

HMZ METALS INC.

Interim Financial Statements
(unaudited)
Nine months ended September 30, 2008

Responsibility for Unaudited Consolidated Interim Financial Statements

The accompanying unaudited consolidated interim financial statements for HMZ Metals Inc. have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2007 audited financial statements. These unaudited interim financial statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of these unaudited interim financial statements, management is satisfied that these unaudited consolidated interim financial statements have been fairly presented.

Disclosure Required Under National Instrument 51-102 – Continuous Disclosure Obligations – Part 4.3(3)(a)

These unaudited consolidated interim financial statements have not been audited, reviewed or verified by the Company's independent external auditors or any other independent accounting firm.

Index	Page
Interim Balance Sheet	1
Interim Statement of Operations and Deficit	2
Interim Statement of Cash Flows	3
Notes to Interim Financial Statements	4 – 9

HMZ METALS INC.

Interim Balance Sheet

As at September 30, 2008 and December 31, 2007

(Expressed in Canadian dollars)

	9 months ended September 30, 2008 (Unaudited)	Fiscal year ending December 31, 2007 (Audited)
ASSETS		
Current assets:		
Cash	6,055	185,170
Accounts Receivable, other	6,464	4,885
Prepaid expenses & deposits	11,836	30,854
Total Current Assets	24,355	220,909
Other Current Assets:		
Investment in BVI	1	1
Investment in GMCL	1	1
Fixed Assets:		
Property, plant and equipment, net	9,683	9,683
Total Other Assets	9,685	9,685
TOTAL ASSETS	\$ 34,040	\$ 230,594
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable & accrued liabilities	3,153,820	2,385,261
Total Liabilities	3,153,820	2,385,261
Shareholders' Equity:		
Share Capital	21,926,174	21,666,674
Common Share Warrants	227,843	227,843
Contributed Surplus	4,314,231	4,314,231
Cumulative Translation Adjustment	(3,715,706)	(3,715,706)
Deficit	(24,647,709)	(23,085,791)
Net Income	(1,224,613)	(1,561,918)
Total Shareholders' Equity	(3,119,780)	(2,154,667)
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 34,040	\$ 230,594

See accompanying notes to financial statements.

On behalf of the Board:

Kerry D. Smith  Director

Brian M. Cloney  Director

HMZ METALS INC.

Comparative Interim Statement of Operations and Deficit

For the Three months and Nine months ended September 30, 2008 and 2007

Unaudited

(Expressed in Canadian dollars)

	Three Months ended		Nine Months ended	
	September 30		September 30	
	2008	2007	2008	2007
Revenue:				
Sales	\$ 17,478	\$ 7,330	\$ 51,799	\$ 14,405
Gain (loss) on foreign exchange	-	-	24	1,193
Total Income	17,478	7,330	51,823	15,598
Expenses:				
Corporate administration	88,086	93,704	313,545	338,515
Salaries and benefits	14,223	17,295	34,662	39,921
Consulting fees	175,500	201,400	663,499	502,381
Legal, audit and accounting	8,618	20,053	246,128	76,654
Insurance	-	-	18,600	99,272
	286,427	332,453	1,276,435	1,056,743
Loss from operations before under-noted	(268,949)	(325,123)	(1,224,613)	(1,041,145)
Loss	(268,949)	(325,123)	(1,224,613)	(1,041,145)
Loss for the period	(268,949)	(325,123)	(1,224,613)	(1,041,145)
Deficit, beginning of period	(25,603,373)	(23,801,813)	(24,647,709)	(23,085,791)
Deficit	\$ (25,872,322)	\$ (24,126,936)	\$ (25,872,322)	\$ (24,126,936)
Loss per share, basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of common shares outstanding, basic and diluted	158,622,900	147,227,827	158,622,900	147,227,827

See accompanying notes to consolidated financial statements.

HMZ METALS INC.

