

FIRST METALS INC.

UNAUDITED FINANCIAL STATEMENTS

2nd QUARTER-END JUNE 30, 2008

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These interim financial statements for the period ended June 30, 2008 have been prepared by Management who take responsibility for them in accordance with Canadian generally accepted accounting principles. The Corporation's auditors have not conducted a review engagement of these statements.

FIRST METALS INC.

Balance Sheet Unaudited

	June 30, 2008	December 31, 2007
ASSETS		
Current:		
Cash and cash equivalents	\$ 4,607,360	\$ 3,557,666
Restricted cash (note 4)	6,180,564	6,086,871
Amounts and settlements receivable (note 5)	16,534,959	5,553,972
Accounts receivable	581,545	319,371
Inventories (note 6)	738,346	269,462
Deposits on contracts and prepaid expenses	196,610	172,321
Current income taxes recoverable	141,932	-
Future income tax assets (note 13)	2,488,936	-
	31,470,252	15,959,663
Asset retirement costs (note 11)	166,599	-
Mineral interests (note 7)	12,946,415	9,271,542
Property, plant and equipment (note 8)	20,989,579	23,907,573
	\$ 65,572,845	\$ 49,138,778
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 9,984,295	\$ 4,088,638
Accrued mill refurbishment costs (note 4)	6,896,395	6,896,395
Due on mineral properties (note 9)	-	250,000
Obligations under capital leases - current portion (note 10)	2,125,662	3,044,780
	19,006,352	14,279,813
Obligations under capital leases (note 10)	1,142,096	1,654,306
Asset retirement obligations (note 11)	226,308	-
Senior Secured Notes (note 12)	16,634,266	16,394,611
Future income tax liabilities (note 13)	4,136,919	2,461,329
	41,145,941	34,790,059
SHAREHOLDERS' EQUITY		
Share Capital (note 16)	18,397,777	14,008,907
Warrants	3,419,019	3,419,019
Contributed Surplus	2,173,038	1,774,134
Retained earnings (deficit)	437,070	(4,853,341)
	24,426,904	14,348,719
	\$ 65,572,845	\$ 49,138,778

Going Concern (note 2)

Commitments and Contingencies (notes 4, 7, 9, 11, and 21)

APPROVED ON BEHALF OF THE BOARD

"Richard Williams"

Director

"James Richardson"

Director

See accompanying notes to financial statements.

FIRST METALS INC.

**Statement of Operations, Comprehensive Income and Retained Earnings
Unaudited**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue				
Copper	\$ 18,678,391	-	\$ 26,306,026	-
Gold	96,684	-	121,281	-
Silver	114,125	-	129,713	-
	18,889,200	-	26,557,020	-
Treatment, refining charges	(1,782,263)	-	(2,525,087)	-
Net metal royalty	(401,107)	-	(554,463)	-
Net revenue	16,705,830	-	23,477,470	-
Operating costs				
Mining and development	4,838,703	-	6,238,256	-
Milling and ore transportation	4,736,370	-	6,324,378	-
Depreciation, depletion and amortization	3,018,280	-	4,262,752	-
Amortization of asset retirement costs	42,800	-	59,709	-
	12,636,153	-	16,885,095	-
Contribution from mining activities	4,069,677	-	6,592,375	-
Other expenses				
Stock-based compensation	279,707	280,262	437,514	343,542
General and administration	188,309	194,494	296,609	436,809
Professional fees	59,968	143,433	177,846	271,892
Management fees	70,000	78,750	145,000	157,500
Registry and filing fees	23,468	39,936	37,038	71,449
Travel and accommodation	34,137	27,751	57,581	71,440
Interest	901,964	(13,873)	1,207,561	4,165
Total Expenses	1,557,553	750,753	2,359,149	1,356,797
Other income				
Interest income	59,844	10,789	163,361	21,185
Other revenue	980	617	1,367	4,711
	60,824	11,406	164,728	25,896
Earnings (loss) before income taxes	2,572,948	(739,347)	4,397,954	(1,330,901)
Income and mining tax (recovery) (note 13)	(942,631)	-	(892,457)	-
Net comprehensive earnings (loss)	3,515,579	(739,347)	5,290,411	(1,330,901)
Retained earnings (deficit), beginning of period	(3,078,509)	(2,458,757)	(4,853,341)	(1,867,203)
Retained earnings (deficit), end of period	\$ 437,070	\$ (3,198,104)	\$ 437,070	\$ (3,198,104)
Commercial Production commenced March 1, 2008				
Earnings (loss) per common share (note 18)				
Basic	\$ 0.08	\$ (0.02)	\$ 0.13	\$ (0.04)
Diluted	\$ 0.08	\$ (0.02)	\$ 0.13	\$ (0.04)
Weighted average shares outstanding (000's)				
Basic	41,761	31,392	40,303	31,129
Diluted	41,761	31,392	40,394	31,129

