

**LINEAR METALS CORPORATION**  
**Consolidated Financial Statements**  
(unaudited - Prepared by Management)  
**July 31, 2006**

**LINEAR METALS CORPORATION**  
**Consolidated Balance Sheets**  
As at the periods ended  
(unaudited - Prepared by Management)

<b>ASSETS</b>	July 31 2006 \$	October 31 2005 \$
<b>CURRENT</b>		
Cash and cash equivalents	969,597	263
Accounts receivable	11,520	-
Share subscription receivable	22,881	-
Sales taxes recoverable	143,004	-
	<u>1,147,002</u>	<u>263</u>
<b>RESOURCE PROPERTIES (Notes 4 and 5)</b>	<u>1,410,357</u>	-
	<u><u>2,557,359</u></u>	<u><u>263</u></u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	<u>563,070</u>	<u>3,805</u>
	<u>563,070</u>	<u>3,805</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL (Note 6)</b>	1,985,856	1
<b>CONTRIBUTED SURPLUS</b>	155,102	-
<b>DEFICIT</b>	(146,669)	(3,543)
	<u>1,994,289</u>	<u>(3,542)</u>
	<u><u>2,557,359</u></u>	<u><u>263</u></u>

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

**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
	2006	2006
	\$	\$
<b>INCOME</b>		
Interest	-	-
	<u>-</u>	<u>-</u>
<b>EXPENSES</b>		
Professional services	12,902	73,397
Management services	10,000	10,000
Listing and regulatory costs	27,216	59,716
Banking fees	111	516
Investor relations and marketing	1,500	1,500
Travel	425	425
	<u>52,154</u>	<u>145,554</u>
<b>LOSS FROM OPERATIONS</b>	(52,154)	(145,554)
<b>OTHER INCOME (EXPENSES)</b>		
Foreign exchange	(1,272)	2,428
	<u>(1,272)</u>	<u>2,428</u>
<b>NET LOSS</b>	(53,426)	(143,126)
<b>DEFICIT, beginning of period</b>	(93,243)	(3,543)
<b>DEFICIT, end of period</b>	<u>\$ (146,669)</u>	<u>\$ (146,669)</u>
<b>LOSS PER SHARE - BASIC</b>		
<b>and FULLY DILUTED</b>	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>
<b>Weighted Average Number of Common Shares Outstanding</b>	18,082,674	6,702,025

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

---

	For the Three Months Ended July 31	For the Nine Months Ended July 31
	2006	2006
	\$	\$
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Net loss for the period	(53,426)	(143,126)
Changes in non-cash working capital		
Increase in accounts receivable	(5,093)	(11,520)
Increase in sales taxes recoverable	(41,498)	(143,004)
Increase in accounts payable	176,458	559,265
	<u>76,441</u>	<u>261,615</u>
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
Resources property interests and options, net	<u>(158,953)</u>	<u>(930,268)</u>
	<u>(158,953)</u>	<u>(930,268)</u>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
Common shares issued for cash, net of issue costs	985,868	1,660,868
Common shares issued pursuant to standby subscription	(22,881)	(22,881)
	<u>962,987</u>	<u>1,637,987</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	880,475	969,334
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<u>89,122</u>	<u>263</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<u><u>969,597</u></u>	<u><u>969,597</u></u>
<b>NON-CASH FINANCING ACTIVITIES</b>		
Common shares issued on acquisition of mineral properties	-	325,000

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

# **LINEAR METALS CORPORATION**

## **Notes to Financial Statements**

(Unaudited – Prepared by Management)

July 31, 2006

### **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, directly and with exploration partners, 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 resource 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. Significant accounting policies**

The consolidated financial statements of the Corporation 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 Corporation and its wholly-owned subsidiaries, 6321593 Canada Inc. and Linear Metals Corp. Mexico, S.A. de C.V. (“LMCM”), a Mexican subsidiary. All inter-company transactions and balances have been eliminated on consolidation of the accounts.

#### **b) Resource properties**

The Corporation is in the exploration stage and 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 Corporation does not accrue the estimated future costs of maintaining in good standing its resource properties.

