

**Linear Metals Corporation**  
(A Development Stage Enterprise)

Consolidated Financial Statements  
**October 31, 2008 and 2007**

January 22, 2009

## **Management's Responsibility for Financial Reporting**

The accompanying consolidated financial statements of **Linear Metals Corporation** have been prepared by the Company's management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and a majority of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, has examined these consolidated financial statements and their report follows.

(signed) "*Brian MacEachen*"  
Chief Executive Officer  
Halifax, Nova Scotia

(signed) "*Keith Abriel*"  
Chief Financial Officer

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

January 22, 2009

## **Auditors' Report**

### **To the Shareholders of Linear Metals Corporation**

We have audited the consolidated balance sheets of **Linear Metals Corporation** as at October 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "*PricewaterhouseCoopers LLP*"

### **Chartered Accountants**

**Linear Metals Corporation**  
(A Development Stage Enterprise)  
Consolidated Balance Sheets  
As at October 31, 2008 and 2007

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	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,020,506	6,124,772
Accounts receivable	4,802	—
Sales taxes recoverable	939,848	623,668
Prepaid expenses and deposits	24,150	9,784
	<hr/>	<hr/>
	1,989,306	6,758,224
<b>Property and equipment</b> (note 6)	133,350	105,291
<b>Resource properties</b> (note 7)	16,309,243	7,038,415
	<hr/>	<hr/>
	18,431,899	13,901,930
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	450,761	718,651
<b>Future income taxes</b> (notes 8 and 11)	944,000	—
	<hr/>	<hr/>
	1,394,761	718,651
<b>Shareholders' Equity</b>		
<b>Capital stock</b> (note 8)	16,926,212	12,097,732
<b>Warrants</b> (note 9)	1,944,336	1,944,336
<b>Contributed surplus</b> (note 10)	1,012,127	501,777
<b>Deficit</b>	(2,845,537)	(1,360,566)
	<hr/>	<hr/>
	17,037,138	13,183,279
	<hr/>	<hr/>
	18,431,899	13,901,930

**Nature of operations and going concern** (note 1)

**Commitments** (note 12)

The accompanying notes form an integral part of these financial statements.

**Approved by the Board of Directors**

(signed) "Wade K. Dawe"  
Director

(signed) "Michael Gross"  
Director

# Linear Metals Corporation

(A Development Stage Enterprise)

Consolidated Statements of Operations, Comprehensive Loss and Deficit

For the years ended October 31, 2008 and 2007

	2008 \$	2007 \$
<b>Income</b>		
Interest	262,623	279,735
<b>Expenses</b>		
Amortization	26,381	11,090
Banking fees	1,156	1,506
Financing costs (note 8 (c))	108,000	–
General and administrative	157,733	92,772
Investor relations and marketing	403,629	154,434
Listing and regulatory costs	114,602	95,584
Management salaries and services	467,899	472,411
Professional services	61,995	34,782
Stock-based compensation	255,143	234,877
Travel	86,949	117,880
Write-down of resource properties (note 7)	1,064,323	107,159
	2,747,810	1,322,495
<b>Loss from operations</b>	(2,485,187)	(1,042,760)
<b>Other income (loss)</b>		
Foreign exchange	14,216	(68,945)
<b>Loss before income taxes</b>	(2,470,971)	(1,111,705)
<b>Recovery of future income taxes</b> (note 8 (c))	986,000	–
<b>Net loss and comprehensive loss for the years</b>	(1,484,971)	(1,111,705)
<b>Deficit – Beginning of years</b>	(1,360,566)	(248,861)
<b>Deficit – End of years</b>	(2,845,537)	(1,360,566)
<b>Loss per share – Basic and diluted</b>	(0.04)	(0.03)
<b>Weighted average number of common shares outstanding</b>	37,922,955	31,863,093

The accompanying notes form an integral part of these financial statements.

