

**FIRST METALS INC.**  
(A DEVELOPMENT STAGE COMPANY)  
  
FINANCIAL STATEMENTS  
  
FIRST QUARTER ENDED MARCH 31, 2007  
  
(UNAUDITED)

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**These interim financial statements for the period ended March 31 2007 have been prepared by Company's 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)**  
**BALANCE SHEET**

	March 31, <b>2007</b> <b>(unaudited)</b>	December 31, 2006 <b>(Audited)</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 462,972	\$ 3,527,945
Accounts receivable	294,039	617,682
Deposits on contracts & prepaid expenses	609,054	671,358
	<b>1,366,065</b>	<b>4,816,985</b>
<b>Mineral Interests</b> (note 4)	<b>12,516,306</b>	<b>7,864,383</b>
	<b>\$ 13,882,371</b>	<b>\$ 12,681,368</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued charges	\$ 1,451,217	\$ 814,002
Due on mineral properties (note 4)	250,000	250,000
Obligation under capital leases - current portion (note 5)	923,206	161,955
	<b>2,624,423</b>	<b>1,225,957</b>
<b>Obligation Under Capital Leases</b> (note 5)	<b>778,281</b>	<b>454,969</b>
<b>Future Income Taxes</b>	<b>1,396,881</b>	<b>1,396,881</b>
	<b>4,799,585</b>	<b>3,077,807</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> (note 6)	<b>\$ 8,557,452</b>	<b>\$ 8,549,252</b>
<b>Warrants</b> (note 6)	<b>1,731,391</b>	<b>1,732,091</b>
<b>Contributed Surplus</b> (note 6)	<b>1,252,701</b>	<b>1,189,421</b>
<b>Deficit</b>	<b>(2,458,758)</b>	<b>(1,867,203)</b>
	<b>9,082,786</b>	<b>9,603,561</b>
	<b>\$ 13,882,371</b>	<b>\$ 12,701,368</b>

**Commitments and Contingencies** (notes 4 and 11)

**APPROVED ON BEHALF OF THE BOARD**

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Director

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Director

(The accompanying notes are an integral part of these financial statements.)

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
Statement of Loss and Deficit  
Period ended March 31

	Period From Feb. 23, 2006 for 3 month <b>period ended</b> <b>March 31, 2007</b> <b>(unaudited)</b>	Date of inception Through March 31, 2006 <b>(unaudited)</b>
<b>Revenue</b>		
Interest income	\$ 10,396	\$ -
Other revenue	\$ 4,095	-
	<b>\$ 14,491</b>	<b>\$ -</b>
<b>Expenses</b>		
Stock-based compensation	63,280	-
General and administration	242,315	-
Professional fees	128,460	-
Management fees	78,750	20,000
Registry and filing	31,513	-
Travel and accommodation	43,689	-
Interest	18,038	-
<b>Total Expenses</b>	<b>606,045</b>	<b>20,000</b>
<b>Loss Before Income Taxes</b>	<b>( 591,554)</b>	<b>(20,000)</b>
Provision for income taxes (note 10)	-	-
<b>Net Loss</b>	<b>( 591,554)</b>	<b>(20,000)</b>
<b>Deficit - Beginning of Period</b>	<b>(1,867,203)</b>	<b>-</b>
<b>Deficit - End of Period</b>	<b>\$ (2,458,778)</b>	<b>\$ (20,000)</b>
<b>Loss Per Share - Basic and Diluted</b>	<b>\$ (0.08)</b>	<b>\$ (200.00)</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>30,840,872</b>	<b>100</b>

(The accompanying notes are an integral part of these financial statements.)

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
Statement of Cash Flows  
Period ended March 31

	<b>For 3 month period ended March 31, 2007</b>	Period From Feb. 23, 2006 (Date of Inception) Through March 31, 2006
<b>Cash Flows from Operating Activities</b>		
Net loss for the period	\$ ( 591,554)	\$ (20,000)
Adjustments for non-cash items:		
Stock-based compensation	63,280	-
Changes in non-cash working capital:		
Accounts receivable	323,644	(1,610)
Deposits on contracts and prepaid expenses	62,304	-
Accounts payable and accrued charges	637,212	-
<b>Net Cash from (used in) Operating Activities</b>	<u>494,886</u>	<u>(21,610)</u>
<b>Cash Flows used in Investing Activities</b>		
Mineral interests	(4,651,923)	-
<b>Net Cash used in Investing Activities</b>	<u>(4,651,923)</u>	<u>-</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of common shares for cash	7,500	100
Deferred financing costs	-	(3,000)
Obligation under capital leases	1,370,937	-
Payments under Capital Leases	( 286,373)	-
Due to shareholders	-	24,610
<b>Net Cash from (used in) by Financing Activities</b>	<u>1,092,064</u>	<u>21,710</u>
<b>Decrease in Cash and Cash Equivalents</b>	<b>(3,064,973)</b>	<b>100</b>
<b>Cash and Cash Equivalents - Beginning of Period</b>	<u>3,527,945</u>	<u>-</u>
<b>Cash and Cash Equivalents - End of Period</b>	<u>\$ 462,972</u>	<u>\$ 100</u>
<b>Cash and Cash Equivalents are comprised of:</b>		
Cash	\$ ( 218,444)	\$ 100
Term deposits	<u>681,416</u>	<u>-</u>
	<u>\$ 462,972</u>	<u>\$ 100</u>

(The accompanying notes are an integral part of these financial statements.)

