

Consolidated Financial Statements
(Expressed in U.S. dollars)

HMZ METALS INC.

Years ended December 31, 2004 and 2003



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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the consolidated balance sheets of HMZ Metals Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

April 28, 2005

HMZ METALS INC.

Consolidated Balance Sheets
(Expressed in U.S. dollars)

December 31, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash	\$ 112,400	\$ 245,200
Trade accounts receivable, net	118,000	300
Prepayments to suppliers, net	2,093,800	436,000
Due from Hechi Industrial Company Ltd., net (note 8)	732,900	503,600
Due from Biogan International Inc. (note 8)	61,500	59,500
Inventories (note 3)	2,105,800	2,091,600
Other current assets	791,600	85,400
	<u>6,016,000</u>	<u>3,421,600</u>
Deferred share and warrant issue costs (note 11)	479,500	52,000
Investment in Gaofeng Mining Co., Ltd. (note 4)	828,700	828,700
Property, plant and equipment, net (note 5)	4,611,300	4,803,600
Lease prepayments (note 6)	70,300	73,000
Future tax asset (note 7)	301,400	—
	<u>\$ 12,307,200</u>	<u>\$ 9,178,900</u>
Liabilities and Shareholder's Equity		
Current liabilities:		
Loans payable (note 9)	\$ 2,737,000	\$ 604,100
Payable to Biogan International Inc. (note 8)	1,918,000	1,885,900
Due to Gaofeng Mining Co., Ltd. (note 8)	625,900	613,800
Trade accounts payable	1,463,100	275,900
Accrued liabilities and other payables	1,986,100	2,261,600
Income taxes payable	728,800	212,100
	<u>9,458,900</u>	<u>5,853,400</u>
Minority interest	260,900	257,000
Shareholder's equity:		
Capital stock (note 11)	5,866,700	5,866,700
Warrants (note 11(a))	257,200	—
Deficit	(3,536,500)	(2,798,200)
	<u>2,587,400</u>	<u>3,068,500</u>
Going concern (note 2(a))		
Commitments and contingencies (note 16)		
Subsequent events (notes 2(a), 9(b), 9(d), 11(a), 16 and 17)		
	<u>\$ 12,307,200</u>	<u>\$ 9,178,900</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Kerry D. Smith" _____ Director

"Gilles Laverdière" _____ Director

HMZ METALS INC.

Consolidated Statements of Operations and Deficit
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

	2004	2003
Net sales	\$ 15,788,600	\$ 9,701,400
Expenses:		
Cost of sales	(14,022,600)	(8,767,200)
Selling, general and administrative	(1,154,400)	(629,800)
	(15,177,000)	(9,397,000)
Operating income	611,600	304,400
Other income (expense):		
Corporate administration	(811,600)	(114,800)
Interest income	56,300	42,800
Other loss	(161,400)	(1,200)
Interest expense	(209,900)	(137,500)
	(1,126,600)	(210,700)
Income (loss) before income taxes and minority interest	(515,000)	93,700
Income taxes (recovery) (note 7):		
Current	520,800	45,200
Future	(301,400)	—
	219,400	45,200
Income (loss) before minority interest	(734,400)	48,500
Minority interest	(3,900)	(8,200)
Net income (loss)	(738,300)	40,300
Deficit, beginning of year	(2,798,200)	(2,838,500)
Deficit, end of year	\$ (3,536,500)	\$ (2,798,200)
Earnings (loss) per share, basic and diluted	\$ (738,300)	\$ 40,300
Weighted average number of common shares outstanding, basic and diluted	1	1

See accompanying notes to consolidated financial statements.

HMZ METALS INC.

Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

	2004	2003
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ (738,300)	\$ 40,300
Items not involving cash:		
Depreciation of property, plant and equipment	303,700	312,900
Amortization of lease prepayments	3,700	3,800
Minority interest	3,900	8,200
Future income taxes	(301,400)	—
Change in non-cash operating working capital (note 15)	(1,266,700)	(404,800)
	(1,995,100)	(39,600)
Investing activities:		
Capital expenditures	(111,400)	(17,100)
Lease expenditure	(1,000)	—
Advance distribution received from Gaofeng Mining Co., Ltd.	12,100	60,400
	(100,300)	43,300
Financing activities:		
Proceeds from loans payable	2,132,900	241,700
Issuance of warrants	278,200	—
Deferred share and warrant issue costs	(448,500)	(52,000)
Loans payable to a related party	—	9,400
	1,962,600	199,100
Effect of exchange rate changes on cash	—	(500)
Increase (decrease) in cash	(132,800)	202,300
Cash, beginning of year	245,200	42,900
Cash, end of year	\$ 112,400	\$ 245,200

Supplemental disclosure of cash flow information (note 14)

See accompanying notes to consolidated financial statements.

HMZ METALS INC.

Notes to Consolidated Financial Statements
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

HMZ Metals Inc. ("HMZ") is a wholly owned subsidiary of Biogan International Inc. ("Biogan") and was incorporated under the Canada Business Corporations Act on July 22, 2002.

1. Basis of presentation:

On August 25, 2004, HMZ bought Biogan International (BVI), Inc. ("Biogan BVI") from Biogan in a share exchange as part of a corporate reorganization of companies under common control. The corporate reorganization of HMZ and Biogan BVI (collectively, the "Corporation") has been accounted for using the continuity-of-interests method and, accordingly, the accounts of the consolidated companies prior to the corporate reorganization have been included in these consolidated financial statements at their historical amounts.

