

Linear Metals Corporation

(A Development Stage Enterprise)

Consolidated Financial Statements

October 31, 2007 and 2006

January 25, 2008

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) "*Wade K. Dawe*"
Chief Executive Officer
Halifax, Nova Scotia

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

January 25, 2008

Auditors' Report

To the Shareholders of Linear Metals Corporation

We have audited the consolidated balance sheets of **Linear Metals Corporation** as at October 31, 2007 and 2006 and the consolidated statements of loss, 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, 2007 and 2006 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

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Consolidated Balance Sheets

As at October 31, 2007 and 2006

	2007 \$	2006 \$
Assets		
Current assets		
Cash and cash equivalents	6,124,772	130,119
Sales taxes recoverable	623,668	173,671
Prepaid expenses and deposits	9,784	833
	<hr/>	<hr/>
	6,758,224	304,623
Property and equipment (note 7)	105,291	576
Resource properties (notes 2 and 8)	7,038,415	1,842,354
	<hr/>	<hr/>
	13,901,930	2,147,553
	<hr/>	<hr/>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	587,576	235,818
Amount due to Linear Gold Corp.	131,075	54,327
	<hr/>	<hr/>
	718,651	290,145
	<hr/>	<hr/>
Shareholders' Equity		
Capital stock (note 9)	12,097,732	1,985,856
Warrants (note 10)	1,944,336	-
Contributed surplus (note 11)	501,777	120,413
Deficit	(1,360,566)	(248,861)
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	13,183,279	1,857,408
	<hr/>	<hr/>
	13,901,930	2,147,553
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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

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Consolidated Statements of Loss, Comprehensive Loss and Deficit
For the years ended October 31, 2007 and 2006

	2007 \$	2006 \$
Income		
Interest	279,735	3,674
Expenses		
Amortization	11,090	—
Banking fees	1,506	1,144
General and administrative	92,772	1,211
Investor relations and marketing	154,434	2,669
Listing and regulatory costs	95,584	88,432
Management salaries and services	472,411	25,000
Professional services	34,782	95,170
Stock-based compensation	234,877	34,495
Travel	117,880	1,940
Write-down of resource properties	107,159	6,274
	<u>1,322,495</u>	<u>256,335</u>
Loss from operations	<u>(1,042,760)</u>	<u>(252,661)</u>
Other income (loss)		
Foreign exchange	<u>(68,945)</u>	<u>3,800</u>
Net loss and comprehensive loss for the years	(1,111,705)	(248,861)
Deficit – Beginning of years	<u>(248,861)</u>	—
Deficit – End of years	<u>(1,360,566)</u>	<u>(248,861)</u>
Loss per share – Basic and diluted	<u>(0.03)</u>	<u>(0.02)</u>
Weighted average number of common shares outstanding	<u>31,863,093</u>	<u>11,139,570</u>

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

Linear Metals Corporation
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Consolidated Statements of Cash Flows
For the years ended October 31, 2007 and 2006

	2007	2006
	\$	\$
Cash provided by (used in) operating activities		
Net loss for the years	(1,111,705)	(248,861)
Charges to operations not involving cash		
Amortization	11,090	–
Stock-based compensation	234,877	34,495
Write-down of resource properties	107,159	6,274
Foreign exchange loss	33,392	–
	<hr/>	<hr/>
	(725,187)	(208,092)
Net change in non-cash working capital balances related to operations		
Increase in sales taxes recoverable	(105,646)	(4,252)
Increase in prepaid expenses and deposits	(8,951)	(833)
Increase in accounts payable and accrued liabilities	40,185	40,198
	<hr/>	<hr/>
	(799,599)	(172,979)
Cash provided by (used in) financing activities		
Amount due to Linear Gold Corp.	11,486	54,327
Distribution to Linear Gold Corp. on transfer of property	–	(14,099)
Common shares issued for cash, net of issuance costs	10,326,875	985,856
Warrants issued for cash, net of issuance costs	1,729,336	–
	<hr/>	<hr/>
	12,067,697	1,026,084
Cash provided by (used in) investing activities		
Resource property interests and options since date of transfer, net	(4,775,926)	(552,991)
Sales taxes recoverable related to resource property interests	(344,351)	(169,419)
Purchase of equipment	(119,776)	(576)
	<hr/>	<hr/>
	(5,240,053)	(722,986)
Effects of exchange rate changes on cash and cash equivalents	<hr/>	<hr/>
	(33,392)	–
Net change in cash and cash equivalents during the years	5,994,653	130,119
Cash and cash equivalents – Beginning of years	<hr/>	<hr/>
	130,119	–
Cash and cash equivalents – End of years	<hr/>	<hr/>
	6,124,772	130,119
Cash and cash equivalents are comprised of the following:		
Cash on hand and balances with banks	251,883	124,827
Short-term investments	5,872,889	5,292
	<hr/>	<hr/>
	6,124,772	130,119
Non-cash financing activities		
Common shares issued as a cost of financing	77,438	–
Warrants issued as a cost of financing	15,487	–
Broker warrants issued as a cost of financing	301,875	–

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

Linear Metals Corporation

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Notes to Consolidated Financial Statements

For the years ended October 31, 2007 and 2006

1 Incorporation and nature of operations

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.

