

HMZ Metals Inc.

Financial Statements

December 31, 2007 and 2006

Table of Contents
December 31, 2007 and 2006

	Page
Auditors' Report	1
Financial Statements	
Balance Sheets	2
Statements of Loss, Comprehensive Loss and Deficit	3
Statements of Cash Flows	4
Notes to Financial Statements	5-19

Auditors' Report

To the Shareholders of
HMZ Metals Inc.

We have audited the balance sheets of HMZ Metals Inc. as of December 31, 2007 and 2006 and the statements of loss, comprehensive loss, and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: “MSCM LLP”

**Chartered Accountants
Licensed Public Accountants**

May 27, 2008
Toronto, Ontario

HMZ Metals Inc.

Balance Sheets

December 31, 2007 and 2006
(expressed in Canadian Dollars)

	2007	2006
Assets		
Current		
Cash	\$ 185,170	\$ 269,859
Accounts receivable	4,885	7,162
Prepaid expenses and deposits	30,854	38,650
	227,215	315,671
Investment in Biogan International (BVI) Inc. (note 3)	1	1
Investment in Gaofeng Mining Co. Ltd. (note 4)	1	1
Equipment (note 5)	9,683	12,572
	\$ 230,594	\$ 328,245
Liabilities		
Current		
Accounts payable and accrued liabilities (note 6)	\$ 2,070,261	\$ 1,654,414
	2,070,261	1,654,414
Promissory notes payable (note 7)	315,000	-
	2,385,261	1,654,414
Going Concern (note 2)		
Shareholders' Deficiency		
Share capital (note 9)	21,666,674	21,027,521
Common share warrants (note 10)	227,843	2,599,107
Contributed surplus (note 11)	4,314,231	1,848,700
Accumulated other comprehensive loss (note 2)	(3,715,706)	(3,715,706)
Deficit	(24,647,709)	(23,085,791)
	(2,154,667)	(1,326,169)
	\$ 230,594	\$ 328,245

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

Approved by the Board

Signed: "Kerry D. Smith"

Director

Signed: "Brian Cloney"

Director

HMZ Metals Inc.**Statements of Loss, Comprehensive Loss and Deficit**

*for the years ended December 31, 2007 and 2006
(expressed in Canadian Dollars)*

	2007	2006
Expenses		
Corporate administration (<i>note 6</i>)	\$ 759,812	\$ 434,284
Consulting fees (<i>note 6</i>)	681,772	509,249
Legal, audit and accounting	143,940	307,753
Salaries and benefits	53,378	53,770
Amortization	2,889	3,812
Loss from operations before under noted	1,641,791	1,308,868
Other income		
Rental income (<i>note 6</i>)	79,873	6,690
Net loss and comprehensive loss for the year	(1,561,918)	(1,302,178)
Deficit, beginning of year	(23,085,791)	(21,783,613)
Deficit, end of year	\$ (24,647,709)	\$ (23,085,791)
Loss per share, basic and diluted	\$ (0.02)	\$ (0.02)
Weighted average number of common shares outstanding, basic and diluted	88,526,975	74,045,116

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

HMZ Metals Inc.**Statements of Cash Flows**

for the years ended December 31, 2007 and 2006
(expressed in Canadian dollars)

	2007	2006
Cash flow from operating activities		
Loss for the year	\$ (1,561,918)	\$ (1,302,178)
Items not requiring cash		
Amortization	2,889	3,812
Change in non-cash operating working capital (note 12)	432,293	459,184
	(1,133,109)	(839,182)
Cash flow from financing activities		
Increase in promissory note payable	315,000	315,000
Issuance of share capital	780,000	1,085,000
Share issue costs	(46,580)	(44,746)
	1,048,420	1,040,254
Decrease in cash	(84,689)	(201,072)
Cash, beginning of year	269,859	68,787
Cash, end of year	\$ 185,170	\$ 269,859

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

Supplementary disclosure of cash flow information:

Cash paid during the year:

Interest	\$ -	\$ 257
----------	------	--------

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

1. Basis of Presentation

HMZ Metals Inc. (“HMZ”) was incorporated as a wholly owned subsidiary of Biogan International Inc. (“Biogan”) under the Canada Business Corporations Act on July 22, 2002. 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 as outlined below. The corporate reorganization of HMZ and Biogan BVI (collectively, the “Company”) has been accounted for using the continuity-of-interests method and, accordingly, the accounts of the consolidated companies prior to the corporate reorganization were included in these financial statements at their historical amounts.

