

**FIRST METALS INC.**

**FINANCIAL STATEMENTS**

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

**QUARTER-END MARCH 31, 2009**

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**These interim financial statements for the period ended March 31, 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****As at March 31, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

ASSETS	March 31, 2009	December 31, 2008
<b>Current:</b>		
Cash and cash equivalents	\$ 690,700	\$ 2,323,213
Amounts and settlements receivable (note 3)	2,328,771	534,336
Accounts receivable	445,205	336,381
Income taxes receivable	76,503	76,503
Inventories (note 4)	304,929	903,270
Deposits on contracts and prepaid expenses	383,486	460,722
	<b>4,229,594</b>	<b>4,634,425</b>
<b>Mineral interests (note 5)</b>	<b>2,532,023</b>	<b>2,765,697</b>
<b>Property, plant and equipment (note 6)</b>	<b>3,647,771</b>	<b>4,035,226</b>
	<b>\$ 10,409,388</b>	<b>\$ 11,435,348</b>
<b>LIABILITIES</b>		
<b>Current:</b>		
Accounts payable and accrued liabilities	\$ 803,739	\$ 2,785,095
Obligations under capital leases - current portion	-	1,592,554
	<b>803,739</b>	<b>4,377,649</b>
Trade payables and other accrued liabilities	2,223,077	-
Obligations Under Capital Leases (note 7)	3,187,198	1,546,180
Senior Secured Notes (note 8)	21,686,999	17,598,399
Operating Lease Obligations (note 9)	951,632	-
	<b>28,048,906</b>	<b>-</b>
<b>Liabilities subject to compromise (note 10)</b>	<b>28,048,906</b>	<b>-</b>
<b>Asset retirement obligations (note 11)</b>	<b>419,406</b>	<b>424,606</b>
<b>DEFICIENCY IN SHAREHOLDERS' EQUITY</b>		
Share Capital (note 16)	18,397,777	18,397,777
Warrants	2,104,278	2,104,278
Contributed Surplus	3,759,180	3,686,530
Deficit	( 43,123,898)	( 36,700,071)
	<b>(18,862,663)</b>	<b>(12,511,486)</b>
	<b>\$ 10,409,388</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 quarter ended March 31, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

	Three Months ended March 31,	
	2009	2008
<b>Revenue</b>		
Copper	\$ 2,484,817	\$ 7,627,635
Gold	8,530	24,597
Silver	8,431	15,588
	2,501,778	7,667,820
Treatment, refining charges	(258,709)	(742,824)
Net metal royalty	(50,036)	(153,356)
<b>Net revenue</b>	<b>2,193,033</b>	<b>6,771,641</b>
<b>Operating costs</b>		
Mining and development	1,054,357	1,399,552
Milling and ore transportation	899,633	1,588,008
Depreciation, depletion and amortization	579,357	1,244,472
Amortization of reclamation and closure costs	23,091	16,909
	<b>2,556,438</b>	<b>4,248,941</b>
<b>Contribution from mining activities</b>	<b>(363,405)</b>	<b>2,522,700</b>
<b>Other expenses</b>		
Stock-based compensation	72,650	157,806
General and administration	219,271	108,303
Professional fees	64,095	117,878
Management fees	-	75,000
Registry and filing fees	2,378	13,570
Travel and accommodation	359	23,443
Interest	943,234	305,597
Re-organization professional fees	215,355	-
Adjustment to carrying value of secured notes	3,184,635	-
Other adjustments to carrying values due to restructuring	1,372,292	-
<b>Total Expenses</b>	<b>6,074,269</b>	<b>801,597</b>
<b>Other income</b>		
Interest income	1,908	103,517
Other revenue	11,940	387
	<b>13,848</b>	<b>103,904</b>
<b>Earnings (loss) before Income taxes</b>	<b>( 6,423,826)</b>	<b>1,825,006</b>
Current income and mining tax provision	-	50,174
Future income and mining tax provision	-	-
Income and mining tax provision (recovery)	-	50,174
<b>Net earnings (loss) comprehensive earnings (loss)</b>	<b>( 6,423,826)</b>	<b>1,774,832</b>
<b>Deficit, beginning of period</b>	<b>( 36,700,072)</b>	<b>( 4,853,341)</b>
<b>Deficit, end of period</b>	<b>\$ (43,123,898)</b>	<b>\$ (3,078,509)</b>
<b>Earnings (loss) per common share (note 18)</b>		
Basic	\$ (0.15)	\$ 0.04
Diluted	\$ (0.15)	\$ 0.04
<b>Weighted average shares outstanding (000's)</b>		
Basic	42,851	40,184
Diluted	42,851	40,184

See accompanying notes to financial statements.

