

FIRST METALS INC.

FINANCIAL STATEMENTS

QUARTER-END MARCH 31, 2008

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These interim financial statements for the period ended March 31, 2008 have been prepared by Management who take responsibility for them in accordance with Canadian generally accepted accounting principles and the Corporation's auditors have not conducted a review engagement of these statements.

FIRST METALS INC.

Balance Sheet

ASSETS	March 31, 2008	December 31, 2007
Current:		
Cash and cash equivalents	\$ 2,830,964	\$ 3,557,666
Restricted cash (note 4)	6,132,703	6,086,871
Amounts and settlements receivable (note 5)	12,850,834	5,553,972
Accounts receivable	504,270	319,371
Inventories	419,794	269,462
Deposits on contracts and prepaid expenses	220,694	172,321
	22,959,259	15,959,663
Asset Retirement obligations (note 7)	205,251	-
Mineral interests (note 8)	9,416,588	9,271,542
Property, plant and equipment (note 9)	22,583,736	23,907,573
	\$ 55,164,834	\$ 49,138,778
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	\$ 8,411,400	\$ 4,088,638
Accrued mill refurbishment costs (note 4)	6,896,395	6,896,395
Due on mineral properties (note 10)	250,000	250,000
Obligations under capital leases - current portion (note 11)	2,657,358	3,044,780
	18,215,153	14,279,813
Obligations Under Capital Leases (note 11)	1,473,309	1,654,306
Asset retirement obligations (note 7)	222,160	-
Senior Secured Notes (note 12)	16,511,525	16,394,611
Future Income Taxes	2,461,329	2,461,329
	38,883,476	34,790,059
SHAREHOLDERS' EQUITY		
Share Capital	14,008,907	14,008,907
Warrants	3,419,019	3,419,019
Contributed Surplus	1,931,941	1,774,134
Deficit accumulated during the development stage	(3,078,509)	(4,853,341)
	16,281,358	14,348,719
	\$ 55,164,834	\$ 49,138,778

Going Concern (note 2)

Commitments and Contingencies (notes 4, 8, 10, 11, and 21)

APPROVED ON BEHALF OF THE BOARD

"Richard Williams"

Director

"James Richardson"

Director

See accompanying notes to financial statements.

FIRST METALS INC.

Statement of Comprehensive Earnings and Deficit

	Three Months ended March 31,	
	2008	2007
Revenue		
Copper	\$ 7,627,635	-
Gold	24,597	-
Silver	15,588	-
	<u>7,667,820</u>	-
Treatment, refining charges	(742,824)	-
Net metal royalty (note 8 (a))	(153,356)	-
Net revenue	<u>6,771,640</u>	-
Operating costs		
Mining and development	1,399,552	-
Milling and ore transportation	1,588,008	-
Depreciation, depletion and amortization	1,244,472	-
Amortization of reclamation and closure costs	16,909	-
	<u>4,248,941</u>	-
Contribution from mining activities	2,522,699	-
Other expenses		
Stock-based compensation (note 17)	157,806	63,280
General and administration	108,303	242,315
Professional fees	117,878	128,460
Management fees (note 19)	75,000	78,750
Registry and filing fees	13,570	31,513
Travel and accommodation	23,443	43,689
Interest	305,597	18,038
Total Expenses	801,597	606,045
Other income		
Interest income	103,517	10,396
Other revenue	387	4,095
	<u>103,904</u>	<u>14,491</u>
Earnings (loss) before Income taxes	1,825,006	(591,554)
Income tax provision (note 13)	50,174	-
Net earnings (loss) comprehensive earnings (loss)	1,774,832	(591,554)
Deficit, beginning of period	(4,853,341)	(1,867,203)
Deficit, end of period	\$ (3,078,509)	\$ (2,458,757)
See note 1, Commercial Production commenced March 1, 2008		
Earnings (loss) per common share (note 18)		
Basic	\$ 0.05	\$ (0.02)
Diluted	\$ 0.05	\$ (0.02)
Weighted average shares outstanding (000's)		
Basic	38,860	30,841
Diluted	38,860	30,841

See accompanying notes to financial statements.