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); the Guizhou Louxia Coal Company (a dormant coal company); and the Hechi Antimony Industrial Company Limited (collectively the “HPMC Transferred Assets”).

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 US\$ 26,298,000) consisting of (a) an obligation of HPMC to pay to the Hechi Prefecture Government approximately RMB 126,000,000 (approximately US\$ 15,200,000), the outstanding balance of which was approximately RMB 44,135,000 as of January 14, 2005 (approximately US\$ 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 US\$ 11,075,000), the outstanding balance of which was approximately RMB 47,388,000 as of January 14, 2005 (US\$ 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.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

1. Basis of Presentation (continued)

Biogan and Hechi entered into a Joint Venture Contract (the “Original Joint Venture Contract”) effective on January 27, 2000 to create and operate Guangxi Guanghe Metals Co., Ltd. (“GGM”). Under the Original Joint Venture Contract, Biogan was to contribute to GGM an aggregate of US\$ 9 million in cash in specified instalments and US\$ 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 US\$ 2,000,000 be paid to Hechi by GGM.

HMZ is currently in a long standing dispute with Hechi as to the ownership of assets, cash flow and profits derived there from. The People’s High Court, Guargxi Province, PRC has accepted HMZ’s application to proceed with the legal action against Hechi. As a result of the above referenced dispute in prior year, HMZ has written the value of its indirectly held 92% equity interest and 95% profit interest in GGM down to \$1 pending a resolution of the current dispute (*note 4*).

2. Significant Accounting Policies

Going concern

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company 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. Certain conditions and events exist, which cast doubt on the HMZ’s ability to continue as a going concern. Over the past several years, HMZ has incurred significant losses from both continuing and discontinued operations. Continued operations depend upon HMZ’s ability to obtain additional financing and/or generate positive cash flows from operations. Should HMZ be unable to generate positive cash flows from operations or secure additional financing in the foreseeable future, the application of the going concern principle for financial statement reporting purposes may no longer be appropriate. These consolidated financial statements do not include any adjustments, related to the valuation or classification of assets or the amounts or classification of liabilities, which would otherwise be necessary should the Corporation be unable to continue as a going concern.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

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 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 Black-Scholes option pricing model used by the Company to determine fair value of options and warrants was developed for use in estimating the fair value of freely traded options. This model requires the input of highly subjective assumptions including future stock price volatility and expected time until exercise. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing model does not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants granted during the year.

Equipment

Equipment is stated at cost less accumulated amortization. Amortization is provided over the expected useful lives of the equipment using the following methods and annual rates:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

Income taxes

The Company 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.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

Cumulative Translation Adjustment

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 was 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. As a result of the change in currency the Cumulative Translation Adjustment reflected in the balance sheet as Accumulated Other Comprehensive Loss is \$3,715,706.

Revenue recognition

Rental revenue is recognized when services are provided under the terms of various leases and ultimate collection is reasonably assured. The amount of revenue recognized is based on the total revenue for the term of the lease over a straight line basis.

Loss per share

Loss per share has been determined by dividing the net loss attributed to common shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is computed using the treasury stock method by dividing the net loss by the sum of the weighted average number of common shares outstanding and all additional shares that would have been outstanding if potentially dilutive shares had been issued during the year. Stock options, shares to be issued, and warrants outstanding are not included in the computation of diluted (loss) earnings per share if the inclusion would be anti-dilutive.

Impairment of long-lived assets

Long-lived assets held for use are reviewed for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. When the carrying value is not recoverable from future cash flows on an undiscounted basis and the carrying value exceeds the assets' fair value, an impairment loss is recorded for the excess of carrying value over fair value.

Stock based compensation

The Company grants stock options in accordance with TSX policies. 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 Company 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 Company 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.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

Stock based compensation (continued)

All stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable, with that expense being charged to the related activity over the vesting period. Fair value is calculated using the Black-Scholes model for pricing options. The cost of the stock-based payments that are fully vested and non-forfeitable at the grant date are measured and recognized at that date. On the exercise of the stock options, consideration received and the accumulated surplus amounts are credited to the share capital.