The Corporation's principal business activities include the operation of the mining assets retained from the corporate reorganization of Biogan BVI and to acquire or discover new mineral properties in the People's Republic of China ("PRC") through its joint venture partners.

The assets of Biogan BVI consist mainly of a 92% equity interest and a 95% profit interest in Guangxi Guanghe Metals Co., Ltd. ("GGM"), a PRC limited liability company that holds certain assets, consisting mainly of a 9% interest in Gaofeng Mining Co., Ltd. ("GMC"), which owns and operates the Gaofeng mine and ore processing facilities, the Hechi copper refinery plant (the "Copper Refinery") and the Wuxu ore processing facility (the "Wuxu Mill").

Corporation formation information:

In June 1998, Hechi Prefecture Mining Company ("HPMC"), a state-owned entity incorporated in Guangxi Zhuang Autonomous Region ("Guangxi") in the PRC and Hechi Industrial Company Ltd. ("Hechi"), a limited company in Guangxi, transferred certain assets and liabilities from HPMC to Hechi. The assets transferred from HPMC to Hechi were: the Copper Refinery; the Wuxu Mill; a 9% equity interest in GMC; the Non-Ferrous Metal Trading Company; a transportation company; a coal company (dormant); the Guizhou Louxia Coal Company; and the Hechi Antimony Industrial Company Limited (collectively the "HPMC Transferred Assets").

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

1. Basis of presentation (continued):

In connection with the acquisition of the HPMC Transferred Assets, Hechi assumed liabilities of HPMC in the aggregate amount of approximately RMB 217,664,000 (approximately \$26,298,000) consisting of (a) an obligation of HPMC to pay to the Hechi Prefecture Government approximately RMB 126,000,000 (approximately \$15,200,000), the outstanding balance of which is approximately RMB 44,135,000 as of January 14, 2005 (approximately \$5,300,000) (the "HPMC Payment"), and (b) an obligation of HPMC to pay to certain creditors of HPMC (who, as a result of such assumption, became creditors of Hechi) RMB 91,664,000 (approximately \$11,075,000), the outstanding balance of which is approximately RMB 47,388,000 as of January 14, 2005 (\$5,725,000). The shareholders of Hechi have agreed with Hechi to pay, on behalf of Hechi, the debt owed by HPMC to the Hechi Prefecture Government (the outstanding portion of which is the HPMC Payment). Under the terms of the acquisition of the HPMC Transferred Assets; however, Hechi remains liable for the payment of the HPMC Payment to the Hechi Prefecture Government. The Hechi Prefecture Government has reserved the right to repossess the HPMC Transferred Assets in the event that Hechi does not make the HPMC Payment to the Hechi Prefecture Government by June 2013, but has agreed not to repossess the HPMC Transferred Assets before such date (note 16(d)).

Biogan and Hechi entered into a Joint Venture Contract (the "Original Joint Venture Contract") effective on January 27, 2000 to create and operate GGM. Under the Original Joint Venture Contract, Biogan was to contribute to GGM an aggregate of \$9 million in cash in specified instalments and \$200,000 in intellectual property and trademark rights (to be satisfied by the provision of know-how and ore processing technologies) in exchange for a 92% equity interest and a 95% profit interest in GGM. Hechi was to contribute the Copper Refinery, the Wuxu Mill and the 9% equity interest in GMC (collectively the "Hechi Assets") in exchange for an 8% equity interest and 5% profit interest.

In addition, pursuant to the Original Joint Venture Contract, Biogan and Hechi entered into an Asset Purchase Agreement (the "APA") effective on July 1, 2000. The APA provided for the acquisition by Biogan of the Hechi Assets and related liabilities. The purchase price for the assets was to be 16,800,000 Biogan common shares and 31,300 Series A shares, which would have resulted in the Hechi shareholders obtaining approximately 73% of the outstanding Biogan common shares on a diluted basis. In addition, the APA provided that an amount of \$2,000,000 be paid to Hechi by GGM.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

(a) Going concern:

These consolidated 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. As of December 31, 2004, the Corporation was in default of certain loan agreements and has accumulated consolidated losses amounting to \$3,536,500, that raise substantial doubt about its ability to continue as a going concern.

On April 6, 2005, the Corporation completed an IPO raising gross proceeds of \$15,537,500 through an equity issue. The Corporation's management has reviewed the working capital requirements for the ensuing 18 months and, based on operating plans believed to be achievable, has concluded that with this funding, combined with expected cash flows from operations, the Corporation will be able to meet its operating and capital requirements for the foreseeable future.

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.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

(b) Principles of consolidation:

These consolidated financial statements include the accounts of the Corporation and its subsidiaries. The 5% profit interest retained by Hechi in GGM is recorded as a minority interest.

The Corporation's financial statements include general and administrative expenses allocated to the Corporation from Hechi. These expenses were allocated to the Corporation using the specific identification method in each period, except for salaries and welfare for administrative staff, depreciation of office building and motor vehicles, for which specific identification method was not practical and were therefore allocated based on working hours, floor area and usage, respectively (note 8). Management believes that the methods of allocation are reasonable and that the financial statements include all costs directly and indirectly related to Corporation's operations for the relevant periods.

(c) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and the investment in GMC and valuation allowances for inventories, trade accounts receivable, prepayments to suppliers and future tax assets. Actual results could differ from those estimates.

