

**FIRST METALS INC.**

**FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS END JUNE 30, 2009**

**UNDER PROPOSAL PROCEEDINGS UNDER THE BANKRUPTCY AND  
INSOLVENCY ACT**

**CONTENTS**

Balance Sheets	2
Statements of Operations, Comprehensive Loss and Deficit	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 23

**These interim financial statements for the period ended June 30, 2009 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 Sheets****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 2,372,781	\$ 2,323,213
Amounts and settlements receivable (note 3)	-	534,336
Accounts receivable	24,622	336,381
Inventories (note 4)	304,429	903,270
Deposits on contracts and prepaid expenses	162,282	460,722
Income taxes receivable	76,503	76,503
	<b>2,940,617</b>	<b>4,634,425</b>
<b>Mineral interests (note 5)</b>	<b>2,535,373</b>	<b>2,765,697</b>
<b>Property, plant and equipment (note 6)</b>	<b>3,404,120</b>	<b>4,035,226</b>
	<b>\$ 8,880,110</b>	<b>\$ 11,435,348</b>
<b>LIABILITIES</b>		
<b>Current:</b>		
Accounts payable and accrued liabilities	\$ 257,273	\$ 2,785,095
Obligations under capital leases - current portion	-	1,592,554
	<b>257,273</b>	<b>4,377,649</b>
<b>Liabilities subject to compromise (note 10)</b>		
Trade payables and other accrued liabilities	1,974,582	-
Obligations under capital lease (note 7)	3,181,943	1,546,180
Senior Secured Notes (note 8)	21,686,999	17,598,399
Obligations under operating leases (note 9)	951,632	-
	<b>27,795,156</b>	<b>19,144,579</b>
<b>Asset retirement obligations (note 11)</b>	<b>346,113</b>	<b>424,606</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (note 16)	18,397,777	18,397,777
Warrants	2,104,278	2,104,278
Contributed Surplus	3,783,914	3,686,530
Deficit	(43,804,401)	(36,700,071)
	<b>(19,518,432)</b>	<b>(12,511,486)</b>
	<b>\$ 8,880,110</b>	<b>\$ 11,435,348</b>

Going Concern (note 1)

Commitments and Contingencies (notes 5, 7, 9, and 22)

**APPROVED ON BEHALF OF THE BOARD**

---

"Richard Williams"

Director

---

"James Richardson"

Director

See accompanying notes to financial statements.

**FIRST METALS INC.**  
**Statements of Operations, Comprehensive Loss and Deficit**  
**For the three months and the six months ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

	Three Months Ended June		Six Months Ended June	
	2009	2008	2009	2008
<b>Revenue</b>				
Copper	\$ -	\$ 18,678,391	\$ 2,353,707	\$ 26,306,026
Gold	-	96,684	8,530	121,281
Silver	-	114,125.00	8,431	129,713
	-	18,889,200	2,370,668	26,557,020
Final pricing adjustments	(131,110)	-	-	-
Treatment, refining charges	-	(1,782,263)	(258,708)	(2,525,087)
Net metal royalty	-	(401,107)	(50,036)	(554,463)
<b>Net revenue</b>	<b>(131,110)</b>	<b>16,705,830</b>	<b>2,061,924</b>	<b>23,477,470</b>
<b>Operating costs</b>				
Mining and development	-	4,838,703	1,054,357	6,238,256
Milling and ore transportation	-	4,736,370	899,633	6,324,378
On-going site operating costs	224,133	-	224,133	-
Depreciation, depletion and amortization	34,674	3,018,280	614,031	4,262,752
Amortization of reclamation and closure costs	-	42,800	23,091	59,709
	<b>258,807</b>	<b>12,636,153</b>	<b>2,815,245</b>	<b>16,885,095</b>
<b>Contribution from mining activities</b>	<b>(389,917)</b>	<b>4,069,677</b>	<b>(753,321)</b>	<b>6,592,375</b>
<b>Other expenses</b>				
Stock-based compensation	24,734	279,707	97,384	437,514
General and administration	126,878	188,309	346,150	296,609
Professional fees	18,456	59,968	82,551	177,846
Management fees	-	70,000	-	145,000
Registry and filing fees	15,692	23,468	18,070	37,038
Travel and accommodation	3,175	34,137	3,534	57,581
Interest	-	901,964	943,235	1,207,561
Re-organization professional fees	217,053	-	432,408	-
Adjustment to carrying value of secured notes	-	-	3,184,635	-
Adjustments for operating leases and other liabilities	-	-	1,372,292	-
<b>Total Expenses</b>	<b>405,988</b>	<b>1,557,553</b>	<b>6,480,259</b>	<b>2,359,149</b>
<b>Other income</b>				
Interest income	2,829	59,844	4,737	163,361
Other revenue	112,573	980	124,513	1,367
	<b>115,402</b>	<b>60,824</b>	<b>129,250</b>	<b>164,728</b>
<b>Earnings (loss) before Income taxes</b>	<b>(680,503)</b>	<b>2,572,948</b>	<b>(7,104,330)</b>	<b>4,397,954</b>
<b>Income and mining tax recovery (note 12)</b>	<b>-</b>	<b>(942,631)</b>	<b>-</b>	<b>(892,457)</b>
<b>Net comprehensive earnings (loss)</b>	<b>(680,503)</b>	<b>3,515,579</b>	<b>(7,104,330)</b>	<b>5,290,411</b>
<b>Deficit, beginning of period</b>	<b>(43,123,898)</b>	<b>(3,078,509)</b>	<b>(36,700,071)</b>	<b>(4,853,341)</b>
<b>Retained earnings (deficit), end of period</b>	<b>\$ (43,804,401)</b>	<b>\$ 437,070</b>	<b>\$ (43,804,401)</b>	<b>\$ 437,070</b>
<b>Commercial Production commenced March 1, 2008</b>				
<b>Earnings (loss) per common share</b>				
Basic	\$ (0.02)	\$ 0.08	\$ (0.17)	\$ 0.13
Diluted	\$ (0.02)	\$ 0.08	\$ (0.17)	\$ 0.13
<b>Weighted average shares outstanding (000's)</b>				
Basic	42,851	41,761	42,851	40,303
Diluted	42,851	41,761	42,851	40,394

See accompanying notes to financial statements.