Comparative figures

Certain of the prior year comparative figures have been reclassified to confirm with the presentation adopted in the current year.

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 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.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

2. Significant Accounting Policies (continued)

Future changes in accounting policies

Financial instruments – Disclosure and Presentation

In December 2006, the CICA released new Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation", which will replace Section 3861, "Financial Instruments – Disclosure and Presentation". These standards are effective for annual and interim periods beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008. The adoption of these sections is not expected to have a material impact on the Company's consolidated financial statements.

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 will adopt 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.

3. Loss of Control of Joint Venture Interest

During the prior year, the Company determined that it no longer had control over GGM as the Company's joint venture partner had failed to transfer funds that had been earned by the joint venture in accordance with the joint venture agreement, provide monthly operating reports for joint venture assets, provide evidence of compliance with local laws and regulations pertaining to the lawful operation of the assets and enact management, operational and financial protocols mandated by the Company and its representatives.

As such the Company ceased consolidating the results of GGM and recorded its investment at cost effective January 1, 2005. The Company has not yet taken steps to dissolve the joint venture and is involved in arbitration proceedings and a law suit with its joint venture partner. The Company believes that it is unlikely that the Chinese partner will seek, or is able to seek, any further funds from the Company. No claims have been made to date.

HMZ Metals Inc.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

4. Investment in Gaofeng Mining Co., Ltd.

The investment in Gaofeng Mining Co., Ltd. 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. The carrying value of the investment at December 31, 2004 was \$996,097. During the 2005 year the investment was written down \$1 due to the uncertainty associated with the relationship between the Company and its joint venture partner in GGM.

5. Equipment

	2007		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 6,299	\$ 3,675	\$ 2,624
Furniture and fixtures	13,415	6,356	7,059
	\$ 19,714	\$ 10,031	\$ 9,683

	2006		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 6,299	\$ 2,551	\$ 3,748
Furniture and fixtures	13,415	4,591	8,824
	\$ 19,714	\$ 7,142	\$ 12,572

6. Related Party Transactions and Balances

The Company accrued consulting fees to the Chief Executive Officer and a corporation controlled by the Chief Executive Officer in the amount of \$278,977 (2006 - \$270,116) for the year ended December 31, 2007. In addition, consulting fees were accrued to the Chief Financial Officer and a corporation owned by the Corporate Secretary in the amounts of \$216,000 (2006 - \$144,000) and \$60,600 (2006 - \$75,133) respectively. In the prior year, consulting fees were also paid to a former officer of \$20,000.

The Company accrued fees to the three independent directors of the Company in the amount of \$216,000 of the year ended December 31, 2007. Director's fees for the year ended December 31, 2006 were waived by the directors.

Rent was received of \$64,500 (2006 - \$6,690) from sub-tenants. A director of the Company also serves as a director of three of the sub-tenants.

These services have been recorded at their exchange amount, which is the amount of consideration established and agreed by the related parties. Accounts payable and accrued liabilities include \$826,373 (2006 - \$251,604) owed to directors, officers and management for management, director and consulting services rendered. The amounts are unsecured, non-interest bearing and have no repayment terms.

HMZ Metals Inc.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian

7. Promissory Notes Payable

	2007	2006
Unsecured discounted promissory notes with a maturity value of \$420,000, bearing interest at 14% per annum payable at maturity, redeemable at any time prior to maturity by the Company, maturing in December 2009. (refer to note 9(e))	\$ 315,000	\$ -

8. Income Tax Reconciliation

	2007	2006
Expected income tax expense (recovery) using statutory income tax rates	\$ (887,156)	\$ (470,347)
Permanent differences	(322,991)	(150,721)
Tax benefit of losses not currently recognized	1,210,147	621,068
	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portions of the future tax assets at December 31, 2006 and 2005 are as follows:

	2007	2006
Future tax asset:		
Non-capital losses	\$ 6,943,574	\$ 2,004,152
Capital losses	4,680,566	4,680,566
Share issue and finance costs	659,619	465,873
Less: Valuation allowance	(12,283,759)	(7,150,591)
	\$ -	\$ -

At December 31, 2007, the Company has available certain non-capital losses of approximately \$6,944,000 which can be applied against taxable incomes of future years expiring in various years, up to and including 2026 and capital losses of \$4,680,000 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.