See accompanying notes to financial statements.

FIRST METALS INC.

Statement of Cash Flows Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Operating Activities				
Net earnings (loss) for the period	\$ 3,515,579	\$ (739,347)	\$ 5,290,411	\$ (1,330,901)
Adjustments for items not affecting cash:				
Net future income tax recovery	(955,278)	-	(955,278)	-
Depreciation, depletion and amortization	3,061,080	-	4,322,461	-
Interest accretion on closure costs	4,148	-	4,710	-
Stock-based compensation expense	279,707	280,262	437,514	343,542
Interest accretion on senior secured notes	122,740	86,826	239,655	86,826
Changes in non-cash working capital				
Amounts and settlements receivable	(3,684,125)	-	(10,980,987)	-
Accounts receivable	(77,275)	(40,892)	(262,174)	282,752
Inventories	(318,552)	-	(468,884)	-
Deposits on contracts and prepaid expenses	24,084	289,573	(24,289)	351,877
Accounts payable and accrued liabilities	1,572,895	(28,431)	5,895,656	608,781
Net cash provided by (used in) operating activities	3,545,003	(152,009)	3,498,795	342,877
Financing Activities				
Issuance of common shares and warrants for cash	55,000	1,883,492	55,000	1,891,692
Warrants issued (net of exercise)	-	1,718,262	-	1,717,562
Senior secured notes	-	16,090,340	-	16,090,340
Due on mineral properties	(250,000)	-	(250,000)	-
Repayment of obligations under capital leases	(862,909)	(630,000)	(1,431,328)	(1,260,000)
Net cash provided by (used in) financing activities	(1,057,909)	19,062,094	(1,626,328)	18,439,594
Investing activities				
Restricted cash	(47,861)	(15,063,608)	(93,693)	(15,063,608)
Mineral interests	914,043	(2,970,613)	675,387	(5,907,972)
Property, plant and equipment	(1,576,880)	-	(1,404,467)	-
Net cash (used) in investing activities	(710,698)	(18,034,221)	(822,773)	(20,971,580)
Increase (decrease) in cash and cash equivalents	1,776,396	875,864	1,049,694	(2,189,109)
Cash and cash equivalents, beginning of period	2,830,964	462,972	3,557,666	3,527,945
Cash and cash equivalents, end of period	\$ 4,607,360	\$ 1,338,836	\$ 4,607,360	\$ 1,338,836
Cash and cash equivalents				
Cash	\$ 240,290	\$ (284,619)	\$ 240,290	\$ (284,619)
Short-term investments	4,367,070	1,623,455	4,367,070	1,623,455
	\$ 4,607,360	\$ 1,338,836	\$ 4,607,360	\$ 1,338,836
Supplemental disclosures with respect to cash flows (note 20)				

See accompanying notes to financial statements.

FIRST METALS INC.

Notes to Unaudited Financial Statements June 30, 2008

1. Nature of Operations

First Metals Inc. (the “Corporation”) was incorporated on 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 that has achieved commercial production from the Fabie Bay deposit.

On November 20, 2007, ore from the Fabie Bay Deposit began to be processed at the Horne Mill. Prior to March 1, 2008, the average processing rate was less than 60% of the design capacity of the mine infrastructure. During the month of March 2008, 42,000 tonnes were milled at the Xstrata Horne mill and smelter facilities (average processing rate of 1,352 tonnes per day) which were in excess of 60% of the design capacity. As a result, on April 28, 2008, management announced that commercial production had been achieved commencing March 1, 2008.