**FIRST METALS INC.**  
**Statements of Cash Flow**  
**For the three months and the six months ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Operating Activities</b>				
Net income (loss) for the period	\$ (680,503)	\$ 3,515,579	\$ (7,104,330)	\$ 5,290,411
Adjustments for items not affecting cash:				
Net future income tax recovery	-	( 955,278)	-	( 955,278)
Depreciation, depletion and amortization	34,674	3,061,080	637,122	4,322,461
Interest accretion on closure costs	-	4,148	-	4,710
Adjustment to carrying value due to restructuring	420,660	-	4,556,927	-
Stock-based compensation - contributed surplus	24,734	279,707	97,384	437,514
Interest accretion on senior secured notes	-	122,740	903,964	239,655
Expenditures on asset retirement obligations	( 73,293)	-	( 78,493)	-
Interest accrual on capital leases	( 5,255)	-	43,209	-
Changes in non-cash working capital				
Amounts and settlements receivable	2,328,771	( 3,684,125)	534,336	( 10,980,987)
Accounts receivable	420,583	( 77,275)	311,759	( 262,174)
Inventories	500	( 318,552)	598,841	( 468,884)
Deposits on contracts and prepaid expenses	221,204	24,084	298,440	( 24,289)
Accounts payable and accrued liabilities	( 1,215,622)	1,572,895	( 973,900)	5,895,656
<b>Cash flow from (used in ) operating activities</b>	<b>1,476,453</b>	<b>3,545,003</b>	<b>( 174,741)</b>	<b>3,498,795</b>
<b>Financing Activities</b>				
Issuance of common shares and warrants for cash	-	55,000	-	55,000
Due on mineral properties	-	( 250,000)	-	( 250,000)
Repayment of obligations under capital leases	-	( 862,909)	-	( 1,431,328)
<b>Cash flow used in financing activities</b>	<b>-</b>	<b>( 1,057,909)</b>	<b>-</b>	<b>( 1,626,328)</b>
<b>Investing activities</b>				
Restricted cash	-	( 47,861)	-	( 93,693)
Mineral interests	( 3,750)	914,043	( 17,902)	675,387
Property, plant and equipment	209,378	( 1,576,880)	242,211	( 1,404,467)
<b>Cash flow (used) in investing activities</b>	<b>205,628</b>	<b>( 710,698)</b>	<b>224,309</b>	<b>( 822,773)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,682,081</b>	<b>1,776,396</b>	<b>49,568</b>	<b>1,049,694</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 690,700</b>	<b>\$ 2,830,964</b>	<b>\$ 2,323,213</b>	<b>\$ 3,557,666</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,372,781</b>	<b>\$ 4,607,360</b>	<b>\$ 2,372,781</b>	<b>\$ 4,607,360</b>
<b>Cash and cash equivalents</b>				
<b>Cash</b>	<b>\$ 2,372,781</b>	<b>\$ 240,290</b>	<b>\$ 2,372,781</b>	<b>\$ 240,290</b>
<b>Short-term investments</b>	<b>-</b>	<b>4,367,070</b>	<b>-</b>	<b>4,367,070</b>
	<b>\$ 2,372,781</b>	<b>\$ 4,607,360</b>	<b>\$ 2,372,781</b>	<b>\$ 4,607,360</b>

Supplemental disclosures with respect to cash flows (note 20)

See accompanying notes to financial statements.

## **FIRST METALS INC.**

### **Notes to Financial Statements**

**For the quarter ended June 30, 2009**

**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

#### **1. Description of Business**

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

On November 20, 2007, ore from the Fabie Bay Deposit began to be processed at the Horne Mill. On April 28, 2008, management announced that commercial production had been achieved commencing March 1, 2008 as production had exceeded 60% of the design capacity continuously over a thirty day period.

As a result of the reduced profitability due to the lower copper prices, on January 9, 2009, mining of Fabie Bay was terminated. All equipment pertaining to the mining of Fabie Bay that was under lease was returned to the equipment supplier.

#### **Basis of Presentation (Going Concern and Proposal to Creditors)**

##### **Going Concern**

These financial statements have been prepared on a going-concern basis which contemplates that the Corporation will 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 described in the following paragraphs there is substantial uncertainty concerning the Corporation’s ability to do so.

Certain market conditions, including metal prices and financing limitations, challenge the going concern assumption.

The Corporation has incurred significant operating losses since inception, including a net loss of \$7,104,330 (2008 - earnings of \$5,290,411) in the six months ended June 30, 2009. Following the acceptance of the amended proposal as further described below, management believes that the existing cash resources will be adequate to support planned activity levels for at least the next eighteen months.

The validity of the going concern assumption is dependent on achieving profitable levels of operations and/or through the Corporation’s ability to raise additional financing to fund operations or develop mineral deposits.

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 assumptions were not appropriate. Such adjustments could be material.