(d) Foreign currency translation:

The reporting currency of the Corporation is the U.S. dollar. All assets and liabilities of the Corporation and its subsidiaries are translated into U.S. dollars at the exchange rate in effect at the consolidated balance sheet dates. The resulting gains and losses are accumulated in a separate component of shareholder's equity described in the consolidated balance sheets as cumulative translation adjustments. No adjustment has been required as the RMB is pegged to the U.S. dollar and only slight fluctuations have occurred. Revenue and expenses in RMB are translated at the weighted average exchange rates for the year.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

The functional currency of the Corporation's subsidiary is RMB since it is the currency in which the subsidiary conducts its primary economic activities. Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into RMB at the applicable PBOC rates at the consolidated balance sheet dates. Any resulting adjustments are charged or credited directly to the statement of operations.

(e) Financial instruments:

The fair values of the Corporation's cash, trade accounts receivable, amounts due to and from Hechi and Biogan, loans payable, trade accounts payable, accrued liabilities and other payables and amounts due to GMC approximate their carrying values, due to the short term to maturity of these financial instruments.

(f) Inventories:

Raw materials and spare parts, auxiliary materials and consumables are stated at the lower of cost and replacement cost. Inventories of finished goods and work in progress are stated at the lower of cost and net realizable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads.

(g) Prepayments to suppliers:

Prepayments to suppliers represent cash advances made to suppliers for the purchase of raw materials. The allowance for prepayments to suppliers is the Corporation's best estimate of the amount that is not recoverable. Prepayments are charged off against the allowance after all means of recovering these amounts have been exhausted and the potential for recovery is considered remote.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

(h) Property, plant and equipment:

Property, plant and equipment are stated at cost less accumulated depreciation.

The depreciation of property, plant and equipment is calculated on a straight-line basis over the expected useful life of the asset less its estimated residual value. The respective expected useful lives of property, plant and equipment are as follows:

Property, plant and buildings	20 - 30 years
Machinery and equipment	15 - 20 years
Motor vehicles	5 years

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the assets. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

(i) Lease prepayments:

Lease prepayments represent land use rights paid to the PRC's Ministry of Land and Resource. Land use rights are carried at cost and amortized on a straight-line basis over 30 years. Amortization of lease prepayments for the years ended December 31, 2004 and 2003 was \$3,700 and \$3,800, respectively, all of which was recorded in cost of sales for each year.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

(j) Investment in Gaofeng Mining Co., Ltd.:

The Gaofeng investment represents a 9% equity interest in GMC and is held as a long-term investment and accounted for using the cost method. GGM owns the 9% equity interest and dividends are recognized as income when declared. Diminution in value in the investment which is other than a temporary decline is recognized in the consolidated statements of operations. The fair market value exceeds the cost based on a recent letter of intent by which the Corporation has the right to purchase an additional 20% equity interest in Gaofeng at a price of \$4,000,000.

(k) Income taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases (temporary differences). Future tax assets and liabilities are measured using enacted or 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 a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment. The portion of future tax assets that is more likely than not to be realized is recorded, net of a valuation allowance.

(l) Revenue recognition:

Revenue is recognized when persuasive evidence of an arrangement with the customer exists, delivery has occurred, customer takes ownership and assumes risk of loss, sales price is fixed or determinable, and collection of the relevant receivable is reasonably assured.

(m) Retirement benefits:

The Corporation is required under existing PRC legislation to provide welfare and retirement benefits to certain employees. The Corporation's obligations include contributions to a defined contribution retirement plan administered by a government agency determined based on a certain percentage of the salaries of the employees. The Corporation accounts for these contributions on an accrual basis.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

2. Significant accounting policies (continued):

(n) Earnings (loss) per share:

Basic earnings (loss) per share have been calculated using the weighted average number of shares outstanding during the relevant years. The effect of potentially dilutive securities has not been reflected in the calculation of diluted earnings (loss) per share, as to do so would be antidilutive.

3. Inventories:

	2004	2003
Raw materials	\$ 1,145,900	\$ 1,658,500
Work in progress	89,600	154,400
Finished goods	215,300	36,300
Spare parts, auxiliary materials and consumables	246,500	242,400
Finished goods in transit	408,500	—
	<u>\$ 2,105,800</u>	<u>\$ 2,091,600</u>

4. Investment in Gaofeng Mining Co., Ltd.:

	2004	2003
GMC, at cost	\$ 828,700	\$ 828,700

The Gaofeng investment represents a 9% equity interest in GMC. GMC is an operating polymetallic mine and ore processing facility located in Nandan County, Guangxi in the PRC.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

5. Property, plant and equipment:

2004	Cost	Accumulated depreciation	Net book value
Property, plant and buildings	\$ 3,462,100	\$ 1,079,900	\$ 2,382,200
Machinery and equipment	3,898,900	1,797,600	2,101,300
Motor vehicles	209,200	135,700	73,500
Assets under construction	54,300	—	54,300
	<u>\$ 7,624,500</u>	<u>\$ 3,013,200</u>	<u>\$ 4,611,300</u>

2003	Cost	Accumulated depreciation	Net book value
Property, plant and buildings	\$ 3,451,900	\$ 970,300	\$ 2,481,600
Machinery and equipment	3,896,700	1,610,500	2,286,200
Motor vehicles	164,500	128,700	35,800
	<u>\$ 7,513,100</u>	<u>\$ 2,709,500</u>	<u>\$ 4,803,600</u>

Total depreciation for the years ended December 31, 2004 and 2003 was \$303,700 and \$312,900, respectively, substantially all of which was recorded in cost of sales for each year.