The Statement of Operations, Comprehensive Income and Retained Earnings includes revenue and Operating costs for the months of March to June 2008 along with other overhead expenses for the six months from January 1, 2008 through June 30, 2008. During the pre-operating period, the pre-operating net revenues have been set off against Mine Development Costs as detailed in note 7.

2. Basis of Presentation, Accounting Policies and Going Concern

Basis of Presentation and Accounting Policies

These unaudited interim financial statements for the six months ended June 30, 2008 and December 31, 2007 have been prepared in accordance with Canadian generally accepted accountings principles (“Canadian GAAP”) and follow the same accounting policies and methods of application as those disclosed in note 3 to the audited financial statements for the year ended December 31, 2007. These unaudited financial statements include all adjustments that are, in the opinion of management, necessary for a fair presentation. These unaudited financial statements do not include all disclosures required by Canadian GAAP for annual financial statements and, accordingly, should be read in conjunction with the Corporation’s audited financial statements for the year ended December 31, 2007.

Going Concern

These financial statements have been prepared using Canadian GAAP 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.

FIRST METALS INC.

Notes to Unaudited Financial Statements June 30, 2008

During the six month period ended June 30, 2008, the Corporation earned net comprehensive income of \$5,29,041 (June 30, 2007, net comprehensive loss of \$1,330,901) and it had Retained earnings of \$437,070 (June 30, 2007 – Deficit accumulated during development stage of \$3,198,104). Having achieved commercial production and with it profitability, the Corporation anticipates being able to realize its assets and discharge its obligations in the normal course of business.

3. Changes in Accounting Policies

On January 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Sections Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1400, Financial Statement Presentation. In accordance with the transitional provisions, prior periods have not been restated. The principal changes resulting from these new standards are described below:

Section 1535, Capital Disclosures, establishes standards for disclosing information about an entity’s capital and how it is managed. Under this standard, the Corporation will be required to disclose quantitative and qualitative information about its objectives, policies and procedures for managing capital. The required disclosures have been included in Note 14 to these interim financial statements.

Section 3031, Inventories, provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The required disclosures have been included in Note 6 to these interim financial statements.

Section 3862, Financial Instruments - Disclosures, requires entities to disclose quantitative and qualitative information that enable users to evaluate (a) the significance of financial instruments for the Corporation’s financial performance, and (b) the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the period and at the balance sheet date, and management’s objectives, policies and procedures for managing such risks. The required disclosures have been included in Note 15 to these interim financial statements.

Section 3863, Financial Instruments - Presentation, establishes the standards for the classification of financial instruments as liabilities or equity and the classification of related gains, income, and/or losses in the statement of operations. The adoption of these standards did not result in any changes to the Corporation’s financial statements.

Section 1400, General Standards of Financial Statement Presentation was amended to include guidance related to management’s responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity’s ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to twelve months from the balance sheet date. The required disclosures have been included in Note 2 to these interim financial statements.

FIRST METALS INC.

Notes to Unaudited Financial Statements June 30, 2008

Effective January 1, 2009

The CICA has issued a new standard which may affect the financial disclosures and results of operations of the Corporation for interim and annual periods beginning January 1, 2009. The Corporation will adopt the requirements commencing in the quarter ending March 31, 2009 and is considering the impact this will have on the Corporation's financial statements.

Section 3064, Goodwill and Intangible Assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew Emerging Issues Committee ("EIC") 27, Revenues and Expenditures during the Pre-operating Period. As a result of the withdrawal of EIC 27, the Corporation will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations.

4. Restricted Cash and Mill Refurbishment Costs

Restricted cash

In accordance with the agreement with Xstrata Copper Canada Limited ("Xstrata"), \$6,180,564 (December 31, 2007 - \$6,086,871) is 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.

As security for payment of the custom milling fee, the Corporation agreed 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. The payment of this amount is outstanding at the period-end.

Mill refurbishment costs

At June 30, 2008, deferred mill refurbishment costs of \$7,136,647 (note 8) 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.

With commercial production having been achieved, these costs will be amortized over the period to the end of the custom milling contract, estimated to be approximately twelve months.

5. Amounts and Settlements Receivable

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.

FIRST METALS INC.