Interim Statement of Cash Flows

Three months ended September 30, 2008 and 2007

Unaudited

(Expressed in Canadian dollars)

	2008	2007
Loss for the period	\$ (268,949)	\$ (1,561,918)
Items not requiring cash		
Write off of balance due from Biogan International Inc.	-	-
Write down of investment in joint venture	-	-
Amortization	-	2,889
Stock based compensation	-	-
Change in non-cash operating working capital (note 7)	-	432,293
	(268,949)	(1,133,109)
Cash flow from investing activities		
Increase in promissory note payable	-	315,000
Issuance of share capital	-	780,000
Share issue costs	-	(46,580)
	-	1,048,420
Increase in cash	-	(84,689)
Decrease in cash	(3,377)	-
Cash beginning of period	9,432	269,859
Cash end of period	\$ 6,055	\$ 185,170
Supplementary information		
Interest	\$ -	\$ -

The accompanying notes are an integral part of these financials statements.

1. Basis of presentation:

These unaudited interim financial statements of HMZ Metals Inc. (the “Company”) for the nine months ended September 30, 2008 have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), except that certain disclosures required for annual financial statements have not been included.

Significant Accounting Policies

Change in reporting currency

Effective January 1, 2005, the Company changed its reporting currency to the Canadian dollar. As a majority of the Company’s transactions are in Canadian dollars the change is to better reflect the Company’s business and to improve investors’ abilities to compare results with other publicly traded businesses in the mining industry. Prior to January 1, 2005, the Company reported its financial statements in United States dollars. The related financial statements and corresponding notes prior to January 1, 2005 have been restated to the Canadian dollar for comparison to the 2005 financial results. In making this change, the Company has followed recommendations of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants, set out in EIC-130, “Translation Method When The Reporting Currency Differs From The Measurement Currency or There is a Change in The Reporting Currency”. These guidelines require that the financial statements be translated into the reporting currency using the current rate method. Under this method, the statement of operations and cash flow items for each year are translated into the reporting currency using the average rate in effect for the period, and assets and liabilities are translated using the exchange rate at the period end. All resulting exchange differences are reported as a separate component of shareholders’ equity titled “Cumulative Translation Adjustment”.

Going concern

These financial statements have been prepared on a going concern basis in accordance with Canadian GAAP. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Corporation has accumulated losses amounting to \$26,100,322 that raise substantial doubt about its ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenue and expenses and the balance sheet classifications used.

Measurement uncertainty

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

HMZ METALS INC.

Notes to the September 30, 2008 Financial Statements (continued)

(Expressed in Canadian dollars)

statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those reported.

Significant estimates and assumptions in the preparation of these financial statements include, but are not limited to the carrying value of investments, stock-based compensation, and other equity instrument valuations. Actual results could differ from those estimates.

The consolidated quarterly 2005 comparative financial statements have not been restated to reflect the write down from the loss of control of the joint venture interest during the fourth quarter of 2005 or the change to Canadian dollar reporting from the US dollar as Management concluded that a restatement would not provide meaningful comparative information. (See the audited financial statements ended December 31, 2007, note 3.)

Accordingly, these interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007, except as noted below. The interim unaudited consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. These unaudited interim consolidated financial statements have not been reviewed by the Company's auditors.

The unaudited interim financial statements have been prepared on a basis that is consistent with the policies set out in the Company's consolidated annual financial statements for the year ended December 31, 2007, except as noted below. The results of operations and cash flow for the current periods are not necessarily indicative of the results to be expected for the full year.

Share Incentive Plan

On March 28, 2005 the Company implemented a share incentive plan (the "Plan"), consisting of a share purchase plan, a share option plan and a share bonus plan, which is administered by the board of directors. The Plan provides that eligible persons there under include any director, employee (full time or part-time), officer or consultant of the Company or any subsidiary thereof.

The Company accounts for stock-based compensation using the fair value method. Under this method the Company records the fair value of the stock-based compensation granted over the vesting period as an expense. The offset for these expenses is recorded in contributed surplus until the options are exercised.