The Company has no income or cash flow from operations. The Company will periodically have to raise additional funds to complete exploration and development and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future. The recoverability of amounts shown for resource properties and related deferred costs is dependant upon the discovery of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing and permits to continue operations, completing development and attaining future profitable production or receiving proceeds from the disposition thereof.

2 Transfer of interests in resource properties

In April 2006, the Company completed the transfer of interests in resource properties located in Mexico and Canada from its parent company at the time, Linear Gold Corp. (“Linear Gold”). As described in notes 6 and 8, the Company issued 7,009,278 Units, with each Unit comprised of 0.8 common shares and 0.1 warrants (“Unit”) and each full warrant entitling the holder to acquire one common share of the Company at \$0.12 per share, to Linear Gold as consideration for the Canadian mineral properties. Linear Gold also subscribed for 14,443,502 Units for cash proceeds of \$675,000, which the Company used towards the purchase of mineral properties in Mexico for consideration of \$689,099.

The transfer of these properties between the related parties did not result in a substantive change in ownership at that time and, in accordance with generally accepted accounting principles, the assets were recorded on the Company’s 2006 balance sheet at Linear Gold’s historic carrying value of \$1,100,017. The difference between the value of the consideration paid and Linear Gold’s historic carrying value of the assets transferred of \$85,918 was recorded as contributed surplus.

Linear Metals Corporation

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Notes to Consolidated Financial Statements

For the years ended October 31, 2007 and 2006

3 Changes in accounting policies

Commencing with the first quarter of 2007, the Company adopted five new accounting standards issued by the Accounting Standards Board: (i) Section 1530 Comprehensive Income; (ii) Section 3251 Equity; (iii) Section 3855 Financial Instruments – Recognition and Measurement; (iv) Section 3861 Financial Instruments – Disclosure and Presentation; and (v) Section 3865 Hedges.

The new standards prescribe how financial instruments are to be recognized depending on their classification. Depending on 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 usually shall 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 Shareholder's 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 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 and amount due to Linear Gold Corp. are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

These new standards have been applied without restatement of prior period amounts. Upon initial application, there were no adjustments required to the carrying amount of financial assets and liabilities depending on the classification of existing assets or liabilities.

4 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. ("LMCM"), 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.

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Notes to Consolidated Financial Statements

For the years ended October 31, 2007 and 2006

4 Significant accounting policies (continued)

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.

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 fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon obtaining 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.

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.

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Notes to Consolidated Financial Statements
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4 Significant accounting policies (continued)

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) 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) 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.

h) Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the years. The Company follows the treasury stock method of calculating diluted loss per share. Diluted loss per share is equal to loss per share since the exercise of options and warrants is anti-dilutive.

i) 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 period.

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4 Significant accounting policies (continued)

j) 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 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 on exercise of options is credited to capital stock.

5 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 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 those 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. Virtually all of the sales taxes recoverable are with a government in a foreign jurisdiction.

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6 Parent company distribution

On June 6, 2006, Linear Gold declared a dividend-in-kind consisting of a distribution of Units in the Company to Linear Gold's shareholders of record on June 26, 2006. The ownership of the Company was fully distributed to Linear Gold shareholders on the basis of eight common shares and one warrant of the Company for every ten shares of Linear Gold. Each full warrant entitled the holder to acquire one additional share in the Company at an exercise price of \$0.12. The warrants had an expiry date of July 31, 2006. The transaction resulted in Linear Gold distributing 17,162,223 common shares and 2,145,278 warrants of the Company to Linear Gold's shareholders.

The Company arranged a Standby Subscription Agreement (the "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 expired unexercised. Pursuant to the exercise of warrants and the terms of the Agreement, the Company issued a total of 2,145,278 common shares, resulting in total proceeds to the Company of \$257,433 (see note 9(e)).