FIRST METALS INC.

Statement of Cash Flows

	Three Months ended March 31,	
	2008	2007
Operating Activities		
Net income (loss) for the period	\$ 1,774,832	\$ (591,554)
Adjustments for items not affecting cash:		
Depreciation, depletion and amortization	1,261,381	-
Depreciation, depletion and amortization capitalized	1,001,485	
Stock-based compensation - contributed surplus	157,806	63,280
Interest accretion on senior secured notes	116,915	-
Changes in non-cash working capital		
Amounts and settlements receivable	(7,296,862)	-
Accounts receivable	(184,899)	323,644
Inventories	(150,332)	-
Deposits on contracts and prepaid expenses	(48,373)	62,304
Accounts payable and accrued liabilities	4,322,762	637,212
Cash flow from operating activities	954,715	494,886
Financing Activities		
Issuance of common shares and warrants for cash	-	7,500
Repayment of obligations under capital leases	(851,147)	(286,373)
Cash flow used in financing activities	(851,147)	(278,873)
Investing activities		
Restricted cash	(45,832)	-
Mineral interests	(569,518)	(3,280,986)
Property, plant and equipment	(214,920)	-
Cash flow (used) in investing activities	(830,270)	(3,280,986)
Increase (decrease) in cash and cash equivalents	(726,702)	(3,064,973)
Cash and cash equivalents, beginning of period	\$ 3,557,666	\$ 3,527,945
Cash and cash equivalents, end of period	\$ 2,830,964	\$ 462,972
Cash and cash equivalents		
Cash	\$ 676,106	\$ (218,444)
Term deposits	2,154,858	681,416
	\$ 2,830,964	\$ 462,972

Supplemental disclosures with respect to cash flows (note 20)

See accompanying notes to financial statements.

FIRST METALS INC.

Notes to Financial Statements March 31, 2008

1. Nature of Operations

First Metals Inc. (the “Corporation”) was incorporated on February 23, 2006 as 6527167 Canada Inc. By articles of amendment effective March 21, 2006, the Corporation changed its name to First Metals Inc. The Corporation is a junior mining exploration and development corporation engaged in the acquisition, exploration and development of mineral prospects in Canada and it has started commercial production at the Fabie Bay deposit.

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

The Statement of Comprehensive Earnings and Deficit includes revenue and operating Costs for the month of March 2008 along with other overhead expenses for the three months from January 2008 through March 31, 2008. During the pre-operating period, the pre-operating net revenues have been set off against Mine Development as detailed in note 8.

2. Basis of presentation, accounting policies and Going Concern

Basis of presentation and accounting policies

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

Going Concern

These financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern which assumes that the Corporation will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

As at March 31, 2008, the Corporation had net earnings and accumulated deficit of \$1,774,832 (March 31 2007 - net loss \$591,554) and \$3,078,509 (March 31, 2007 - \$2,458,757) respectively. Having achieved commercial production and with it profitability, the Corporation anticipates being able to realize its assets and discharge its obligations in the normal course of business.

FIRST METALS INC.

Notes to Financial Statements March 31, 2008

3. Changes in Accounting Policy

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

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

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

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

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

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

Effective January 1, 2009

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

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Notes to Financial Statements March 31, 2008

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 EIC 27, Revenues and Expense during the pre-operating period. As a result of the withdrawal of EIC 27, the Corporation will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations.

4. Restricted Cash and Mill Refurbishment Costs

Restricted cash

In accordance with the agreement with Xstrata Copper Canada Limited (Xstrata), \$6,132,703 (December 31, 2007 - \$6,086,871) is held in escrow to cover the mill refurbishment and start-up costs. Xstrata agreed to fund these expenditures and the agreement provides for an approval process and release of funds held in escrow to reimburse Xstrata for these expenditures after the final completion of the project.

As security for payment of the custom milling fee, the Corporation is required to deposit \$675,000 with Xstrata in case the Corporation defaults at any time in paying amounts due with respect to the processing of Fabie ore. This amount is outstanding at the period-end.

