

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

PERIOD ENDED DECEMBER 31, 2006

CONTENTS

Auditors' Report	1
Balance Sheet	2
Statement of Loss and Deficit	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 18

AUDITORS' REPORT

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

We have audited the balance sheet of **First Metals Inc.** as at December 31, 2006 and the statements of operations and deficit and cash flows for the period from April 1, 2006 through December 31, 2006. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and cash flows for the period from April 1, 2006 through December 31, 2006 in accordance with Canadian generally accepted accounting principles.

"SF PARTNERSHIP, LLP"

Toronto, Canada
March 30, 2007

LICENSED PUBLIC ACCOUNTANTS

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)

Balance Sheet
December 31, 2006

	2006	March 31, 2006
ASSETS		
Current		
Cash and cash equivalents	\$ 3,527,945	\$ 100
Accounts receivable	617,682	1,610
Prepaid expenses and sundry assets	671,358	-
Deferred financing costs	-	3,000
	<u>4,816,985</u>	4,710
Mineral Interests (note 4)	<u>7,864,383</u>	-
	<u>\$ 12,681,368</u>	<u>\$ 4,710</u>
LIABILITIES		
Current		
Accounts payable and accrued charges	\$ 814,002	\$ -
Due to Globex (note 1)	250,000	-
Obligation under capital leases - current portion (note 6)	161,955	-
Due to shareholders (note 9)	-	24,610
	<u>1,225,957</u>	24,610
Obligation Under Capital Leases (note 6)	<u>454,969</u>	-
Future Income Taxes (note 7)	<u>1,396,881</u>	-
	<u>3,077,807</u>	24,610
Commitments and Contingencies (notes 4 and 11)		
SHAREHOLDERS' EQUITY		
Share Capital (note 8)	\$ 8,549,252	\$ 100
Warrants (note 8)	1,732,091	-
Contributed Surplus (note 8)	1,189,421	-
Deficit Accumulated During the Development Stage	<u>(1,847,203)</u>	<u>(20,000)</u>
	<u>9,623,561</u>	<u>(19,900)</u>
	<u>\$ 12,701,368</u>	<u>\$ 4,710</u>

APPROVED ON BEHALF OF THE BOARD

Signed James D. Beatty

Signed James A. Richardson

Director

Director

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

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)

Statement of Loss and Deficit
 Period from April 1, 2006 Through
 December 31, 2006

	Period From April 1, 2006 Through Dec. 31, 2006	Period From Feb. 23, 2006 (Date of Inception) Through Mar. 31, 2006
Revenue		
Interest income	\$ 95,778	\$ -
Expenses		
Stock-based compensation	804,533	-
General and administration	338,888	-
Professional fees	303,055	-
Management fees	195,385	20,000
Registry and filing	155,858	-
Travel and accommodation	119,036	-
Interest	6,226	-
Total Expenses	<u>1,922,981</u>	<u>20,000</u>
Loss Before Income Taxes	(1,827,203)	(20,000)
Provision for income taxes (note 10)	<u>-</u>	
Net Loss	(1,827,203)	(20,000)
Deficit - Beginning of Period	<u>(20,000)</u>	-
Deficit - End of Period	<u>\$ (1,847,203)</u>	<u>\$ (20,000)</u>
Loss Per Share - Basic and Diluted	<u>\$ (0.08)</u>	<u>\$ (200.00)</u>
Weighted Average Number of Common Shares Outstanding During the Period - Basic and Diluted	<u>23,240,112</u>	<u>100</u>

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

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)