**FIRST METALS INC.**  
**Statements of Cash Flow**  
**For the quarter ended March 31, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

	<b>Three Months ended March 31,</b>	
	<b>2008</b>	<b>2008</b>
<b>Operating Activities</b>		
Net income (loss) for the period	\$ (6,423,826)	\$ 1,774,832
Adjustments for items not affecting cash:		
Depreciation, depletion and amortization	602,448	1,261,381
Depreciation, depletion and amortization capitalized	-	1,001,485
Adjustments to carrying values due to restructuring	4,136,267	-
Stock-based compensation	72,650	157,806
Expenditures on asset retirement obligations	( 5,200)	-
Interest accretion on senior secured notes	903,964	116,915
Interest accrual on capital leases	48,464	-
Changes in non-cash working capital		
Amounts and settlements receivable	( 1,794,435)	( 7,296,862)
Accounts receivable	( 108,824)	( 184,899)
Inventories	598,341	( 150,332)
Deposits on contracts and prepaid expenses	77,236	( 48,373)
Accounts payable and accrued liabilities	241,721	4,322,762
<b>Cash flow from (used in) operating activities</b>	<b>( 1,651,194)</b>	<b>954,715</b>
<b>Financing Activities</b>		
Issuance of common shares and warrants for cash	-	-
Repayment of obligations under capital leases	-	( 851,147)
<b>Cash flow used in financing activities</b>	<b>-</b>	<b>( 851,147)</b>
<b>Investing activities</b>		
Restricted cash	-	( 45,832)
Mineral interests	( 14,152)	( 569,518)
Property, plant and equipment	32,833	( 214,920)
<b>Cash flow (used) in investing activities</b>	<b>18,681</b>	<b>( 830,270)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>( 1,632,513)</b>	<b>( 726,702)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>\$ 2,323,213</b>	<b>\$ 3,557,666</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 690,700</b>	<b>\$ 2,830,964</b>
<b>Cash and cash equivalents</b>		
Cash	\$ 140,700	\$ 676,106
Short-term investments	550,000	2,154,858
	<b>\$ 690,700</b>	<b>\$ 2,830,964</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 March 31, 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. Prior to March 1, 2008, the average processing rate was less than 60% of the design capacity of the mine infrastructure. 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 \$6,423,826 (2008 - earnings of \$1,774,832) in the three months ended March 31, 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 March 31, 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. Details of the amended proposal are outlined in the subsequent events note 22.

##### **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 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, as Trustee under the Proposal, has commenced the process of accepting proofs of claims from Creditors which will ultimately determine the Liabilities Subject to Compromise.

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**Notes to Financial Statements**  
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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. Adoption of New Accounting Standards**

**a) Financial Instruments**

In December 2006, the Canadian Institute of Chartered Accountants (“CICA”) issued section 3862 - *Financial Instruments - Disclosures*, which replaced section 3861 and provides expanded disclosure requirements that provide additional detail by financial assets and liability categories. The CICA also issued section 3863 - *Financial Instruments - Presentation*, to enhance the understanding of financial users as to the significance of financial instruments with respect to financial position, performance and cash flows. The Corporation adopted these standards effective January 1, 2008. Financial instrument disclosures are set out in Note 13.

**b) Inventories**

On January 1, 2008, the Corporation adopted the CICA accounting standards section 3031 - *Inventories*. The section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value.

**c) Capital Disclosures**

In December 2006, the CICA issued section 1535 - *Capital Disclosures*, which established standards for the disclosure of an entity’s capital and capital management strategies. The Corporation adopted this standard effective January 1, 2007. The required disclosures have been included in Note 14.

**d) General Standards of Financial Statement Presentation**

In June 2007, the CICA issued amended section 1400 - *General Standards of Financial Statement Presentation*. This section provides revised guidance related to management’s responsibility to assess and disclose the ability of the entity to continue as a going concern. This amended standard applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Corporation adopted these standards effective January 1, 2008. The required disclosures are included in Note 1.