**Linear Metals Corporation**  
(A Development Stage Enterprise)  
Consolidated Statements of Cash Flows  
For the years ended October 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Cash provided by (used in) operating activities</b>		
Net loss for the years	(1,484,971)	(1,111,705)
Charges (credits) to operations not involving cash		
Amortization	26,381	11,090
Stock-based compensation	255,143	234,877
Write-down of resource properties	1,064,323	107,159
Recovery of future income taxes	(986,000)	-
	<u>(1,125,124)</u>	<u>(758,579)</u>
Net change in non-cash working capital balances related to operations		
Increase in accounts receivable	(1,995)	-
Increase in sales taxes recoverable	(61,537)	(105,646)
Increase in prepaid expenses and deposits	(14,366)	(8,951)
Increase in accounts payable and accrued liabilities	46,157	51,671
	<u>(1,156,865)</u>	<u>(821,505)</u>
<b>Cash provided by financing activities</b>		
Common shares issued for cash, net of issuance costs	6,847,208	10,326,875
Warrants issued for cash, net of issuance costs	-	1,729,336
	<u>6,847,208</u>	<u>12,056,211</u>
<b>Cash used in investing activities</b>		
Resource property interests and options, net	(10,468,001)	(4,775,926)
Sales taxes recoverable related to resource property interests	(254,643)	(344,351)
Purchase of equipment	(71,965)	(119,776)
	<u>(10,794,609)</u>	<u>(5,240,053)</u>
<b>Net change in cash and cash equivalents during the years</b>	(5,104,266)	5,994,653
<b>Cash and cash equivalents – Beginning of years</b>	6,124,772	130,119
<b>Cash and cash equivalents – End of years</b>	<u>1,020,506</u>	<u>6,124,772</u>
<b>Cash and cash equivalents</b>		
Cash on hand and balances with banks	21,896	251,883
Short-term investments	998,610	5,872,889
	<u>1,020,506</u>	<u>6,124,772</u>
<b>Supplemental information</b>		
Interest received during the years	262,623	279,735
<b>Non-cash transactions</b>		
Common shares issued as a cost of financing	266,114	77,438
Warrants issued as a cost of financing	-	15,487
Broker warrants issued as a cost of financing	114,660	301,875

The accompanying notes form an integral part of these financial statements.

# Linear Metals Corporation

(A Development Stage Enterprise)  
Notes to Consolidated Financial Statements  
For the years ended October 31, 2008 and 2007

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## 1 Nature of operations and going concern

Linear Metals Corporation (the “Company”) was incorporated under the Canada Business Corporations Act on November 17, 2004. The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. For the year ended October 31, 2008, the Company incurred a loss of approximately \$1.5 million (2007 - \$1.1 million) and as at October 31, 2008 had an accumulated deficit of approximately \$2.8 million (2007 - \$1.4 million). The Company has no income or cash flow from operations and at October 31, 2008 had working capital of approximately \$1.5 million (2007 - \$6.0 million). In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management is evaluating alternatives to secure additional financing and has significantly reduced expenditure levels so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient and there remains some uncertainty as to the ability of the Company to continue operating as a going concern.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of properties. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

## 2 Changes in accounting policies

Effective November 1, 2007, the Company adopted the following new accounting standards issued by the Accounting Standards Board: (i) Section 1535, *Capital Disclosures*; (ii) Section 3862, *Financial Instruments – Disclosures*; and (iii) Section 3863, *Financial Instruments – Presentation*.

Section 1535, *Capital Disclosures*, establishes disclosure requirements about an entity’s capital and how it is managed to enable users of the financial statements to evaluate the entity’s objectives, policies and processes for managing capital.

Section 3862, *Financial Instruments – Disclosures*, describes the required disclosures related to the significance of financial instruments on the Company’s financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

**Linear Metals Corporation**  
(A Development Stage Enterprise)  
Notes to Consolidated Financial Statements  
**For the years ended October 31, 2008 and 2007**

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**2 Changes in accounting policies** (continued)

Section 3863, *Financial Instruments – Presentation*, establishes standards for presentation of financial instruments and non-financial derivatives.

As required by the transitional provisions, these new standards have been applied without restatement of prior period amounts.

**3 Significant accounting policies**

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and, in management's opinion, within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

**a) Basis of presentation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 6321593 Canada Inc. and Linear Metal Corp. Mexico, S.A. de C.V., a Mexican subsidiary. All inter-company transactions and balances have been eliminated on consolidation of the accounts. All amounts are expensed in Canadian dollars, unless otherwise noted.

**b) Resource properties**

As a Development Stage Enterprise, the Company defers all expenditures related to its resource properties until such time as the properties are put into commercial production, sold, or abandoned. Under this method, all amounts shown as resource properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted following the unit of production method. If the properties are sold or abandoned, or considered to be impaired in value, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining in good standing its resource properties.

