

**LINEAR METALS CORPORATION**  
**Consolidated Financial Statements**  
(unaudited - Prepared by Management)  
**July 31, 2008**

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended July 31, 2008.

**LINEAR METALS CORPORATION**  
**Consolidated Balance Sheets**  
(unaudited - Prepared by Management)

(expressed in Canadian dollars)

	July 31 2008	October 31 2007
<b>ASSETS</b>	<u>\$</u>	<u>\$</u>
<b>Current Assets</b>		
Cash and cash equivalents	3,550,698	6,124,772
Sales taxes recoverable	893,109	623,668
Prepaid expenses and deposits	41,604	9,784
	<u>4,485,411</u>	<u>6,758,224</u>
<b>Property and Equipment</b>	143,838	105,291
<b>Resource Properties</b>	<u>14,508,616</u>	<u>7,038,415</u>
	<u>19,137,865</u>	<u>13,901,930</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accruals	<u>678,032</u>	<u>718,651</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital Stock</b> (note 6)	16,914,975	12,097,732
<b>Warrants</b> (note 7)	1,944,336	1,944,336
<b>Contributed Surplus</b>	886,240	501,777
<b>Deficit</b>	<u>(1,285,718)</u>	<u>(1,360,566)</u>
	<u>18,459,833</u>	<u>13,183,279</u>
	<u>19,137,865</u>	<u>13,901,930</u>

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

**Approved on behalf of the Board of Directors**

(s) *Wade K. Dawe*  
**Wade K. Dawe**

(s) *Michael Gross*  
**Michael Gross**

**LINEAR METALS CORPORATION**  
**Consolidated Statements of Operations and Deficit**  
(unaudited - Prepared by Management)

(expressed in Canadian dollars)

	For the Three-Months Ended July 31		For the Nine-Months Ended July 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>INCOME</b>				
Interest	38,920	95,987	244,887	196,550
	<u>38,920</u>	<u>95,987</u>	<u>244,887</u>	<u>196,550</u>
<b>EXPENSES</b>				
Amortization	5,173	4,456	18,869	4,686
Banking fees	402	-	987	-
Financing costs	33,000	-	101,000	-
General and administrative	55,064	53,010	117,360	61,204
Investor relations and marketing	171,285	27,567	396,975	91,985
Listing and regulatory costs	29,812	28,485	106,571	79,949
Management salaries and services	134,415	112,474	412,414	321,549
Professional services	18,216	8,394	51,695	28,682
Stock-based compensation	75,439	43,357	175,137	105,075
Travel	34,738	19,737	79,625	56,553
	<u>557,544</u>	<u>297,480</u>	<u>1,460,633</u>	<u>749,683</u>
<b>LOSS FROM OPERATIONS</b>	(518,624)	(201,493)	(1,215,746)	(553,133)
<b>OTHER INCOME (EXPENSES)</b>				
Foreign exchange	68,561	(36,548)	111,907	(83,044)
Write-down of resource properties	-	(35,718)	(751,313)	(35,718)
	<u>-</u>	<u>(35,718)</u>	<u>(751,313)</u>	<u>(35,718)</u>
<b>NET LOSS BEFORE INCOME TAXES</b>	<u>(450,063)</u>	<u>(273,759)</u>	<u>(1,855,152)</u>	<u>(671,895)</u>
<b>RECOVERY OF FUTURE INCOME TAXES</b> (note 6(b))	-	-	(1,930,000)	-
	<u>-</u>	<u>-</u>	<u>(1,930,000)</u>	<u>-</u>
<b>NET INCOME (LOSS)</b>	(450,063)	(273,759)	74,848	(671,895)
<b>DEFICIT</b> , beginning of period	(835,655)	(646,997)	(1,360,566)	(248,861)
<b>DEFICIT</b> , end of period	<u>\$ (1,285,718)</u>	<u>\$ (920,756)</u>	<u>\$ (1,285,718)</u>	<u>\$ (920,756)</u>
<b>EARNINGS (LOSS) PER SHARE - BASIC</b>	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.02)
<b>EARNINGS (LOSS) PER SHARE - FULLY DILUTED</b>	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.02)
<b>Weighted Average Number of Common Shares</b>				
Basic	37,991,063	33,840,756	37,897,021	31,190,193
Fully Diluted	46,686,688	41,858,787	46,404,913	37,428,084

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

**LINEAR METALS CORPORATION**  
**Consolidated Statements of Cash Flow**  
(unaudited - Prepared by Management)

(expressed in Canadian dollars)