**e) 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

**FIRST METALS INC.****Notes to Financial Statements****For the quarter ended March 31, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

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.

**f) International Financial Reporting Standards**

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that comparative figures for 2010 be based on IFRS. The Corporation is currently in the planning stages and cannot at this time determine the impact of the transition to IFRS, but will continue its study and will adopt the new standards on schedule.

**3. Amounts and Settlements Receivable**

	<b>March 31, 2009</b>	<b>December 31, 2009</b>
Amounts and metal settlements receivable	\$ 2,437,062	\$ 3,278,036
Milling costs outstanding	(108,291)	(2,078,056)
Mill refurbishment costs outstanding	-	(665,644)
<b>Balance, end of period</b>	<b>\$ 2,328,771</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 LME prices three months after production, was received sixty days after the provisional payments.

In January 2009, as a result of overpayments against final settlement for previous months’ production, Xstrata decided to offset all future payments for concentrate sales against outstanding milling and mill refurbishment costs.

At March 31, 2009, the metal settlements totaled \$2,328,771 (December 31, 2008 - \$534,336) which reflects the final net settlements for December and January production which were subsequently 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 quarter ended March 31, 2009, the Corporation reflected gains on foreign exchange transactions of \$407,692 (March 31, 2008 - \$344,536).

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended March 31, 2009**  
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**4. Inventories**

	March 31, 2009	December 31, 2008
In-process inventory	\$ -	\$ 60,000
Ore stockpile	-	474,120
Materials and supplies	304,929	369,150
<b>Balance, end of period</b>	<b>\$ 304,929</b>	<b>\$ 903,270</b>

**5. Mineral Interests**

	March 31, 2009			
	Cost	Accumulated Amortization and Depletion	Accumulated Asset Impairment	Net Book Value
<b>Mineral Interests</b>				
Property acquisition costs	\$ 5,352,743	\$ (1,193,945)	\$ (3,137,318)	\$ 1,021,480
<b>Mine Development</b>				
Deferred development and exploration	13,872,331	(7,396,494)	(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)	-	-
	11,491,510	(5,015,673)	(4,965,294)	1,510,543
	<b>\$ 16,844,253</b>	<b>\$ (6,209,618)</b>	<b>\$ (8,102,612)</b>	<b>\$ 2,532,023</b>

	December 31, 2008			
	Cost	Accumulated Amortization and Depletion	Accumulated Asset Impairment	Net Book Value
<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
	11,491,510	(4,829,220)	(4,965,294)	1,696,996
	<b>\$ 16,844,253</b>	<b>\$ (5,975,944)</b>	<b>\$ (8,102,612)</b>	<b>\$ 2,765,697</b>

**FIRST METALS INC.**

**Notes to Financial Statements**

**For the quarter ended March 31, 2009**

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

**Asset Impairment Provision**

As a result of the sudden and dramatic reduction in copper and zinc prices in the fourth quarter of 2008 as well as the cessation of production from the Fabie Bay Mine in early 2009, the Corporation recognized a total impairment loss of \$22,030,824 at December 31, 2008. Out of the total provision, \$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 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.

**FIRST METALS INC.**  
**Notes to Financial Statements**  
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**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

**6. Property, Plant and Equipment**

	<b>March 31, 2009</b>			
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Accumulated Asset Impairment</b>	<b>Net Book Value</b>
Furniture and fixtures	\$ 143,993	\$ (38,231)	\$ -	\$ 105,762
Computers and telecommunication equipment	335,752	(160,661)	-	175,091
Mining infrastructure, plant and equipment	10,483,948	(1,739,575)	(6,575,563)	2,168,810
Mining equipment under capital leases	3,544,061	(438,607)	(1,907,346)	1,198,108
Mill refurbishment costs	7,136,647	(7,136,647)	-	-
	<b>\$ 21,644,401</b>	<b>\$ (9,513,721)</b>	<b>\$ (8,482,909)</b>	<b>\$ 3,647,771</b>

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 March 31, 2009, the costs, accumulated amortization and the accumulated asset impairment have been adjusted which has resulted in a reduction in the impairment provision of \$5,445,303 since December 31, 2008.