Mill refurbishment costs

At March 31, 2008, deferred mill refurbishment costs of \$7,136,647 (note 9) had been incurred and the Corporation has estimated the outstanding liabilities at \$6,896,395 which will be funded from the Funds held in Escrow and additional payments by the Corporation.

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

5. Amounts and Settlements Receivable

Revenue from the sale of metal in concentrate is recognized when persuasive evidence of a sales agreement exists, the title and risk is transferred to the customer, collection is reasonably assured, and the price is reasonably determinable.

Revenue from the sale of metal is subject to adjustment upon final settlement of shipment weights, assays and estimated metal prices. Under the terms of the sales contract, the final metal prices are based on average London Metal Exchange prices determined three months after the shipment date. Revenue is initially recorded based on market prices prevailing at the time of shipment ("provisional price"). The terms of the contract result in embedded derivatives because of the timing difference between the provisional price and the final settlement price. These derivatives are adjusted to their final value through revenue each month until the date of final price determination.

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During the periods prior to achieving commercial production, net revenues are recorded as a reduction of the pre-production and mine development costs. Interest income is recorded on an accrual basis.

At March 31, 2008, estimates of the final payments for November through December 2007 and January through March shipments which total \$12,850,834 (December 31, 2007 - \$5,553,972) were recorded as settlements receivable based on management's best estimates of the metal content and the metal prices for the appropriate forward months.

6. Inventories

	March 31, 2008	December 31, 2007
In-process inventory	\$ 56,700	\$ 140,000
Ore stockpile	275,200	129,000
Materials and supplies	87,894	462
Balance at period end	\$419,794	\$ 269,462

7. Asset Retirement Obligations

The Corporation has restoration and remediation obligations associated with the Fabie Bay Mine. The following table summarizes the movements in the asset retirement obligations.

	March 31, 2008	December 31, 2007
January 1	-	-
Obligations incurred	\$ 207,616	-
Expenditures	-	-
Accretion expense	14,994	-
Amortization charged to operations	(16,909)	-
Balance at period end	\$ 205,970	-

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

8. Mineral Interests

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

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Notes to Financial Statements March 31, 2008

- a. after attainment of commercial production at any of the mining claims, Globex is also entitled to receive 2% net metal return on any minerals, metals or concentrates extracted and derived from the ore mined from such mining claims. At March 31, 2008, \$425,000 has been accrued and reflected in accounts payable.
- b. to issue shares for no additional consideration equal to 10% of the outstanding common shares of the Corporation on the date when commercial production as defined in the Globex agreement, is first achieved. On April 25, 2008, in respect of this obligation, 3,886,018 common shares were issued (note 22).
- c. after 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.

Mine Development

The deferred interest and insurance costs are incremental to basic administrative costs and they will be recoverable through future cash flows from the Fabie Bay and Magusi ore bodies.

In November 2007, the Corporation started to ship ore from the Fabie Bay deposit for processing at the refurbished Horne Mill. During the pre-operating period to February 29, 2008, the net revenues were offset against the mine development costs as commercial production was not achieved. These pre-production costs are now being amortized over the remaining fifteen months following March 1, 2008 achievement of commercial production which represents the expected term of the Fabie Bay ore and the Xstrata milling agreement.

	March 31, 2008		
	Cost	Accumulated	Net Book
		Amortization	Value
		& Depletion	
Mineral Interests			
Property acquisition costs	\$ 1,028,237	(16,452)	1,011,785
Mine Development			
Deferred development & exploration	10,451,821	(586,766)	9,865,055
Deferred interest and insurance	2,863,101	(217,913)	2,645,188
Pre-operating net revenues	(6,125,710)	466,233	(5,659,477)
Amortization capitalized in the pre-operating period	1,682,061	(128,023)	1,554,038
	8,871,272	(466,469)	8,404,803
	\$ 9,899,509	\$ (482,921)	\$ 9,416,588

