expenses. It is possible that the Corporation’s estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

i) Impairment of Long-lived Assets

The Corporation follows the recommendations in CICA Handbook Section 3063 - “Impairment of Long-lived Assets”. Section 3063 requires that the Corporation review for impairment the values of its long-lived assets, including mineral interests and related deferred costs, development costs, and property, plant and equipment, for events or changes in circumstances that might indicate the carrying amount of the assets may not be recoverable. If such conditions exist, assets are considered impaired if the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount. An impairment loss is measured at the amount by which the carrying amount of the asset

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exceeds its fair value. When quoted market value prices are not available, the Corporation uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

The Corporation's mineral exploration and development activities are subject to various laws and regulations regarding protection of the environment. As a result of these, the Corporation is expected in the future to incur expenses from time to time to discharge its obligations under these laws and regulations. Certain of these expenses will meet the definition of an asset and other expenses will not meet this definition. The assets will be capitalized and the other costs will be expensed as incurred. When estimating the costs which are expected to be incurred there are many factors to be considered such as the extended period over which the costs are to be incurred, the discount factors and significant judgments and estimates. As such, the fair value of the long-lived assets could change materially from year to year. In addition, changes in laws and regulations could cause significant changes in the expected costs and the related fair value.

j) 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.

k) Stock-based Compensation

The Corporation uses the fair value method based on the Black - Scholes pricing model to record the compensation cost related to the issue of stock options to its directors, consultants and employees over the vesting period with a corresponding credit to contributed surplus. Stock - based compensation expense is charged to income over the anticipated vesting period of the option. No compensation cost is recognized for awards that are forfeited by employees. The stock-based compensation expense for options which expire or are forfeited as a result of market conditions remain in contributed surplus.

l) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period end exchange rates, whereas non-monetary assets and liabilities and related expenses denominated in foreign currencies are translated at the exchange rate in effect at the transaction date, except for non-monetary assets carried at market which are translated at the foreign currency rate in effect at each balance sheet date. Income and expense items are translated at the exchange rate in effect on

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the date of the transaction. Exchange gains and losses resulting from the translation of these amounts are included in the statement of loss.

m) Loss per share

Basic loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding for the year. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share.

As the Corporation incurred net losses for the period ended December 31, 2007, the dilutive effect of outstanding options and warrants and their equivalents is not reflected in diluted loss per share because their effect would be anti-dilutive.

n) Flow - through Shares

The Corporation financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the share issuance, the tax attributes of the related expenditures are renounced to subscribers. When the renunciation is made, the tax value of the renunciation is recorded as a liability and charged against share capital. Where the Corporation has a valuation allowance, which reduces future income tax assets, the valuation allowance is reduced and an income tax recovery is recorded in earnings.

o) 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 mineral interests, certain accrued liabilities and the value of future income taxes. Actual results could differ from those estimates.

4. Change in Accounting Policy

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

This new standard, Section 3855 - Financial Instruments - Recognition and Measurement, requires the Corporation 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.

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Section 3855 also requires the Corporation to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. All financial instruments are initially recorded at fair value.

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, using the effective interest method, 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 derecognition or impairment; and d) loans and receivables - recorded at amortized cost, using the effective interest method, with gains and losses recognized in net earnings in the period that the asset is derecognized 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 derecognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

In accordance with Section 3855, the Corporation's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Subsequent Measurement
Cash	Available for sale	Fair value
Cash equivalents	Held to maturity	Amortized cost
Amounts and settlements receivable and accounts 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 Corporation in determining the fair value of financial instruments are unchanged as a result of implementing Section 3855.

Other balance sheet accounts, such as inventories, deposits on contracts and prepaid expenses, obligations under capital leases and future income taxes are not within the scope of Section 3855 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 Corporation has no financial instruments or activities that give rise to other comprehensive (income) loss.

There was no impact on the Corporation's financial statements upon adoption of the other

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new accounting standards.

5. 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, \$5,551,414 was held in escrow to cover the mill refurbishment and start-up costs. 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. On December 21, 2007, the Corporation put an additional \$600,000 into the Escrow account to fund excess expenditures on the mill refurbishment project.

Since the funds were placed in escrow, interest of \$75,457 has been earned and legal fees of \$140,000 have been disbursed to the Escrow Agent.