6. Lease prepayments:

	2004	2003
Land use right, at cost	\$ 110,800	\$ 109,800
Less accumulated amortization	40,500	36,800
	<u>\$ 70,300</u>	<u>\$ 73,000</u>

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

7. Income taxes:

The Corporation and its subsidiaries are subject to income taxes in Canada and the PRC. It is also possible that certain United States federal taxes may be applicable to the Corporation as a consequence of the manner of the formation of the Corporation, as described in note 1 for periods subsequent to August 25, 2004. The Corporation believes that any such application of United States taxation would not have any significant effect on the consolidated financial statements for the twelve months ended December 31, 2004. A reconciliation between taxes calculated by applying the Canadian statutory tax rate of approximately 37% in 2004 (2003 - 37%) to income (loss) before income taxes and minority interest is as follows:

	2004	2003
Expected income tax expense (recovery) using statutory income tax rates	\$ (190,500)	\$ 34,700
Permanent differences	121,600	3,000
Tax benefit of losses not currently recognized	300,200	(29,300)
PRC tax rate differences	(11,900)	(8,400)
Income taxes prior to 2002 (b)	—	45,200
Income tax expense	\$ 219,400	\$ 45,200

The tax effects of temporary differences that give rise to significant portions of the future tax assets at December 31, 2004 and 2003 are as follows:

	2004	2003
Future tax asset:		
Accounts receivable and prepayments to suppliers principally due to allowance for doubtful accounts	\$ 457,200	\$ 518,400
Non-capital losses	787,000	166,200
Less valuation allowance	(942,800)	(684,600)
	\$ 301,400	\$ —

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

7. Income taxes (continued):

- (a) At December 31, 2004, the Corporation had non-capital losses for Canadian income tax purposes of approximately \$888,000, of which \$783,000 expires in 2011 and 105,000 expires in 2010.
- (b) Prior year income taxes of \$45,200 represent tax expenses as a result of a tax audit performed by the local tax authority in the PRC on tax years prior to 2002.
- (c) At December 31, 2004, the Corporation has net operating losses carried forward for PRC income tax purposes of \$1,412,700, which are available to offset future taxable income, if any, through 2009.

8. Related party transactions and balances:

Amounts due from (to) related parties as of December 31, 2004 and 2003 are summarized as follows:

	Interest rate	2004	2003
Amount due from Hechi, net (a)	See below	\$ 732,900	\$ 503,600
Amount due from Biogan (b)	Non-interest bearing	61,500	59,500
Payable to Biogan (b)	See below	(1,918,000)	(1,885,900)
Amount due to GMC (c)	Non-interest bearing	(625,900)	(613,800)

All amounts from (to) related parties are unsecured and payable on demand. Amounts are recorded at the transaction value.

- (a) Amount due from Hechi mainly represents trading balances with Hechi, interest payable to Hechi and expenses paid or received by Hechi on behalf of the Corporation. The amount also includes a recoverable of \$553,400 from Hechi being prior year's excess dividends received by Hechi from GMC (note 8(c)).

Amounts due from Hechi have been presented on a net basis as a legal right of offset of amounts due from Hechi exists. Amounts due from Hechi bear interest at rates ranging from non-interest bearing to 7.80% per annum.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

8. Related party transactions and balances (continued):

(b) Amount due from Biogan mainly represents professional expenses paid by the Corporation on behalf of Biogan.

The payable to Biogan includes a note payable amounting to \$1,700,000, which is payable on demand from Biogan. The remaining balance represents additional non-interest bearing advances.

(c) Amount due to GMC includes advances received by the Corporation in 2004 and 2003 amounting to \$12,100 and \$60,400, respectively and excess dividends received by Hechi from GMC amounting to \$553,400, the liability of which was transferred to GGM during the year ((a) above).

Material transactions with related parties are summarized as follows:

	2004	2003
General and administrative expenses:		
Salaries and staff welfare	\$ 17,100	\$ 16,700
Facilities charges:		
Office building	\$ 9,000	\$ 8,600
Motor vehicles	7,600	18,500
	\$ 16,600	\$ 27,100
Interest expense	\$ 142,200	\$ 135,800

The Corporation paid consulting fees to the Chief Executive Officer of the Corporation and a company controlled by the Chief Executive Officer of the Corporation in the amount of \$40,000 for the year ended December 31, 2004 (2003 - \$15,000).

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

9. Loans payable:

Loans payable as of December 31, 2004 and 2003 are as follows:

2004	Due date	Interest rate	Amount	
			RMB	U.S. \$
Promissory notes payable (d)	Various (d)	10.000%		\$ 199,700
Bank of China (a)	June 11, 2005	6.903%	2,000,000	241,700
Bank of China (a)	April 19, 2005	6.903%	8,000,000	966,600
Bank of China (b)	May 10, 2005	6.786%	8,000,000	966,600
Finance Development Company of Hechi Finance Bureau (c)	November 30, 2000	Interest-free	3,000,000	362,400
			21,000,000	\$ 2,737,000

2003	Due date	Interest rate	Amount	
			RMB	U.S. \$
Bank of China (a)	July 30, 2004	6.372%	2,000,000	\$ 241,700
Finance Development Company of Hechi Finance Bureau (c)	November 30, 2000	Interest-free	3,000,000	362,400
			5,000,000	\$ 604,100

(a) These loans were borrowed from the Bank of China by the Copper Refinery to fund the purchases of raw material for the copper smelter. These loans are secured by fixed assets of the Copper Refinery.