	For the Three-Months Ended July 31		For the Nine-Months Ended July 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Net income (loss) for the period	(450,063)	(273,759)	74,848	(671,895)
Charges to operations not involving cash				
Amortization	5,173	4,456	18,869	4,686
Stock-based compensation	75,439	43,357	175,137	105,075
Write down of resource properties	-	35,718	751,313	35,718
Recovery of future income taxes	-	-	(1,930,000)	-
	<u>(369,451)</u>	<u>(190,228)</u>	<u>(909,833)</u>	<u>(526,416)</u>
Net change in non-cash working capital related to operations				
Decrease (increase) in sales taxes recoverable	(5,329)	(31,245)	(49)	(54,663)
Decrease (increase) in prepaid expenses and deposits	150,190	(14,569)	(31,820)	(13,736)
Increase (decrease) in accounts payable and accruals	97,685	(111,410)	176,724	(5,097)
	<u>(126,905)</u>	<u>(347,452)</u>	<u>(764,978)</u>	<u>(599,912)</u>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>				
Common shares issued for cash, net of issuance costs	10,500	78,450	6,838,779	10,342,363
Warrants issued for cash, net of issuance costs	-	-	-	1,713,849
	<u>10,500</u>	<u>78,450</u>	<u>6,838,779</u>	<u>12,056,212</u>
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>				
Resource property interests and options, net	(2,695,102)	(1,238,972)	(8,308,632)	(2,745,164)
Sales taxes recoverable related to resource property interests	(90,623)	(70,274)	(269,392)	(229,644)
Purchases of equipment	(16,597)	(56,106)	(69,851)	(107,486)
	<u>(2,802,322)</u>	<u>(1,365,352)</u>	<u>(8,647,875)</u>	<u>(3,082,294)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,918,727)</b>	<b>(1,634,354)</b>	<b>(2,574,074)</b>	<b>8,374,006</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>6,469,425</b>	<b>10,138,479</b>	<b>6,124,772</b>	<b>130,119</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b><u>3,550,698</u></b>	<b><u>8,504,125</u></b>	<b><u>3,550,698</u></b>	<b><u>8,504,125</u></b>
<b>NON-CASH FINANCING ACTIVITIES</b>				
Common shares issued as cost of financing	-	-	266,114	77,348
Warrants issued as cost of financing	-	-	-	15,487
Agent's options issued as cost of financing	-	-	114,660	301,875

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

**LINEAR METALS CORPORATION**  
**Consolidated Statements of Comprehensive Income (Loss)**  
(unaudited - Prepared by Management)

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*(expressed in Canadian dollars)*

	For the Three-Months Ended July 31		For the Nine-Months Ended July 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net income (loss) for the period	(450,063)	(273,759)	74,848	(671,895)
Other comprehensive loss (income)	-	-	-	-
Comprehensive loss for the period	<u>(450,063)</u>	<u>(273,759)</u>	<u>74,848</u>	<u>(671,895)</u>

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

**LINEAR METALS CORPORATION**  
**Notes to Consolidated Financial Statements**  
(unaudited – Prepared by Management)  
July 31, 2008

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**1. Nature of Operations**

Linear Metals Corporation (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. To date, the Company has not earned significant revenues and is considered to be a development stage company. The recoverability of amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, obtaining necessary financing and permitting 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 Company 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. These interim consolidated financial statements are based on accounting principles and practices consistent with those used in the preparation of the Company’s annual consolidated financial statements. These interim consolidated financial statements should be read together with the Company’s October 31, 2007 audited consolidated financial statements and the accompanying notes.

**3. 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 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.

Sections 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.

**LINEAR METALS CORPORATION**  
**Notes to Consolidated Financial Statements**  
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**4. Financial Instruments**

**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 value of accounts receivable, deposits and accounts payable and accrued liabilities approximates their fair value because of the short-term nature of those instruments.

**b) Foreign currency rate risk management**

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

**c) Concentration of Credit Risk**

The Company does not believe it is exposed to any significant concentrations of credit risk, with the exception of the sales taxes recoverable. Virtually all of the sales taxes recoverable are with governments in a foreign jurisdiction.

**5. Capital Management**

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 financings. 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 period. The Company is not subject to externally imposed capital requirements.