As security for payment of the custom milling fee, the Corporation is required to deposit \$675,000 with Xstrata in case the Corporation defaults at any time in paying amounts due with respect to the processing of Fabie ore. This amount is outstanding at the year-end.

Mill refurbishment costs

At December 31, 2007, deferred mill refurbishment costs of \$7,136,647 (note 9) had been incurred and the Corporation has estimated the outstanding liabilities at \$6,896,395 which will be funded from the Funds held in Escrow and additional payments by the Corporation.

When commercial production is achieved, these costs will be amortized over the period to the end of the custom milling contract, estimated to be approximately eighteen months.

6. Amounts and Settlements Receivable

At December 31, 2007, estimates of the provisional payments for November and December shipments which total \$5,553,972 were recorded based on management's best estimates of the metal content and average prices.

7. Inventories

	2007		2006	
In-process inventory	\$	140,000	\$	-
Ore stockpile		129,000		-
Materials and supplies		462		-
	\$	269,462	\$	-

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8. Mineral Interests

	Dec. 31, 2007	
	Cost	Net Book Value
Mineral Interests		
Property acquisition costs	\$ 1,027,138	\$ 1,027,138
Mine Development		
Deferred development & exploration	9,293,337	9,293,337
Deferred interest and insurance	2,263,551	2,263,551
Pre-operating net revenues	(3,993,060)	(3,993,060)
Amortization capitalized	680,576	680,576
	<u>8,244,404</u>	<u>8,244,404</u>
	<u>\$ 9,271,542</u>	<u>\$ 9,271,542</u>

	Dec. 31, 2006	
	Cost	Net Book Value
Mineral Interests		
Property acquisition costs	\$ 1,005,083	\$ 1,005,083
Mine Development		
Deferred development & exploration	1,063,593	1,063,593
Deferred interest and insurance	-	-
Pre-operating net revenues	-	-
Amortization capitalized	-	-
	<u>1,063,593</u>	<u>1,063,593</u>
	<u>\$ 2,068,676</u>	<u>\$ 2,068,676</u>

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On April 26, 2006, the Corporation 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 certain additional consideration identified below. The claims are located in the Abitibi Greenstone Belt Region near Rouyn - Noranda in Quebec, Canada. 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 Corporation on the date when commercial production, as defined in the Globex agreement, is first attained at any of the mining claims.

After attainment 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. After 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.

Mine Development

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.

In November 2007, the Corporation started to ship ore from the Fabie Bay Deposit and it was processed at the refurbished Horne Mill. During this pre-operating period, the net revenues have been offset against the mine development costs as commercial production was not achieved. It is estimated that the pre-production costs will be written off over eighteen months which represents the expected term of the Fabie Bay ore and the Xstrata milling agreement.

9. Property, plant and equipment

	Dec. 31, 2007	
	Cost	Accumulated Amortization
		Net Book Value
Plant and Equipment		
Furniture and fixtures	71,323	\$ (5,944) \$ 65,380
Computers and telecommunication equipment	289,264	(24,105) 265,159
Mining infrastructure	9,024,394	(92,022) 8,932,372
Mine equipment under capital leases	8,066,520	(261,718) 7,804,802
Mill refurbishment costs	7,136,647	(296,787) 6,839,860
	\$ 24,588,149	\$ (680,576) \$ 23,907,573

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	Dec. 31, 2006	
	Cost	Accumulated Amortization
		Net Book Value
Plant and Equipment		
Furniture and fixtures	\$ 3,640	3,640
Computers and telecommunication equipment	186,664	186,664
Mining infrastructure	4,307,244	4,307,244
Mine equipment under capital leases	1,298,159	1,298,159
Mill refurbishment costs	-	-
	\$ 5,795,707	\$ 5,795,707

10. Due on Mineral Properties

Under the terms of the Globex Agreement, the Corporation acquired 100% interest in the Fabie Bay, Magusi River and Duprat mining claims and certain neighbouring additional claims for cash consideration of \$1,000,000 and other considerations as above. At the execution of the agreement, the Corporation made an initial payment of \$50,000 and further \$200,000 and \$500,000 payments were made on May 18, 2006 and August 31, 2006, respectively.

The remaining \$250,000 is due within 30 days of attaining commercial production at any one of the mining claims. The outstanding balance is non-interest bearing and unsecured.