In the event that reserves are determined, 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 net recoverable value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon obtaining the

## **LINEAR METALS CORPORATION**

### **Notes to Financial Statements**

(Unaudited – Prepared by Management)

July 31, 2006

necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimates of recoverability of the Corporation's investment in various projects have been based on current conditions. However, it is reasonably 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.

#### **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 option(s), 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 and cash equivalents**

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

#### **f) Related party transactions**

All transactions with related parties are in the normal course of business and are measured at the exchange amount.

#### **g) Earnings (loss) per share**

Earnings (loss) per share is computed based on the weighted average number of common shares outstanding during the periods. The Company follows the treasury stock method of calculating diluted earnings (loss) per share. Diluted loss per share is unchanged from loss per share since the exercise of options and warrants is anti-dilutive.

# LINEAR METALS CORPORATION

## Notes to Financial Statements

(Unaudited – Prepared by Management)

July 31, 2006

### h) 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 year except for amortization, which is translated at historical exchange rates. Gains and losses on translations are included in the determination of income (loss) for the period.

### i) Stock-based compensation

The Corporation 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 fair values of all stock options granted are recorded in operations over their vesting periods.

The 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 fair values of the options are expensed on a straight-line basis over their vesting periods. Cash consideration received from employees when options are exercised is credited to capital stock.

## 3. 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 cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of those instruments.

### b) Foreign currency rate risk management

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

# LINEAR METALS CORPORATION

## Notes to Financial Statements

(Unaudited – Prepared by Management)

July 31, 2006

### c) Concentration of credit risk

The Corporation does not believe it is exposed to any significant concentration 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.

### 4. Acquisition of Resource Properties

During the second quarter of Fiscal 2006, the Corporation completed the acquisition of resource properties located in Mexico and Canada from its parent corporation at the time, Linear Gold Corp. (“Linear Gold”). As described in Notes 5 and 7, the Corporation issued 5,607,422 common shares with a value of \$325,000 to Linear Gold as consideration for the purchase of its Canadian mineral properties and acquired mineral properties in Mexico for cash consideration of \$689,100.

Pursuant to generally accepted accounting principles, the transfer of these properties between the related parties did not result in a substantive change in ownership and accordingly, the assets were recorded at their carrying value of \$1,169,188. The difference between the acquisition cost and the historic carrying value of the assets transferred of \$155,089 was recorded as Contributed Surplus.

### 5. Resource properties

	July 31, 2006			October 31, 2005
	Acquisition Costs	Deferred Exploration Costs	Total	Total
	\$	\$	\$	\$
<b>Mexico</b>				
Cobre Grande	-	84,903	84,903	-
La Morena	518,302	128,762	647,064	-
Tierra Blanca	42,024	50,251	92,275	-
Other	-	62,692	62,692	-
	560,326	326,608	886,934	-
<b>Canada</b>				
Seymour Lake / KM61	608,863	-	608,863	-
	1,169,189	326,608	1,495,797	-
Option payment proceeds	-	(85,440)	(85,440)	-
Mineral properties	1,169,189	241,168	1,410,357	-

## **LINEAR METALS CORPORATION**

### **Notes to Financial Statements**

(Unaudited – Prepared by Management)

July 31, 2006

The Corporation's interest in resource properties consists of:

#### Mexico

During March 2006, the Corporation acquired interests in the Cobre Grande, La Morena and Tierra Blanca properties, located in Mexico, through the following transactions:

i. Cobre Grande

The Corporation acquired the right to earn 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 remaining terms of the purchase option agreement with the community include annual payments, over a three year period, totaling US\$325,000 and additional project expenditures of approximately US\$1.2 million by March 2009. At the end of the three-year option period, the community can choose between a US\$12 million buyout, a 2% Net Smelter Returns royalty or a 15% joint venture interest with the Corporation being responsible for all capital outlays. Linear Gold retains a 20% interest in the agreement, which Linear Metals can purchase, at any time prior to December 31, 2008, for US\$1.2 million. If Linear Metals does not acquire the residual 20% interest from Linear Gold, an 80/20 Joint Venture will be formed and be responsible for the Community's US\$12 million buyout, 2% Net Smelter Returns royalty or 15% joint venture interest.