(b) This loan was borrowed from the Bank of China by the Copper Refinery for working capital purposes. The loan is guaranteed by Guangxi Renmin Equipment Co. ("Renmin"), a third party. In return, the Corporation loaned \$483,300, 50% of the proceeds of the loan, to Renmin. Each party is responsible for the respective principal and interest payments. Subsequent to year end, Renmin repaid to the Corporation its 50% portion of the loan.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended December 31, 2004 and 2003

9. Loans payable (continued):

- (c) This loan is guaranteed by Hechi. Biogan BVI has failed to repay the loan on its due date, November 30, 2000, and is currently in default of the loan repayments. According to the default provisions of the loan agreement, interest accrues during the default period at two times the agreed upon rate. However, the loan agreement does not stipulate an interest rate. Management maintains that the interest rate is nil, and the Corporation is currently in the process of negotiating with the lender and will repay the loan once the final amount is agreed upon. Accordingly, the Corporation has not accrued any amounts for the interest charges since the date of default (note 16(c)(iv)).
- (d) The promissory notes payable are due to various individuals and were issued in September 2004. The promissory notes payable are unsecured and repayable on the earlier of the closing of the IPO (note 17(a)) or 12 months from the date of the loan and bear interest at a rate of 10% per annum with a minimum of six months interest. These notes have been settled subsequent to year end.

10. Concentration of risk:

- (a) Concentration of economic risk:

The Corporation's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. In addition, the ability to negotiate and implement specific projects in a timely and favourable manner may be impacted by political considerations unrelated to or beyond the control of the Corporation. Although the PRC government has been pursuing economic reform policies, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered. There is also no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective and, as a result, changes in the rate or method of taxation, reduction in tariff protection and other import restrictions, and changes in state policies affecting the industries to which the Corporation sells its products, may have a negative effect on its operation results and financial conditions. Additionally, there is a concentration of economic risk in relation to the customer base, sales to one customer of Copper Refinery represent 42% of total sales to that segment in 2004.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

10. Concentration of risk (continued):

(b) Concentration of currency risk:

Substantially all of the revenue-generating operations of the Corporation are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchanges as quoted by the PRC. However, the unification of the exchange rate does not imply convertibility of RMB into U.S. dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China ("PBOC") or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form, together with suppliers' invoices, shipping documents and signed contract.

11. Capital stock:

Authorized:

Unlimited common shares with no par value

Issued and outstanding:

	HMZ		Biogan BVI paid-in, contributed and	Total
	Number of shares	Amount	share capital	
Balance, January 1, 2003 and 2004	1	\$ —	\$ 5,866,700	\$ 5,866,700
Acquisition of Biogan BVI by HMZ (note 1)	—	5,866,700	(5,866,700)	—
Balance, December 31, 2004	1	\$ 5,866,700	\$ —	\$ 5,866,700

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

11. Capital stock (continued):

(a) Warrants:

On July 16, 2004, the Corporation issued an aggregate of 671,000 Class A Special Warrants of the Corporation at a price of Cdn. \$0.50 for each Class A Special Warrant. Each Class A Special Warrant is exchangeable, for no additional consideration, for one common share of the Corporation and one Class A Warrant of the Corporation. Each Class A Warrant entitles the holder to acquire one common share of the Corporation at an exercise price of Cdn. \$0.50 until the second anniversary of the closing of the IPO. In connection with the issue of the Class A Special Warrants, the Corporation issued to certain registered dealers who provided services to the Corporation in connection with the issue of the Class A Special Warrants an aggregate of 33,900 Class G Special Warrants of the Corporation. Each Class G Special Warrant is exchangeable, for no additional consideration, for one common share of the Corporation and one Class G Warrant of the Corporation. Each Class G Warrant entitles the holder to acquire one common share of the Corporation at an exercise price of Cdn. \$0.50 per common share until the second anniversary of the closing of the IPO, subject to adjustment, as set out in the certificates representing the Class G Warrants.

On August 25, 2004, the Corporation acquired from its parent company, Biogan, all of the issued and outstanding shares of Biogan BVI and a non-interest bearing promissory note issued by Biogan BVI to Biogan in the amount of \$1,700,000 (note 8(b)), in exchange for:

- (i) 30,200,000 Class B Special Warrants, each exchangeable, for no additional consideration, for one special share, Series 1, of the Corporation (which special shares are to be created by the Corporation prior to the closing of the IPO);
- (ii) 4,145,676 Class C Special Warrants, each exchangeable, for no additional consideration, for one common share of the Corporation and one BVI Purchase Warrant. Each BVI Purchase Warrant entitles the holder to acquire one common share of the Corporation at an exercise price of Cdn. \$0.50 per common share until the second anniversary of the closing of the IPO, subject to adjustment, as set out in the certificates representing the BVI Purchase Warrants;

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

11. Capital stock (continued):

- (iii) 1,348,062 Class D Special Warrants, each exchangeable, for no additional consideration, for one common share of the Corporation and one BVI Purchase Warrant;
- (iv) 1,100,000 Class E Special Warrants, each exchangeable, for no additional consideration, for one common share of the Corporation;
- (v) 23,054,691 Class F Special Warrants, each exchangeable, for no additional consideration, for one common share of the Corporation; and
- (vi) a promissory note issued by the Corporation in favour of Biogan for the amount of \$1,700,000.