11. Obligations Under Capital Leases

The Corporation has leased to purchase certain mine equipment (note 9) for a total purchase price of \$8,066,520 of which \$597,008 was paid as a down payment. The lease terms for the fourteen leases range between two and five years.

The annual commitments under the leases are as follows:

	2007	2006
2007	\$ -	\$ 177,160
2008	3,311,974	212,514
2009	1,158,488	189,756
2010	432,701	131,551
2011	116,990	-
2012	77,994	-
Total minimum lease payments	5,098,147	710,981
Less: imputed interest at 6.9%	(399,061)	(94,057)
Balance of obligations	4,699,086	616,924
Less: Current portion	(3,044,780)	(161,955)
Long-term portion	\$ 1,654,306	\$ 454,969

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12. Senior Secured Notes

	Annual interest rate	Earliest Callable Date	Maturity Date	Principal	Fair Value at out set	Amortized Cost at December 31, 2007
Senior Secured Notes	14%	May, 4, 2009	July 31, 2012	\$20,000,000	\$16,090,340	\$16,394,611

On May 4, 2007, the Corporation issued \$20,000,000 in senior secured notes (the "Notes" or "Note") with interest payable at 14% per annum. Interest is paid quarterly. Each \$1,000 Note, which has a term of five years and one day from the Escrow Release date of July 30, 2007, was offered at a purchase price of 98% of the principal and is callable by the Corporation at any time following two years from the closing.

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 Corporation at an exercise price of \$1.35 per share expiring July 31, 2012. Two million share purchase warrants were issued.

At the issue date, the Corporation received gross proceeds of \$19,600,000 and incurred transaction costs of \$1,607,660 which resulted in net proceeds of \$17,992,340. In determining the initial carrying value for the Notes, the Corporation separated the warrants from the Notes and ascribed \$1,902,000 to the attached Warrants based on a Black-Scholes pricing model and the value of the Notes was established at \$16,090,340. The transaction costs are amortized over the period to the expected maturity July 31, 2012, of the instrument using the effective interest rate method.

The amortized cost of the Notes of \$16,394,611 as reported at December 31, 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. During the preproduction stage, \$2,147,604 has been capitalized in the mineral interests as reported on the balance sheet.

The 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 Corporation has been established.

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13. Income Taxes

The income tax expense differs from the amounts which would be obtained by applying the combined provincial and federal income tax rate of 32.1% (2006 - 34.5%) as follows:

	2007	2006
Computed expected tax recovery	\$ (958,550)	\$ (644,185)
Stock-based compensation	244,524	277,564
Other non deductible items	13,671	(2,836)
Timing difference related to mineral interests	(599,155)	(733,785)
Share issuance costs	(90,570)	(85,567)
Valuation allowance	1,390,080	1,188,809
Income tax recovery	\$ -	\$ -

The components of the Corporation's future income tax assets and liabilities at December 31, are as follows:

	2007	2006
Future income tax assets:		
Non capital losses carried forward.	\$ 2,345,333	\$ 1,188,809
Share issuance costs	282,667	342,268
Total future income tax assets	2,628,000	1,531,077
Valuation allowance	(2,628,000)	(1,531,077)
Net future income tax assets	\$ -	\$ -
Future income tax liabilities:		
Tax value of the renounced expenditures resulting from the issue of flow-through shares	\$ (2,461,329)	\$ (1,396,881)
	\$ (2,461,329)	\$ (1,396,881)

The Corporation has set a full valuation allowance of the tax value of the mineral interests as it is not more likely than not that this tax asset will be realized.

The Corporation has non-capital losses for income tax purposes of approximately \$7,664,791 (2006 - \$3,445,822) which are available to be applied against future years' taxable income. Subject to certain restrictions, the Corporation has resource expenditures available to reduce taxable income in future years.

Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance. The losses will expire as follows:

2026	\$ 3,445,822
2027	\$ 4,218,969

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14. Financial Instruments

Concentration of Credit Risk

Financial instruments which potentially subject the Corporation to credit risk consist of amounts and settlements receivable and accounts receivable. The Corporation mitigates this risk by investing in low risk investments and monitors collection of amounts receivable on a regular basis. All of the Corporation's amounts and settlements receivable and accounts receivable are from the Xstrata, a major international mining company.

Interest Rate Risk

At December 31, 2007, the Corporation had no outstanding indebtedness that bears interest risk. Fluctuations in interest rates may affect the cost of future financings.