The carrying values of resource properties, on a property-by-property basis, will be reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the resource property will be written down to its fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves and the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions. However, it is possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

**Linear Metals Corporation**  
(A Development Stage Enterprise)  
Notes to Consolidated Financial Statements  
**For the years ended October 31, 2008 and 2007**

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**3 Significant accounting policies** (continued)

**c) Property option agreements**

From time to time, the Company may acquire or dispose of an interest in a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable, in accordance with the terms of the options, are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

**d) Management estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

**e) Cash equivalents**

Cash equivalents consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

**f) Future income taxes**

Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the date of substantive enactment. If the realization is not considered more likely than not, a valuation allowance is provided against the future income tax assets.

**g) Flow-through shares**

The issuance of flow-through shares entitles the Company to renounce certain resource expenditures incurred in Canada, allowing the expenditures to be deducted for tax purposes by the investors who purchased the flow-through shares. The Company has adopted the recommendations by the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants relating to the recording of flow-through shares. In accordance with EIC 146, the Company reduces its share capital and recognizes a temporary future income tax liability for the amount of income tax benefits foregone when the resource expenditures are renounced. If the Company has a sufficient amount of unused income tax losses carried forward to offset the renounced tax deduction, the realization of the deductible temporary difference is recognized as a recovery of previously unrecognized future income tax assets on the income statement.

**Linear Metals Corporation**  
(A Development Stage Enterprise)  
Notes to Consolidated Financial Statements  
**For the years ended October 31, 2008 and 2007**

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**3 Significant accounting policies** (continued)

**h) Property and equipment**

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining-balance method at the annual rate of 30% for office equipment, exploration equipment and software.

**i) Loss per share**

Loss per share is computed based on the weighted average number of common shares outstanding during the years. Diluted loss per share is equal to loss per share since the exercise of options and warrants is anti-dilutive.

**j) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the years except for amortization, which is translated at historical exchange rates. Gains and losses on translations are included in the determination of loss for the year.

**k) Stock-based compensation**

The Company accounts for stock options using the fair value method of the Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*. Under this Section, the estimated fair values of all stock options granted are recorded in operations over their vesting periods.

The estimated fair value of options is determined using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting estimated fair values of the options are expensed on a straight-line basis over their vesting periods. Cash consideration received on exercise of options is credited to capital stock.

# **Linear Metals Corporation**

(A Development Stage Enterprise)  
Notes to Consolidated Financial Statements  
**For the years ended October 31, 2008 and 2007**

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### **3 Significant accounting policies (continued)**

#### **1) Future accounting policies**

##### International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB’s strategic plan outlines the convergence of Canadian GAAP with IFRS over a five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publically-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will be required to adopt IFRS on November 1, 2011. The transition will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### **4 Financial instruments**

The Company recognizes financial instruments based on their classification. Depending on the financial instruments’ classification, changes in subsequent measurements are recognized in net income or comprehensive income.

If a financial instrument is measured at fair value, changes in its fair value shall usually be recognized in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For investments designated as being available-for-sale, changes in the fair value shall be recorded directly in Shareholders’ Equity in a separate account called “Other Comprehensive Income” until the asset disappears or is impaired. At that time, the gains and losses are transferred to the Statement of Loss.

The Company has implemented the following classifications:

- Cash equivalents are classified as “Financial Assets Held for Trading.” These financial assets are marked-to-market through net income at each period end.
- Sales taxes recoverable and accounts receivable are classified as “Loans and Receivables.” After their initial fair value measurement, they are measured at amortized cost using the effective interest method.
- Accounts payable are classified as “Other Financial Liabilities.” After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

**Linear Metals Corporation**  
(A Development Stage Enterprise)  
Notes to Consolidated Financial Statements  
**For the years ended October 31, 2008 and 2007**

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**4 Financial instruments** (continued)

**a) Fair market value**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of cash and cash equivalents, accounts receivable, deposits and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

**b) Foreign currency rate risk**

A significant portion of the Company's transactions occur in United States and Mexican currencies and accordingly, the related financial assets are subject to fluctuations in the respective exchange rates.

**c) Concentration of credit risk**

Management does not believe it is exposed to any significant concentration of credit risk with the exception of the sales taxes recoverable. All of the sales taxes recoverable are with either the government of Canada or the government of Mexico.

**5 Capital management**

The Company's capital structure consists of cash and shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

**Linear Metals Corporation**  
(A Development Stage Enterprise)  
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For the years ended October 31, 2008 and 2007

**6 Property and equipment**

			<b>2008</b>	<b>2007</b>
	<b>Cost</b>	<b>Accumulated</b>	<b>Net</b>	<b>Net</b>
	\$	amortization	\$	\$
		\$		
Office equipment	81,428	28,188	53,240	54,480
Exploration equipment	82,556	21,416	61,140	35,138
Software	28,253	9,283	18,970	15,673
	<u>192,237</u>	<u>58,887</u>	<u>133,350</u>	<u>105,291</u>

During the year ended October 31, 2008, the Company capitalized amortization of \$17,525 (2007 - \$3,971) to resource properties.