7 Property and equipment

			2007	2006
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Office equipment	63,096	8,616	54,480	576
Exploration equipment	39,852	4,714	35,138	-
Software	17,404	1,731	15,673	-
	120,352	15,061	105,291	576

During the year ended October 31, 2007, the Company capitalized amortization of \$3,971 (2006 - \$nil) to resource properties.

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8 Resource properties

The schedules below detail the resource property expenditures from November 1, 2005 on a continuity-of-interests basis because, as described in note 2, on transfer of the interests in the properties from Linear Gold, there was no substantive change in ownership related to the La Morena, Tierra Blanca and Seymour Lake/KM61 properties.

For the period from October 31, 2005 to date of property transfer

	Mexico		Canada		Total \$
	Cobre Grande \$	La Morena \$	Tierra Blanca \$	Seymour Lake \$	
Acquisition costs					
Balance, October 31, 2005	–	201,374	27,188	104,107	332,669
Incurred during the period, net of option payments	–	383	–	(45,000)	(44,617)
Balance, date of transfer	–	201,757	27,188	59,107	288,052
Deferred exploration costs					
Balance, October 31, 2005	–	90,496	17,353	504,756	612,605
Incurred during the period, net of option payments	–	202,468	(4,428)	1,320	199,360
Balance, date of transfer	–	292,964	12,925	506,076	811,965
	–	494,721	40,113	565,183	1,100,017

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For the years ended October 31, 2007 and 2006

8 Resource properties (continued)

For the period from date of property transfer to October 31, 2006

	Mexico					Canada	Total \$
	Cobre Grande \$	La Morena \$	Tierra Blanca \$	Ecatepec \$	Other \$	Seymour Lake \$	
Acquisition costs							
Balance, date of transfer	–	201,757	27,188	–	–	59,107	288,052
Incurred during the period, net of option payments	–	–	(20,914)	–	–	–	(20,914)
Balance, October 31, 2006	–	201,757	6,274	–	–	59,107	267,138
Deferred exploration costs							
Balance, date of transfer	–	292,964	12,925	–	–	506,076	811,965
Incurred during the period, net of option payments	85,171	506,717	(12,925)	58,465	132,097	–	769,525
Balance, October 31, 2006	85,171	799,681	–	58,465	132,097	506,076	1,581,490
	85,171	1,001,438	6,274	58,465	132,097	565,183	1,848,628
Write-off of resource properties during the period	–	–	(6,274)	–	–	–	(6,274)
Balance, October 31, 2006	85,171	1,001,438	–	58,465	132,097	565,183	1,842,354

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Notes to Consolidated Financial Statements
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8 Resource properties (continued)

For the year ended October 31, 2007

	Mexico				Canada		Total \$
	Cobre Grande \$	La Morena \$	Ecatepec \$	Other \$	KM61 \$	Seymour Lake and Other \$	
Acquisition costs							
Balance, October 31, 2006	–	201,757	–	–	–	59,107	260,864
Incurred 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
Deferred exploration costs							
Balance, October 31, 2006	85,171	799,681	58,465	132,097	–	506,076	1,581,490
Incurred 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-off 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

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8 Resource properties (continued)

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 annual payments, over a two year period, totalling US\$180,000. 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, 2008, 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.

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, from Linear Gold for US\$555,000.

iii) Ecatepec

The Company has the right to purchase the Ecatepec property, located in the state of Oaxaca, pursuant to a purchase option from the Community of Santa Maria Ecatepec, expiring in October 2011. The Company can purchase a 100% interest in the concession for US\$1.0 million, subject to a 1.8% net smelter return royalty retained by the Community of Santa Maria Ecatepec. To maintain the option, the Company is required to incur an annual work commitment of US\$100,000 over each of the next three years and make the following payments to the Community of Santa Maria Ecatepec:

	Option payment US\$	Community Education Fund US\$	Community Fund for the Aged US\$
October 2008	50,000	24,000	24,000
October 2009	60,000	24,000	24,000
October 2010	70,000	24,000	24,000

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8 Resource properties (continued)

Canada

In April 2006, the Company acquired interests in the following properties located in Ontario, Canada from Linear Gold for the issuance of 7,009,278 Units, as described in note 2.

i) 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.

ii) KM61

The Company holds a 100% interest in the KM61 property located to the northeast and contiguous with the Seymour Lake project, subject at the time of acquisition from Linear Gold to an option held by Falconbridge Limited ("Falconbridge"), formerly Noranda Inc. The property consists of 16 contiguous unpatented claims totalling 177 claim units and covering approximately 2,800 hectares.