Notes to Unaudited Financial Statements June 30, 2008

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 determined three months after the shipment date. Revenue is initially recorded based on market prices prevailing 1 month after 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 period, prior to achieving commercial production, net revenues were recorded as a reduction of the pre-production and mine development costs.

At June 30, 2008, management used its best estimates of the metal content and the appropriate forward prices to determine the revenues for the period from April through June and metal settlements outstanding. The estimates also reflect the final payments for February and March 2008 payments which were received in July 2008. At June 30, 2008, the metal settlements totaled \$16,534,959 (December 31, 2007 - \$5,553,972).

As a result of differences between the original estimates of metal contained and increases in metal prices between the shipment date and the final settlement, the Corporation received in the second quarter \$1,323,346 more than originally estimated for the months of January and February. Since the net proceeds relate to the period prior to the achievement of commercial production, the receipts have been reflected in the pre-operating revenues (note 7).

6. Inventories

	June 30, 2008	December 31, 2007
In-process inventory	\$ 58,746	\$ 140,000
Ore stockpile	43,417	129,000
Materials and supplies	636,183	462
Balance, end of period	\$738,346	\$ 269,462

7. Mineral Interests

On April 26, 2006, the Corporation acquired the Fabie Bay, Magusi River and Duprat mining claims and certain neighbouring additional claims from Globex Mining Enterprises Inc. (“Globex”) for cash consideration of \$1,000,000 and the following additional commitments:

- a) 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. Such amounts are rationally being paid when received and accrued prior to receipt.

FIRST METALS INC.

Notes to Unaudited Financial Statements June 30, 2008

- b) to issue shares for no additional consideration equal to 10% of the outstanding common shares of the Corporation on the date when commercial production as defined in the Globex agreement, is first achieved. On April 25, 2008, in respect of this obligation, 3,886,018 common shares were issued (note 16)
- c) after recoupment of \$10,000,000 in net project capital and certain other amounts, Globex is entitled to receive 10% net profit interest on any earnings from the mining claims.

On May 19, 2008, the Corporation entered into an agreement to purchase a 100% interest in seventeen mineral claims, totaling 581 hectares, in Hebecourt Township, adjacent to the Fabie Mine. Under the terms of the agreement, the Corporation paid the vendor \$25,000 on closing and agreed to issue 50,000 common shares upon regulatory approval of the transaction (note 16).

In order to complete the transaction, the Company must make a further cash payment of \$25,000 within six months and spend \$150,000 and make further share issuances totaling 200,000 common shares in stages prior to its third anniversary, failing which, the title to the property shall be reconveyed to the vendor.

The vendor has retained a 2% Net Smelter Return (“NSR”) royalty, as defined in the agreement on minerals and metals and a 2% Gross Overriding Receipt (“GOR”), as defined in the agreement, on all diamonds extracted from the claims. The Corporation has the right at any time to purchase one percent (1%) of either royalty for \$1,000,000 cash.

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 for processing at the refurbished Horne Mill. During the pre-operating period to February 29, 2008, the net revenues were offset against the mine development costs as commercial production was not achieved. These pre-production costs are now being amortized over the remaining twelve months following March 1, 2008 achievement of commercial production which represents the expected term of the Fabie Bay ore and the Xstrata milling agreement. Similar development costs being incurred at the Magusi site are being deferred.

FIRST METALS INC.**Notes to Unaudited Financial Statements
June 30, 2008**

	June 30, 2008		
	Cost	Accumulated Amortization & Depletion	Net Book Value
Mineral Interests			
Property acquisition costs	\$ 5,348,935	(60,171)	5,288,764
Mine Development			
Deferred development & exploration	12,206,481	(2,421,806)	9,784,675
Deferred interest and insurance	2,863,101	(765,957)	2,097,144
Pre-operating net revenues	(7,449,056)	1,992,824	(5,456,232)
Amortization capitalized in the pre-operating period	1,682,061	(449,997)	1,232,064
	9,302,587	(1,644,936)	7,657,651
	\$ 14,651,522	\$ (1,705,107)	\$ 12,946,415

	Dec. 31, 2007		
	Cost	Accumulated Amortization & Depletion	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 in the pre-operating period	680,576	-	680,576
	8,244,404	-	8,244,404
	\$ 9,271,542	\$ -	\$ 9,271,542

8. 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 rates and methods:

FIRST METALS INC.

