

**LINEAR METALS CORPORATION**  
**Consolidated Financial Statements**  
**(unaudited – Prepared by Management)**  
**July 31, 2007**

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, Linear Metals Corporation discloses that its auditors have not reviewed the unaudited financial statements for the period ended July 31, 2007.

**Linear Metals Corporation**  
**(unaudited - Prepared by Management)**  
**Consolidated Balance Sheets**

As at the periods ended

<b>ASSETS</b>	July 31 2007 \$	October 31 2006 \$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	8,504,125	130,119
Sales taxes recoverable	457,978	173,671
Prepaid expenses	14,569	-
Deposits	-	833
	<u>8,976,672</u>	<u>304,623</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	103,376	576
<b>RESOURCE PROPERTIES</b>	<u>4,837,282</u>	<u>1,842,354</u>
	<u><u>13,917,330</u></u>	<u><u>2,147,553</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	428,713	235,818
Advance from Linear Gold Corp.	-	54,327
	<u>428,713</u>	<u>290,145</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (note 4)</b>	12,113,220	1,985,856
<b>WARRANTS (note 5)</b>	1,928,848	-
<b>CONTRIBUTED SURPLUS</b>	367,305	120,413
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>	-	-
<b>DEFICIT</b>	<u>(920,756)</u>	<u>(248,861)</u>
	<u>13,488,617</u>	<u>1,857,408</u>
	<u><u>13,917,330</u></u>	<u><u>2,147,553</u></u>

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

**Approved by the Board of Directors**

(s) Wade K. Dawe  
Wade K. Dawe

(s) Michael Gross  
Michael Gross

**Linear Metals Corporation**  
**Statements of Loss and Deficit**  
**(unaudited - Prepared by Management)**

	For the Three Months Ended July 31		For the Nine Months Ended July 31	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>INCOME</b>				
Interest	95,987	-	196,550	-
	<u>95,987</u>	<u>-</u>	<u>196,550</u>	<u>-</u>
<b>EXPENSES</b>				
Amortization	4,456	-	4,686	-
Office and administrative	53,010	111	61,204	804
Investor relations and marketing	27,567	1,500	91,985	1,500
Listing and regulatory costs	28,485	27,216	79,949	59,716
Management salaries and services	112,474	10,000	321,549	10,000
Professional services	8,394	12,902	28,682	76,695
Stock-based compensation	43,357	-	105,075	-
Travel	19,737	425	56,553	425
	<u>297,480</u>	<u>52,154</u>	<u>749,683</u>	<u>149,140</u>
<b>LOSS FROM OPERATIONS</b>	(201,493)	(52,154)	(553,133)	(149,140)
<b>OTHER INCOME (EXPENSES)</b>				
Write-down of resource property	(35,718)	-	(35,718)	-
Foreign exchange	(36,548)	(1,272)	(83,044)	2,428
	<u>(72,266)</u>	<u>(1,272)</u>	<u>(118,762)</u>	<u>2,428</u>
<b>NET LOSS</b>	(273,759)	(53,426)	(671,895)	(146,712)
<b>DEFICIT</b> , beginning of period	(646,997)	(93,286)	(248,861)	-
<b>DEFICIT</b> , end of period	<u>\$ (920,756)</u>	<u>\$ (146,712)</u>	<u>\$ (920,756)</u>	<u>\$ (146,712)</u>
<b>LOSS PER SHARE - BASIC and FULLY DILUTED</b>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
<b>Weighted Average Number of Common Shares Outstanding</b>	33,840,756	18,082,674	31,190,193	6,702,025