Changes in accounting policies

Financial Instruments

Effective January 1, 2007, the Corporation adopted the new recommendations of CICA Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", and Section 3861, "Financial Instruments – Disclosure and Presentation"

Under Section 3855, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been

HMZ METALS INC.

Notes to the September 30, 2008 Financial Statements (continued)

(Expressed in Canadian dollars)

classified as held for trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. Held for trading financial instruments are subsequently measured at fair value and all gains and losses are included in net income in the period which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired. Financial instruments classified as held-to-maturity, loans and receivables, and other financial liabilities are subsequently measured at amortized cost.

As a result of adoption of these standards, the Company has classified its cash as held for trading, receivables as loans and receivables, Investment in BVI Inc and GMC Co. Ltd as held-to-maturity, and accounts payable and accrued liabilities and promissory notes as other financial liabilities.

Comprehensive Income (loss) and Equity

Effective January 1, 2007, the Corporation adopted the new recommendations of CICA Handbook Sections 1530, "Comprehensive Income", and Section 3251, "Equity". These sections establish standards for reporting and presenting certain gains and losses normally not included in net income or loss, such as unrealized gains, change in equity (net assets) of a Company during the period from transactions and other events and circumstances from non-owner sources and losses related to available-for-sale investments, in a statement of comprehensive income (loss).

The only item included in other comprehensive loss is the foreign currency translation of self-sustaining foreign operations. As a result, the previously recorded currency translation account on the balance sheets' shareholders' equity section has been eliminated and included as "accumulated other comprehensive loss" in shareholders' equity.

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, "Capital Disclosures". This new section requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The standards are effective for annual and interim periods beginning on or after October 1, 2007. The Company has adopted these standards on January 1, 2008. The adoption of this section is not expected to have a material impact on the Company's consolidated financial statements.

Going Concern

CICA Handbook Section 1400, "General Standards on Financial Statement Presentation", has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. These changes are effective for interim and annual financial statements beginning on or after January 1, 2008. The Company's disclosure currently includes a going concern note and as such does not expect the adoption of these changes to have a material effect on the consolidated financial statements.

Inventories

CICA Handbook Section 3031, "Inventories", based on International Accounting Standard 2, replaced Section 3030, Inventories. Under the new section, inventories are required to be measured at the "lower

HMZ METALS INC.

Notes to the September 30, 2008 Financial Statements (continued)

(Expressed in Canadian dollars)

cost of and net realizable value”, which is different from the previous guidance of the “lower of cost and market”. The section also allows the reversal of any write-down previously recognized. The adoption of this standard has not had an impact on the financial statements, as the Company does not hold inventories at this time.

Future Accounting Pronouncements

In February 2008, the CICA published Section 3064, “Goodwill and Intangible Assets”. This new standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The requirements will be effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact that this accounting pronouncement will have on its financial statements.

International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) of the CICA confirmed the mandatory International Financial Reporting Standards (IFRS) changeover date for Canadian profit-oriented publicly accountable entities (PAEs). This means that PAEs will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

Canadian GAAP will be converged with IFRS through a combination of two methods: as current joint-convergence projects of the United States Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by the AcSB and may be introduced in Canada before the complete changeover to IFRS; and standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS. The International Accounting Standards Board has and will likely have projects underway that should result in new pronouncements affecting IFRS. This Canadian convergence initiative is very much in its infancy as of the date of these financial statements. Therefore, it is premature to assess the impact of the Canadian initiative, if any, on the Company.

2. Related party transactions and balances:

Material transactions with related parties are summarized as follows:

A company controlled by the Chief Executive Officer charged the Company an administrative fee amounting to \$67,500 for the period ended September 30, 2008 and for comparative purposes the amount charged for the same reporting period during 2007 was \$67,500. The Chief Financial Officer charged the Company an administrative fee amounting to \$54,000 for the period ended September 30, 2008 and for comparative purposes the amount charged for the same reporting period during 2007 was \$54,000.