**7 Resource properties**

For the year ended October 31, 2008

	<b>Mexico</b>				<b>Canada</b>		
	<b>Cobre</b>		<b>Ecatepec</b>	<b>Other</b>	<b>KM61</b>	<b>Seymour</b>	<b>Total</b>
	Grande	La Morena				Lake and	
	\$	\$	\$	\$	\$	Other	\$
						\$	\$
<b>Acquisition costs</b>							
Balance, October 31, 2007	102,989	203,241	123,140	-	22,297	59,107	510,774
Incurred during the year, net of option payments	62,952	1,410	22,261	25,784	143	40,452	153,002
Balance, October 31, 2008	<u>165,941</u>	<u>204,651</u>	<u>145,401</u>	<u>25,784</u>	<u>22,440</u>	<u>99,559</u>	<u>663,776</u>
<b>Deferred exploration costs</b>							
Balance, October 31, 2007	3,528,462	849,259	345,645	138,901	1,145,494	519,880	6,527,641
Incurred during the year, net of option payments	2,842,693	8,472	260,267	21,525	6,712,423	336,769	10,182,149
Balance, October 31, 2008	<u>6,371,155</u>	<u>857,731</u>	<u>605,912</u>	<u>160,426</u>	<u>7,857,917</u>	<u>856,649</u>	<u>16,709,790</u>
	6,537,096	1,062,382	751,313	186,210	7,880,357	956,208	17,373,566
Write-down of resource properties during the year	-	-	(751,313)	(186,210)	-	(126,800)	(1,064,323)
Balance, October 31, 2008	<u>6,537,096</u>	<u>1,062,382</u>	<u>-</u>	<u>-</u>	<u>7,880,357</u>	<u>829,408</u>	<u>16,309,243</u>

**Linear Metals Corporation**  
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Notes to Consolidated Financial Statements  
For the years ended October 31, 2008 and 2007

**7 Resource properties** (continued)

For the year ended October 31, 2007

	Mexico				Canada		Total \$
	Cobre Grande \$	La Morena \$	Ecatepec \$	Other \$	KM61 \$	Seymour Lake and Other \$	
<b>Acquisition costs</b>							
Balance, October 31, 2006	–	201,757	–	–	–	59,107	260,864
Incurring during the year, net of option payments	102,989	1,484	123,140	34,461	22,297	–	284,371
Balance, October 31, 2007	102,989	203,241	123,140	34,461	22,297	59,107	545,235
<b>Deferred exploration costs</b>							
Balance, October 31, 2006	85,171	799,681	58,465	132,097	–	506,076	1,581,490
Incurring during the year, net of option payments	3,443,291	49,578	287,180	16,009	1,145,494	77,297	5,018,849
Balance, October 31, 2007	3,528,462	849,259	345,645	148,106	1,145,494	583,373	6,600,339
	3,631,451	1,052,500	468,785	182,567	1,167,791	642,480	7,145,574
Write-down of resource properties during the year	–	–	–	(43,666)	–	(63,493)	(107,159)
Balance, October 31, 2007	3,631,451	1,052,500	468,785	138,901	1,167,791	578,987	7,038,415

The Company's interest in resource properties consists of:

**Mexico**

**i) Cobre Grande**

The Company holds the right to acquire an 80% interest in the 6,238 hectare Cobre Grande polymetallic mineral project, located in Oaxaca, Mexico, by fulfilling the remaining terms of an option agreement initially entered by Linear Gold with the Community of San Baltazar Guelavila (the "Community"). The remaining terms of the purchase option agreement with the Community include payments totalling US\$90,000 due in March 2009. If the purchase option is exercised by the Company by March 2009, the Community can choose between a US\$12 million buyout, a 2% net smelter return royalty or a 15% joint venture interest. Linear Gold retains a 20% interest in the agreement, which the Company can purchase, at any time prior to December 31, 2012, for US\$1.2 million. If the Company does not acquire Linear Gold's residual 20% interest, an 80/20 joint venture will be formed and be responsible for the obligations to the Community of San Baltazar Guelavila.