ii. La Morena

The Corporation acquired a 100% interest in the 952 hectare La Morena Property, comprised of the La Morena exploitation concession and the Refugio exploration concession, located in the state of Coahuila, Mexico, from Linear Gold for US\$555,000.

iii. Tierra Blanca

The Corporation acquired the right to acquire a 100% interest in the 515 hectare Tierra Blanca property located in the state of Durango. The Corporation acquired its right from Linear Gold for US\$45,000. The property was subject to an option held by Silver Dragon Resources Inc. ("Silver Dragon"), entitling them to earn a 55% interest in the property. The option agreement was granted by Linear Gold in September 2005 and was assumed by the Corporation on transfer of the property. In March 2006, the Corporation received a payment from Silver Dragon of US\$75,000 as part of the terms of the option. Subsequent to the period ending July 31, 2006, Silver Dragon terminated its option agreement.

## **LINEAR METALS CORPORATION**

### **Notes to Financial Statements**

(Unaudited – Prepared by Management)

July 31, 2006

#### Canada

The Corporation acquired interests in the following properties located in Ontario, Canada from Linear Gold for the issuance of 5,607,422 common shares with a value of \$325,000:

i. **Seymour Lake**

The Corporation 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 4 contiguous unpatented claims totaling 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 Corporation for \$1.0 million.

ii. **KM61**

The Corporation acquired a 100% interest in the KM61 property located to the northeast and contiguous with the Seymour Lake project, subject to an option held by Falconbridge Limited. (“Falconbridge”), formerly Noranda Inc. The property consists of 16 contiguous unpatented claims totaling 177 claim units and covering approximately 2,800 hectares.

KM61 was optioned to Falconbridge in November 2003. Under the remaining terms of this agreement, Falconbridge may earn a 51% interest in the KM61 property by paying the Corporation \$170,000 and undertaking expenditures on the property of \$1,250,000 by December 31, 2007, of which \$450,000 was required to have been spent by December 31, 2005. Upon earning a 51% interest, Falconbridge has a further option to increase its interest to 65% by incurring all exploration costs to a feasibility stage, completing a bankable feasibility study, and paying Linear Metals an additional \$250,000. Falconbridge may then elect to increase its interest to 70% by arranging for financing to production. Falconbridge is the operator during the initial option period and thereafter so long as it has at least a 50% interest in the property. The option does not grant Falconbridge any rights to the tantalum/pegmatite portion of the Seymour Lake property.

6. **Capital Stock**

a) **Authorized**

Unlimited number of common shares without par value

b) **Transactions during the period**

Changes in the Corporation’s issued common share capital during the periods were as follows:

**LINEAR METALS CORPORATION****Notes to Financial Statements**

(Unaudited – Prepared by Management)

July 31, 2006

	<b>3-months ended July 31, 2006</b>		<b>9-months ended July 31, 2006</b>	
	<b>Number</b>	<b>Amount \$</b>	<b>Number</b>	<b>Amount \$</b>
<b>Opening balance</b>	17,162,225	1,000,001	1	1
Shares issued for cash	5,000,000	750,000	16,554,802	1,425,000
Shares issued on exercise of warrants	1,954,604	234,552	1,954,604	234,552
Shares issued pursuant to standby commitment	190,674	22,881	190,674	22,881
Shares issued on acquisition of property	-	-	5,607,422	325,000
Less: Share issue costs		(21,578)		(21,578)
<b>Closing balance</b>	<b>24,307,503</b>	<b>1,985,856</b>	<b>24,307,503</b>	<b>1,985,856</b>

**c) Shares issued for cash**

On April 20, 2006, Linear Gold subscribed for 14,443,502 Units of the Corporation, comprised of 11,554,802 common shares and 1,444,350 warrants, for proceeds of \$675,000.