3. Capital stock and Options:

Authorized: Unlimited common shares with no par value

HMZ METALS INC.

Notes to the September 30, 2008 Financial Statements (continued)

(Expressed in Canadian dollars)

Issued and outstanding:

As of September 30, 2008 total Common Shares issued totaled 109,998,400 and Options Outstanding of 1,925,000 with an exercise price of \$0.40 expiring March 27, 2010. For complete details see note 8 of the December 31, 2007 Audited Financial Statements.

(a) Share and warrant issue costs:

The Corporation has incurred \$nil during the three month period ended September 30, 2008.

(b) Share Incentive Plan:

Share Option Plan:

Pursuant to the share option plan, the directors have the authority to grant options to any director, employee (full-time or part-time), officer or consultant of the Corporation or any subsidiary thereof. Options must be exercised no later than 10 years after the date of the grant, or such earlier period as determined by the directors at the time of the grant and are subject to vesting provisions unless the directors of the Corporation determine otherwise. Options granted are exercisable in whole or in part, at any time, from the date of grant of such options. The number of shares issuable under the stock option plan is a rolling maximum of 10% of shares issued and outstanding (calculated on a non-diluted basis) from time to time.

(c) Share Purchase Plan:

The share purchase plan entitles certain employees of the Corporation to contribute up to 10% of their annual base salary to purchase common shares. The Corporation matches each participant's contribution. At September 30, 2008, 636,000 shares have been reserved for issue under the share purchase plan. At September 30, 2008, no shares had been issued under this plan.

(d) Share Bonus Plan:

The share bonus plan permits common shares to be issued as a discretionary bonus to any director, employee (full-time or part-time), officer or consultant of the Corporation or any subsidiary thereof who is designated under the share bonus plan from time to time. At September 30, 2008, 691,971 shares have been reserved for issuance under the share bonus plan. At September 30, 2008, no shares had been issued under this plan.

4. Changes in non-cash Operating Working Capital as at September 30, 2008.

	2008	2007
(Increase) Decrease in prepaid deposits & taxes recovery	\$ 18,600	\$ (30,854)
(Decrease) Increase in trade accounts payable	\$760,559	\$ 87,524

HMZ METALS INC.

Notes to the September 30, 2008 Financial Statements (continued)

(Expressed in Canadian dollars)

5. Loss per share:

Net loss per share is calculated using the weighted average number of common shares outstanding during the period. No effect has been given to the potential exercise of stock options in the calculation of fully diluted loss per share as the effect would be anti-dilutive.

6. Income taxes:

At September 30, 2008, the Corporation has available certain non-capital losses of approximately \$9,670,230 which can be applied against taxable incomes of future years expiring in various years, up to and including 2027 and capital losses of \$14,600,000 which are available indefinitely against capital gains. As a result of the uncertainty that these losses will be utilized, the company has not recognized the benefit in the accounts.

7. Commitments and Contingencies:

Commitments

The Company leases office facilities at \$10,400 per month expiring November 30, 2012. It is anticipated that half the amount payable under the lease will be offset by sub-tenancy agreement(s).

Contingencies

The Company has received notice of a potential claim by its former CEO in the amount of approximately \$500,000 relating to his ceasing to be an officer and director of HMZ. The Company will vigorously defend any action commenced by the former director and officer.

8. Subsequent events:

HMZ Metals Inc. has announced that it has entered into an option agreement with Valgold Resources Ltd. on its Tower Mountain gold property, located in Conmee Township, Ontario, Canada.

The company as at October 1, 2008 dissolved the Special Committee as a result of the completion of its mandate – The Committee was set up to independently monitor management’s review of losses sustained by HMZ’s China subsidiary Guangxi Guanghe Metals (“GGM”).

HMZ Metals Inc. is currently raising \$750,000 by way of private placement in a unit offering with each unit being composed of three flow through shares and two non-flow through common shares which have a warrant attached at a 50% premium valid for two years from the date of the closing of this offering.