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**Notes to Financial Statements
March 31, 2008**

	Dec. 31, 2007		
	Cost	Accumulated Amortization & Depletion	Net Book Value
Mineral Interests			
Property acquisition costs	\$ 1,027,138	\$ -	\$ 1,027,138
Mine Development			
Deferred development & exploration	9,293,337	-	9,293,337
Deferred interest and insurance	2,263,551	-	2,263,551
Pre-operating net revenues	(3,993,060)	-	(3,993,060)
Amortization capitalized in the pre-operating period	680,576	-	680,576
	<u>8,244,404</u>	<u>-</u>	<u>8,244,404</u>
	<u>\$ 9,271,542</u>	<u>\$ -</u>	<u>\$ 9,271,542</u>

9. Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Costs recorded for assets under construction include all expenditures in connection with the development and construction of the assets. No amortization is recorded until the assets are substantially complete and ready for use. Amortization, based on the estimated useful lives of the assets, is provided using the undernoted rates and methods:

Category	Rate	Method
Furniture and fixtures	5 years	Straight line
Computer and telecommunication equipment	3 years	Straight line
Mining infrastructure		Units of production
Mining equipment under capital leases	7 years	Straight line
Mill refurbishment costs		Units of production over the term of the custom milling contract

	March 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Plant and Equipment			
Furniture and fixtures	\$ 111,424	\$ (10,709)	\$ 100,715
Computers and telecommunication equipment	306,132	(48,740)	257,392
Mining infrastructure, plant & equipment	9,182,343	(510,491)	8,671,852
Mine equipment under capital leases	8,290,800	(460,926)	7,829,875
Mill refurbishment costs	7,136,647	(1,412,746)	5,723,901
	<u>\$ 25,027,348</u>	<u>\$ (2,443,612)</u>	<u>\$ 22,583,736</u>

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Notes to Financial Statements March 31, 2008

	Dec. 31, 2007		Net Book Value
	Cost	Accumulated Amortization	
Plant and Equipment			
Furniture and fixtures	\$ 71,323	\$ (5,944)	65,379
Computers and telecommunication equipment	289,264	(24,105)	265,159
Mining infrastructure, plant & equipment	9,024,394	(92,022)	8,932,372
Mine equipment under capital leases	8,066,520	(261,718)	7,804,802
Mill refurbishment costs	7,136,647	(296,787)	6,839,860
	\$ 24,588,148	\$ (680,576)	\$ 23,907,572

10. Due on Mineral Properties

Under the terms of the Globex Agreement, the Corporation acquired 100% interest in the Fabie Bay, Magusi River and Duprat mining claims and certain neighbouring additional claims for cash consideration of \$1,000,000 and other considerations as described above. During 2006, the Corporation made payments which totaled \$750,000. The remaining \$250,000 is due as of March 31, 2008. The balance is non-interest bearing and unsecured.

11. Obligations Under Capital Leases

The Corporation has leased to purchase certain mine equipment (note 9) for a total purchase price of \$8,290,800 of which \$1,443,694 was paid as down payments. The lease terms for the fifteen leases range between two and five years.

The annual commitments under the leases are as follows:

	March 31, 2008	December 31, 2007
2008	\$ 2,515,627	\$ 3,311,974
2009	1,224,248	1,158,488
2010	498,461	432,701
2011	154,950	116,990
2012	77,994	77,994
Total minimum lease payments	4,471,280	5,098,147
Less: imputed interest at 7.6%	(340,613)	(399,061)
Balance of obligations	4,130,667	4,699,086
Less: Current portion	(2,657,358)	(3,044,780)
Long-term portion	\$ 1,473,309	\$ 1,654,306

FIRST METALS INC.

Notes to Financial Statements March 31, 2008

12. Senior Secured Notes

	Annual interest rate	Earliest Callable Date	Maturity Date	Principal	Fair Value at outset	Amortized Cost at March 31, 2008
Senior Secured Notes	14%	May, 4, 2009	July 31, 2012	\$20,000,000	\$16,090,340	\$16,511,525

The amortized cost of the Notes of \$16,511,525 represents the liability as measured at the initial recognition plus the amortization using the effective interest method of the difference between the initial amount and the maturity amount of the Notes minus principal repayments. During the preproduction stage, \$2,808,141 has been capitalized as deferred interest in the mineral interests as reported on the balance sheet and \$116,915 has been expensed during the period.