## **FIRST METALS INC.**

### **Notes to Financial Statements**

**For the quarter ended June 30, 2009**

#### **Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

##### **Proposal to Creditors**

On January 7, 2009, the Corporation filed a Notice of Intention (“NOI”) to file a proposal under the *Bankruptcy and Insolvency Act (BIA)*. After receiving various extensions, on April 17, 2009, a proposal was filed with the official receiver. An amended proposal was tabled and accepted by the creditors of the Corporation on May 6, 2009 and subsequently, on June 17, 2009 it was approved by the Ontario Superior Court of Justice.

Under the terms of the amended proposal each person holding a proven secured claim shall receive 75 shares of the Corporation and 8 call warrants for each \$1 of proven secured claim; \$3,000,000 of promissory notes, each with a five year term shall be issued on a pro rata basis to persons holding a proven secured claim; and the Corporation shall distribute \$500,000 pro rata to secured claim holders along with the proceeds from the sale of any equipment by the Corporation over \$1,000 (expected to be \$382,000 at the time of the distribution to the creditors). The secured portion of the claims of NoteHolders was determined to be \$3,500,000 and the balance of the NoteHolders’ claims, being \$16,500,000 plus interest unpaid and accrued and interest on unpaid interest were categorized as unsecured claims.

Each person holding a proven unsecured claim shall receive 2 shares of the Corporation for each \$1 of proven unsecured claims. Alternatively, they may elect to receive a cash payment equal to ten per cent of that person’s proven unsecured claim up to a maximum of \$500.

##### **Accounting Principles**

These financial statements do not include all information and notes required by Canadian Generally Accepted Accounting Principles (“GAAP”) in the preparation of annual financial statements. The accounting policies used in the preparation of these unaudited financial statements are the same as those described in the Corporation’s audited financial statements. They are prepared in accordance with Canadian GAAP for the year ended December 31, 2008 as described in note 2 of those financial statements and with the exception of the disclosures as described in the paragraph immediately following.

As a result of the Proposal Proceedings, the Corporation is following the accounting policies, including disclosure items, applicable to entities that are under creditor protection. In addition to Canadian GAAP, the Corporation has, by analogy, applied the guidance of the American Institute of Certified Public Accountants Statement of Position 90-7, “*Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7)*”. While SOP 90-7 refers to Chapter 11 in the United States, its guidance, in management’s view it is also applicable to an entity restructuring under the BIA.

Consistent with Canadian GAAP, SOP 90-7 does not change the manner in which financial statements are prepared. However, SOP 90-7 does require that the financial statements for periods ending subsequent to the filing date of the NOI, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, gains and losses, and provisions for losses that can be

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

directly associated with the reorganization and restructuring of the business are reported separately as reorganization items.

While payments may not be made on liabilities subject to stay of proceedings and ultimately compromise, including long-term debt, interest on debt obligations continues to be recognized. Interest is not a reorganization item. The balance sheet distinguishes pre-filing liabilities subject to compromise from both pre-filing liabilities that are not subject to compromise and from post-filing liabilities. Liabilities that may be affected by the Proposal may be settled for lesser amounts and the resulting adjustments may be material.

Following the Court Approval on June 17, 2009, BDO Dunwoody (“BDO”), as Trustee under the Proposal, commenced the process of accepting proofs of claims from Creditors which will ultimately determine the Liabilities Subject to Compromise.

SOP 90-7 has been applied effective January 8, 2009 and for subsequent reporting periods while the Corporation continues to operate under the Proposal Protection.

## **2. Recent Pronouncements and Accounting Changes**

### **New Accounting Standards Adopted**

#### **a) Goodwill and Intangible Assets**

The CICA has issued a new standard which affects the financial disclosures and results of operations of the Corporation for interim and annual periods beginning October 1, 2008. The Corporation adopted the requirements effective January 1, 2009.

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.

### **New Accounting Pronouncements effective in Future Periods**

#### **b) International Financial Reporting Standards**

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt International Financial Reporting Standards (“IFRS”) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Early adoption may be permitted; however, it will require exemptive relief on a case by case basis from the Canadian Securities Administrators. First Meals expects its first financial statements presented in accordance with IFRS to be for the three month period ended March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS.

**FIRST METALS INC.****Notes to Financial Statements****For the quarter ended June 30, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

The Corporation has completed an initial assessment of the IFRS standards and recognized that the greatest potential impacts include exploration and development costs, property, plant and equipment, and the treatment including reversal of impairment provisions. The Corporation will continue to monitor changes in the IFRS requirements and incorporate these impacts into the planned activities for the remainder of 2009.

**3. Amounts and Settlements Receivable**

	<b>June 30, 2009</b>	<b>December 31, 2009</b>
Amounts and metal settlements receivable	\$ -	\$ 3,278,036
Milling costs outstanding	-	(2,078,056)
Mill refurbishment costs outstanding	-	(665,644)
<b>Balance, end of period</b>	<b>\$ -</b>	<b>\$ 534,336</b>

Under the terms of the Custom Milling Agreement signed with Xstrata Copper Canada (“Xstrata”) on June 4, 2007, forty-five days after the end of the production period, First Metals received an estimated provisional payment for 90% of the metal content based on average prices in the previous month. A final settlement based on actual weights, assays and the average of the London Metal Exchange (“LME”) prices three months after production, was received sixty days after the provisional payments.

At June 30, 2009, the metal settlements totaled \$ Nil (December 31, 2008 - \$534,336). The final net settlements for December and January production were received in April and May 2009.

The Corporation sells its product in U.S. dollars and pays for smelting and refining in U.S. dollars. During the six month period ended June 30, 2009, the Corporation reflected gains on foreign exchange transactions of \$210,264 (June 30, 2008 - \$123,285) and translation adjustments of \$341,375 (June 30, 2008 - \$345,979) which have been recorded in revenue.

