

# **Linear Metals Corporation**

Consolidated Financial Statements  
**October 31, 2006**

January 25, 2007

## **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, have examined these consolidated financial statements and their report follows.

(signed) "*Wade K. Dawe*"  
President & CEO  
Halifax, Nova Scotia

(signed) "*Brian MacEachen*"  
Chief Financial Officer

January 25, 2007

## **Auditors' Report**

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

We have audited the consolidated balance sheet of **Linear Metals Corporation** as at October 31, 2006 and the consolidated statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

(signed) "*PricewaterhouseCoopers LLP*"

### **Chartered Accountants**

# Linear Metals Corporation

Consolidated Balance Sheet

As at October 31, 2006

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	\$
<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	130,119
Sales taxes recoverable	173,671
Deposits	833
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	304,623
<b>Property, plant and equipment</b>	576
<b>Resource properties</b> (notes 2 and 6)	1,842,354
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	2,147,553
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<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	235,818
Advance from Linear Gold Corp.	54,327
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	290,145
	<hr/>
<b>Shareholders' Equity</b>	
<b>Capital stock</b> (note 7)	1,985,856
<b>Contributed surplus</b> (note 8)	120,413
<b>Deficit</b>	(248,861)
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	1,857,408
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	2,147,553
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The accompanying notes form an integral part of these financial statements.

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

(signed) "*Michael Gross*"  
Director

(signed) "*Wade K. Dawe*"  
Director

# Linear Metals Corporation

## Consolidated Statement of Operations and Deficit For the year ended October 31, 2006

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	\$
<b>Income</b>	
Interest	<u>3,674</u>
<b>Expenses</b>	
Banking fees	1,144
General and administrative	1,211
Investor relations and marketing	2,669
Listing and regulatory costs	88,432
Management services	25,000
Professional services	95,170
Stock-based compensation	34,495
Travel	1,940
Write-down of resource property	<u>6,274</u>
	<u>256,335</u>
<b>Loss from operations</b>	<u>(252,661)</u>
<b>Other income</b>	
Foreign exchange	<u>3,800</u>
<b>Net loss for the year and Deficit – End of year</b>	<u>(248,861)</u>
<b>Loss per share – basic and fully diluted</b>	<u>(0.02)</u>
<b>Weighted average number of common shares outstanding</b>	<u>11,139,570</u>

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

# Linear Metals Corporation

## Consolidated Statement of Cash Flows

For the year ended October 31, 2006

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	\$
<b>Cash provided by (used in) operating activities</b>	
Net loss for the year	(248,861)
Charges to operations not involving cash	
Stock-based compensation	34,495
Write-down of resource property	6,274
	<u>(208,092)</u>
Net change in non-cash working capital balances related to operations	
Increase in sales taxes recoverable	(4,252)
Increase in deposits	(833)
Increase in accounts payable and accrued liabilities	40,198
	<u>(172,979)</u>
<b>Cash provided by (used in) financing activities</b>	
Advance from Linear Gold Corp.	54,327
Distribution to Linear Gold Corp. on transfer of property	(14,099)
Common shares issued for cash, net of issuance costs	985,856
	<u>1,026,084</u>
<b>Cash provided by (used in) investing activities</b>	
Resource property interests and options since date of transfer, net	(552,991)
Sales taxes recoverable related to resource property interests	(169,419)
Purchase of equipment	(576)
	<u>(722,986)</u>
<b>Net change in cash and cash equivalents during the year and Cash and cash equivalents – End of year</b>	<u>130,119</u>

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

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 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, 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 Transfer of resource properties

In April 2006, the Company completed the transfer of resource properties located in Mexico and Canada from its parent company at the time, Linear Gold Corp. (“Linear Gold”). As described in notes 5 and 7, the Company issued 7,009,278 Units, with each Unit comprised of 0.8 common shares and 0.1 warrants 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 applied to 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.

## 3 Significant accounting policies

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

### a) Basis of presentation

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

### b) Resource properties

The Company 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

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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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.

## 3 Significant accounting policies (continued)

### b) Resource properties (continued)

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 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 equivalents

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

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 3 Significant accounting policies (continued)

### 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. As the realization is not considered more likely than not, a full valuation allowance has been applied against the future income tax assets.