The Notes contain certain financial maintenance covenants including a restriction on borrowings without noteholder approval. A collateral agent has been appointed and a lien over all of the property and assets of the Corporation has been established.

13. Income Taxes

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

	March 31, 2008	December 31, 2007
Future income tax assets:		
Non capital losses carried forward.	\$ 1,759,506	\$ 2,345,333
Share issuance costs	282,667	282,667
Total future income tax assets before valuation allowance	2,042,173	2,628,000
Valuation allowance	(2,042,173)	(2,628,000)
Net future income tax assets	\$ -	\$ -
Future income tax liabilities:		
Tax value of the renounced expenditures resulting from the issue of flow-through shares	\$ (2,461,329)	\$ (2,461,329)
	\$ (2,461,329)	\$ (2,461,329)

FIRST METALS INC.

Notes to Financial Statements March 31, 2008

The Corporation has set a full valuation allowance of the tax value of the mineral interests as it is not more likely than not that this tax asset will be realized.

	Three Months Ended	
	March 31, 2008	March 31, 2007
Income and mining tax provision (recovery)		
Provision for 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)	-
	\$ 50,174	\$ -

14. Capital Management

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

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

15. Financial Instruments and Financial Risks

Financial Instruments

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

Asset/Liability	Classification	Subsequent Measurement
Cash	Available for sale	Fair value
Cash equivalents	Held to maturity	Amortized cost
Amounts and settlements receivable and accounts receivables	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 taxes are not within the scope of Section 3855 as they are not financial instruments.

FIRST METALS INC.

Notes to Financial Statements

March 31, 2008

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.

Financial Risks

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

Commodity Price and Foreign Currency Risk

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 U.S./Cdn dollar exchange rate can impact the Corporation's gross margins. The Corporation attempts to mitigate these risks by selling the metals as produced and converting the U.S. dollars as received.

Fair values

As at March 31, 2008, the carrying values of cash and cash equivalents, restricted cash, amounts and settlements receivable, accounts receivable, accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

Interest Rate Risk

The Corporation is exposed to interest rate risk as changes in market rates affect the fair value and return on cash and cash equivalents. The Capital leases and Senior Secured Notes all bear interest at fixed rates. The Corporation includes a review of the mix of floating and fixed debt as part of refining its financing objectives. At March 31, 2008, the Corporation had no outstanding indebtedness that bears interest risk.

Concentration of Credit Risk

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

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

FIRST METALS INC.

Notes to Financial Statements March 31, 2008

Liquidity Risk

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

16. Share Capital

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

Issue and outstanding common Shares	March 31, 2008		December 31, 2007	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	38,860,180	\$ 14,008,907	30,836,705	\$ 8,549,252
Issued in connection with exercise of warrants			4,585,350	2,584,513
Transferred from warrants upon exercise				417,147
Issued pursuant to exercise of stock options			638,129	638,129
Transferred from contributed surplus upon exercise				219,910
Issued pursuant to Flow-through share offering			2,799,996	3,080,000
Fair value of warrants				(202,277)
Share issue costs				(213,319)
Expenses renounced through Flow-through offering				(1,064,448)
	38,860,180	\$ 14,008,907	38,860,180	\$ 14,008,907

Stock Options

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

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**Notes to Financial Statements
March 31, 2008**

	March 31, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	3,533,785	\$ 1.06	3,468,678	\$ 1.00
Directors, management, senior staff and consultants option grants	480,000	\$ 1.10	1,157,500	\$ 1.10
Brokers options	-	-	126,136	\$ 1.10
Exercised	-	-	(638,129)	\$ 1.00
Forfeited and adjustments	-	-	19,600	\$ 1.10
Expired	-	-	(600,000)	\$ 1.00
Balance, end of period	4,013,785	\$ 1.07	3,533,785	\$ 1.06