	<b>December 31, 2008</b>			
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Accumulated Asset Impairment</b>	<b>Net Book Value</b>
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 March 31, 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.

**FIRST METALS INC.**  
**Notes to Financial Statements**  
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**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

	<b>March, 2009</b>	<b>December 31, 2008</b>
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	Adjustments carrying value at March 31, 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 19.61%) method of the difference between the initial amount and the maturity amount of the Notes minus principal repayments. At December 31, 2008 and March 31, 2009, the Corporation did not make the scheduled quarterly interest payments of \$700,000 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. The adjustment of \$3,180,636 has been provided as management's best estimate of the ultimate settlement value of the Senior Secured Notes.

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.

During the pre-production stage, \$2,687,789 has been capitalized as deferred interest in the mineral interests as reported on the balance sheets. Since the commencement of commercial

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production on March 1, 2008, interest of \$3,667,568 has been reported as an interest expense.

**9. Commitments and Contingencies**

- a) The Corporation entered into a lease of office premises calling for monthly rental of \$6,300 (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 the lease total \$44,487.
- b) Under the lease arrangements which were in place at the year-end, the Corporation is 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 are 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 are being 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 may be subject to future adjustments, depending upon actions including the evaluation of the proofs of claim by BDO as Trustee.

Liabilities subject to compromise consist of the following:

	<b><u>March 31, 2009</u></b>
Senior Secured Notes .....	\$ 20,000,000
Capital Leases .....	3,187,198
Operating Leases.....	951,632
Trade payables and other accrued liabilities .....	2,223,077
Interest on Senior Secured Notes .....	<u>1,686,999</u>
Total Liabilities subject to compromise .....	<b><u>\$ 28,048,906</u></b>

**FIRST METALS INC.****Notes to Financial Statements****For the quarter ended March 31, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)****11. Asset Retirement Obligations**

	<b>March 31, 2009</b>	<b>December 31, 2008</b>
<b>Balance, beginning of period</b>	<b>\$ 424,606</b>	<b>\$ -</b>
Estimated obligation	-	569,501
Expenditures	(5,200)	(155,012)
Accretion expense		10,117
<b>Balance, end of period</b>	<b>\$ 419,406</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>March 31, 2009</b>	<b>December 31, 2008</b>
<b>Future income tax assets:</b>		
Non-capital losses carried forward	\$ 1,203,733	\$ 835,467
Share issuance costs	206,712	184,915
Mineral properties and equipment	8,561,588	8,018,474
<b>Total future income tax assets before valuation allowance</b>	<b>9,972,033</b>	<b>9,038,856</b>
Valuation allowance	(9,972,033)	(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 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.

**FIRST METALS INC.**  
**Notes to Financial Statements**  
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Income and mining tax provision consists of the following:

	<b>Three Months Ended March 31, 2009</b>	<b>Three Months Ended March 31, 2008</b>
<b>Income and mining tax provision (recovery)</b>		
Part XII.6 taxes on flow-through expenditures	\$ -	\$ 50,174
Current income and mining tax provision	-	585,827
Future income and mining tax (recovery)	-	(585,827)
<b>Total income and mining tax provision</b>	<b>\$ -</b>	<b>\$ 50,174</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 and accrued liabilities	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 March 31, 2009, the carrying values of cash and cash equivalents, 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.

**FIRST METALS INC.**

**Notes to Financial Statements**

**For the quarter ended March 31, 2009**

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

**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 March 31, 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 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.

**FIRST METALS INC.****Notes to Financial Statements****For the quarter ended March 31, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)****15. Economic Dependence**

The Corporation generated all of its production revenues from the sales of concentrate to Xstrata during the quarter ended March 31, 2009 and the year ended December 31, 2008.

**16. Share Capital**

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

Issued and outstanding common shares	March 31, 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**  
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The following table presents all of the Corporation's stock options granted, exercised, forfeited and expired during the periods ended March 31, 2009 and December 31, 2008.