**FIRST METALS INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
Notes to Financial Statements  
March 31, 2007  
**(Unaudited)**

## **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.

These Notes should be read in conjunction with the financial statements for the three months ended March 31, 2007 and the Company's audited financial statements for the nine months ended December 31, 2006 which include a more comprehensive and detailed set of explanatory notes and the Management's Discussion and Analysis of the present financial statements dated May 15, 2007 ("MD&A").

The principal current activity of the Company is the bringing to production of the Fabie Bay and Magusi River deposits acquired Globex Mining Enterprises Inc. ("Globex") in 2006. A fuller description of these activities appears in the MD&A.

## **2. Going Concern**

These 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.

## **3. Summary of Significant Accounting Policies**

These financial statements have been prepared by management who take responsibility for them in accordance with Canadian generally accepted accounting principles. There were no changes in accounting policies during the period and the Company's detailed accounting policies can be reviewed in its audited financial statements for the year ending December 31, 2006 and the Notes thereto.

**FIRST METALS INC.**  
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**4. Mineral Interests**

	March 31, 2007 (unaudited)	December 31, 2006 (audited)
Property acquisition costs	<b>\$ 1,023,781</b>	<b>\$ 1,005,083</b>
Deferred development and exploration expenditures	<b>8,097,505</b>	<b>5,163,730</b>
<b>Plant and equipment</b>	<b><u>3,395,020</u></b>	<b><u>1,695,570</u></b>
	<b><u>\$ 12,516,306</u></b>	<b><u>\$ 7,864,383</u></b>

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

At the execution of the agreement, the Company 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 balance is non interest bearing and unsecured. Management expects to achieve production at Fabie Bay by the end of 2007.

The claims are located in Hébécourt, Montbray and Duprat townships in the Abitibi Greenstone Belt Region near Rouyn-Noranda, Quebec, Canada.

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

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

**FIRST METALS INC.**  
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**5 Obligation Under Capital Leases**

Lease agreement due in November 2008, bearing an interest rate of 8.1% with monthly payments including principal and interest of \$ 1,586 with a residual of \$6,900 due at the end of the lease term. **\$ 34,221**

Lease agreement due on December 31, 2009, bearing an interest rate of 8.9% with monthly payments including principal and interest of \$ 15,813 with a residual of \$115,738 due at the end of the lease term. **563,359**

Lease agreement due in September 2008, bearing an interest rate of 7.45% with monthly payments including principal and interest of \$ 14,854 **238,949**

Lease agreement due on September 2008, bearing an interest rate of 7.45% with monthly payments including principal and interest of \$ 53,770 **864,958**

**1,701,487**

Less: current portion **923,206**

Long-term portion **\$ 778,281**

Future aggregate minimum payments are due as follows:

2007	\$	685,580
2008		705,799
2009		166,008
2010		<u>144,100</u>
		<b><u>\$ 1,701,487</u></b>

**FIRST METALS INC.**  
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**6. Share Capital**

**Authorized**

Unlimited common shares, no par value, voting

<b>Issued and outstanding</b>	March 31 , 2007 (Unaudited)		December 31 , 2006 (Audited)	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance at the beginning of the 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)	25,000	7,500	4,150	3,113
Value of warrants	-	700	-	(1,732,091)
Share issue costs	-	-	-	(1,624,989)
Expenses renounced through the issuance of flow-through shares	-	-	-	(1,396,881)
Balance at the end of the period	30,861,705	8,557,452	30,836,705	8,549,252

- a) On March 19, 2007, a total of 25,000 warrants were exercised into the Company's common shares at \$0.30 per warrant.

The following table represents all of the Company's stock options granted, exercised, forfeited and expired during the period ended December 31, 2006:

<b>Stock options</b>	March 31 , 2007 (Unaudited)		December 31 , 2006 (Audited)	
	Number of options	Weighted average exercised price \$	Number of options	Weighted average exercised price \$
Balance at the beginning of the period	3,468,678	\$ 1.00		
Granted	-	-	3,468,678	\$ 1.00
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Balance at the end of the period	3,468,678	\$ 1.00	3,468,678	\$ 1.00

**FIRST METALS INC.**  
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**6. Share Capital (cont'd)**

As at March 31, 2007, the weighted-average remaining contractual life of outstanding options was approximately two years and a total of 2,688,678 options were exercisable at a weighted average exercise price of \$1.00.