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

**Linear Metals Corporation**  
**Cash Flow Statements**  
**(unaudited - Prepared by Management)**

	For the Three Months Ended July 31		For the Nine Months Ended July 31	
	2007 \$	2006 \$	2007 \$	2006 \$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Net loss for the period	(273,759)	(53,426)	(671,895)	(146,712)
Charges to operations not involving cash				
Amortization	4,456	-	4,686	-
Stock-based compensation	43,357	-	105,075	-
Write-down of resource property	35,718	-	35,718	-
	<u>(190,228)</u>	<u>(53,426)</u>	<u>(526,416)</u>	<u>(146,712)</u>
Net change in non-cash working capital balances related to operations				
Increase in accounts receivable	-	(5,093)	-	(11,520)
Increase in sales taxes recoverable	(31,245)	(15,386)	(54,663)	(15,386)
Increase in prepaid expenses	(14,569)	-	(14,569)	-
Decrease in deposits	-	-	833	-
Increase (decrease) in accounts payable and accrued liabilities	(111,410)	240,728	49,230	556,239
	<u>(347,452)</u>	<u>166,823</u>	<u>(545,585)</u>	<u>382,621</u>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>				
Advances from Linear Gold Corp.	-	-	(54,327)	-
Common shares issued for cash, net of issuance costs	78,450	962,987	10,342,363	1,637,987
Warrants issued for cash, net of issuance costs	-	-	1,713,849	-
	<u>78,450</u>	<u>962,987</u>	<u>12,001,885</u>	<u>1,637,987</u>
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>				
Resource property interests and options, net	(1,238,972)	(223,223)	(2,745,164)	(923,656)
Sales taxes recoverable related to resource property interests	(70,274)	(26,112)	(229,644)	(127,618)
Purchases of equipment	(56,106)	-	(107,486)	-
	<u>(1,365,352)</u>	<u>(249,335)</u>	<u>(3,082,294)</u>	<u>(1,051,274)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(1,634,354)	880,475	8,374,006	969,334
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>10,138,479</u>	<u>89,122</u>	<u>130,119</u>	<u>263</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u>8,504,125</u>	<u>969,597</u>	<u>8,504,125</u>	<u>969,597</u>
<b>NON-CASH FINANCING ACTIVITIES</b>				
Common shares issued as cost of financing	-	-	77,438	-
Warrants issued as cost of financing	-	-	15,487	-
Broker warrants issued as cost of financing	-	-	301,875	-

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

**Linear Metals Corporation**  
**Statements of Comprehensive Loss**  
**(unaudited - Prepared by Management)**

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	For the Three Months Ended July 31		For the Nine Months Ended July 31	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net loss for the period	273,759	53,426	671,895	146,712
Other Comprehensive loss (income)	-	-	-	-
Comprehensive loss for the period	<u>273,759</u>	<u>53,426</u>	<u>671,895</u>	<u>146,712</u>

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

# **LINEAR METALS CORPORATION**

## **Notes to Financial Statements**

Unaudited – Prepared by Management

July 31, 2007

### **1. Incorporation and nature of operations**

Linear Metals Corporation (the “Corporation”) was incorporated under the Canada Business Corporations Act on November 17, 2004. The Corporation is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for resources properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the company to obtain necessary financing and permits to complete the development, and future profitable production or proceeds from the disposition thereof.

### **2. Accounting policies**

These unaudited interim consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, certain information and note disclosure normally included in annual consolidated financial statements have been condensed or omitted. Except for the changes in accounting policies described in Note 3, these interim consolidated financial statements are based on accounting principles and practices consistent with those used in the preparation of the Corporation’s annual consolidated financial statements. These interim consolidated financial statements should be read together with the Corporation’s October 31, 2006 audited consolidated financial statements and the accompanying notes.

### **3. Changes in Accounting Policies**

On November 1, 2006, the Corporation adopted, on a prospective basis, two new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants in January 2005.

#### *Section 3855 – Financial Instruments – Recognition and Measurement*

In accordance with this new standard for recognition and measurement of all financial instruments, the Corporation now classifies all financial instruments as held-to-maturity, available-for-sale, held for trading, or as loans and receivables. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value, with unrealized gains and losses recognized on the statement of loss and deficit.

#### *Section 1530 – Comprehensive Income*

Comprehensive income is the change in shareholders’ equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this new standard, the Corporation reports a consolidated statement of comprehensive loss. The components of this

# LINEAR METALS CORPORATION

## Notes to Financial Statements

Unaudited – Prepared by Management

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statement will include unrealized gains and losses on financial instruments classified as available-for-sale.

### 4. Capital Stock

#### a) Common Shares

The Corporation has authorized an unlimited number of common shares without par value.