	March 31, 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	(680,000)	\$ 1.10	(995,149)	\$ 1.01
<b>Balance, end of period</b>	<b>2,958,636</b>	<b>\$ 0.97</b>	<b>3,638,636</b>	<b>\$ 1.00</b>

The outstanding and exercisable stock options as at March 31, 2009 were as follows:

Grant Date	Expiry Date	Outstanding	Exercisable	Exercise Price
September 8, 2006	September 8, 2009	500,000	500,000	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	125,000	125,000	1.00
May 31, 2007	May 31, 2010	210,000	210,000	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	250,000	172,500	0.94
November 30, 2007	November 30, 2010	210,000	210,000	0.96
December 20, 2007	December 21, 2009	126,136	126,136	1.10
March 4, 2008	March 4, 2013	180,000	42,500	0.92
May 31, 2008	May 31, 2011	210,000	210,000	1.03
July 18, 2008	July 18, 2011	200,000	200,000	1.00
October 8, 2008	October 8, 2013	350,000	-	0.40
November 12, 2008	November 12, 2013	125,000	-	0.40
		<b>2,958,636</b>	<b>2,132,386</b>	<b>\$ 1.07</b>

As at March 31, 2009, the weighted average remaining contractual life of outstanding options was approximately 1.27 years (December 2008 - .94 years) and a total of 2,132,386 (December 31, 2008 - 2,674,886) options were exercisable at a weighted average exercise price of \$1.07 (December 31, 2008 - \$1.08).

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

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

	March 31, 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 March 31, 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**

	March 31, 2009	December 31, 2008
<b>Balance, beginning of period</b>	<b>\$ 3,686,530</b>	<b>\$ 1,774,134</b>
Stock-based compensation expense	72,650	636,263
Expired warrants	-	1,314,741
Fair value of stock options exercised	-	(38,608)
<b>Balance, end of period</b>	<b>\$ 3,759,180</b>	<b>\$ 3,686,530</b>

Stock-based compensation expense for the quarter of \$72,650 (2007 - \$636,263) 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 March 31, 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 three month period ended March 31, 2009 was \$0.02 (2008 - \$0.84).

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

	<b>Three Months- Ended March 31, 2009</b>	<b>Three Months- Ended March 31, 2008</b>
Basic earnings (loss) per share	\$ (0.15)	\$ 0.04
Diluted (loss) loss per share	\$ (0.15)	\$ 0.04
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 (2007 - \$75,000) was paid in the quarter in connection with these agreements.

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

**FIRST METALS INC.****Notes to Financial Statements****For the quarter ended March 31, 2009****Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)****20. Supplemental Disclosure with Respect to Cash Flows**

	<b>March 31, 2009</b>	<b>March 31, 2008</b>
Cash paid during the period for interest costs capitalized	\$ -	\$ 526,000
Cash paid during the period for interest costs expensed	\$ -	\$ 260,800
Net metal royalty payments to Globex	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ 66,950

Significant non-cash transactions during the quarter include:

- (i) adjustments to the carrying value of Senior Secured Notes and Operating leases which totaled \$4,136,267 and were designed to 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 March 31, 2009**  
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**As at March 31, 2009**

Operating Segments  
Statement of Operations - Three Months Ended March 31, 2009

	Fabie Bay Mine	Magusi Deposit	Common Assets	Corporate and Other	Total
Gross sales revenue	\$ 2,501,778	\$ -	\$ -	\$ -	\$ 2,501,778
Treatment, refining charges	(258,709)	-	-	-	(258,709)
Net Royalty payment	(50,036)	-	-	-	(50,036)
<b>Net revenue</b>	<b>2,193,033</b>	-	-	-	<b>2,193,033</b>
Direct Operating costs	(1,953,990)	-	-	-	(1,953,990)
Depreciation, depletion, amortization	(579,357)	-	-	-	(579,357)
Amortization of asset retirement costs	(23,091)	-	-	-	(23,091)
<b>Contribution from mining activities</b>	<b>(363,405)</b>	-	-	-	<b>(363,405)</b>
General and administration	-	-	-	(358,753)	(358,753)
Interest	-	-	-	(943,234)	(943,234)
Restructuring and changes to carrying values	-	-	-	(4,772,282)	(4,772,282)
Other income	-	-	-	13,848	13,848
<b>Loss before income taxes</b>	<b>(363,405)</b>	-	-	<b>(6,060,421)</b>	<b>(6,423,826)</b>
Income and mining tax provision	-	-	-	-	-
<b>Net loss and comprehensive loss</b>	<b>\$ (363,405)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,060,421)</b>	<b>\$ (6,423,826)</b>