### g) Property, plant and equipment

Property, plant 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.

### h) Loss per share

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 loss per share. Diluted loss per share is unchanged from 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 year 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.

### 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.

# Linear Metals Corporation

## Notes to Consolidated Financial Statements

### For the year ended October 31, 2006

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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 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 governments in a foreign jurisdiction.

#### 5 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 7(e)).

# Linear Metals Corporation

## Notes to Consolidated Financial Statements

### For the year ended October 31, 2006

## 6 Resource properties

The schedules below detail the resource property expenditures from November 1, 2004 on a continuity-of-interests basis because, as described in note 2, on transfer of the properties from Linear Gold, there was no substantive change in ownership related to the La Morena, Tierra Blanca and Seymour Lake/KM61 properties.

### Year ended October 31, 2005

	Mexico				Canada	Total \$
	Cobre Grande \$	La Morena \$	Tierra Blanca \$	Other \$	Seymour Lake/KM61 \$	
<b>Acquisition costs</b>						
Balance, November 1, 2004	–	196,064	–	–	129,107	325,171
Incurred during the year, net of option payments	–	5,310	27,188	–	(25,000)	7,498
Balance, October 31, 2005	–	201,374	27,188	–	104,107	332,669
<b>Deferred exploration costs</b>						
Balance, November 1, 2004	–	29,882	16,702	–	504,356	550,940
Incurred during the year, net of option payments	–	60,614	651	–	400	61,665
Balance, October 31, 2005	–	90,496	17,353	–	504,756	612,605
	–	291,870	44,541	–	608,863	945,274

### For the period from November 1, 2005 to date of property transfer

	Mexico				Canada	Total \$
	Cobre Grande \$	La Morena \$	Tierra Blanca \$	Other \$	Seymour Lake/KM61 \$	
<b>Acquisition costs</b>						
Balance, November 1, 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
<b>Deferred exploration costs</b>						
Balance, November 1, 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

**Linear Metals Corporation**  
Notes to Consolidated Financial Statements  
For the year ended October 31, 2006

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**6 Resource properties** (continued)

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

	Mexico				Canada	Total \$
	Cobre Grande \$	La Morena \$	Tierra Blanca \$	Other \$	Seymour Lake/KM61 \$	
<b>Acquisition costs</b>						
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
<b>Deferred exploration costs</b>						
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)	190,562	–	769,525
Balance, October 31, 2006	85,171	799,681	–	190,562	506,076	1,581,490
	85,171	1,001,438	6,274	190,562	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	–	190,562	565,183	1,842,354

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 6 Resource properties (continued)

The Company's interest in resource properties consists of:

### Mexico

The Company acquired interests in the Cobre Grande, La Morena and Tierra Blanca properties, located in Mexico, through the following transactions:

#### i) Cobre Grande

The Company 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 "Community"). The 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 Company being responsible for all capital outlays. 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 the residual 20% interest from Linear Gold, 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 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 Company acquired the right to acquire a 100% interest in the 515 hectare Tierra Blanca property located in the state of Durango. The Company 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 Company on transfer of the property. In March 2006, the Company received a payment from Silver Dragon of US\$75,000 as part of the terms of the option. During August 2006, Silver Dragon terminated its option agreement with the Company, and the Company subsequently terminated its own option to acquire the property.

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 6 Resource properties (continued)

### Canada

The Company acquired interests in the following 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 acquire 700,928 common shares of the Company at \$0.12 per share:

#### 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 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 Company for \$1.0 million.

#### ii) KM61

The Company acquired a 100% interest in the KM61 property located to the northeast and contiguous with the Seymour Lake project, subject at that time 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.

Subsequent to October 31, 2006, the Company received notice from Falconbridge that it would not maintain its interest in the property. Accordingly, the Company has regained a 100% interest in the property subsequent to October 31, 2006.

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 7 Capital stock

### a) Authorized

Unlimited number of common shares without par value.