**Linear Metals Corporation**  
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**7 Resource properties** (continued)

**Mexico** (continued)

**i) Cobre Grande** (continued)

The Company is in negotiations with the Community with the objective of revising the terms of the option agreement, but there can be no assurance that the option agreement can be amended on terms acceptable to the Company. The Company does not have US\$12 million available and it is unlikely that the Company could raise US\$12 million in the current market conditions. Accordingly, there is a risk that the Company could lose its interest in the Cobre Grande property, which would result in a material write-down of all costs associated with the property.

**ii) La Morena**

The Company holds a 100% interest in the 952 hectare La Morena Property, comprised of the La Morena and Refugio concessions, located in the state of Coahuila, Mexico.

**iii) Ecatepec**

During the year ended October 31, 2008, the Company relinquished its option to purchase the Ecatepec property, an early stage exploration property located in the state of Oaxaca, Mexico, resulting in a write-down of resource properties of \$751,313.

**iv) Other**

During the year ended October 31, 2008, the Company entered into an option agreement to acquire up to a 100% interest in the La Trinidad property, an early stage exploration property, located in Baja California Sur, Mexico, which was subsequently terminated, resulting in a write-down of resource properties of \$186,210.

**Canada**

**i) KM61**

The Company holds a 100% interest in the KM61 property located to the northeast and contiguous with the Seymour Lake project. The property consists of 29 contiguous unpatented claims totalling 323 claim units and covering approximately 5,180 hectares.

**ii) Seymour Lake**

The Company acquired a 100% interest in the Seymour Lake property, which is a tantalum-lithium-beryllium prospect located in northwestern Ontario, in the Crescent Lake area of the Thunder Bay Mining District. The property consists of four contiguous unpatented claims totalling 51 claim units and comprising approximately 800 hectares. The Seymour Lake property is subject to a 3% net smelter return royalty of which 1.5% can be purchased by the Company for \$1.0 million.

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**7 Resource properties** (continued)

**Canada**

**iii) Other**

During the year ended October 31, 2008, the Company entered into separate option agreements to acquire up to a 100% interest in the Bateman property and the Stenlund property, both located in northwestern Ontario, Canada. The option agreement to acquire an interest in the Stenlund property was terminated, resulting in a write-down of resource properties of \$126,800.

**8 Capital stock**

**a) Authorized**

Unlimited number of common shares without par value.

**Linear Metals Corporation**  
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Notes to Consolidated Financial Statements  
For the years ended October 31, 2008 and 2007

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**8 Capital stock** (continued)

b) Changes in the Company's issued common share capital during the years were as follows:

	<u>Year ended October 31, 2008</u>		<u>Year ended October 31, 2007</u>	
	<b>Number</b>	<b>Amount \$</b>	<b>Number</b>	<b>Amount \$</b>
<b>Opening balance</b>	33,859,852	12,097,732	24,307,502	1,985,856
Shares issued for cash (note 8 (c))	3,900,000	7,020,000	9,250,000	10,841,250
Shares issued as agent's compensation for financing (note 8 (c))	147,841	266,114	123,900	77,438
Shares issued on exercise of stock options (note 8 (e))	92,500	55,500	—	—
Fair value of stock options exercised	—	23,125	—	—
Shares issued on exercise of warrants (note 8 (d))	—	—	178,450	178,450
Fair value of warrants exercised	—	—	—	44,612
	<b>38,000,193</b>	<b>19,462,471</b>	<b>33,859,852</b>	<b>13,127,606</b>
Less: Share issue costs	—	(606,259)	—	(1,029,874)
Less: Future tax effect on issuance of flow-through shares (note 8 (c))	—	(1,930,000)	—	—
<b>Closing balance</b>	<b>38,000,193</b>	<b>16,926,212</b>	<b>33,859,852</b>	<b>12,097,732</b>

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**8 Capital stock** (continued)

**c) Shares issued for cash**

On November 10, 2006, the Company completed a non-brokered private placement of 3,500,000 Units at a price of \$0.75 per Unit, for gross proceeds of \$2,625,000. Each Unit consisted of one common share and one-half warrant, and each whole warrant entitles the holder to purchase an additional common share at a price of \$1.00 per share until November 10, 2008. The Company paid total issue costs of \$169,625 in connection with the financing, including finders' fees of \$157,500, comprised of \$64,575 cash and 123,900 Units valued at \$92,925, as well as professional fees of \$12,125. The gross proceeds of the private placement allocated to the common shares was \$2,187,500, net of share issue costs of \$143,401, comprised of \$55,535 cash, 123,900 common shares valued at \$77,438 and professional fees of \$10,428. The gross proceeds of the private placement allocated to the warrants was \$437,500, net of issuance costs of \$26,224, comprised of \$9,040 cash, 61,950 warrants valued at \$15,487 and professional fees of \$1,697.