Statement of Cash Flows
 Period from April 1, 2006 Through
 December 31, 2006

	Period From April 1, 2006 Through Dec. 31, 2006	Period From Feb. 23, 2006 (Date of Inception) Through Mar. 31, 2006
Cash Flows from Operating Activities		
Net loss for the period	\$ (1,827,203)	\$ (20,000)
Adjustments for non-cash items:		
Stock-based compensation	<u>1,189,421</u>	-
	-	(20,000)
Changes in non-cash working capital:		
Account receivables	(616,072)	(1,610)
Prepaid expenses and sundry assets	(671,358)	-
Accounts payable and accrued charges	<u>814,002</u>	-
Net Cash Used in Operating Activities	<u>(1,111,210)</u>	(21,610)
Cash Flows from Investing Activities		
Mineral interests	<u>(7,864,383)</u>	-
Net Cash Used in Investing Activities	<u>(7,864,383)</u>	-
Cash Flows from Financing Activities		
Issuance of common shares for cash	13,303,113	100
Share issue costs	(1,240,101)	-
Cost of agents' options	(384,888)	-
Deferred financing costs	3,000	(3,000)
Due to Globex	250,000	-
Obligation under capital leases	616,924	-
Due to shareholders	<u>(24,610)</u>	24,610
Net Cash Provided by Financing Activities	<u>12,523,438</u>	21,710
Increase in Cash and Cash Equivalents	3,547,845	100
Cash and Cash Equivalents - Beginning of Period	<u>100</u>	-
Cash and Cash Equivalents - End of Period	<u>\$ 3,547,945</u>	<u>\$ 100</u>
Cash and Cash Equivalents		
Cash	\$ 1,133,641	\$ 100
Term deposits	<u>2,394,304</u>	-
	<u>\$ 3,527,945</u>	<u>\$ 100</u>
Supplemental Information		
During the period, the Company had cash flows arising from interest and income taxes received/(paid) as follows:		
Interest	<u>\$ 6,226</u>	\$ -
Income taxes	<u>\$ -</u>	\$ -

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

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

1. Nature of Operations and Development Stage Activities

First Metals Inc. (the "Company") was incorporated effective February 23, 2006 as 6527167 Canada Inc. By articles of amendment effective March 21, 2006, the Company changed its name to First Metals Inc. The Company is a junior mining exploration and development company engaged in the acquisition, exploration and development of mineral prospects in Canada moving rapidly towards production of its Fabie Bay project.

The Company commenced operations on March 10, 2006 with the execution of a letter of intent to acquire from Globex Mining Enterprise Inc. ("Globex") the mining claims comprising the Fabie Bay, Magusi River and Duprat mineral projects located, respectively, in Hébécourt, Montbray and Duprat townships in Québec, Canada. The Fabie Bay project contains a body of copper ore previously mined in the late 1970's until low metal prices resulted in the shut down of mining operations. The Magusi River project contains a previously unexploited body of zinc and copper ore. No significant exploration activities have been carried out on the Duprat project. A technical report with respect to each of Fabie Bay and Magusi River projects conforming to the requirements of National Instrument 43 101 has been completed and is summarized in the Company's preliminary prospectus filed on September 1, 2006 in conjunction with the Company's Initial Public Offering ("IPO").

2. Going Concern

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2006, the Company had a net loss and accumulated deficit of \$1,827,203 and \$1,847,203, respectively. The Company's ability to meet its obligations and continue as a going concern is dependent upon its ability to obtain additional financing, achievement of profitable operations and/or the discovery, development and sale of mining reserves. The Company cannot reasonably expect to earn revenue in the development stage of operations. Only when the current construction stage of mine development is complete and commercial production is achieved, will the Company's viability as a going concern be established. Management's plans to achieve profitable and self sustaining operations include the completion of the necessary permitting to enable the Company's mineral projects to enter into production. Although the Company plans to pursue additional financing, there can be no assurance that the Company will be able to secure financing when needed or to obtain such financing on terms satisfactory to the Company, if at all.

The financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

3. Summary of Significant Accounting Policies

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

a) Cash and Cash Equivalents

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

b) Deferred Financing Costs

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

c) Mineral Interests

Mineral interests represent capitalized expenditures relating to the acquisition, exploration, development and operation of specific mineral properties including plant and equipment. Such costs are deferred until the properties are brought into production, at which time, they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time an appropriate charge will be made. All administrative costs that do not directly relate to specific exploration and development activity are expensed as incurred. Interest costs are not capitalized until the decision to develop a property is made. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

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

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

3. Summary of Significant Accounting Policies (cont'd)

c) Mineral Interests (cont'd)

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

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

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

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

d) Revenue Recognition

Revenue from the sale of metal in concentrate is recognized when persuasive evidence of a sales agreement exists, the title and risk is transferred to the customer, collection is reasonably assured, and the price is reasonably determinable. Revenue from the sale of metal may be subject to adjustment upon final settlement of shipment weights, assays and estimated metal prices. Adjustments to revenue for metal prices are recorded monthly and other adjustments are recorded on final settlement. Cash received in advance of meeting these revenue recognition criteria is recorded as deferred revenue.