**Notes to Unaudited Financial Statements
June 30, 2008**

Category	Rate	Method	
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	
June 30, 2008			
		Cost Accumulated	Net Book
		Amortization	Value
Plant and Equipment			
Furniture and fixtures	\$ 133,993	\$ (17,133)	\$ 116,860
Computers and telecommunication equipment	372,552	(77,743)	294,809
Mining infrastructure, plant & equipment	10,140,002	(812,539)	9,327,463
Mine equipment under capital leases	7,446,091	(786,110)	6,659,981
Mill refurbishment costs	7,136,647	(2,546,181)	4,590,466
	\$ 25,229,285	\$ (4,239,706)	\$ 20,989,579
Dec. 31, 2007			
		Cost Accumulated	Net Book
		Amortization	Value
Plant and Equipment			
Furniture and fixtures	\$ 71,323	\$ (5,943)	65,380
Computers and telecommunication equipment	289,264	(24,105)	265,159
Mining infrastructure, plant & equipment	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
	\$ 24,588,148	\$ (680,575)	\$ 23,907,573

9. 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 described above. During 2006, the Corporation made payments which totaled \$750,000. The remaining \$250,000 was paid on April 25, 2008.

10. Obligations Under Capital Leases

The Corporation has leased to purchase certain mine equipment (note 8) for a total purchase price of \$7,446,091. The lease terms for the fifteen leases range between two and five years.

FIRST METALS INC.**Notes to Unaudited Financial Statements
June 30, 2008**

The annual commitments under the leases are as follows:

	June 30, 2008	December 31, 2007
2008	\$ 1,573,520	\$ 3,311,974
2009	1,224,248	1,158,488
2010	498,461	432,701
2011	154,950	116,990
2012	77,994	77,994
Total minimum lease payments	\$ 3,529,173	5,098,147
Less: imputed interest at 7.6%	(261,415)	(399,061)
Balance of obligations	3,267,758	4,699,086
Less: Current portion	(2,125,662)	(3,044,780)
Long-term portion	\$ 1,142,096	\$ 1,654,306

11. Asset Retirement Costs and Obligations

The Corporation has restoration and remediation costs and obligations associated with the Fabie Bay Mine are outlined below.

Asset Retirement Costs

The following table summarizes the movements in the asset retirement costs.

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ -	\$ -
Estimate of costs incurred	226,308	-
Amortization charged to operations	(59,709)	-
Balance, end of period	\$ 166,599	\$ -

The asset retirement costs represent the accrued costs to date for the asset retirement obligations. The costs are being charged to operations based on the tonnes mined from the Fabie Bay property.

FIRST METALS INC.

Notes to Unaudited Financial Statements June 30, 2008

Asset Retirement Obligations

The following table summarizes the movements in the asset retirement obligations

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ -	\$ -
Obligations incurred	207,616	-
Expenditures	-	-
Accretion expense	18,692	-
Balance, end of period	\$ 226,308	\$ -

The asset retirement obligations have been recorded initially as a liability at fair value, assuming a credit adjusted risk-free discount rate of 7% over a fifteen month period. The liability for retirement and remediation on an undiscounted basis before inflation is estimated to be approximately \$237,000.

12. Senior Secured Notes

	Annual Interest Rate	Earliest Callable Date	Maturity Date	Principal	Fair Value at Outset	Amortized Cost at June 30, 2008
Senior Secured Notes	14%	May 4, 2009	July 31, 2012	\$20,000,000	\$16,090,340	\$16,634,266

The amortized cost of the Senior Secured Notes ("Notes") of \$16,634,266 represents the liability as 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, \$2,808,141 has been capitalized as deferred interest in the mineral interests as reported on the balance sheet. Since the commencement of commercial production on March 1, 2008, interest of \$1,099,471 has been reported as an interest expense.

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.

13. Income and Mining Taxes

The components of the Corporation's future income tax assets and (liabilities) were as follows:

FIRST METALS INC.