**4. Inventories**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
In-process inventory	\$ -	\$ 60,000
Ore stockpile	-	474,120
Materials and supplies	304,429	369,150
<b>Balance, end of period</b>	<b>\$ 304,429</b>	<b>\$ 903,270</b>

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

**5. Mineral Interests**

	<b>June 30, 2009</b>			
	<b>Cost</b>	<b>Accumulated Amortization and Depletion</b>	<b>Accumulated Asset Impairment</b>	<b>Net Book Value</b>
<b>Mineral Interests</b>				
Property acquisition costs	\$ 5,356,493	\$ (1,194,345)	\$ (3,137,318)	\$ 1,024,830
<b>Mine Development</b>				
Deferred development and exploration	13,886,484	(7,410,647)	(4,965,294)	1,510,543
Deferred interest and insurance	2,863,101	(2,863,101)	-	-
Pre-operating net revenues	(7,502,291)	7,502,291	-	-
Asset retirement costs	576,308	(576,308)	-	-
Amortization capitalized in the pre-operating period	1,682,061	(1,682,061)	-	-
	<u>11,505,663</u>	<u>(5,029,826)</u>	<u>(4,965,294)</u>	<u>1,510,543</u>
	<u>\$ 16,862,156</u>	<u>\$ (6,224,171)</u>	<u>\$ (8,102,612)</u>	<u>\$ 2,535,373</u>

	<b>December 31, 2008</b>			
	<b>Cost</b>	<b>Accumulated Amortization and Depletion</b>	<b>Accumulated Asset Impairment</b>	<b>Net Book Value</b>
<b>Mineral Interests</b>				
Property acquisition costs	\$ 5,352,743	\$ (1,146,724)	\$ (3,137,318)	\$ 1,068,701
<b>Mine Development</b>				
Deferred development and exploration	13,872,331	(7,115,225)	(4,965,294)	1,791,812
Deferred interest and insurance	2,863,101	(2,748,943)	-	114,158
Pre-operating net revenues	(7,502,291)	7,203,159	-	(299,132)
Asset retirement costs	576,308	(553,217)	-	23,091
Amortization capitalized in the pre-operating period	1,682,061	(1,614,994)	-	67,067
	<u>11,491,510</u>	<u>(4,829,220)</u>	<u>(4,965,294)</u>	<u>1,696,996</u>
	<u>\$ 16,844,253</u>	<u>\$ (5,975,944)</u>	<u>\$ (8,102,612)</u>	<u>\$ 2,765,697</u>

**Accumulated Asset Impairment**

In the fourth quarter of 2008, the Corporation recorded an impairment loss of \$22,030,824 of which \$8,102,612 was allocated against mineral interests and mine development with the remaining \$13,928,212 allocated to mining infrastructure, plant and equipment and mining equipment under capital leases.

**Fabie Mine and Magusi Deposit**

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

**FIRST METALS INC.****Notes to Financial Statements****For the quarter ended June 30, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

Inc. (“Globex”) for cash consideration of \$1,000,000 and additional commitments including: (i) after the attainment of commercial production, the payment of a 2% net metal return on any minerals, metals or concentrates extracted from the mining claims, (ii) the issuance of shares equal to 10% of the outstanding common shares of the Corporation on the date (issued on April 25, 2008) when commercial production is first achieved, and (iii) 10% net profit interest (NPI) as defined in the Globex agreement based on any earnings from the mining claims.

**Canova Claims**

On May 19, 2008, the Corporation entered into an agreement with Mr. E. Canova (“Canova”) to purchase a 100% interest in seventeen mineral claims, totaling 581 hectares, in Hébécourt Township, adjacent to the Fabie Mine. Under the terms of the agreement, the Corporation paid the vendor \$25,000 on closing and issued 50,000 common shares on July 23, 2008.

In order to complete the transaction, the Corporation must make a further cash payment of \$25,000 within six months and spend \$150,000 and issue 200,000 common shares in stages prior to the third anniversary, failing which, the title to the property shall be reconveyed to the vendor. In accordance with an addendum to the agreement dated December 16, 2008, a grace period of one (1) year was granted starting and effective from that date.

Canova has retained a 2% Net Smelter Return (“NSR”) royalty, 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.

**6. Property, Plant and Equipment**

	June 30, 2009			
	Cost	Accumulated Amortization	Accumulated Asset Impairment	Net Book Value
Furniture and fixtures	\$ 133,989	\$ (42,929)	\$ -	\$ 91,060
Computers and telecommunication equipment	335,752	(188,640)	-	147,112
Mining infrastructure, plant and equipment	9,475,705	(1,542,014)	(5,734,411)	2,199,280
Mining equipment under capital leases	3,544,061	(438,607)	(2,138,786)	966,668
Mill refurbishment costs	-	-	-	-
	\$ 13,489,507	\$ (2,212,190)	\$ (7,873,197)	\$ 3,404,120

As a result of the completion of the Fabie mining operations and the filing of the NOI, the Corporation returned mining equipment under capital leases to suppliers. The assets had an original cost of \$6,321,526 and accumulated amortization of \$876,223. At June 30, 2009, the costs, accumulated amortization and the accumulated asset impairment have been adjusted which has resulted in a reduction in the impairment provision of \$6,055,015 since December 31, 2008.