Fair Values

The carrying value of financial instruments approximates their fair value due to the short maturities, or the market rate of interest in the case of interest in the case of long-term debt.

Currency Risk

It is management's opinion that the Corporation is not exposed to significant currency risks arising from financial instruments.

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15. Share Capital

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

Issued and outstanding common Shares	2007		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 (a)	4,585,350	2,584,513	4,150	3,113
Transferred from warrants upon exercise (a)		417,147		(1,732,091)
Issued pursuant to exercise of stock options (b)	638,129	638,129		
Transferred from contributed surplus upon exercise (b)		219,910		
Issued pursuant to Flow-through share offering (c)	2,799,996	3,080,000		
Fair value of warrants (c)		(202,277)		
Share issue costs		(213,319)		(1,624,989)
Expenses renounced through Flow-through offering		(1,064,448)		(1,396,881)
	38,860,180	\$ 14,008,907	30,836,705	\$ 8,549,252

- (a) During the year, 2,000,000 shares from the exercise of Class A Special Warrants were issued at \$0.30 each (proceeds - \$600,000); 2,494,350 shares from the exercise of Class B Special Warrants were issued at \$0.75 per share (proceeds - \$1,870,763) 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 4,585,350 shares for proceeds of \$2,584,513. A credit of \$417,147 representing the fair value of the warrants exercised was transferred from warrants. The fair value was determined at the time that the warrants were issued using the Black-Scholes pricing model.

- (b) In 2007, 638,129 options granted to brokers and third party consultants were exercised at \$1.00 per share for proceeds of \$638,129. A credit of \$219,910 was transferred from contributed surplus representing the fair value of the options exercised.
- (c) On December 21, 2007, the Corporation completed a flow-through financing consisting of 2,799,996 units priced at \$1.10 per unit resulting in gross proceeds of \$3,080,000. A unit consisted of a flow-through share and a half warrant, with a whole warrant entitling the holder to purchase a common share at \$1.75 in the first year and \$2.00 in the subsequent year. In connection with this issue, \$202,277 was attributed to the fair value of the warrants issued using the Black-Scholes pricing model.
- (d) In connection with the flow-through financing, the Corporation issued 126,136 options to brokers entitling the holder to purchase one unit at a price \$1.10 per unit, as described in (c) above, until the close of business on December 21, 2009. The fair value of the units

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was calculated at \$42,666 using the Black-Scholes pricing model. Other cash share issue costs were \$170,653 resulting in total issuance costs of \$213,319.

Stock Options

The Corporation has a stock option plan for its officers, key employees and consultants. In June 30, 2007, the plan was amended to increase the maximum available number of common shares from 1,800,000 to 15% of the issued and outstanding shares at the time of the grants. The maximum number of options that can be granted to any participant cannot exceed 10% of the issued and outstanding shares of the capital stock. The price of the options granted may not be less than the market price of the common shares of the Toronto Stock Exchange at the time the options are granted. The options granted are valid for a period established by the Board of Directors, not to exceed 10 years from the date the options are granted. Vesting is determined by the Board of Directors at the date of the grant.

The following table represents all of the Corporation's stock options granted, exercised, forfeited and expired during the year ended December 31, 2007 and the period ended December 31, 2006.

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	3,468,678	\$ 1.00		
Director's, management and senior staff option grants	1,157,500	\$ 1.10	2,780,400	\$ 1.00
Broker's options	126,136	\$ 1.10	688,278	\$ 1.00
Exercised	(638,129)	\$ 1.00	-	-
Forfeited and adjustments	19,600	\$ 1.00	-	-
Expired	(600,000)	\$ 1.00	-	-
Balance, end of period	3,533,785	\$ 1.06	3,468,678	\$ 1.00

Director's Option Grants

On May 31, 2007, 270,000 stock options exercisable at \$1.40 per share were granted to Directors. The fair value was estimated at \$0.78 per share using the Black-Scholes pricing model with the following assumptions; weighted average estimated life of 3 years, risk-free interest rate of 4.5%, expected volatility of 87% and no expected dividends.

On November 30, 2007, 270,000 stock options exercisable at \$0.96 per share were granted to Directors. The fair value was calculated at \$0.54 per share using the Black-Scholes pricing model with the following assumptions; weighted average estimated life of 3 years, risk-free interest rate of 4.5%, expected volatility of 87% and no expected dividends.