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**6. Capital Stock**

a) Common Shares

The Company 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, 2008:

	<u>Three-months ended July 31, 2008</u>		<u>Nine-months ended July 31, 2008</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Balance outstanding - beginning of period	37,982,693	\$ 16,900,100	33,859,852	\$ 12,097,732
Shares Issued (see note 6(b) and (d)):				
Shares issued for cash	-	-	3,900,000	7,020,000
Shares issued as agent compensation	-	-	147,841	266,114
Shares issued on exercise of stock options	17,500	10,500	92,500	55,500
Fair value of stock options exercised	-	4,375	-	23,125
Less: Share issue costs	-	-	-	(617,496)
Less: Future tax effect on issuance of flow-through shares	-	-	-	(1,930,000)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,930,000)</u>
Balance outstanding - end of period	<u>38,000,193</u>	<u>\$ 16,914,975</u>	<u>38,000,193</u>	<u>\$ 16,914,975</u>

b) Flow-through financing

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 \$617,496, comprised of an agents' commission of \$386,100, representing 5.5% of the gross proceeds, legal and other fees of \$116,736 and the issuance of 234,000 agents' compensation options to purchase 234,000 common shares, exercisable at \$1.80 per compensation option until May 6, 2009 and valued at \$114,660 (see note 6(d)). A portion of the agents' commission was paid through the issuance of 147,841 non flow-through common shares valued at \$266,114.

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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 July 31, 2008, the Company had incurred qualifying expenditures of approximately \$5,300,000. During February 2008, with an effective date of December 31, 2007, the Company renounced the qualifying Canadian exploration expenditures to investors. The renunciation reduces the future tax assets of the Company, which had previously been subject to a full valuation allowance, by \$1,930,000 and has been recorded as a reduction of share capital on the balance sheet and a recovery of future income tax assets on the statement of operations. During the nine-month period ended July 31, 2008, the Company accrued financing costs arising from Part XII.6 Tax associated with the flow-through shares of \$101,000.

c) Stock Options

The following is a summary of stock option activity during the three and nine-month periods ending July 31, 2008:

	<u>Three-months ended July 31, 2008</u>		<u>Nine-months ended July 31, 2008</u>	
	<u>Number</u>	<u>Weighted average exercise price</u>	<u>Number</u>	<u>Weighted average exercise price</u>
Outstanding, beginning of period	3,522,500	\$ 1.05	3,242,500	\$ 1.07
Granted	30,000	1.00	1,010,000	0.96
Exercised	(17,500)	0.60	(92,500)	0.60
Expired/cancelled	(307,500)	0.88	(932,500)	1.00
Outstanding, end of period	<u>3,227,500</u>	<u>\$ 1.07</u>	<u>3,227,500</u>	<u>\$ 1.07</u>

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

Exercise price	Number outstanding	Expiry date	Number exercisable
\$ 0.60	1,110,000	August 29, 2009	333,000
0.85	250,000	March 25, 2013	-
1.00	730,000	January 31, 2013	-
1.00	30,000	May 16, 2013	-
1.50	107,500	April 16, 2010	32,250
1.50	200,000	September 1, 2010	-
1.50	75,000	September 10, 2010	-
1.60	30,000	January 15, 2010	9,000
1.60	150,000	March 1, 2010	45,000
1.75	250,000	January 22, 2010	75,000
1.75	295,000	March 28, 2010	88,500
<u>\$ 1.07</u>	<u>3,227,500</u>		<u>582,750</u>

The fair value of stock options is estimated at the grant date using the Black-Scholes pricing model. The weighted-average assumptions used to assign value to the options granted during the nine-month period ended July 31, 2008 are as follows:

Risk-free rate	3.09%
Expected volatility of the Company's share price	84%
Expected dividend yield	0%
Expected life of each option	4.00
Weighted average fair value per option at the date of grant	\$ 0.53

**LINEAR METALS CORPORATION**  
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d) Agent's Options

As part of the Company's flow-through financing 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 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

**7. Warrants**

Warrant activity during the three and nine-month period ended July 31, 2008 was as follows:

	Three-months ended July 31, 2008			Nine-months ended July 31, 2008		
	Number	Weighted average exercise price	Fair Value*	Number	Weighted average exercise price	Fair Value*
Opening Balance	5,026,000	\$ 1.81	\$ 1,944,336	5,026,000	\$ 1.81	\$ 1,944,336
Issued	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Ending Balance	<u>5,026,000</u>	<u>\$ 1.81</u>	<u>\$ 1,944,336</u>	<u>5,026,000</u>	<u>\$ 1.81</u>	<u>\$ 1,944,336</u>

\* Black-Scholes valuation

**8. Comparative Figures**

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