Interest income is recorded on an accrual basis.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

3. Summary of Significant Accounting Policies (cont'd)

e) Asset Retirement Obligations

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

f) Impairment of Long-lived Assets

The Company follows the recommendations in CICA Handbook Section 3063 – “Impairment of Long-Lived Assets”. Section 3063 requires that the Company review for impairment of its long-lived assets, including mineral properties and related deferred costs, development costs, and capital assets, for events or changes in circumstances that might indicate the carrying amount of the assets may not be recoverable. If such conditions exist, assets are considered impaired if the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market value prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value. The Company’s mineral exploration and development activities are subject to various laws and regulations regarding protection of the environment. As a result of these, the Company is expected in the future to incur expenses from time to time to discharge its obligations under these laws and regulations. Certain of these expenses will meet the definition of an asset and other expenses will not meet this definition. The assets will be capitalized and the other costs will be expensed as incurred. When estimating the costs which are expected to be incurred there are many factors to be considered such as the extended period over which the costs are to be incurred, the discount factors and significant judgments and estimates. As such the fair value of the retirement obligations could change materially from year to year. In addition, changes in laws and regulations could cause significant changes in the expected costs and the related fair value.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

3. Summary of Significant Accounting Policies (cont'd)

g) Income Taxes

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

h) Stock-based Compensation

The Company uses the fair value method based on the Black - Scholes pricing model to record the compensation cost related to the issue of stock options to its directors, consultants and employees over the vesting period with a corresponding credit to contributed surplus. Stock-based compensation expense is charged to income over the anticipated vesting period of the option (see note 8).

i) Earning (Loss) Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. As the Company incurred net losses for the period ended December 31, 2006, the dilutive effect of outstanding options and warrants and their equivalents is not reflected in diluted earnings per share because their effect would be antidilutive.

j) Flow-through Shares

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

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

3. Summary of Significant Accounting Policies (cont'd)

k) Use of Estimates

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

l) Financial Instruments

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of the financial instruments approximates their carrying values, unless otherwise noted.

4. Mineral Interests

Property acquisition costs	\$ 1,005,083
Deferred development and exploration expenditures	5,163,730
Plant and equipment	<u>1,695,570</u>
	<u>\$ 7,864,383</u>

On April 26, 2006, the Company acquired the Fabie Bay, Magusi River and Dupart Mining claims and certain neighbouring additional claims from Globex for cash consideration of \$1,000,000. The claims are located in the Abitibi Greenstone Belt Region near Rouyn-Noranda in Quebec, Canada. Pursuant to the terms of the purchase agreement, Globex is also entitled to acquire, for no additional consideration, 10% of the issued and outstanding common shares of the Company on the date which commercial production is first attained at any of the mining claims. Upon 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. Upon recoupment of \$10,000,000 in net project capital, Globex is entitled to receive 10% net profit interest on any earnings from the mining claims.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

5. Due to Globex

Under the terms of the Globex Agreement, dated effective April 26, 2006, the Company acquired 100% interest in the Fabie Bay, Magusi River and Dupart mining claims and certain neighbouring additional claims for cash consideration of \$1,000,000. At the execution of the agreement, the Company made an initial payment of \$50,000 a further \$200,000 and \$500,000 payment was made on May 18, 2006 and August 31, 2006, respectively. The remaining \$250,000 is due within 30 days of attaining commercial production at any one of the mining claims. The balance is non interest bearing and unsecured. Management expects to achieve production at Fabie Bay by the end of 2007.

6. Obligation Under Capital Leases

Lease agreement due in November 2008, bearing an interest rate of 8.1% with monthly payments including principal and interest of \$ 1,586 with a residual of \$6,900 due at the at end of the lease term.	\$ 38,232
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Lease agreement due on December 31, 2009, bearing an interest rate of 8.9% with monthly payments including principal and interest of \$ 15,813 with a residual of \$115,738 due at the at end of the lease term.	<u>578,692</u>
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616,924

Less: current portion	<u>161,955</u>
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Long-term portion	<u>\$ 454,969</u>
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Future aggregate minimum payments are due as follows:

2007	\$ 161,955
2008	180,647
2009	<u>274,322</u>
	<u>\$ 616,924</u>

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

7. Future Income Taxes

	December 31, 2006	March 31, 2006
The components of future income tax (liabilities) assets are as follows:		
Future income tax assets:		
Difference between accounting value and tax value of mining interests	\$ 2,717,931	\$ -
Valuation allowance	<u>(2,717,931)</u>	<u>-</u>
	-	-
Future income tax liabilities:		
Tax value of the renounced expenditures resulting from the issue of flow-through shares	<u>(1,396,881)</u>	<u>-</u>
	<u>\$ (1,396,881)</u>	<u>\$ -</u>

The Company has set up a valuation allowance for 100% of the tax value of the mining interests as it is not more likely than not that the tax asset will be realized.