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The options to Directors of the Corporation vested immediately and an expense of \$359,910 (2006 - \$804,533) was reflected in the stock-based compensation expense.

Management and Senior Staff Option Grants

During the year, 617,500 options (2006 - 650,549) were granted to officers and senior staff. The fair value of stock options granted was estimated on the date of grant using the Black - Scholes pricing model with the following assumptions: weighted average estimated life of 3 or 5 years, risk-free interest rate of 4.7%, expected volatility of 87% and no expected dividends. The weighted average fair value of the options was \$0.70 per share.

Broker Warrants and Options

During the year, 126,136 options (2006 - 688,676) were granted to brokers. The fair value of the options was estimated on the date of grant using the Black - Scholes pricing model with the following assumptions: weighted average estimated life of 2 years, risk-free interest rate of 4.1%, expected volatility of 87% and no expected dividends. The weighted average fair value of the options was \$0.34 per share.

The outstanding and exercisable stock options as at December 31, 2007 are as follows:

Grant Date	Expiry Date	Outstanding	Exercisable	Exercise Price
September 1, 2006	September 1, 2008	650,149	650,149	\$ 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
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
November 30, 2007	November 30, 2010	270,000	270,000	0.96
December 20, 2007	December 21, 2009	126,136	126,136	1.10
		3,533,785	2,216,285	\$ 1.06

As at December 31, 2007, the weighted - average remaining contractual life of outstanding options was approximately 2.7 years and a total of 2,216,285 options were exercisable at a weighted average exercise price of \$1.06.

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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:

	Period ended December 31	
	2007	2006
Shares outstanding for entire period	30,836,705	100
Weighted average impact of		
Stock split (1 for 120,000)		9,877,731
Issued pursuant to private placements		6,771,704
IPO Financing		3,825,528
Private placement warrants exercised	1,534,042	-
IPO Warrants exercised	53,973	
Stock Options exercised	330,563	
Flow-through share offering	84,116	
Weighted average number of shares for loss per share calculation	32,839,399	20,475,063

Warrants

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

	2007			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	-	-	\$ -
Private placement and IPO	-	-	-	7,579,050	\$ 0.83	1,732,623
Issued with Senior Secured Notes	2,000,000	\$ 1.35	1,902,000	-	-	-
Issued with Flow-through units	1,399,997	\$ 1.88	202,277	-	-	-
Exercised	(4,585,350)	\$ 0.56	(417,147)	(4,150)	\$ 0.75	(532)
Expired	(1,500)	\$0.75	(202)	-	-	-
Balance, end of period	6,388,047	\$ 1.02	\$3,419,019	7,574,900	\$ 0.83	\$1,732,091

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Pursuant to the issue of the Senior Secured Notes as outlined in note 11, two million share purchase warrants were issued. The fair value of these warrants was \$0.95 each using the Black - Scholes pricing model with the following assumptions; estimated life of 5 years, risk-free interest rate of 4.5%, expected volatility of 87% and no expected dividends.

On December 21, 2007 in connection with a flow-through unit offering, 1,399,997 warrants were issued. A warrant entitles the holder to purchase a common share at \$1.75 in the first year and \$2.00 in the subsequent year. The fair value of these warrants was estimated using the Black - Scholes pricing model at \$0.14 each with the following assumptions: estimated life of 1 year, risk-free interest rate of 4.1%, expected volatility of 87% and no expected dividends.

At December 31, 2007, the Corporation had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Description	Number of warrants	Exercise price	Expiry date
Issued pursuant to the IPO	2,988,050	\$ 1.25	September 1, 2008
Issued with Senior Secured Notes	2,000,000	\$ 1.35	July 31, 2012
Issued with the 2007 Flow-through offering	1,399,997	\$ 1.88	December 21, 2008
	6,388,047		

Additional Share Commitments

As an element of the purchase price to be paid to Globex, at the attainment of commercial production 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 December 31 financial statements, Globex would be entitled to 3,886,018 shares. Accordingly, the actual number of shares to be issued will be at least equal to this number of shares.

16. Contributed Surplus

	2007	2006
Balance, beginning of period	\$1,189,421	\$ -
Stock-based compensation expense	761,755	804,533
Expired warrants	202	-
Fair value of stock options exercised	(219,910)	-
Broker's options	42,666	384,888
Balance, end of period	\$1,774,134	\$1,189,421

Stock-based compensation expense of \$761,755 (2006 - \$804,533) was recorded in the statement of loss in respect of options being expensed over their vesting period netted for forfeitures.