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

	December 31, 2008			
	Cost	Accumulated Amortization	Accumulated Asset Impairment	Net Book Value
Furniture and fixtures	\$ 143,993	\$ (31,031)	\$ -	\$ 112,962
Computers and telecommunication equipment	372,552	(139,837)	-	232,715
Mining infrastructure, plant and equipment	10,478,123	(1,662,648)	(6,575,563)	2,239,912
Mining equipment under capital leases	9,911,975	(1,350,781)	(7,352,649)	1,208,545
Mill refurbishment costs	7,136,647	(6,895,555)	-	241,092
	<b>\$ 28,043,290</b>	<b>\$ (10,079,852)</b>	<b>\$ (13,928,212)</b>	<b>\$ 4,035,226</b>

**7. Obligations Under Capital Leases**

In accordance with the contract terms which were in effect at June 30, 2009, subject to the impact of the filing of the NOI on January 7, 2009, the Corporation had annual commitments as outlined below. Certain amounts are being dealt with as unsecured claims under the Proposal.

	June 30, 2009	December 31, 2008
2009	\$ 1,769,302	\$ 1,772,586
2010	1,046,800	1,046,800
2011	520,510	520,510
2012	77,994	77,994
Total minimum lease payments	3,414,606	3,417,890
Less: imputed interest at 8.9%	(227,408)	(279,156)
Balance of obligations	3,187,198	3,138,734
Less: Current portion	-	(1,592,554)
Long-term portion	\$ 3,187,198	\$ 1,546,180

**8. Senior Secured Notes**

	Principal at issue	Fair Value at Outset	Amortized Cost at December 31, 2008	Adjustment to the carrying value at June 30, 2009	Estimated amount to be allowed
Senior Secured Notes	\$20,000,000	\$16,090,340	\$18,506,364	\$3,180,635	\$21,686,999

The Notes were issued on May 4, 2007 at which time the annual interest rate was set at 14%, the earliest call date was established as May 4, 2009 and the maturity was scheduled for July 31, 2012.

The amortized cost of the Notes of \$18,506,364 represents the liability as measured at the initial recognition plus the amortization using the effective interest rate (annual rate of

## **FIRST METALS INC.**

### **Notes to Financial Statements**

**For the quarter ended June 30, 2009**

#### **Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

19.61%) method of the difference between the initial amount and the maturity amount of the Notes minus principal repayments. The Corporation did not make the scheduled quarterly interest payments of \$700,000 on December 31, 2008 and March 31, 2009 as a result of the filing of the NOI under the BIA which took place on January 7, 2009. Interest has been accrued in the accounts as it is a legal obligation up to the date of the filing of the Proposal on April 17, 2009.

Under the Proposal, the secured portion of the claims of NoteHolders was determined to be \$3,500,000 and the balance of the NoteHolders' claims \$16,500,000 plus unpaid interest is being treated as unsecured claims.

In accordance with SOP 90-7, management has adjusted the carrying value of the Senior Secured Notes by \$3,180,635 to \$21,686,999 reflecting management's best estimate of the ultimate settlement value.

#### **9. Commitments and Contingencies**

- a) The Corporation entered into a lease of office premises calling for monthly rental of \$6,300 (2008 - \$6,355) (subject to change for certain out of pocket cost elements) commencing May 1, 2006 and expiring July 31, 2009.
- b) Under the lease arrangements which were in place at the period-end, the Corporation was committed to operating lease obligations for equipment, with various expiry dates up to December 2011. Future minimum annual payments (exclusive of taxes, insurance, maintenance costs and residual values) under these leases were as follow:

<b>Year</b>	<b>Future Minimum Annual Payments</b>
2009	\$ 445,445
2010	409,071
2011	97,116
<b>Total</b>	<b>\$ 951,632</b>

All equipment under these operating lease obligations have been returned to suppliers and the claims were dealt with as unsecured claims under the Proposal.

#### **10. Liabilities Subject to Compromise**

As described in note 1, as a result of the NOI process, generally pre-filing liabilities may be subject to compromise or other treatment and generally, actions to enforce or otherwise effect payment of pre-filing liabilities are stayed.

SOP 90-7 requires pre-filing liabilities of the debtor that are subject to compromise to be reported at the claims amounts expected to be allowed, even if they may be settled for lesser amounts. The amounts currently classified as liabilities subject to compromise will be

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

subject to future adjustments, depending upon actions including the evaluation of the proofs of claim by BDO as Trustee.

**11. Asset Retirement Obligations**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Balance, beginning of period</b>	<b>\$ 424,606</b>	<b>\$ -</b>
Estimated obligation	-	569,501
Expenditures	(78,493)	(155,012)
Accretion expense		10,117
<b>Balance, end of period</b>	<b>\$ 346,113</b>	<b>\$ 424,606</b>

The Corporation's asset retirement obligation relates to restoration and remediation costs associated with the Fabie Bay Mine. In view of the uncertainties concerning the restoration and remediation activities which were under discussion with the Ministère des Ressources Naturelles - Mines (MRN-M) at the period-end, the current liability represents management's best estimate of the future obligations. The asset retirement obligation is subject to change based on interpretation of the laws and regulations as well as new information regarding the future development plans for the nearby Magusi deposit as they may emerge.

Future changes, if any, to the estimated liability may be significant and would be recognized prospectively as a change in an accounting estimate. Any such change would result in an increase or decrease to the liability and a corresponding change to the mineral property.

**12. Income and Mining Taxes**

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<b>Future income tax assets:</b>		
Non-capital losses carried forward	\$ 1,439,224	\$ 835,467
Share issuance costs	228,508	184,915
Mineral properties and equipment	8,561,588	8,018,474
<b>Total future income tax assets before valuation allowance</b>	<b>10,229,340</b>	<b>9,038,856</b>
Valuation allowance	(10,229,340)	(9,038,856)
<b>Total future income tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

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. The Corporation has established a full valuation

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

allowance of the tax value of the future income tax assets as it is not presently more likely than not this tax asset will be realized.