On March 4, 2008, the Corporation granted:

- a. 180,000 stock options to two senior mine staff to acquire shares at \$0.92 per share exercisable on or before March 4, 2013. The fair value was calculated at \$ 0.64 per share using the Black-Scholes pricing model with the following assumptions; weighted average life of 5 years, risk-free interest rate of 3.9%, expected volatility of 87% and no expected dividends.
- b. in consideration for professional services, options to acquire shares in the Corporation on or before March 4, 2009 of which 150,000 options are exercisable at \$0.92 per share and a further 150,000 options are exercisable at \$1.50 per share. The fair value was calculated at \$ 0.25 per share using the Black-Scholes pricing model with the following assumptions; weighted average life of one year, risk-free interest rate of 3.8%, expected volatility of 87% and no expected dividends

FIRST METALS INC.

Notes to Financial Statements March 31, 2008

The outstanding and exercisable stock options as at March 31, 2008 are as follows:

Grant Date	Expiry Date	Outstanding	Exercisable	Exercise Price
September 1, 2006	September 1, 2008	650,149	650,149	\$ 1.00
September 8, 2006	September 8, 2009	700,000	700,000	1.00
September 27, 2006	September 27, 2009	100,000	100,000	1.00
November 6, 2006	November 6, 2009	100,000	100,000	1.00
December 18, 2006	December 18, 2011	700,000	-	1.00
May 31, 2007	May 31, 2010	270,000	270,000	1.40
June 14, 2007	June 14, 2010	140,000	-	1.50
June 27, 2007	June 27, 2012	132,500	-	1.50
August 30, 2007	August 30, 2012	345,000	-	0.94
November 30, 2007	November 30, 2010	270,000	270,000	0.96
December 20, 2007	December 21, 2009	126,136	126,136	1.10
March 4, 2008	March 4, 2009	150,000	150,000	0.92
March 4, 2008	March 4, 2009	150,000	150,000	1.50
March 4, 2008	March 4, 2009	180,000	-	0.92
		4,013,785	2,516,285	\$ 1.07

As at March 31, 2008, the weighted - average remaining contractual life of outstanding options was approximately 2.39 years and a total of 2,516,285 options were exercisable at a weighted average exercise price of \$1.07.

Warrants

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

	March 31, 2008			December 31, 2007		
	Number of warrants	Weighted average exercise price	Fair value	Number of warrants	Weighted average exercise price	Fair value
Balance, beginning of period	6,388,047	\$ 1.02	\$ 3,419,019	7,574,900	\$ 0.83	\$ 1,732,091
Issued with Senior Secured Notes			-	2,000,000	\$ 1.35	1,902,000
Issued with Flow-through units			-	1,399,997	\$ 1.88	202,277
Exercised			-	(4,585,350)	\$ 0.56	(417,147)
Expired			-	(1,500)	\$0.75	(202)
Balance, end of period	6,388,047	\$ 1.02	\$3,419,019	6,388,047	\$ 1.02	\$3,419,019

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Notes to Financial Statements March 31, 2008

At March 31, 2008, the Corporation had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Description	Number of warrants	Exercise price	Expiry date
Issued pursuant to the IPO	2,988,050	\$ 1.25	September 1, 2008
Issued with Senior Secured Notes	2,000,000	\$ 1.35	July 31, 2012
Issued with the 2007 Flow-through offering	1,399,997	\$1.75 - \$2.00	December 21, 2008
	6,388,047		

17. Contributed Surplus

	March 31, 2008	December 31, 2007
Balance, beginning of period	\$1,774,134	\$1,189,421
Stock-based compensation expense	157,806	761,755
Expired warrants	-	202
Fair value of stock options exercised	-	(219,910)
Broker's options	-	42,666
Balance, end of period	\$1,931,940	\$1,774,134

Stock-based compensation expense of \$157,806 (2007 - \$63,280) was recorded in the statement of earnings (loss) in respect of options being expensed over their vesting period netted for forfeitures.