The Company completed a brokered private placement on February 22, 2007, of 5,750,000 Units at a price of \$1.75 per Unit, for total gross proceeds of \$10,062,500. Each Unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire a common share at a price of \$2.25 per share for a period of 24 months until February 22, 2009. The value of the financing allocated to the common shares was \$8,653,750, and the value allocated to the warrants was \$1,408,750. Costs associated with the financing totalled \$1,034,913 and included a cash commission paid to the underwriters of \$603,750 and \$129,288 in additional costs, including legal and regulatory fees. In addition, the underwriters were granted broker warrants exercisable for 345,000 Units of the Company at an exercise price of \$1.75 per Unit, which were valued at \$301,875. The Company allocated a total of \$886,473 to the cost of issuing the common shares and \$148,440 to the cost of issuing warrants.

On November 6, 2007, the Company completed a brokered private placement financing of 3,900,000 flow-through common shares at a price of \$1.80 per flow-through share, for aggregate gross proceeds of \$7,020,000. In connection with the financing, the Company incurred total issue costs of \$606,259, comprised of an agents' commission of \$386,100, representing 5.5% of the gross proceeds, legal and other fees of \$105,499 and the issuance of 234,000 agent's compensation options to purchase 234,000 common shares, exercisable at \$1.80 per compensation option until May 6, 2009 and valued at \$114,660 (note 8 (f)). A portion of the agent's commission was paid through the issuance of 147,841 non flow-through common shares valued at \$266,114.

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**8 Capital stock** (continued)

**c) Shares issued for cash** (continued)

Pursuant to the brokered private placement completed on November 6, 2007, the Company is required to spend funds raised through the issuance of flow-through shares on qualified Canadian exploration expenditures, as defined by Canadian income tax legislation, prior to December 31, 2008. The gross proceeds received from the issuance of the flow-through shares, less the qualifying expenditures made to date, are being held by the Company for such expenditures. At October 31, 2008, the Company had incurred qualifying expenditures of approximately \$6.9 million. During February 2008, with an effective date of December 31, 2007, the Company renounced the qualifying Canadian exploration expenditures to investors. The renunciation resulted in the recognition of a future tax liability of \$1,930,000, which was recorded as a reduction of share capital. The future tax liability has been reduced by a recovery of future tax assets previously subject to a full valuation allowance in the amount of \$986,000. During the year ended October 31, 2008, the Company has accrued financing costs arising from Part XII.6 tax associated with the flow-through shares of \$108,000.

**d) Shares issued on exercise of warrants**

During the year ended October 31, 2007, 178,450 shares were issued on the exercise of warrants for total proceeds to the Company of \$178,450.

**e) Stock option plan**

The Company has adopted a stock option plan (the "Plan"), providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than closing share price of the day preceding the date of grant.

The estimated fair value of options recognized in the consolidated statement of operations and deficit has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Weighted average assumptions used in the pricing model for the years ended October 31, 2008 and 2007 are as follows:

	<b>2008</b>	<b>2007</b>
Risk-free rate	3.09%	4.10%
Expected volatility of the Company's share price	84%	70%
Expected dividend yield	0%	0%
Expected life of each option	4.0 years	2.57 years
Weighted average fair value per option at the date of grant:		
Exercise price equal to stock price on date of grant	\$0.96	\$0.75
Exercise price exceeds stock price on date of grant	n/a	\$0.53

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**8 Capital stock** (continued)

e) **Stock option plan** (continued)

**Option activity for the years ended October 31:**

	<b>2008</b>		<b>2007</b>	
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Number</b>	<b>Weighted average exercise price \$</b>
Opening balance	3,242,500	1.07	1,970,000	0.60
Granted	1,010,000	0.96	1,532,500	1.63
Exercised	(92,500)	0.60	—	—
Cancelled	(1,007,500)	1.02	(260,000)	0.79
Ending balance	<u>3,152,500</u>	1.06	<u>3,242,500</u>	1.07

As at October 31, 2008, the Company had outstanding stock options entitling the holders to acquire additional common shares as follows:

<b>Weighted average exercise price per share \$</b>	<b>Number outstanding</b>	<b>Expiry date</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Number exercisable</b>
0.60	1,110,000	August 29, 2009	0.83	721,500
0.85	250,000	March 25, 2013	4.40	—
1.00	705,000	January 31, 2013	4.25	—
1.00	30,000	May 16, 2013	4.54	—
1.50	107,500	April 16, 2010	1.46	32,250
1.50	200,000	September 1, 2010	1.83	60,000
1.50	25,000	September 10, 2010	1.86	7,500
1.60	30,000	January 15, 2010	1.21	9,000
1.60	150,000	March 1, 2010	1.33	45,000
1.75	250,000	January 22, 2010	1.23	75,000
1.75	<u>295,000</u>	March 28, 2010	1.41	<u>88,500</u>
1.06	<u>3,152,500</u>		2.12	<u>1,038,750</u>

As at October 31, 2008, 647,519 options were available for granting under the Plan (2007 - 143,485 options).

During the year, the Company capitalized \$163,672 (2007 - \$146,487) in non-cash stock-based compensation expense to Resource Properties.

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**8 Capital stock** (continued)

**f) Agent's options**

Pursuant to part of the Company's flow-through financing (note 8 (c)) completed on November 6, 2007, the agents were granted compensation options to purchase 234,000 common shares, exercisable at \$1.80 per compensation option until May 6, 2009. The compensation options have been valued at \$114,660 and are included in share issue costs. The assumptions used in the valuation of the agent's options were as follows:

Risk-free rate	4.17%
Expected volatility of the Company's share price	83%
Expected dividend yield	0%
Expected life of each agent option	1.5 years
Fair value per agent option at the date of grant	\$0.49

**9 Warrants**

a) Warrant activity during the years ended October 31, 2008 and 2007 was as follows:

	<b>2008</b>		
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Amount \$</b>
Opening balance	5,026,000	1.81	1,944,336
Issued for cash	—	—	—
Issued as cost of financing	—	—	—
Exercised	—	—	—
Less: Issue costs	—	—	—
Ending balance	<u>5,026,000</u>	1.81	<u>1,944,336</u>

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**9 Warrants** (continued)

	<b>2007</b>		
	<b>Number</b>	<b>Weighted average exercise price \$</b>	<b>Amount \$</b>
Opening balance	—	—	—
Issued for cash (note 8 (c))	4,625,000	1.78	1,846,250
Issued as a cost of financing	579,450	1.82	317,362
Exercised	(178,450)	1.00	(44,612)
Less: Issue costs	—	—	(174,664)
Ending balance	<u>5,026,000</u>	1.81	<u>1,944,336</u>

In connection with the private placement financings completed in November 2006 and February 2007 (note 8 (c)), the Corporation issued 4,625,000 warrants to shareholders and the equivalent of 579,450 warrants in the form of warrants and broker warrants pursuant to the financings. In connection with the February 22, 2007 financing, the Corporation issued 345,000 broker warrants to the underwriters, exercisable for an aggregate of 345,000 Units of the Corporation at an exercise price of \$1.75 per Unit until February 22, 2009. If exercised, the Units will consist of 345,000 common shares and an additional 172,500 warrants exercisable at \$2.25 per warrant, which are included in the total equivalent of 579,450.

b) Warrants outstanding as of October 31, 2008:

<b>Expiry date</b>	<b>Number</b>	<b>Weighted average exercise price \$</b>
November 10, 2008	1,633,500*	1.00
February 22, 2009	<u>3,392,500**</u>	2.20
	<u>5,026,000</u>	1.81

\* Expired subsequent to October 31, 2008.

\*\* Includes 345,000 broker warrants, exercisable for 345,000 Units at \$1.75 per Unit (notes 8 (c) and 9 (a)).

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**9 Warrants** (continued)

- c) The fair value of warrants recognized has been estimated at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for the years ended October 31, 2008 and 2007 are as follows:

	<b>2008</b>	<b>2007</b>
Risk free interest rate	n/a	4.07%
Maximum life	n/a	2.0 years
Expected volatility	n/a	65%
Expected dividend yield	n/a	0%

**10 Contributed surplus**

	\$
<b>Balance at October 31, 2006</b>	120,413
Value of options earned during the year	<u>381,364</u>
<b>Balance at October 31, 2007</b>	501,777
Value of options earned during the year	418,815
Value of agent's compensation issued during the year (note 8 (c))	114,660
Less: Value of options exercised during the year	<u>(23,125)</u>
<b>Balance at October 31, 2008</b>	<u>1,012,127</u>