### b) Transactions during the year

The Company issued common shares as follows:

	Number	Amount \$
<b>Shares issued</b>		
Shares issued on incorporation	1	1
Shares issued for cash	5,000,000	750,000
Shares issued on transfer of property	17,162,223	1,000,000
Shares issued on exercise of warrants	1,954,604	234,552
Shares issued pursuant to the Agreement	190,674	22,881
Less: Share issuance costs	—	(21,578)
<b>Balance outstanding – end of year</b>	<u>24,307,502</u>	<u>1,985,856</u>

### c) Shares issued for cash

During July 2006, the Company 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 transfer of property 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

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 5.

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 7 Capital stock (continued)

### f) Share issue costs

The Company has incurred share issue costs of \$21,578 relating to the initial distribution of the Company's shares and warrants and the completion of the private placement and the Agreement. The costs, which are primarily comprised of professional fees, have been charged against share capital.

### g) 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. Assumptions used in the pricing model for the year ended October 31, 2006 are as follows:

Risk-free rate	4.07%
Expected volatility of the Company's share price	65%
Expected dividend yield	0%
Expected life of each option	2.5 years
Fair value per option at the date of grant	\$0.25

As at October 31, 2006, 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	Number exercisable
0.60	1,970,000	August 29, 2009	—

As at October 31, 2006, 460,750 options were available for granting under the Plan. There are no options vested and exercisable as at October 31, 2006. The first 30% of the stock options will vest after one year on August 29, 2007.

Option activity for the year ended October 31, 2006 was as follows:

	Number	Weighted average exercise price \$
Outstanding, beginning of year	—	—
Granted	1,970,000	0.60
Outstanding, end of year	1,970,000	0.60

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 8 Contributed surplus

	\$
Contributed surplus as at October 31, 2006 is comprised of the following:	
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>
	<u>120,413</u>

## 9 Warrants

### a) Warrants outstanding as of October 31, 2006

The Company issued 2,145,278 warrants pursuant to the parent company distribution described in note 5. Each warrant entitled the holder to purchase one common share at an exercise price of \$0.12 per share. The warrants expired on July 31, 2006 and accordingly, the Company has no warrants issued and outstanding as of October 31, 2006.

### b) Warrants activity during the year

	Number	Weighted average exercise price \$
<b>Outstanding, beginning of year</b>	–	–
Issued	2,145,278	0.12
Exercised	(1,954,604)	0.12
Expired	<u>(190,674)</u>	<u>0.12</u>
<b>Outstanding, end of year</b>	<u>–</u>	<u>–</u>

# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 10 Related party transactions

Prior to the parent company distribution described in note 5, 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.

## 11 Income taxes

The Company has accumulated losses for Canadian tax purposes of approximately \$209,000 which may be carried forward and used to reduce taxable income in future years. These losses expire on October 31, 2026.

The Company also has resource expenditures of approximately \$645,000 available for deduction, of which approximately \$641,000 was transferred from Linear Gold upon reorganization with the Company. These expenditures may be carried forward indefinitely and used to reduce Canadian taxable income in future years.

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 full valuation allowance has been applied against the future tax asset.

## 12 Segmented information

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

	<b>Corporate Canada</b>	<b>Mineral Operations Canada</b>	<b>Mineral Operations Mexico</b>	<b>Total</b>
	\$	\$	\$	\$
Current assets	35,643	–	268,980	304,623
Property, plant and equipment	576	–	–	576
Resource properties	–	565,183	1,277,171	1,842,354
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	36,219	565,183	1,546,151	2,147,553
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# Linear Metals Corporation

Notes to Consolidated Financial Statements

For the year ended October 31, 2006

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## 13 Subsequent events

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 Units are subject to a hold period that expires on March 11, 2007. Finders' fees totaling \$157,500, comprised of \$64,575 cash and 123,900 Units, issued at a price of \$0.75 per Unit, were paid in respect of the private placement.

In November 2006, the Company acquired two new projects in Mexico. The Company entered into an option agreement with the community of Santa Maria Ecatatepec for mineral and surface access rights to an area of 350 hectares in the state of Oaxaca, Mexico. The Company also entered into an option agreement with an individual owner for the La Lupita base metal-silver project located in Sonora, Mexico. The agreement covers two mineral concessions and two pending applications for mineral concessions over an area of 850 hectares.

In December 2006, the Company received notice from Falconbridge that it would not maintain its interest in the KM61 property. Accordingly, the Company has regained a 100% interest in the property.