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9 Capital stock

a) Authorized

Unlimited number of common shares without par value.

b) Transactions during the year

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

	2007		2006	
	Number	Amount \$	Number	Amount \$
Opening balance	24,307,502	1,985,856	1	1
Shares issued on and related to transfer of properties (d)	—	—	17,162,223	1,000,000
Shares issued for cash (c)	9,250,000	10,841,250	5,000,000	750,000
Shares issued as finder's compensation for financing	123,900	77,438	—	—
Shares issued pursuant to the Agreement (e)	—	—	190,674	22,881
Shares issued on exercise of warrants (e)	178,450	178,450	1,954,604	234,552
Fair value of warrants exercised	—	44,612	—	—
Less: Share issue costs	—	(1,029,874)	—	(21,578)
Ending balance	33,859,852	12,097,732	24,307,502	1,985,856

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.

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9 Capital Stock (continued)

c) Shares issued for cash (continued)

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.

During July 2006, the Company completed a private placement financing, resulting in 5,000,000 common shares being issued for gross proceedings of \$750,000.

d) Shares issued pursuant to the transfer of properties from Linear Gold

On April 20, 2006, Linear Gold subscribed for 14,443,502 Units of the Company, comprised of 11,554,802 common shares and 1,444,350 warrants, for proceeds of \$675,000. These proceeds were subsequently used as consideration for the transfer of the Mexico properties as described in note 2.

On April 24, 2006, the Company acquired interests in the Seymour Lake and KM61 properties located in Ontario, Canada from Linear Gold, for the issuance of 7,009,278 Units, comprised of 5,607,421 common shares and warrants to purchase 700,928 common shares of the Company at \$0.12 per share.

e) Shares issued on exercise of warrants and pursuant to the Agreement

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.

During the year ended October 31, 2006, a total of 2,145,278 shares were issued on the exercise of warrants and pursuant to the Agreement for total proceeds of \$257,433. Warrants were exercised for the purchase of 1,954,604 shares of the Company, and 190,674 shares were purchased subject to the Agreement discussed in note 6.

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9 Capital Stock (continued)

f) Stock option plan

The Company has adopted a stock option plan (the “Plan”), providing the Board 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 in accordance with TSX Venture Exchange policy.

The 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, 2007 and 2006 are as follows:

	2007	2006
Risk-free rate	4.10%	4.07%
Expected volatility of the Company’s share price	70%	65%
Expected dividend yield	0%	0%
Expected life of each option	2.57 years	2.5 years
Weighted average fair value per option at the date of grant:		
Exercise price equal to stock price on date of grant	\$0.75	\$0.25
Exercise price exceeds stock price on date of grant	\$0.53	N/A

	<u>2007</u>		<u>2006</u>	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Opening balance	1,970,000	0.60	–	–
Granted	1,532,500	1.63	1,970,000	0.60
Exercised	–	–	–	–
Cancelled	<u>(260,000)</u>	0.79	<u>–</u>	–
Ending balance	<u>3,242,500</u>	1.07	<u>1,970,000</u>	0.60

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9 Capital Stock (continued)

f) Stock option plan (continued)

As at October 31, 2007, the Company had outstanding stock options entitling the holders to acquire additional common shares as follows:

Weighted average exercise price per share	Number outstanding	Expiry date	Weighted average remaining contractual life (years)	Number exercisable
0.60	1,760,000	August 29, 2009	1.83	528,000
1.50	107,500	April 16, 2010	2.46	—
1.50	200,000	September 1, 2010	2.84	—
1.50	75,000	September 10, 2010	2.86	—
1.55	300,000	May 14, 2010	2.54	—
1.60	30,000	January 15, 2010	2.21	—
1.60	150,000	March 1, 2010	2.33	—
1.75	250,000	January 22, 2010	2.23	—
1.75	370,000	March 28, 2010	2.41	—
1.07	<u>3,242,500</u>		2.13	<u>528,000</u>

As at October 31, 2007, 143,485 options were available for granting under the Plan (2006 – 460,750 options).

10 Warrants

a) Warrant activity during the years ended October 31, 2007 and 2006 were as follows:

	<u>2007</u>		
	Number	Weighted average exercise price \$	Amount \$
Opening balance	—	—	—
Issued for cash (note 9(c))	4,625,000	1.78	1,846,250
Issued as 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>

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10 Warrants (continued)

a) (continued)

			2006
	Number	Weighted average exercise price \$	Amount \$
Opening balance	–	–	–
Issued for cash (see note 9(d))	2,145,278	0.12	–
Exercised	(1,954,604)	0.12	–
Expired	(190,674)	0.12	–
Less: Issue costs	–	–	–
Ending balance	–	–	–

In connection with the private placement financings completed in November 2006 and February 2007 (see note 9(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, 2007:

Expiry date	Number	Weighted average exercise price \$
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

* Includes 345,000 broker warrants, exercisable for 345,000 Units at \$1.75 per Unit (notes 9(c) and 10(a)).