Mineral Interests and Mine Development - March 31, 2009

	Fabie Bay Mine	Magusi Deposit	Common Assets	Corporate and Other	Total
Mineral interests, carrying value	\$ -	\$ 4,070,052	\$ -	\$ 88,746	\$ 4,158,798
Asset impairment provision	-	(3,137,318)	-	-	(3,137,318)
	-	932,734	-	88,746	1,021,480
Deferred development and exploration	-	6,416,749	-	59,088	6,475,836
Amortization capitalized in the pre-operating period	-	-	-	-	-
Mine development, carrying value	-	6,416,749	-	59,088	6,475,836
Asset impairment provision	-	(4,965,294)	-	-	(4,965,294)
	-	1,451,455	-	59,088	1,510,542
Asset retirement costs	-	-	-	-	-
	\$ -	\$ 2,384,189	\$ -	\$ 147,834	\$ 2,532,023

Property, Plant and Equipment - March 31, 2009

	Fabie Bay Mine	Magusi Deposit	Common Assets	Corporate and Other	Total
Carrying value	\$ 995,072	\$ 2,780,855	\$ 13,519,204	\$ 280,853	\$ 17,575,984
Asset impairment provision	(835,030)	(2,153,978)	(10,939,204)	-	(13,928,212)
	\$ 160,042	\$ 626,877	\$ 2,580,000	\$ 280,853	\$ 3,647,772

**FIRST METALS INC.**  
**Notes to Financial Statements**  
**For the quarter ended March 31, 2009**  
**Under Proposal Proceedings under the Bankruptcy and Insolvency Act (note 1)**

**Operating Segments**  
**Statement of Operations - Three Months Ended March 31, 2008**

	<b>Fabie Bay Mine</b>	<b>Magusi Deposit</b>	<b>Common Assets</b>	<b>Corporate and Other</b>	<b>Total</b>
Gross sales revenue	\$ 7,667,820	\$ -	\$ -	\$ -	\$ 7,667,820
Treatment, refining charges	(742,824)	-	-	-	(742,824)
Net Royalty payment	(153,356)	-	-	-	(153,356)
<b>Net revenue</b>	<b>6,771,640</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,771,640</b>
Direct Operating costs	(2,987,560)	-	-	-	(2,987,560)
Depreciation, depletion, amortization	(1,244,472)	-	-	-	(1,244,472)
Amortization of asset retirement costs	(16,909)	-	-	-	(16,909)
<b>Contribution from mining activities</b>	<b>2,522,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,522,699</b>
General and administration	-	-	-	(496,000)	(496,000)
Interest	-	-	-	(305,597)	(305,597)
Other income	-	-	-	103,904	103,904
<b>Loss before income taxes</b>	<b>2,522,699</b>	<b>-</b>	<b>-</b>	<b>(697,693)</b>	<b>1,825,006</b>
Income and mining tax provision	-	-	-	50,174	50,174
<b>Net loss and comprehensive loss</b>	<b>\$ 2,522,699</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (747,867)</b>	<b>\$ 1,774,832</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 January 7, 2009, the Corporation filed an NOI under the *Bankruptcy and Insolvency Act* to file a proposal to restructure the affairs of the Corporation and amend the terms of any and all agreements between the Corporation and affected Creditors which resulted in claims being fully and finally resolved and settled. The proposal to Creditors was issued on April 17, 2009.

The amended proposal was accepted by the Creditors on May 6, 2009 and on June 17, 2009, the Ontario Superior Court of Justice approved the Corporation's proposal under the *Bankruptcy and Insolvency Act*.

**FIRST METALS INC.**

**Notes to Financial Statements**

**For the quarter ended March 31, 2009**

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

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.

Based on the current estimates for secured claims and unsecured claims, management estimates that 314 million common shares will be issued in conjunction with the debt-forgiveness which when fully implemented will result in a total of 356 million shares outstanding. If the associated call warrants were to be exercised, then an additional 28 million shares would be issued resulting in a fully diluted 384 million shares outstanding. The foregoing is subject to the proof of claim process being carried out by the Proposal Trustee, BDO Dunwoody.