

April 6, 2006 (except for note 4 which is as of June 6, 2006)

## **Auditors' Report**

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

We have audited the consolidated balance sheet of **Linear Metals Corporation** as at October 31, 2005 and the consolidated statements of operations and deficit and cash flows for the period 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 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, 2005 and the results of its operations and cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

(signed) "*PricewaterhouseCoopers LLP*"

**Chartered Accountants  
Halifax, Nova Scotia**

# Linear Metals Corporation

## Consolidated Balance Sheets

As at

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	January 31, 2006 \$ (unaudited)	October 31, 2005 \$	November 17, 2004 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash	220	263	1
<b>Liabilities</b>			
<b>Current liabilities</b>			
Advance from Linear Gold Corp.	3,805	3,805	–
<b>Shareholders' Equity (Deficiency)</b>			
Capital stock (note 3)	1	1	1
Deficit	(3,586)	(3,543)	–
	(3,585)	(3,542)	1
	220	263	1

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

By: (signed) "Wade K. Dawe"  
Director

By: (signed) "Michael Gross"  
Director

# Linear Metals Corporation

## Consolidated Statements of Operations and Deficit

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	<b>For the three months ended January 31, 2006 \$ (unaudited)</b>	<b>For the period November 17, 2004 to January 31, 2005 \$ (unaudited)</b>	<b>For the period November 17, 2004 to October 31, 2005 \$</b>
<b>Expenses</b>			
Professional services	–	3,298	3,298
Banking fees	43	245	245
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<b>Net loss for the period</b>	(43)	(3,543)	(3,543)
<b>Deficit – Beginning of period</b>	(3,543)	–	–
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<b>Deficit – End of period</b>	(3,586)	(3,543)	(3,543)
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Basic and full diluted loss per share	(42)	(3,543)	(3,543)
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Weighted average number of common shares outstanding	1	1	1
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# Linear Metals Corporation

## Consolidated Statements of Cash Flows

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	For the three months ended January 31, 2006 \$ (unaudited)	For the period November 17, 2004 to January 31, 2005 \$ (unaudited)	For the period November 17, 2004 to October 31, 2005 \$
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net loss for the period	(43)	(3,543)	(3,543)
<b>Financing activities</b>			
Advance from Linear Gold Corp.	–	3,805	3,805
Proceeds from issuance of capital stock	–	1	1
	–	3,806	3,806
<b>Net change in cash during the period</b>	(43)	263	263
<b>Cash – Beginning of period</b>	263	–	–
<b>Cash – End of period</b>	220	263	263

# Linear Metals Corporation

Notes to the Consolidated Financial Statements

January 31, 2006 and 2005 (unaudited) and October 31, 2005 and November 17, 2004

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## 1 Incorporation

Linear Metals Corporation (the "Corporation") was incorporated under the Canada Business Corporations Act on November 17, 2004 and to date, there have been no operations. The Corporation is a wholly-owned subsidiary of Linear Gold Corp. ("Linear Gold").

## 2 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 with no operations or significant assets.

## 3 Capital stock

Authorized

An unlimited number of common shares

	January 31, 2006 \$ (unaudited)	October 31, 2005 \$	November 17, 2004 \$
Issued and fully paid 1 common share	1	1	1

## 4 Subsequent events

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

### 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 totalling 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 Linear being responsible for all capital outlays. Linear Gold retains a 20% interest in the agreement which the Corporation can purchase at any time prior to December 31, 2008 for US\$1.2 million. If the Corporation 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, a 2% Net Smelter Returns royalty or 15% joint venture interest.

# Linear Metals Corporation

Notes to the Consolidated Financial Statements

January 31, 2006 and 2005 (unaudited) and October 31, 2005 and November 17, 2004

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## 4 Subsequent events (continued)

### La Morena

The Corporation acquired a 100% interest in the 952 hectare La Morena property located in the state of Coahuila, Mexico from Linear Gold for US\$555,000.

### 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, subject to an option held by Silver Dragon Resources Inc. ("Silver Dragon") entitling them to earn a 55% interest in the property. Linear acquired its right from Linear Gold for US\$45,000. Under the remaining terms of the underlying option, the Corporation will make payments of US\$35,000 during April 2006 and US\$70,000 during April 2007, and is required to incur work expenditures totalling US\$800,000 by April 2008. At the end of the option period, the property can be purchased outright for US\$2 million.

Silver Dragon is entitled to earn a 55% interest in the Tierra Blanca property through an option agreement granted Linear Gold during September 2005 which has been assumed by the Corporation. The terms of Silver Dragon's option are designed to cover the ongoing cash and expenditure obligations of the underlying Linear Option and require Silver Dragon to make payments to the Corporation of US\$75,000 during March 2006 and US\$110,000 during March 2007 and incur work expenditures totalling US\$850,000 by April 2008. To maintain their option throughout this period, Silver Dragon is required to issue 200,000 common shares of Silver Dragon to the Corporation during September 2006, and an additional 300,000 shares during September 2007.

- b) During April 2006, the Corporation acquired interests in the Seymour Lake and KM 61 properties located in Ontario, Canada from Linear Gold for the issuance of 6,954,278 Units. Each unit consists of 0.8 common shares of the Corporation and one-tenth of a warrant to acquire a common share of the Corporation at \$0.12, expiring 30 days after issuance ("Unit").

### Seymour Lake

The Corporation acquired a 100% interest in the Seymour Lake property which is a tantalum-lithium-beryllium prospect located in north western Ontario, in the Crescent Lake areas of the Thunder Bay Mining District. The property consists of 4 contiguous unpatented claims totalling 51 claim units and comprising approximately 800 hectares, consists of 16 contiguous unpatented claims totalling 177 claim units and covering approximately 2,800 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 million.

# Linear Metals Corporation

Notes to the Consolidated Financial Statements

January 31, 2006 and 2005 (unaudited) and October 31, 2005 and November 17, 2004

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## 4 Subsequent events (continued)

### KM 61

The Corporation acquired a 100% interest in the KM 61 property located to the northeast and contiguous with the Seymour Lake project, subject to an option held by Falconbridge Ltd. ("Falconbridge") formerly Noranda Inc. The property consists of 16 contiguous unpatented claims totalling 177 claim units and covering approximately 2,800 hectares.

KM 61 was optioned to Falconbridge in November 2003. Under the remaining terms of this agreement, Falconbridge may earn a 51% interest in the KM 61 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 the Corporation 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.

- c) On April 20, 2006, Linear Gold subscribed for 14,443,502 Units of the Corporation for proceeds of \$675,000.
- d) 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. Each unit consisted of one fully paid share of the Corporation and one-tenth warrant, with each full warrant entitling the holder to acquire one additional share in the Corporation at the exercise price of \$0.12. The warrants expire 30 days after issuance. The distribution will result in the issuance of 21,397,780 Units comprising 17,118,224 common shares and 2,139,778 warrants of the Corporation.
- e) The Corporation has arranged 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 2,139,778 shares pursuant to the exercise of warrants and the subscription commitment and result in proceeds to the Corporation of \$256,773 and 19,258,002 shares of the Corporation issued and outstanding.
- f) The Corporation has arranged a Private Placement commitment providing for a subscription of 5,000,000 common shares of the Corporation at \$0.15 per share for proceeds of \$750,000. The completion of the Private Placement is conditional on the listing of the Corporation's shares on the TSX Venture exchange.