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10 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 year ended October 31, 2007 are as follows:

Risk free interest rate	4.07%
Maximum life	2.0 years
Expected volatility	65%
Expected dividend yield	0%

11 Contributed surplus

	\$
Balance at October 31, 2005	—
Difference between the valuation of consideration paid and the carrying value of resource properties transferred from a related party	85,918
Value of options earned during the year	<u>34,495</u>
Balance at October 31, 2006	120,413
Value of options earned during the year	<u>381,364</u>
Balance at October 31, 2007	<u>501,777</u>

12 Related party transactions

Prior to the parent company distribution described in note 6, the Company completed a number of related party transactions with Linear Gold to complete the transfer of its resource properties. The Company also received necessary financing from Linear Gold prior to the completion of the Company's initial share and warrant issuances.

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13 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, 2007 and 2006:

	2007	2006
	\$	\$
Loss before income taxes	(1,111,705)	(248,861)
Income tax rate	38.1%	38.1%
Expected income tax recovery based on above rates	(424,000)	(95,000)
Effect of different tax rates in foreign jurisdictions	10,000	—
Non-deductible stock option expense	89,000	13,000
Change in valuation allowance	541,000	99,000
Other and permanent differences	(216,000)	(17,000)
Provision for income taxes	—	—
Provision for (recovery of) income taxes is comprised of:		
Future income taxes	(541,000)	(99,000)
Adjustment to valuation allowance	541,000	99,000
	—	—

The following reflects future income tax assets at October 31, 2007 and 2006:

	2007	2006
	\$	\$
Future tax assets		
Non-capital losses carried forward	1,491,000	431,000
Deductible share issue costs	252,000	7,000
Accounting value of mineral resource properties in excess of tax value	(1,107,000)	(339,000)
Tax value of property and equipment and prepaid expenses in excess of accounting value	4,000	—
	640,000	99,000
Valuation allowance	(640,000)	(99,000)
Net future income tax asset recognized	—	—

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13 Income taxes (continued)

The Company has accumulated losses for Canadian income tax purposes of approximately \$1,054,000, 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	<u>849,000</u>
	<u>1,054,000</u>

The Company has undeducted share issuance costs from prior years of approximately \$661,000 which will be deducted from Canadian taxable income over the next four years. The Company has also incurred resource expenditures of approximately \$2,022,000, 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 as described in note 6.

In addition, the Company has accumulated Mexican tax losses of approximately \$3,890,000, 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	1,151,000
2018	<u>2,739,000</u>
	<u>3,890,000</u>

The future tax asset resulting from these items has not been recognized in these accounts, as realization is not considered more likely than not. A valuation allowance has been applied against the entire future tax asset.

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14 Commitments

Under the terms of the Cobre Grande and Ecatepec agreements, the Company is required to make certain future payments and exploration expenditures in order to maintain its interest in each of the properties (see note 8).

Subsequent to October 31, 2007, the Company renegotiated its operating lease on its premises in Toronto. As a result, the Company has a commitment in respect of this operating lease which expires on March 30, 2013.

This commitment requires total payments, including estimated common expenses, over the next five years as follows:

	\$
Year ending October 31, 2008	85,000
2009	113,000
2010	125,000
2011	127,000
2012	129,000

15 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:

	2007			
	Corporate Canada	Mineral Operations Canada	Mineral Operations Mexico	Total
	\$	\$	\$	\$
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
	6,088,609	1,751,387	6,061,934	13,901,930
	2006			
	Corporate Canada	Mineral Operations Canada	Mineral Operations Mexico	Total
	\$	\$	\$	\$
Current assets	35,643	–	268,980	304,623
Property and equipment	576	–	–	576
Resource properties	–	565,183	1,277,171	1,842,354
	36,219	565,183	1,546,151	2,147,553

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16 Subsequent events

On November 6, 2007, the Company completed a brokered private placement of 3,900,000 flow-through common shares of the Company at a price of \$1.80 per flow-through share, for aggregate gross proceeds of \$7,020,000. In addition to the Company's offering of flow-through shares, the agents were granted compensation options to purchase 234,000 common shares, exercisable at \$1.80 per compensation option until May 6, 2009. As additional consideration, the agents received a commission of 5.5% of the gross proceeds, of which one of the agents chose to receive its portion in 147,841 non flow-through common shares of the Company.