18. Earnings (loss) per Common 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, 2008 was \$0.84 (2007 - \$0.92).

Under the purchase arrangement with Globex, once commercial production was achieved, the Corporation was required to issue for no additional consideration 3,886,018 shares (weighted average impact - 1,324,000 shares) which represented a number equal to 10% of the outstanding shares. Since, commercial production was achieved during the month of March 2008, the shares were no longer contingently issuable and they have been included in the computation of the basic earnings per share.

FIRST METALS INC.

Notes to Financial Statements March 31, 2008

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

	Three Months ended March 31, 2008	Three Months ended March 31, 2007
Basic earnings (loss) per Common Share	\$ 0.05	\$ (0.02)
Diluted earnings (loss) per Common Share	\$ 0.05	\$ (0.02)
Common shares outstanding for entire period (000's)	38,860	30,837
Weighted-average impact of Globex share commitment (000's)	1,324	
Weighted-average impact of Warrants exercised (000's)		4
Basic weighted-average number of Common Shares outstanding (000's)	40,184	30,841
Incremental Common Shares on assumed exercise of options and warrants (000's)	-	-
Weighted-average number of Common Shares used for diluted earnings per Common Share	40,184	30,841

19. Related Party Transactions

The Corporation entered into management service agreements and a financial advisory service agreement, each with a director or a company controlled by a director. The management service agreements were designed during the development stage to provide the Corporation with; strategic direction, overall financing strategies, financial planning and reporting, operations planning, mine development strategies and investor relations and marketing strategies.

Under the terms of the management service agreements, the shareholder or the company controlled by a shareholder is entitled to monthly fees ranging from \$3,600 to \$11,600 per month, including car and home office allowance. The individual fees have been mutually agreed to and reflect the individual's level of service and do not exceed market comparable rates for such services. A total of \$75,000 (2007 - \$78,750) was paid in connection with these agreements. All of these agreements expire in the second quarter of the current year.

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 March 31, 2008

20. Supplemental Disclosure with Respect to Cash Flows

	March 31, 2008	March 31, 2007
Cash paid during the period for interest costs capitalized	\$ 526,000	\$ -
Cash paid during the period for interest costs expensed	\$ 260,800	\$ -
Cash paid during the period for income taxes	\$ 66,950	\$ -

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

- a) The Corporation purchased mine equipment under capital leases of \$ 192,000 which was capitalized to property, plant and equipment.

21. Commitments and Contingencies

- a) The Corporation has entered into 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 Corporation. The agreements are effective up to and including June 30, 2008 and result in a minimum commitment of \$100,000.
- b) The Corporation entered into a lease of office premises calling for monthly rental of \$8,465 (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 these leases are as follow:

2008	\$ 84,521
2009	<u>44,487</u>
	\$ <u>129,008</u>

- c) The Corporation is committed to operating lease obligations for equipment, with various expiry dates up to December 2010. Future minimum annual payments (exclusive of taxes, insurance, maintenance costs and residual values) under these leases are as follow:

2008	\$ 406,417
2009	403,230
2010	373,173
2011	<u>89,297</u>
	\$ <u>1,272,117</u>

FIRST METALS INC.

Notes to Financial Statements March 31, 2008

- d) At March 31, 2007, the Corporation has expenditure commitments of approximately \$121,000 representing work to be undertaken in relation to a drill program. The program commenced January 2008 and it is expected to be completed by May 2008.

- e) In accordance with the flow-through share financing completed on December 21, 2007, the Corporation is obligated to incur approximately \$3,100,000 of qualifying Canadian Exploration Expenses by December 31, 2008. As at March 31, 2008, the Corporation had incurred \$1,100,000 of qualified expenditures with planned programs for the remainder of the year expected to satisfy the commitment.

22. Subsequent Events

Under the terms of the 2006 Purchase Agreement, First Metals Inc. issued 3,886,018 common shares to Globex Mining Enterprises Inc. on April 25, 2008.