8. Share Capital

Authorized
 Unlimited common shares, no par value, voting

Issued and outstanding

	Number of Common Shares	Amount
Balance March 31, 2006 (a)	100	\$ 100
1 for 120,000 stock split (b)	11,999,900	-
Issued pursuant to private placement (c)	4,000,000	600,000
Issued pursuant to private placement (d)	5,000,000	2,500,000
Issued pursuant to the IPO (e)	9,832,555	10,200,000
Issued in connection with exercise of warrants (f)	4,150	3,113
Value of warrants	-	(1,732,091)
Share issue costs	-	(1,624,989)
Expenses renounced through the issuance of flow-through shares	<u>-</u>	<u>(1,396,881)</u>
Balance December 31, 2006	<u>30,836,705</u>	<u>\$ 8,549,252</u>

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

8. Share Capital (cont'd)

- a) Subsequent to March 31, 2006, the Company amended its articles of incorporation to rename its unissued and outstanding Class A shares to common shares and delete Class B shares from its authorized capital.
- b) On April 19 2006, the issued and outstanding common shares of the Company were split by converting each such share into 120,000 common shares for no additional consideration.
- c) On May 11, 2006, a total of 4,000,000 class A special warrants were issued at the price of \$0.15 per warrant, resulting in total gross proceeds to the Company of \$600,000. Each Class A special warrant was exchanged at the time of the IPO without payment of further consideration into a unit comprised of one common share and one half of one common share purchase warrant (total of 2,000,000 warrants) each such whole warrant being exercisable for the purchase of an additional common share at the price of \$.30 per share for a period of six months following the IPO until October 19, 2007.
- d) On May 11, 2006, a total of 5,000,000 class B special warrants were issued at the price of \$0.50 per warrant resulting in total gross proceeds to the corporation of \$2,500,000. Each Class B special warrant was exchanged at the time of the IPO without payment of further consideration into a unit comprised of one common share and one half of one common share purchase warrant (total of 2,500,000 warrants) each such whole warrant being exercisable for the purchase of an additional common share at the price of \$.75 per share at any time following the IPO until November 10, 2007 and are redeemable by the Company in certain events as described more fully in the Prospectus.
- e) On September 1, 2006, the Company completed its IPO by issuing 3,674,455 flow-through common shares at \$1.10 per flow-through share and 6,158,100 Units at \$1.00 per Unit for total gross proceeds of \$10,200,000. Each Unit consists of one common share of the Company and one-half of one common share purchase warrant (total of 3,079,050 warrants) with each whole IPO Warrant entitling the holder to purchase an additional common share at the price of \$1.25 per share until September 1, 2008, subject to acceleration in the event the closing price of the common shares exceeds \$2.00 for 20 consecutive trading days.
- f) On December 19, 2006, a total of 4,150 warrants were exercised into the Company's common shares at \$0.75 per warrant.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

8. Share Capital (cont'd)

Stock Options

The Company has a stock option plan for its officers, key employees and consultants. A total of 1,800,000 common shares are reserved for issuance under the plan. The plan has been amended to increase the maximum available number of common shares from 1,800,000 to 4,000,000, subject to approval of the shareholders in the general meeting expected to be held on June 30, 2007 and the Toronto Stock Exchange. The maximum number of options that can be granted to any participant cannot exceed 10% of the issued and outstanding shares of the capital stock. The price of the options granted may not be less than the market price of the common shares of the Toronto Stock Exchange at the time the options are granted. The options granted are valid for a period established by the board of directors, not to exceed 10 years from the date the options are granted.

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

	Number of Options	Weighted Average Exercise Price
Balance April 1, 2006	-	\$ -
Granted	3,468,678	1.00
Exercised	-	-
Forfeited	-	-
Expired	-	-
	<hr/>	<hr/>
Balance December 31, 2006	3,468,678	\$ 1.00

As at December 31, 2006, the weighted-average remaining contractual life of outstanding options was approximately two years and a total of 2,720,778 options were exercisable at a weighted average exercise price of \$1.00.

The weighted average grant date fair value of options granted during the year was \$0.49. The fair value was estimated using the Black - Scholes pricing model with the following assumptions: weighted average estimated life of 2.47 years, risk-free interest rate of 3.97%, expected volatility of 87% and no expected dividends. For the year ended December 31, 2006, stock-based compensation expense of \$804,533 was recorded in the statement of operations and \$384,888 was recorded as issuance expenses on the balance sheet. The corresponding credit was charged to contributed surplus.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

8. Share Capital (cont'd)

Warrants

The movements in share purchase warrants were as follows:

	Numbers of Warrants	Weighted Average Exercise Price	Fair Value
April 1, 2006	-	\$ -	\$ -
Granted	7,579,050	0.83	1,732,623
Exercised	(4,150)	0.75	(532)
	<hr/>		
December 31, 2006	7,574,900	\$ 0.83	\$ 1,732,091

The fair value was estimated using the Black - Scholes pricing model with the following assumptions: estimated life of 1.5 years for the special warrants and two years for the IPO warrants, risk-free interest rate of 4.5%, expected volatility of 77% and no expected dividends. At December 31, 2006, the weighted-average remaining contractual term of warrants totalled approximately 1.7 years.