Upon completion of the IPO on April 6, 2005 (note 17(a)), the Class B, C, D, E and F Special Warrants outlined above were converted into 29,648,429 common shares of the Corporation. Similarly, the Class B Special Warrants were converted into 30,200,000 Series 1 Special Shares. The Corporation has entered into an agreement with the holders of the Series 1 Special Shares such that the holders of these shares cannot dispose of them prior to the Corporation receiving a Hechi Payment Confirmation. If such Hechi Payment Confirmation is not received by May 15, 2013, the Corporation can redeem the Series I Special Shares for \$0.0001 per share or an aggregate of \$3,020. The Corporation is then free to sell sufficient common shares on the open market to satisfy the Hechi Payment as it deems appropriate.

In September 2004, the Corporation issued 180,000 warrants as additional consideration to various lenders to loan to the Corporation by way of promissory notes Cdn. \$240,000 (\$199,700) (note 9(d)). Each warrant entitles the holder to purchase one common share at the IPO issue price attributable to the common shares until the second anniversary of the closing date of the IPO. Due to the contingent nature of these notes, the Corporation will value and record a financing charge related to these warrants at the time of issuance of the IPO using a Black-Scholes valuation model.

(b) Share and warrant issue costs:

The Corporation has incurred \$448,500 during 2004 (2003 - \$52,000) in share issuance costs in connection with the issuance of warrants and the proposed IPO. Of these costs, \$21,000 has been netted to the proceeds from the issuance of the Class A Special Warrants.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

12. Segment information:

The Corporation manages and evaluates its operations in reportable segments as follows:

- (a) The corporate headquarters in Canada manages the overall activity of the Corporation.
- (b) GGM, the headquarters in the PRC, is mainly engaged in the overall management of the operating units and conducts commercial business in the PRC. GGM also holds the 9% equity interest in GMC according to the Amended and Restated Joint Venture Contract. GMC is a mining and concentrating company, incorporated in Guangxi of the PRC and owns the mining right to a non-ferrous metal and mineral reserve in the same location.
- (c) The Copper Refinery is mainly engaged in the production of blister copper. All customers of the Copper Refinery are local copper refinery plants located in the PRC. Major suppliers of the Copper Refinery are local copper factories located in the PRC.
- (d) The Wuxu Mill is mainly engaged in the processing of zinc concentrates, lead and antimony. All sales are conducted with local refinery companies. Major suppliers are local mining companies located in the PRC.

The segments are determined primarily because the segments within the Corporation manage their production separately, distribute distinct products with different production processes and have distinct operating and gross margin characteristics. In view of the fact that the Corporation operates primarily in the PRC, no geographical segment information is presented.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

12. Segment information (continued):

The Corporation evaluates the performance and allocates resources to its operating segments on an operating income basis. The accounting policies of the Corporation's segments are the same as those described in note 2. The dividend income, income taxes and corporate administrative costs and assets are not allocated to the operating segments, but instead are recorded in the corporate headquarters directly. Summarized financial information concerning the Corporation's reportable segments for the years ended December 31, 2004 and 2003 are shown in the following table:

2004	PRC GGM headquarters	Copper Refinery	Wuxu Mill	Corporate and other	Total
Net sales to external customers	\$ —	\$ 14,490,000	\$ 1,298,600	\$ —	\$ 15,788,600
Interest income	30	56,250	20	—	56,300
Interest expense	—	209,900	—	—	209,900
Depreciation and amortization	300	289,900	17,200	—	307,400
Income (loss) before income taxes and minority interest	(604,500)	1,091,900	(190,800)	(811,600)	(515,000)
Total assets	2,993,700	8,356,400	363,100	594,000	12,307,200
Capital expenditures	—	91,600	11,100	8,700	111,400
2003	PRC GGM headquarters	Copper Refinery	Wuxu Mill	Corporate and other	Total
Net sales to external customers	\$ —	\$ 8,952,200	\$ 749,200	\$ —	\$ 9,701,400
Interest income	100	42,600	100	—	42,800
Interest expense	—	137,500	—	—	137,500
Depreciation and amortization	400	299,100	17,200	—	316,700
Income (loss) before income taxes and minority interest	(88,000)	480,300	(183,800)	(114,800)	93,700
Total assets	2,716,400	6,019,500	322,700	120,300	9,178,900
Capital expenditures	—	—	17,100	—	17,100

HMZ METALS INC.

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Years ended December 31, 2004 and 2003

13. Retirement benefits:

As stipulated by PRC regulations, the Corporation participates in defined contribution retirement plans for its employees in China, which are organized and administered by the municipal government.

The Corporation is required to make annual contributions to the retirement plans, equivalent to 20% of the basic salaries of its employees in China. The Corporation has no other material obligation for the payment of retirement benefits beyond the annual contributions described above. The Corporation's contributions for the years ended December 31, 2004 and 2003 were \$34,800 and \$44,700, respectively.

14. Supplemental cash flow information:

The Corporation paid \$209,900 and \$137,500 for interest during the years ended December 31, 2004 and 2003, respectively. During the year ended December 31, 2004, the Corporation paid income taxes of \$4,100 (2003 - \$17,400).