**Notes to Unaudited Financial Statements
June 30, 2008**

	June 30, 2008	December 31, 2007
Future income tax assets:		
Non-capital losses carried forward.	\$ 2,488,936	\$ 2,345,333
Share issuance costs	237,382	282,667
Mineral properties and equipment	971,779	-
Total future income tax assets before valuation allowance	3,698,097	2,628,000
Valuation allowance	(1,209,161)	(2,628,000)
Total future income tax assets	\$ 2,488,936	\$ -
Future income tax liabilities:		
Capitalized interest and deferred transaction costs	\$ (1,250,171)	\$ -
Other timing differences	(600,619)	-
Tax value of the renounced expenditures resulting from the issue of flow-through shares	(2,286,129)	(2,461,329)
Total future income tax liabilities	\$ (4,136,919)	\$ (2,461,329)

At each period end, management assesses whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. In undertaking its assessment, management considers the scheduled reversal of future income tax liabilities, reflecting projected future taxable income, and tax planning strategies. In the current period, the Corporation has released the valuation allowance related to prior year loss carry forwards as the Corporation has estimated its taxable income and developed tax-planning strategies which will result in the realization of the future income tax assets in the current year.

Income and mining tax recovery consists of the following:

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Current income and mining tax provision (recovery)		
Provision for Part XII.6 taxes on flow-through expenditures	\$ 12,647	\$ 62,821
Recovery of prior years' income and capital taxes	(141,932)	(141,932)
	(129,285)	(79,111)
Future income and mining tax provision (recovery)		
Provision for future taxes	1,675,590	1,675,590
Benefit from prior years' loss carry forwards not previously recognized	(2,488,936)	(2,488,936)
	(813,346)	(813,346)
Total income and mining tax recovery	\$ (942,631)	\$ (892,457)

FIRST METALS INC.

Notes to Unaudited Financial Statements June 30, 2008

As at June 30, 2008, the Corporation has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of \$7,753,697 expiring as follows:

2026	\$ 1,318,909
2027	\$ 6,434,788

14. Capital Management

The Corporation considers its obligations under capital lease, Notes and shareholder's equity (common shares, warrants, contributed surplus and retained earnings) as its total capital. Currently the Corporation's capital management objectives are evolving from ensuring that it continues as a going concern, to supporting enhanced shareholder value through minimization of equity dilution while expanding its future income potential by planned exploration and the development of commercial production from existing properties.

Covenants within the Notes restrict the Corporation from incurring indebtedness and issuing guarantees. The Corporation is in compliance with the provisions of the Note Purchase Agreement.

15. Financial Instruments and Financial Risks

Financial Instruments

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

<u>Asset/Liability</u>	<u>Classification</u>	<u>Subsequent Measurement</u>
Cash	Available for sale	Fair value
Cash equivalents	Held to maturity	Amortized cost
Amounts and settlements receivable and accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Notes	Other liabilities	Amortized cost

Other balance sheet accounts, such as inventories, deposits on contracts and prepaid expenses, obligations under capital leases and future income tax assets and liabilities 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.

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Financial Risks

The Corporation is exposed to a number of financial risks in the normal course of its business operations, including market risks from fluctuations in commodity prices, interest rates, foreign currency exchange rates, as well as credit risks and liquidity risks. The nature of the financial risks and the Corporation's strategy for managing these risks has not changed from the prior period.

Commodity price and foreign currency risks

The copper, gold and silver which the Corporation produces and sells are priced in U.S. dollars. The majority of its operating costs are incurred in Canadian dollars. As a result changes in the exchange rate of U.S. dollars to Canadian dollars can impact the Corporation's gross margins. The Corporation attempts to mitigate these risks by selling the metals as produced and converting the U.S. dollars as received.

Fair values

As at June 30, 2008, the carrying values of cash and cash equivalents, restricted cash, amounts and settlements receivable, accounts receivable, and accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

Interest rate risk

The Corporation is exposed to interest rate risk as changes in market rates affect the fair value and return on cash and cash equivalents. The obligations under capital leases and Notes all bear interest at fixed rates. The Corporation includes a review of the mix of floating and fixed debt as part of refining its financing objectives. At June 30, 2008, the Corporation had no outstanding indebtedness that bears interest risk.

Concentration of credit risk

The Corporation sells all of its production under contract exclusively to Xstrata, a major international mining company with a strong credit rating. The Corporation monitors the collection of amounts receivable on a regular basis.

All of the Corporation's cash equivalents are invested with a major Canadian Schedule A, chartered bank.