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**11 Income taxes**

The following table reconciles the expected income taxes payable (recoverable) at the statutory income tax rate to the amounts recognized in the consolidated statements of operations and deficit for the years ended October 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
	\$	\$
Loss before income taxes	(2,470,971)	(1,111,705)
Income tax rate	27.5%	38.1%
	<hr/>	<hr/>
Expected income tax recovery based on above rates	(680,000)	(424,000)
Effect of different tax rates in foreign jurisdictions	(4,000)	10,000
Non-deductible stock option expense	70,000	89,000
Change in valuation allowance	(509,000)	541,000
Other and permanent differences	137,000	(216,000)
	<hr/>	<hr/>
Provision for (recovery of) income taxes	(986,000)	—
Provision for (recovery of) income taxes is comprised of:		
Future income taxes	(477,000)	(541,000)
Adjustment to valuation allowance	(509,000)	541,000
	<hr/>	<hr/>
	(986,000)	—

The following reflects future income tax assets (liabilities) at October 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>Future tax assets (liabilities)</b>		
Non-capital losses carried forward	2,660,000	1,491,000
Deductible share issue costs	244,000	252,000
Accounting value of mineral resource properties in excess of tax value	(3,730,000)	(1,107,000)
Tax value of property and equipment and prepaid expenses in excess of accounting value	13,000	4,000
	<hr/>	<hr/>
	(813,000)	640,000
Valuation allowance applied against future tax assets	(131,000)	(640,000)
	<hr/>	<hr/>
<b>Net future income tax asset (liability) recognized</b>	(944,000)	—

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**11 Income taxes** (continued)

The Company has accumulated losses for Canadian income tax purposes of approximately \$2,450,000, which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

	\$
Year ending October 31, 2026	205,000
2027	852,000
2028	<u>1,393,000</u>
	<u>2,450,000</u>

The Company has undeducted share issuance costs from prior years of approximately \$888,000 which will be deducted from Canadian taxable income over the next four years. The Company has also incurred resource expenditures of approximately \$2,865,000, which may be carried forward indefinitely and used to reduce Canadian taxable income in future years, including approximately \$641,000 that was transferred from Linear Gold upon reorganization with the Company in 2006.

In addition, the Company has accumulated Mexican tax losses of approximately \$7,095,000, which may be carried forward and used to reduce taxable income in Mexico in future years. These losses expire as follows:

	\$
Year ending October 31, 2017	1,238,000
2018	3,155,000
2019	<u>2,702,000</u>
	<u>7,095,000</u>

**12 Commitments**

Under the terms of the Cobre Grande agreement, the Company is required to make certain future payments in order to maintain its interest in the property (note 7).

The Company has a commitment in respect of its operating lease on its premises in Toronto, which expires on March 31, 2013. This commitment requires total payments, including estimated common expenses, over the next five years as follows:

	\$
Year ending October 31, 2009	113,000
2010	125,000
2011	127,000
2012	129,000
2013	54,000

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**13 Segmented information**

The Company conducts mineral operations in Canada and Mexico and is searching for mineral exploration opportunities worldwide. Since the Company is in the exploration stage, there is no segmented revenue or operating results to report. The Company's total assets are segmented geographically as follows:

	<b>2008</b>			
	<b>Corporate Canada \$</b>	<b>Mineral Operations Canada \$</b>	<b>Mineral Operations Mexico \$</b>	<b>Total \$</b>
Current assets	1,154,234	–	835,072	1,989,306
Property and equipment	72,210	27,267	33,873	133,350
Resource properties	–	8,709,765	7,599,478	16,309,243
	<u>1,226,444</u>	<u>8,737,032</u>	<u>8,468,423</u>	<u>18,431,899</u>
	<b>2007</b>			
	<b>Corporate Canada \$</b>	<b>Mineral Operations Canada \$</b>	<b>Mineral Operations Mexico \$</b>	<b>Total \$</b>
Current assets	6,018,456	–	739,768	6,758,224
Property and equipment	70,153	4,610	30,528	105,291
Resource properties	–	1,746,777	5,291,638	7,038,415
	<u>6,088,609</u>	<u>1,751,387</u>	<u>6,061,934</u>	<u>13,901,930</u>

**14 Subsequent events**

On November 10, 2008, 1,644,500 of the Company's warrants expired unexercised. These warrants were exercisable at a price of \$1.00 per warrant and had a value of \$0.25 per warrant in the Company's financial statements.

**15 Comparative figure**

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