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17. Related Party Transactions

- a) The Corporation entered into management service agreements and a financial advisory service agreement, each with a director or a company controlled by a director. In December 2007, Mr. Jaski, one of the founders of the Corporation passed away and one of the service agreements ceased. The management service agreements were designed during the development stage to provide the Corporation 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 \$335,417 (2006 - \$235,385) was paid in connection with these agreements.

- b) On May 3, 2007, a shareholder who is also an officer, director and promoter of the Corporation who, during the year, had loaned the Corporation \$30,000 on an unsecured basis and completely free of interest or other consideration, was repaid in full without interest or other consideration.
- c) On December 21, 2007, four directors subscribed for a combined total of 200,000 of flow-through shares. The purchases were made at the market subscription price.

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

18. Supplemental Disclosure with Respect to Cash Flows

	2007	2006
Cash paid during the year for interest costs capitalized	\$ 1,904,319	\$ -
Cash paid during the year for interest costs expensed	\$ 11,950	\$ 6,226
Cash paid during the year for income taxes	\$ -	\$ -

Significant non-cash transactions during the year were as follows:

- a. The Corporation recorded accrued mill refurbishment costs of \$6,896,395 for the Horne Mill. In addition to the accrued costs, the Corporation paid \$238,252 for items which have been capitalized.
- b. The accrued mill refurbishment costs of \$6,896,395 will be paid from restricted cash of \$6,086,871 and other corporate funds.
- c. The Corporation purchased mine equipment under capital leases of \$6,768,360 which

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was capitalized to property, plant and equipment.

- d. The Corporation recorded \$417,147 for warrants exercised during the year in share capital and contributed surplus.
- e. The Corporation recorded \$219,910 for brokers and third party options exercised during the year in share capital and contributed surplus.
- f. The share capital of the Corporation was reduced by \$202,277 to reflect the fair value of warrants issued in connection with the issue of flow-through shares on December 21, 2007.
- g. The share capital of the Corporation was reduced by \$42,666 to reflect the fair value of units issued to brokers in connection with the issue of flow-through shares on December 21, 2007.

19. Commitments and Contingencies

- a) The Corporation has entered into 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 Corporation. The agreements are effective up to and including June 30, 2008 and result in a minimum commitment of \$170,400.
- b) The Corporation entered into a lease of office premises calling for monthly rental of \$8,465 (2009 - \$6,355) (subject to change for certain out of pocket cost elements) commencing May 1, 2006 and expiring July 31, 2009.

Future minimum annual payments (exclusive of taxes, insurance and maintenance costs) under these leases are as follow:

2008	\$ 101,580
2009	<u>44,487</u>
	<u>\$ 146,067</u>

- c) The Corporation is committed to operating lease obligations for equipment, 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:

2008	\$ 510,270
2009	411,130
2010	374,648
2011	<u>89,297</u>
	<u>\$ 1,385,345</u>

- d) At December 31, 2007, the Corporation has expenditure commitments of approximately \$1,275,000 representing work to be undertaken in relation to a drill program. The

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program commenced January 2008 and it is expected to be completed by May 2008.

- e) Under the terms of the flow-through share financing completed on September 1, 2006, the Corporation 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 twelve months, the Corporation incurred the qualified expenditures. Accordingly, the Corporation has recorded a \$42,589 expense for Part XII.6 tax levied on unspent flow-through expenditures during the period. As at December 31, 2007, the Corporation had met its qualified expenditures.
- f) In accordance with the flow-through share financing completed on December 21, 2007, the Corporation is obligated to incur approximately \$3,100,000 of qualifying Canadian Exploration Expenses by December 31, 2008.

20. Subsequent Events

- a) On March 4, 2008, the Corporation, in consideration for professional services, granted options to acquire shares in the Corporation on or before March 4, 2009 of which 150,000 options are exercisable at \$0.92 per share and a further 150,000 options are exercisable at \$1.50 per share.
- b) On March 4, 2008, pursuant to the Corporation's stock option plan, the Corporation granted 180,000 stock options to two senior mine staff to acquire shares at \$0.92 per share exercisable on or before March 4, 2013.

21. Prior Year Comparatives

Certain of the prior year comparatives have been reclassified to conform to the current year presentation.