Non-cash transactions:

During the year ended December 31, 2003, a payable amount of \$553,400, being prior years' excess dividends received by Hechi from GMC, was transferred to GGM. The Corporation correspondingly recorded the same amount as a receivable from Hechi. This has therefore been treated as non-cash operating activity in the consolidated statements of cash flows.

During the year ended December 31, 2004, the Corporation issued various classes of Special Warrants as consideration for the acquisition of the shares of Biogan BVI (notes 1 and 11).

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

15. Change in non-cash operating working capital:

	2004	2003
Decrease (increase) in trade accounts receivable, net	\$ (117,700)	\$ 45,500
Increase in inventories	(14,200)	(466,500)
Decrease (increase) in prepayments to suppliers, net	(1,657,800)	11,200
Increase in other current assets	(706,200)	(49,800)
Increase (decrease) in trade accounts payable	1,187,200	(94,000)
Increase in amount due to a related party	32,100	—
Increase (decrease) in accrued liabilities and other payables	(275,500)	183,100
Increase in amount due from a related party	(231,300)	(62,100)
Increase in income taxes payable	516,700	27,800
	<u>\$ (1,266,700)</u>	<u>\$ (404,800)</u>

16. Commitments and contingencies:

(a) Commitments:

- (i) On August 5, 2004, the Corporation and Hechi a limited liability company formed under the laws of the PRC entered into a letter of intent (the "HMZ Tailings Letter of Intent") pursuant to which the Corporation has a six-month period to conduct a field investigation on the resources subject to the HMZ Tailings Letter of Intent. The effective date of the agreement has been amended to January 28, 2005, thereby extending the period to conduct a field investigation on the resources to July 28, 2005. If the Corporation determines that the tailings would be economic, then a preliminary feasibility study will be prepared. Upon a positive preliminary feasibility study being prepared, the Corporation will be obligated to prepare and fund a bankable feasibility study. The Corporation and Hechi have agreed that their respective interests in the tailings will be negotiated after the completion of the preliminary feasibility study.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

16. Commitments and contingencies (continued):

(ii) On August 5, 2004, the Corporation and Guangxi Fengshan Jinpan Gold Mine Company Limited, a company formed under the laws of the PRC ("Jinpan") entered into a letter of intent pursuant to which the Corporation was granted a four-month period to conduct due diligence on the Jinya gold mine, a former gold producer. The effective date of the agreement has been amended to January 28, 2005, thereby extending the period to conduct due diligence to May 28, 2005. If the Corporation determines that the gold mine would be economic, the Corporation will be responsible for preparing a preliminary feasibility study and providing the funds to reopen the Jinya gold mine. Upon satisfactory completion of due diligence by the Corporation, the Jinya gold mine will be transferred to GGM in exchange for 3,000,000 common shares of the Corporation.

(iii) On November 27, 2003, Biogan assigned its interest in the letter of intent (the "GMC Letter of Intent") dated December 25, 2002 between Biogan and Nandan County Nanxing Antimony (Group) Company Limited ("Nanxing") to the Corporation. The Corporation, pursuant to the GMC Letter of Intent, would acquire the 20% interest of Nanxing in GMC for a purchase price of \$4,000,000, of which \$1,500,000 is required to be paid in cash and \$2,500,000 is required to be paid in common shares of the Corporation. The number of shares to be issued is equal to \$2,500,000 divided by the market price of the Corporation's shares at the time of the transaction.

(b) Lease commitments:

The Corporation is committed to operating leases for business premises as follows:

2005	\$ 43,700
2006	40,000

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

16. Commitments and contingencies (continued):

(c) Contingent liabilities:

- (i) The Corporation has obtained an opinion from its legal counsel in the PRC which states that the contribution of the Hechi Assets was duly approved by and registered with all relevant authorities in the PRC in accordance with laws and regulations in effect at the time that such contributions were made and that the Hechi Assets are currently owned by GGM. In accordance with the Amended and Restated Joint Venture Contract, Biogan BVI made its outstanding capital contribution of \$7,300,000 to GGM on April 11, 2005. GGM is required to retain an accountant registered in the PRC to verify the contribution of the Hechi Assets and the capital contribution of Biogan BVI. Under applicable PRC law, the foregoing verification report is required to be submitted to the applicable authorities in the PRC.
- (ii) The Amended and Restated Joint Venture Contract provides that the capital contribution of Biogan BVI to GGM (being \$7,300,000 in cash and \$200,000 in intellectual property and trademark rights (to be satisfied by the provision of know-how and ore processing technologies)) was required to be made by Biogan BVI before March 31, 2005 and, further, that if the capital contribution is not made before May 31, 2005, Biogan BVI will be deemed to have withdrawn from GGM and Hechi will have the right to dissolve the joint venture. In the case where the capital contribution is not made by Biogan BVI before March 31, 2005, the Amended and Restated Joint Venture Contract provides for a penalty equal to an interest rate charged on the overdue payment determined in accordance with the relevant stipulation promulgated by the PRC. The capital contribution was made on April 11, 2005.
- (iii) The Corporation has been advised by legal counsel to Biogan and GGM (the "Counsel") that, except for liabilities constituting or arising out of or relating to the business assumed by the Corporation in the reorganization, no other liabilities were assumed by the Corporation and the Corporation is not jointly and severally liable for other debts and obligations incurred by Hechi prior to the reorganization.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2004 and 2003

16. Commitments and contingencies (continued):

(iv) The Corporation has been made aware of a total of approximately RMB 47,388,000 as of January 14, 2005 (\$5,725,000) owed by Hechi to various creditors of Hechi. Under PRC law, these creditors may be able to enforce a claim against the Hechi Assets in connection with enforcing their rights as creditors. In particular, Hechi has forwarded to the Corporation both the Dunning Demand Letters, which assert claims of the Agricultural Bank of China in the aggregate amount of approximately RMB 32,527,000 (\$3,930,000) against Hechi, and the Overdue Notice, which asserts a claim by the China Bank of Industry and Commerce in the aggregate amount of approximately RMB 11,761,000 (\$1,421,000) against Hechi.