Liquidity risk

The Corporation is exposed to liquidity risk from a potential inability to generate sufficient cash and cash equivalents in a timely and cost-effective manner to discharge its financial liabilities as they come due. The Corporation manages liquidity risk by forecasting short-term cash flows to identify financing requirements, managing working capital, and optimizing receipts and disbursements.

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16. Share Capital

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

Issue and outstanding common Shares	June 30, 2008		December 31, 2007	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	38,860,180	\$ 14,008,907	30,836,705	\$ 8,549,252
Issued in connection with exercise of warrants			4,585,350	2,584,513
Issued in connection with the Globex purchase agreement	3,886,018	4,235,760		
Issuable in connection with the Canova Purchase agreement	50,000	59,500		
Transferred from warrants upon exercise				417,147
Issued pursuant to exercise of stock options	55,000	55,000	638,129	638,129
Transferred from contributed surplus upon exercise		38,610		219,910
Issued pursuant to Flow-through share offering			2,799,996	3,080,000
Fair value of warrants				(202,277)
Share issue costs				(213,319)
Expenses renounced through Flow-through offering				(1,064,448)
	42,851,198	\$ 18,397,777	38,860,180	\$ 14,008,907

Stock Options

The Corporation has a stock option plan for its officers, key employees and consultants. The following table represents all of the Corporation's stock options granted, exercised, forfeited and expired during the period ended June 30, 2008 and the year-ended December 31, 2007.

	June 30, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	3,533,785	\$ 1.06	3,468,678	\$ 1.00
Directors, management, senior staff and consultants option grants	720,000	\$ 1.08	1,157,500	\$ 1.10
Brokers' options	-	-	126,136	\$ 1.10
Exercised	(55,000)	\$ 1.00	(638,129)	\$ 1.00
Forfeited and adjustments	(55,000)	\$ 1.00	19,600	\$ 1.10
Expired	-	-	(600,000)	\$ 1.00
Balance, end of period	4,143,785	\$ 1.07	3,533,785	\$ 1.06

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On March 4, 2008, the Corporation granted:

- a) to two senior mine staff 180,000 stock options to acquire shares at \$0.92 per share exercisable on or before March 4, 2013. The fair value was calculated at \$ 0.64 per share using the Black-Scholes pricing model with the following assumptions; weighted average life of 5 years, risk-free interest rate of 3.9%, expected volatility of 87% and no expected dividends.
- b) in consideration for professional services, 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. The fair value was calculated at \$ 0.25 per share using the Black-Scholes pricing model with the following assumptions; weighted average life of one year, risk-free interest rate of 3.8%, expected volatility of 87% and no expected dividends.

On May 31, 2008, 240,000 stock options exercisable at \$1.03 per share were granted to certain directors. The fair value was estimated at \$0.51 per share using the Black-Scholes pricing model with the following assumptions; weighted average estimated life of 3 years, risk-free interest rate of 2.95%, expected volatility of 73.6% and no expected dividends.

The outstanding and exercisable stock options as at June 30, 2008 were 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	590,000	295,000	1.00
May 31, 2007	May 31, 2010	270,000	270,000	1.40
June 14, 2007	June 14, 2010	140,000	70,000	1.50
June 27, 2007	June 27, 2012	132,500	66,250	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
March 4, 2008	March 4, 2009	150,000	150,000	0.92
March 4, 2008	March 4, 2009	150,000	150,000	1.50
March 4, 2008	March 4, 2009	180,000	-	0.92
May 31, 2008	May 31, 2011	240,000	240,000	1.03
		4,143,785	3,187,535	\$ 1.08

As at June 30, 2008, the weighted average remaining contractual life of outstanding options was approximately 1.87 years and a total of 3,187,535 options were exercisable at a weighted average exercise price of \$1.08.