9. Related Party Transactions

- a) The Company entered into five management service agreements and a financial advisory service agreement, each with either a shareholder or a company controlled by a shareholder. All of the shareholders are also directors and or senior management of the Company. Under the terms of the management service agreements, the shareholder or the company controlled by a shareholder is entitled to monthly fees ranging from \$3,600 to \$11,600 per month, including car and home office allowance. A total of \$425,000 (March 31, 2006- \$20,000) was paid during the period ended December 31, 2006 in connection with these agreements. As at March 31, 2006, the initial entitlements had not been paid and accordingly \$20,000 plus shareholder advances of \$4,610 was included in amounts due to shareholders. There were no such amounts outstanding at December 31, 2006.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

9. Related Party Transactions (cont'd)

- b) A company controlled by a shareholder who is also a director acted as agent in the second round financing of the Company and was paid a cash commission fee of \$175,000. The same party acted as sub-agent in the IPO financing of the Company and was paid a commission of \$200,000 and received 200,000 broker warrants valued at \$88,000 using the Black-Scholes pricing model.

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

10. Income Taxes

The provision for income taxes has been computed as follows:

	December 31, 2006	March 31, 2006
Expected income tax recovery at the combined federal and provincial rate of 34.56% (March 31, 2006- 34.56%)	(631,481)	(6,912)
Tax effect of stock-based compensation expense that is not deductible for income tax purposes (net of other amounts deductible for tax purposes)	309,205	-
Tax effect of financing costs that is deductible for income tax purposes (net of other amounts deductible for tax purposes)	(85,718)	-
Valuation allowance	407,994	6,912
Provision for income taxes	\$ -	\$ -

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

The Company has non capital tax losses available in the amount of approximately \$670,000 (March 31, 2006- \$4,000) which can be carried forward to be applied against future year's taxable income. These losses, if unused, will expire in 2013.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

11. Commitments and Contingencies

- a) The Company entered into five management service agreements, each with either a shareholder or a company controlled by a shareholder. All such shareholders are also directors and or senior management of the Company. The agreements are effective up to and including June 30, 2008 and result in a minimum commitment of \$351,000 per year.
- b) The Company and one of its shareholders entered into a financial advisory service agreement for which the Company will have a commitment of \$60,000 per year. Pursuant to the terms of the agreement, the agreement has no expiry date but may be terminated by either party upon 60 days written notice.
- c) The Company has entered into a lease of office premises calling for monthly rental of \$6,570.00 (subject to change for certain out of pocket cost elements) commencing May 1, 2006 and expiring July 31, 2008. Future minimum annual payments (exclusive of taxes, insurance and maintenance costs) under these leases are as follow:

2007	\$ 78,840
2008	<u>45,990</u>
	<u>\$ 124,830</u>

- d) The Company is committed to equipment lease obligations, with various expiry dates up to August 2010. Future minimum annual payments (exclusive of taxes, insurance and maintenance costs) under these leases are as follow:

2007	\$ 354,570
2008	55,774
2009	34,194
2010	<u>14,212</u>
	<u>\$ 467,972</u>

- e) As at December 31, 2006, the Company committed to purchase equipment totalling approximately \$3.4 million. Completion of the purchase is dependent upon attainment of the necessary financing. As at December 31, 2006, the Company had paid a \$170,000 deposit in connection with the agreement and accordingly included the amount in prepaid expenses for the period then ended.
- f) The Company has expenditure commitments at December 31, 2006 of approximately \$750,000 representing work to be undertaken in relation to a 10,000 meter drill program. The program is expected to commence in the near future.
- g) During the period, the Company entered into a contract in connection with an airborne survey program to commence April 2007. The cost of the program is expected to total approximately \$120,000.

FIRST METALS INC.
(A DEVELOPMENT STAGE COMPANY)
Notes to Financial Statements
December 31, 2006

12. Subsequent Events

In January 2007, a holder of warrants from the first round financing of the Company paid \$7,500 to exercise 25,000 warrants and received 25,000 fully paid common shares.