On July 15, 2006, the Corporation completed a Private Placement financing, resulting in 5,000,000 common shares being issued for proceeds of \$750,000.

**d) Shares issued pursuant to the acquisition of property from Linear Gold**

On April 24, 2006, the Corporation acquired interests in the Seymour Lake and KM 61 properties located in Ontario, Canada from Linear Gold, for the issuance of 7,009,278 Units, comprised of 5,607,422 common shares and 700,928 warrants, with a value of \$325,000.

**e) Shares issued on exercise of warrants and pursuant to Standby Subscription**

During the three-month period ended July 31, 2006, a total of 2,145,278 shares were issued on the exercise of warrants and pursuant to a Standby Subscription Agreement for total proceeds of \$257,433. Warrants were exercised for the purchase of 1,954,604 shares of Linear Metals, and the Corporation has provided notice to the Standby Purchaser, under the Standby Subscription Agreement discussed in Note 9 (“Standby Agreement”), that 190,674 shares must be purchased subject to their commitment.

**f) Share Issue Costs**

The Corporation has incurred share issue costs of \$21,578 relating to the initial distribution of the Corporation’s shares and warrants and the completion of the private placement and Standby

## LINEAR METALS CORPORATION

### Notes to Financial Statements

(Unaudited – Prepared by Management)

July 31, 2006

Subscription Agreement. The costs, which are primarily comprised of professional fees, have been charged against share capital.

#### 7. Warrants

##### a) Warrants outstanding as of July 31, 2006:

The Corporation issued 2,145,278 warrants pursuant to Linear Gold's Reorganization described in Note 8. The warrants expired on July 31, 2006 and accordingly, the Corporation has no warrants issued and outstanding as of the end of the period. Each warrant entitled the holder to purchase one common share at an exercise price of \$0.12 per share. The Corporation has advised the Standby Purchaser that 190,674 shares must be purchased pursuant to the Standby Agreement, being the number of warrants that expired unexercised, at a cost of \$22,881.

##### b) Warrant activity during the three and nine-month periods ended July 31, 2006:

	Number	Weighted average exercise price \$	Amount \$
Opening balance	-	-	-
Issued	2,145,278	0.12	-
Exercised	(1,954,604)	0.12	-
Expired <sup>1</sup>	<u>(190,674)</u>	<u>0.12</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>

1. The Company has advised the Standby Purchaser that 190,674 shares must be purchased at a cost of \$22,881 pursuant to the Standby Agreement.

#### 8. Parent Company Distribution

On June 6, 2006, Linear Gold declared a dividend-in-kind consisting of a distribution of Units in the Corporation to Linear Gold's shareholders of record on June 26, 2006. The ownership of the Corporation was fully distributed to Linear Gold shareholders on the basis of eight common shares and one warrant of the Corporation for every ten shares of Linear Gold. Each full warrant entitled the holder to acquire one additional share in the Corporation at an exercise price of \$0.12. The warrants expired on July 31, 2006. The transaction resulted in Linear Gold distributing 17,162,224 common shares and 2,145,278 warrants of the Corporation to Linear Gold shareholders.

# **LINEAR METALS CORPORATION**

## **Notes to Financial Statements**

(Unaudited – Prepared by Management)

July 31, 2006

The Corporation arranged a Standby Subscription Agreement requiring the Standby Purchaser to provide a standby commitment to subscribe for an equivalent number of common shares to the number of warrants that expire unexercised, such that the Corporation will issue 2,145,278 common shares pursuant to the exercise of warrants and the Standby Agreement and result in total proceeds to the Corporation of \$257,433.

### **9. Subsequent Event**

On August 30, 2006, the Corporation granted stock options, subject to regulatory approval, to directors, officers, employees and consultants to purchase up to 1,970,000 shares of the Corporation at \$0.60 per common share for a period of up to three years. The options have a vesting period of 30 months, with the first 30% of the stock options vesting after one year. Included in the total were 450,000 stock options granted to Investor Relations consultants, which are conditional on the consultants' appointment being approved by the TSX Venture Exchange.