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Warrants

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

	June 30, 2008			December 31, 2007		
	Number of warrants	Weighted average exercise price	Fair value	Number of warrants	Weighted average exercise price	Fair value
Balance, beginning of period	6,388,047	\$ 1.02	\$ 3,419,019	7,574,900	\$ 0.83	\$ 1,732,091
Issued with 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)
Expired	-	-	-	(1,500)	0.75	(202)
Balance, end of period	6,388,047	\$ 1.02	\$ 3,419,019	6,388,047	\$ 1.02	\$ 3,419,019

At June 30, 2008, 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 Initial Public Offering	2,988,050	\$ 1.25	September 1, 2008
Issued with Notes	2,000,000	\$ 1.35	July 31, 2012
Issued with the 2007 Flow-through offering	1,399,997	\$1.75 - \$2.00	December 21, 2008
	6,388,047		

17. Contributed Surplus

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ 1,774,134	\$ 1,189,421
Stock-based compensation expense	437,514	761,755
Expired warrants	-	202
Fair value of stock options exercised	(38,610)	(219,910)
Broker's options	-	42,666
Balance, end of period	\$2,173,038	\$ 1,774,134

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Stock-based compensation expense for the Six Months of \$437,514 (2007 - \$343,542) was recorded in the statement of operations comprehensive income and retained earnings in respect of options being expensed over their vesting period netted for forfeitures.

18. Earnings (Loss) per Share

Basic earnings (loss) per share have been calculated using the weighted-average number of shares outstanding during the period. The calculation of diluted earnings per share has been computed using the treasury stock method which assumes that options and warrants with an exercise price lower than the average quoted market price were exercised at the beginning of the period, or grant or at time of issue. In applying the treasury stock method, options and warrants with an exercise price greater than the average quoted market price of the common shares are not included in the calculation of diluted earnings per common share as the effect is anti-dilutive. The weighted average number of common shares issued and outstanding for the calculation of diluted share amounts assumes that the proceeds to be received on the exercise of dilutive stock options are used to repurchase common shares at the average market price during the period. The average quoted market price of the common shares during the six month period ended June 30, 2008 was \$0.92 (2007 - \$1.07).

The table which follows provides details which support the earnings per share calculations.

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Basic earnings per share	\$ 0.08	\$ 0.13
Diluted earnings per share	\$0.08	0.13
Common shares outstanding for entire period (000's)	38,860	38,860
Weighted-average impact of shares issued to Globex (000's)	2,850	1,417
Weighted-average impact of 55,000 of share options exercised (000's)	28	14
Weighted-average impact of 50,000 shares issuable in connection with a property acquisition (note 8)	23	12
Basic weighted-average number of common shares outstanding (000's)	41,761	40,303
Incremental common shares on assumed exercise of options (000's)	-	91
Weighted-average number of common shares used for diluted earnings per share (000's)	41,761	40,394

19. Related Party Transactions

The Corporation entered into management service agreements and a financial advisory service agreement, each with a director or a company controlled by a director. The management service agreements were designed during the development stage to provide the

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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 \$145,000 (2007 - \$157,500) was paid in connection with these agreements. All of these agreements expired in the second quarter of the current year and certain of these management services currently are continuing to be provided on a month to month basis.

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

20. Supplemental Disclosure with Respect to Cash Flows

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Cash paid during the period for interest costs capitalized	\$ -	\$599,550
Cash paid during the period for interest costs expensed	\$ 901,964	\$1,207,561
Cash paid during the period for income taxes	\$ -	\$ 66,950

Significant non-cash transactions during the six month period were as follows:

- a) The Corporation purchased mine equipment under capital leases of \$ 192,000 which was capitalized to property, plant and equipment.
- b) Depletion and amortization capitalized during the pre-operating period totaled \$1,001,485.

21. Commitments and Contingencies

- a) The Corporation entered into a lease of office premises calling for monthly rental of \$8,743 (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 this leases are as follow:

2008	\$ 52,462
2009	<u>44,487</u>
	\$ <u>96,949</u>

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- b) 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	\$ 270,945
2009	403,230
2010	373,173
2011	<u>89,297</u>
	\$ <u>1,136,645</u>

- c) 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. As at June 30, 2008, the Corporation had incurred \$2,907,000 of qualifying expenditures with planned programs for the remainder of the year expected to satisfy the commitment.

22. Subsequent Events

On July 18, 2008, the board, of directors has granted a total of 200,000 stock options representing 100,000 options to each of the two newly elected directors. The options vest immediately and are exercisable at \$1.00 per share prior to July 18, 2011.

On July 24, 2008, the Corporation issued 50,000 shares in connection with the property acquisition as described in note 7.