As described in note 9(c), the Corporation has failed to repay the loan on its due date and is currently in default of the loan repayments. Local management maintains that no interest will accrue nor will any penalties be assessed as the loan was interest-free according to the loan agreement.

Notwithstanding the foregoing, Counsel has stated in its legal letter to the Corporation that according to the default payment clause of the loan agreement, the Corporation may be liable for double interest payment as of the date of breach of loan repayments. However, no additional liability for interest arising from the default payments has been recorded in the financial statements as the amount cannot be reasonably estimated.

(d) Priority claim of PRC government:

The Corporation's business and operating assets were originally purchased by the former employees of HPMC, who are individually and collectively responsible to pay the HPMC Payment of approximately RMB 126,000,000 (\$15,200,000) within 15 years after the acquisition date of June 1998. If the current outstanding balance of approximately RMB 44,135,000 (\$5,300,000) as of January 14, 2005 is not paid by June 2013, the Hechi Prefecture Government has the right to repossess and reclaim the business sold and its operating assets.

(e) Environmental remediation costs:

To date, the Corporation has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no legal liabilities that will have a material adverse effect on the financial position or operating results of the Corporation.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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16. Commitments and contingencies (continued):

The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3110, Asset Retirement Obligations, provides for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement costs. It addresses obligations required to be settled as a result of an existing law, regulation or contract related to asset retirements. The new standard is applicable for fiscal years beginning with January 1, 2004. At present, there is no legal requirement in the PRC related to environmental remediation and, as such, asset retirement obligations cannot be set up.

The PRC government, however, has moved, and may move further, towards more rigorous definition and enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties, which affect the Corporation's ability to estimate the ultimate cost of remediation efforts.

These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to refining plant, land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) the varying costs of alternative remediation strategies, (iv) the changes in environmental remediation requirements, and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material.

(f) Land use right:

Without the final land use right certificates, the PRC government could legally repossess the two pieces of land that the Wuxu Mill currently operates on.

The Wuxu Mill has not received the final land use right certificates from the Ministry of Land and Resource for two blocks of land with original costs amounting to RMB 877,300 (\$106,000) as of December 31, 2004. According to the agreements between the Wuxu Mill and Hechi City Wuxu People's Government, the Hechi City Wuxu People's Government will help the Wuxu Mill to obtain the land use right certificates after the Wuxu Mill pays the land transfer fees. The Wuxu Mill paid the land transfer fees in 1994; however, the land use right certificates have not been issued as of December 31, 2004.

HMZ METALS INC.

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17. Subsequent events:

- (a) On April 6, 2005, the Corporation completed an IPO and issued 38,843,750 units for total proceeds of \$15,537,500, of which \$15,000,000 represents the maximum offering and \$537,500 represents a portion of the agents' option. The agents' option, of which \$537,500 has already been exercised, allows the agent to acquire up to that number of units, at the Offering Price, that is equal to 15% of the maximum number of common shares sold under the IPO. This option is exercisable at any time prior to the date that is no later than 30 days after the closing of the IPO.

On April 11, 2005, the Corporation made its final capital contribution of \$7,300,000 required pursuant to the Amended and Restated Joint Venture Contract.

- (b) In February 2005, the Corporation borrowed Cdn. \$125,000 (\$100,000), of which a total of Cdn. \$75,000 was contributed by a director and an officer of the Corporation, by way of promissory notes, bearing interest at the rate of 10% per annum with a minimum interest payable for three months. As additional consideration to various lenders, the Corporation issued 93,750 bridge warrants, each entitling the holder to purchase one common share at a price of Cdn. \$0.40 for a period of two years after the closing date of the IPO. Subsequent to year end, these notes were repaid.
- (c) In March 2005, the Corporation borrowed Cdn. \$90,000 (\$75,000), of which Cdn. \$15,000 was contributed by an officer of the Corporation by way of interest-free promissory notes. As consideration, the Corporation issued 67,500 warrants, each entitling the holder to purchase one common share at a price of Cdn. \$0.40 for a period of two years after the closing date of the IPO. Subsequent to year end, these notes were repaid.
- (d) On March 28, 2005, the Corporation 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 directors of the Corporation. The Plan provides that eligible persons thereunder include any director, employee (full-time or part-time), officer or consultant of the Corporation or any subsidiary thereof.

HMZ METALS INC.

Notes to Consolidated Financial Statements (continued)
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17. Subsequent events (continued):

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. 636,000 shares have been reserved for issue under the share purchase plan. Pursuant to the share option plan, the directors have the authority to grant options, options must be exercised no later than 10 years after the date 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. On March 28, 2005, the Corporation issued 6,900,000 options under the share option plan. The options are exercisable at Cdn. \$0.40 per share.

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. 691,971 shares have been reserved for issuance under the share bonus plan.