The following is a summary of common share capital activity during the three and nine-month periods ending July 31, 2007:

	3-months ended July 31, 2007		9-months ended July 31, 2007	
	Number	Amount	Number	Amount
Balance outstanding - beginning of period	33,781,402	12,015,157	24,307,502	1,985,856
Shares Issued (see note 4(b)):				
Shares issued for cash	-	-	9,250,000	10,856,738
Shares issued as finder's compensation for financing	-	-	123,900	77,438
Shares issued on exercise of warrants	78,450	78,450	178,450	178,450
Fair value of warrants exercised	-	19,613	-	44,613
Less: Share issue costs	-	-	-	(1,029,875)
Balance outstanding - end of period	<u>33,859,852</u>	<u>12,113,220</u>	<u>33,859,852</u>	<u>12,113,220</u>

#### b) Private Placement Financings

On November 10, 2006, the Corporation 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 Corporation 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 \$2,202,988, net of share issuance 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 \$422,013, 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 Corporation 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

# LINEAR METALS CORPORATION

## Notes to Financial Statements

Unaudited – Prepared by Management

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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 totaled \$1,034,914 and included a cash commission paid to the underwriters of \$603,750 and \$129,289 in additional costs, including legal and regulatory fees. In addition, the underwriters were granted broker warrants exercisable for 345,000 Units of the Corporation at an exercise price of \$1.75 per Unit, which were valued at \$301,875 (see note 5(a)). The Corporation allocated a total of \$886,474 to the cost of issuing common shares and \$148,440 to the cost of issuing the warrants.

### c) Stock Options

The following is a summary of stock option activity during the three and nine-month periods ending July 31, 2007:

	3-months ended July 31, 2007			9-months ended July 31, 2007		
	Number	Weighted average exercise price (\$)	Weighted average fair value (\$)	Number	Weighted average exercise price (\$)	Weighted average fair value (\$)
Outstanding, beginning of period	2,717,500	0.98	0.37	1,970,000	0.60	0.25
Granted	300,000	1.55	0.76	1,257,500	1.65	0.66
Exercised	-	-	-	-	-	-
Expired/cancelled	(50,000)	1.60	0.71	(260,000)	0.79	0.34
Outstanding, end of period	<u>2,967,500</u>	<u>1.03</u>	<u>0.42</u>	<u>2,967,500</u>	<u>1.03</u>	<u>0.42</u>

As at July 31, 2007, the Corporation has outstanding stock options entitling the holders to acquire additional common shares as follows:

Weighted average exercise price per share	Number outstanding	Expiry Date	Number exercisable
0.60	1,760,000	August 29, 2009	-
1.50	107,500	April 16, 2010	-
1.55	300,000	May 14, 2010	-
1.60	30,000	January 15, 2010	-
1.60	150,000	March 1, 2010	-
1.75	250,000	January 22, 2010	-
1.75	370,000	March 28, 2010	-
<u>1.03</u>	<u>2,967,500</u>		<u>-</u>

# LINEAR METALS CORPORATION

## Notes to Financial Statements

Unaudited – Prepared by Management

July 31, 2007

### 5. Warrants

a) Warrant activity during the three and nine-month periods ended July 31, 2007 was as follows:

	3-months ended July 31, 2007			9-months ended July 31, 2007		
	Number	Weighted average exercise price (\$)	Fair Value* (\$)	Number	Weighted average exercise price (\$)	Fair Value* (\$)
Opening Balance	5,104,450	1.80	1,948,461	-	-	-
Issued for cash (see note 4(b))	-	-	-	4,625,000	1.78	1,830,763
Issued as cost of financing	-	-	-	579,450	1.82	317,362
Exercised	(78,450)	1.00	(19,613)	(178,450)	1.00	(44,613)
Less: Issue costs	-	-	-	-	-	(174,664)
Ending Balance	<u>5,026,000</u>	<u>1.81</u>	<u>1,928,848</u>	<u>5,026,000</u>	<u>1.81</u>	<u>1,928,848</u>

\* Black-Scholes valuation

In connection with the private placement financings completed in November 2006 and February 2007 (see note 4(b)), 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) The fair value of warrants has been estimated at the grant date using the Black-Scholes pricing model. The weighted-average assumptions used in the pricing model are as follows:

Risk-free rate	4.07%
Expected volatility of the Company's share price	65%
Expected life of each warrant	2.0 years
Fair value per warrant at the date of grant	\$ 0.42

### 6. Comparative Figures

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