Income and mining tax recovery consists of the following:

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
<b>Income and mining tax provision (recovery)</b>		
Part XII.6 taxes on flow-through expenditures	\$ -	\$ 56,498
Recovery of current income and mining taxes	-	(135,609)
Future income and mining tax (recovery)	-	(813,346)
<b>Total income and mining tax (recovery)</b>	<b>\$ -</b>	<b>\$ (892,457)</b>

### 13. Financial Instruments and Financial Risks

#### a. Fair Value

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

<b>Asset/Liability</b>	<b>Classification</b>	<b>Subsequent Measurement</b>
Cash	Held for trading	Fair value
Cash equivalents	Held for trading	Fair value
Amounts and settlements receivable and accounts receivable	Loans and receivables	Amortized cost
Accounts payable, trade payables and other accrued liabilities	Other liabilities	Amortized cost
Obligations under capital and operating leases	Other liabilities	Amortized cost
Senior secured 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).

As at June 30, 2009, the carrying values of cash and cash equivalents, amounts and settlements receivable, accounts receivable, and trade and accounts payable as well as other

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

**b. 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 to the extent that the Corporation began in 2008, but did not continue in 2009 to sell forward a portion of the U.S. dollars that it was assured of receiving in the following three month period following production.

**c. 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.

**d. Interest rate risk**

The Corporation includes a review of the mix of floating and fixed rate debt as part of refining its financing objectives. At June 30, 2009, the Corporation had no indebtedness that bears interest rate risk.

**e. Concentration of credit risk**

The Corporation sells all of its production under contract exclusively to Xstrata, a major international mining company. 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.

**f. 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, as has recently been seen. The Corporation manages liquidity risk by forecasting short-term cash flows to identify financing requirements, managing working capital, and optimizing receipts and disbursements.

**14. Capital Management**

The Corporation considers its obligations under capital leases, notes and shareholder's equity (common shares, warrants, contributed surplus and retained earnings (deficit)) as its

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

total capital. Currently the Corporation's capital management objectives are designed to ensure that the Corporation continues as a going concern, and to supporting enhanced shareholder value.

**15. Economic Dependence**

The Corporation generated all of its production revenues from the sales of concentrate to Xstrata during the six month period ended June 30, 2009 and the year ended December 31, 2008.

**16. Share Capital**

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

Issued and outstanding common shares	June 30, 2009		December 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount
<b>Balance, beginning of period</b>	<b>42,851,198</b>	<b>\$ 18,397,777</b>	<b>38,860,180</b>	<b>\$ 14,008,907</b>
Issued in connection with the Globex purchase agreement	-	-	3,886,018	4,235,760
Issued in connection with the Canova purchase agreement	-	-	50,000	59,502
Issued pursuant to exercise of stock options	-	-	55,000	55,000
Transferred from contributed surplus upon exercise	-	-	-	38,608
<b>Balance, end of period</b>	<b>42,851,198</b>	<b>\$ 18,397,777</b>	<b>42,851,198</b>	<b>\$ 18,397,777</b>

**Stock Options**

The Corporation has a stock option plan for its officers, key employees and consultants. On 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 on 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.

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

The following table presents all of the Corporation's stock options granted, exercised, forfeited and expired during the periods ended June 30, 2009 and December 31, 2008.

	June 30, 2009		December 31, 2008	
	Number of options	Weighted average exercise price	Number of Options	Weighted average exercise price
<b>Balance, beginning of period</b>	<b>3,638,636</b>	<b>\$ 1.00</b>	<b>3,533,785</b>	<b>\$ 1.06</b>
Directors, management, senior staff and consultants option grants	-	-	1,395,000	\$ 0.84
Exercised	-	-	(55,000)	\$ 1.00
Forfeited and adjustments	-	-	(240,000)	\$ 1.00
Expired	(1,815,000)	\$ 1.01	(995,149)	\$ 1.01
<b>Balance, end of period</b>	<b>1,823,636</b>	<b>\$ 0.99</b>	<b>3,638,636</b>	<b>\$ 1.00</b>

The outstanding and exercisable stock options as at June 30, 2009 were as follows:

Grant Date	Expiry Date	Outstanding	Exercisable	Exercise Price
September 8, 2006	September 8, 2009	300,000	300,000	1.00
November 6, 2006	November 6, 2009	100,000	100,000	1.00
December 18, 2006	December 18, 2011	125,000	125,000	1.00
May 31, 2007	May 31, 2010	120,000	120,000	1.40
June 14, 2007	June 14, 2010	140,000	140,000	1.50
June 27, 2007	June 27, 2012	132,500	132,500	1.50
August 30, 2007	August 29, 2010	90,000	45,000	0.94
November 30, 2007	November 30, 2010	120,000	120,000	0.96
December 20, 2007	December 21, 2009	126,136	126,136	1.10
May 31, 2008	May 31, 2011	120,000	120,000	1.03
July 18, 2008	July 18, 2011	100,000	100,000	1.00
October 8, 2008	October 8, 2013	350,000	-	0.40
		<b>1,823,636</b>	<b>1,428,636</b>	<b>\$ 0.99</b>

As at June 30, 2009, the weighted average remaining contractual life of outstanding options was approximately 1.61 years (December 2008 - .94 years) and a total of 1,428,636 (December 31, 2008 - 2,674,886) options were exercisable at a weighted average exercise price of \$1.13 (December 31, 2008 - \$1.08).