For the three month period ended March 31, 2007, stock-based compensation expense of \$63,280 was recorded in the statement of operations (in respect of options previously granted being expensed over their vesting period) and the corresponding credit was charged to contributed surplus.

The fair value of options was estimated using the Black - Scholes pricing model with the following assumptions for 2006.

			December 31, 2006 (audited)	
Risk free interest rate			3.97 %	
Expected stock price volatility			87 %	
Expected dividend			Nil	
Weighted average estimated life			2.47 years	
<b>Warrants</b>	March 31 , 2007 (Unaudited)		December 31 , 2006 (Audited)	
The movements in share purchase warrants were as follows:	Number of Options	Weighted average exercised price \$	Number of Options	Weighted average exercised price \$
Balance at the beginning of the period	7,574,900	1,732,091	-	-
Granted	-	-	7,579,050	\$ 1,732,623
Exercised	( 25,000)	( 700)	(4,150)	( 532)
Balance at the end of the period	7,549,900	1,731,391	7,574,900	1,732,091

The fair value of the warrants was estimated using the Black - Scholes pricing model with the following assumptions: estimated life of 1.5 years for the special warrants and two years for the IPO warrants, risk-free interest rate of 4.5%, expected volatility of 77% and no expected dividends.

As at March 2007, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price	Expiry date
1,975,000	\$ 0.30	October 19, 2007
2,495,850	\$ 0.75	November 10, 2007
3,079,050	\$ 1.25	September 1, 2008
<b>7,549,900</b>		

**FIRST METALS INC.**  
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Notes to Financial Statements

March 31, 2007

**(Unaudited)**

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 considerations. If this were to take place on May 15, 2007, the number would be 3,093,171 shares; accordingly, the actual number when it occurs would be at least this number.

## **7. Related Party Transactions**

- a) The Company entered into five management service agreements and a financial advisory service agreement, each with either a shareholder or a company controlled by a shareholder. All of the shareholders are also directors and or senior management of the Company. Under the terms of the management service agreements, the shareholder or the company controlled by a shareholder is entitled to monthly fees ranging from \$3,600 to \$11,600 per month, including car and home office allowance.

A total of \$118,550 (up to March 31, 2006 \$20,000: April to December 2006 \$425,000) was paid during the period ended March 31, 2007 in connection with these agreements.

- b) Subsequent to the quarter end, a shareholder who is also an Officer, Director and Promoter of the Company loaned the Company \$30,000 on an unsecured basis and completely free of interest or other consideration, which was subsequently 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.

## **8. 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 \$351,000 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, the agreement has no expiry date but may be terminated by either party upon 60 days written notice.

**FIRST METALS INC.**  
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**8. Commitments and Contingencies (cont'd)**

- c) The Company has entered into a lease of office premises calling for monthly rental of \$6,570.00 (subject to change for certain out of pocket cost elements) commencing May 1, 2006 and expiring July 31, 2008. Future minimum annual payments (exclusive of taxes, insurance and maintenance costs) under these leases are as follow:

2007 (9 months)	\$ 59,130
2008	<u>45,990</u>
	<u>\$ 105,120</u>

Subsequent to the Quarter end, the term of the lease was amended to extend for another 12 months at a modestly increased rental during the extension period.

- 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 (9 months)	\$ 274,478
2008	288,975
2009	254,959
2010	<u>232,877</u>
	<u>\$ 1,051,289</u>

- e) As at March 31, 2007, the Company committed to purchase equipment totaling approximately \$20 million remaining from an initial commitment for \$3.4 Million which was partially realized in the first quarter of 2007. Completion of the purchase is dependent upon attainment of the necessary financing which was achieved subsequent to the Quarter end. As at March 31, 2007, the Company had already paid a \$305,354 deposit in connection with the agreement and accordingly included the amount in prepaid expenses for the period then ended.
- f) The Company has expenditure commitments at March 31, 2007 of approximately \$750,000 representing work to be undertaken in relation to a 10,000 meter drill program. The program is expected to commence in April 2007.
- g) During the period, the Company entered into a contract in connection with an airborne survey program to commence May 2007. The cost of the program is expected to total approximately \$120,000.

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**9. Subsequent Events**

a) On May 7<sup>th</sup>, 2007, First Metals Inc. completed a **term debt financing** of \$20 Million principal amount of 14% senior secured Notes. The offering was led by Jennings Capital Inc. ("Jennings")

Each Note, which has a term of five (5) years and one (1) day, 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 Note 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 (attainment of a Bail Minier to put the Fabie Bay orebody into production and completion of definitive agreements with Xstrata Copper, a division of Falconbridge Inc. for the custom milling of the Fabie Bay ore) are met. This represents a total of 2 million share purchase warrants. Jennings is receiving a \$400,000 advisory fee and a 4% cash commission for services rendered in connection with the Offering.

b) As described above in Note 7, a shareholder loan was made to the Company and subsequently repaid by the Company on completely interest free and unsecured terms.