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

**Warrants**

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

	June 30, 2009			December 31, 2008		
	Number of warrants	Weighted average exercise price	Fair value	Number of warrants	Weighted average exercise price	Fair value
<b>Balance, beginning of period</b>	<b>3,399,977</b>	<b>\$ 1.57</b>	<b>\$ 2,104,278</b>	<b>6,388,047</b>	<b>\$ 1.02</b>	<b>\$ 3,419,019</b>
Expired	-	-	-	(2,988,050)	\$ 1.25	(1,314,741)
<b>Balance, end of period</b>	<b>3,399,977</b>	<b>\$ 1.57</b>	<b>\$ 2,104,278</b>	<b>3,399,997</b>	<b>\$ 1.57</b>	<b>\$ 2,104,278</b>

At June 30, 2009, 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 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, 2009
	<b>3,399,997</b>		

**17. Contributed Surplus**

	June 30, 2009	December 31, 2008
<b>Balance, beginning of period</b>	<b>\$ 3,686,530</b>	<b>\$ 1,774,134</b>
Stock-based compensation expense	97,384	636,263
Expired warrants	-	1,314,741
Fair value of stock options exercised	-	(38,608)
<b>Balance, end of period</b>	<b>\$ 3,783,914</b>	<b>\$ 3,686,530</b>

Stock-based compensation expense for the six month period of \$97,384 (2008 - \$437,514) was recorded in the Statements of Operations, Comprehensive Loss and Deficit in respect of options being expensed over their vesting period netted for forfeitures.

**FIRST METALS INC.****Notes to Financial Statements****For the quarter ended June 30, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)****18. Earnings (Loss) per Share**

Basic earnings per share (“EPS”) have been calculated using the weighted-average number of shares outstanding during the period. The calculation of diluted earnings per Common 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 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 average quoted market price of the Common shares during the six month period ended June 30, 2009 was \$0.03 (2008 - \$0.92).

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

	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
Basic earnings (loss) per share	\$ (0.17)	\$ 0.13
Diluted (loss) loss per share	\$ (0.17)	\$ 0.13
Common shares outstanding for entire period (000’s)	42,851	38,860
Weighted-average impact of Globex shares (000’s)	-	1,324
<b>Basic weighted-average number of common shares outstanding (000’s)</b>	<b>42,851</b>	<b>40,184</b>
<b>Weighted-average number of common shares used for diluted earnings per share (000’s)</b>	<b>42,851</b>	<b>40,184</b>

**19. Related Party Transactions**

During the initial development stages, 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 agreements were designed 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, director or the company controlled by a shareholder was entitled to monthly fees ranging from \$3,600 to \$11,600 per month, including car and home office allowance. The fees reflected the individual’s level of service. All of these agreements expired in the second quarter of 2008. A total of Nil (2008 - \$145,000) was paid in the six month period in connection with these agreements.

**FIRST METALS INC.****Notes to Financial Statements****For the quarter ended June 30, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)****20. Supplemental Disclosure with Respect to Cash Flows**

	<b>Six Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2008</b>
Cash paid during the period for interest costs capitalized	\$ -	\$ 599,550
Cash paid during the period for interest costs expensed	\$ -	\$ 1,207,561
Net metal royalty payments to Globex	\$ 120,768	\$ -
Cash paid during the period for income taxes	\$ -	\$ 66,950

Significant non-cash transactions during the six month period:

- (i) adjustments to the carrying value of Senior Secured Notes of \$3,184,635 and Operating leases of \$951,632 as well as other liabilities of \$420,660 which totaled \$4,556,927 and reflect management's estimate of the amount of the liability to be allowed.

**21. Segment Information**

The Corporation has identified the Fabie Bay Mine and the Magusi River Deposit as reportable segments. The accounting policies adopted by these segments are the same as those described in the significant accounting policies (note 2) to the annual financial statements. The reportable segments represent the level at which decisions are made on the allocation of resources and capital, and where internal financial information is available. The common assets as identified below represent the carrying value of infrastructure such as roads, bridges, power lines and a power distribution system which were installed to support development and operation both of the Fabie Bay Mine and the Magusi River Deposit. Corporate and other includes additional unexplored properties.

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

**As at June 30, 2009**

**Operating Segments**  
**Statement of Operations - Six Months Ended June 30, 2009**

	<b>Fabie Bay Mine</b>	<b>Magusi Deposit</b>	<b>Common Assets</b>	<b>Corporate and Other</b>	<b>Total</b>
Gross revenue	\$ 2,370,668	\$ -	\$ -	\$ -	\$ 2,370,668
Treatment, refining charges	(258,708)	-	-	-	(258,708)
Net Royalty payment	(50,036)	-	-	-	(50,036)
<b>Net revenue</b>	<b>2,061,924</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,061,924</b>
Direct Operating costs	(1,953,990)	-	-	-	(1,953,990)
Depreciation, depletion, amortization	(614,031)	-	-	-	(614,031)
On-going site operating costs	(224,133)	-	-	-	(224,133)
Amortization of asset retirement costs	(23,091)	-	-	-	(23,091)
<b>Contribution from mining activities</b>	<b>(753,321)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(753,321)</b>
General and administration	-	-	-	(547,689)	(547,689)
Interest	-	-	-	(940,919)	(940,919)
Restructuring and changes to carrying values	-	-	-	(4,989,335)	(4,989,335)
Other income	-	-	-	126,934	126,934
<b>Loss before income taxes</b>	<b>(753,321)</b>	<b>-</b>	<b>-</b>	<b>(6,351,009)</b>	<b>(7,104,330)</b>
Income and mining tax provision	-	-	-	-	-
<b>Net loss and comprehensive loss</b>	<b>\$ (753,321)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,351,009)</b>	<b>\$ (7,104,330)</b>

**Mineral Interests and Mine Development - June 30, 2009**

	<b>Fabie Bay Mine</b>	<b>Magusi Deposit</b>	<b>Common Assets</b>	<b>Corporate and Other</b>	<b>Total</b>
Mineral interests, carrying value	\$ 3,350	\$ 4,070,052	\$ -	\$ 88,746	\$ 4,162,148
Asset impairment provision	-	(3,137,318)	-	-	(3,137,318)
	3,350	932,734	-	88,746	1,024,830
Deferred development and exploration	-	6,416,749	-	59,088	6,475,837
Amortization capitalized in the pre-operating period	-	-	-	-	-
Mine development, carrying value	-	6,416,749	-	59,088	6,475,837
Asset impairment provision	-	(4,965,294)	-	-	(4,965,294)
	-	1,451,455	-	59,088	1,510,543
Asset retirement costs	-	-	-	-	-
	\$ 3,350	\$ 2,384,189	\$ -	\$ 147,834	\$ 2,535,373

**Property, Plant and Equipment - June 30, 2009**

	<b>Fabie Bay Mine</b>	<b>Magusi Deposit</b>	<b>Common Assets</b>	<b>Corporate and Other</b>	<b>Total</b>
Carrying value	\$ 829,077	\$ 2,592,433	\$ 7,617,635	\$ 238,172	\$ 11,277,317
Asset impairment provision	(669,035)	(1,965,556)	(5,238,606)	-	(7,873,197)
	\$ 160,042	\$ 626,877	\$ 2,379,029	\$ 238,172	\$ 3,404,120

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended June 30, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

**Operating Segments**  
**Statement of Operations - Six Months Ended June 30, 2008**

	<b>Fabie Bay Mine</b>	<b>Magusi Deposit</b>	<b>Common Assets</b>	<b>Corporate and Other</b>	<b>Total</b>
Gross revenue	\$ 26,557,020	\$ -	\$ -	\$ -	\$ 26,557,020
Treatment, refining charges	(2,525,087)	-	-	-	(2,525,087)
Net Royalty payment	(554,463)	-	-	-	(554,463)
<b>Net revenue</b>	<b>23,477,470</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,477,470</b>
Direct Operating costs	(12,562,634)	-	-	-	(12,562,634)
Depreciation, depletion, amortization	(4,262,752)	-	-	-	(4,262,752)
Amortization of asset retirement costs	(59,709)	-	-	-	(59,709)
<b>Contribution from mining activities</b>	<b>6,592,375</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,592,375</b>
General and administration	-	-	-	(1,151,588)	(1,151,588)
Interest	-	-	-	(1,207,561)	(1,207,561)
Other income	-	-	-	164,728	164,728
<b>Loss before income taxes</b>	<b>6,592,375</b>	<b>-</b>	<b>-</b>	<b>(2,194,421)</b>	<b>4,397,954</b>
Income and mining tax provision (recovery)	-	-	-	(892,457)	(892,457)
<b>Net loss and comprehensive loss</b>	<b>\$ 6,592,375</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,301,964)</b>	<b>\$ 5,290,411</b>

**Mineral Interests and Mine Development - December 31, 2008**

	<b>Fabie Bay Mine</b>	<b>Magusi Deposit</b>	<b>Common Assets</b>	<b>Corporate and Other</b>	<b>Total</b>
Mineral interests, carrying value	\$ 47,621	\$ 4,070,052	\$ -	\$ 88,346	\$ 4,206,019
Asset impairment provision	-	(3,137,318)	-	-	(3,137,318)
	47,621	932,734	-	88,346	1,068,701
Mine development, carrying value	63,356	6,412,076	-	163,766	6,639,198
Asset impairment provision	-	(4,965,294)	-	-	(4,965,294)
	63,356	1,446,782	-	163,766	1,673,904
Asset retirement costs	23,091	-	-	-	23,091
	\$ 134,068	\$ 2,379,517	\$ -	\$ 252,112	\$ 2,765,697

**Property, Plant and Equipment - December 31, 2008**

	<b>Fabie Bay Mine</b>	<b>Magusi Deposit</b>	<b>Common Assets</b>	<b>Corporate and Other</b>	<b>Total</b>
Carrying value	\$ 1,076,122	\$ 2,644,614	\$ 13,897,031	\$ 345,671	\$ 17,963,438
Asset impairment provision	(835,030)	(2,153,978)	(10,939,204)	-	(13,928,212)
	\$ 241,092	\$ 490,636	\$ 2,957,827	\$ 345,671	\$ 4,035,226

## 22. Subsequent Events

### Proposal to Creditors

On July 30, 2009, BDO advised the Corporation that as a result of the completion of the proof of claims process, the Creditors are entitled to receive share certificates for 279,255,365 common shares, warrant certificates for 25,845,408 warrants, a cash distribution of \$894,981 as well as Promissory Notes totaling \$2,618,000.

The Corporation is currently awaiting final approvals from the TMX (Toronto Stock Exchange) prior to making the distribution to Creditors and issuing the common shares. Once this approval has been received and the additional shares are issued, 322,106,563 common shares will be outstanding.

**FIRST METALS INC.**

**Notes to Financial Statements**

**For the quarter ended June 30, 2009**

**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

**Commitments**

On July 16, 2009, the Corporation entered into a 5 year lease from August 1, 2009 to July 31, 2014 for office premises. Following a six month period in which the Corporation will only be responsible for its proportionate share of all operating costs, the monthly rental will be approximately \$6,300.