HMZ Metals Inc.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

9. Share Capital

Authorized

Unlimited number of common shares

Unlimited Series 1 Special Shares

	Number	Amount
Common shares		
Outstanding – December 31, 2005	69,188,407	\$ 20,120,843
Issued under private placement (a)	7,999,993	600,000
Issued under private placement (b)	9,700,000	485,000
Allocation to share warrants	-	(133,576)
Share and warrant issue costs	-	(44,746)
Balance – December 31, 2006	86,888,400	21,027,521
Issued under private placement (c)	11,800,000	590,000
Issued under private placement (d)	1,700,000	85,000
Issued under private placement (d)	5,600,000	105,000
Allocation to share warrants	-	(73,892)
Share and warrant issue costs	-	(66,955)
Balance – December 31, 2007	105,988,400	\$ 21,666,674

- a) In June 2006, the Company issued 7,999,993 units for gross proceeds of \$600,000. Each unit was comprised of one common share and one common share warrant. Each common share warrant is exercisable at a price of \$0.10 per common share for a period of one year from closing and exercisable at \$0.15 per common share for the second year from closing, expiring on June 30, 2008. 589,930 warrants were also issued as part of share issue costs to various brokers. The net fair market value ascribed to the common shares is \$508,109 and to the warrants was \$91,891.
- b) In November 2006, the Company issued 9,700,000 units for gross proceeds of \$485,000. Each unit was comprised of one common share and one common share warrant. Each common share warrant is exercisable at a price of \$0.10 per common share for a period of one year from closing and exercisable at \$0.15 per common share for the second year from closing, expiring on November 16, 2008. 220,000 warrants were also issued as part of share issue costs to various brokers. The net fair market value ascribed to the common shares is \$443,315 and to the warrants was \$41,685.

Notes to Financial Statements*December 31, 2007 and 2006**(Unless noted, all dollar amounts are expressed in Canadian dollars)*

9. Share Capital (continued)

- c) In February 2007, the Company issued 11,800,000 units for gross proceeds of \$590,000. Each unit was comprised of one common share and one half common share warrant. Each whole common share warrant is exercisable at a price of \$0.10 per common share for a period of one year from closing and exercisable at \$0.15 per common share for the second year from closing, expiring on February 12, 2009. 844,500 warrants were also issued as part of share issue costs to various brokers. The fair value using the Black-Scholes pricing model is \$19,255. The net fair market value ascribed to the common shares is \$539,848 and to the warrants is \$50,152.
- d) In October 2007, the Company issued 1,700,000 units for gross proceeds of \$85,000. Each unit was comprised of one common share and one half common share warrant. Each whole common share warrant is exercisable at a price of \$0.10 per common share for a period of one year from closing and exercisable at \$0.15 per common share for the second year from closing, expiring on October 19, 2009. 160,000 warrants were also issued as part of share issue costs to various brokers. The fair value using the Black-Scholes pricing model is \$1,120. The net fair market value ascribed to the common shares is \$77,776 and to the warrants is \$7,224.
- e) In December 2007, the Company issued redeemable promissory notes in the amount of \$420,000 which notes bear interest at the rate of 14% per annum on early redemption or maturity two years from issuance (also refer *note 7*) and 5,600,000 units were issued at gross proceeds of \$105,000. Each unit was comprised of one common share and one common share warrant. Each common share warrant is exercisable at a price of \$0.025 per common share expiring on December 14, 2009. The net fair market value ascribed to the common shares is \$88,484 and to the warrants is \$16,516.

	Number	Amount
Series I Special Shares		
Issued and Outstanding – December 31, 2006 and 2007	30,200,000	\$ -

The Special Shares will be issued from time to time in one or more series comprised of such number of shares and with such rights, privileges, restrictions and conditions attached thereto as shall be fixed by the directors of the Company.

The Special Shares of each series rank on a parity with the Special Shares of every other series with respect to the payment of dividends and the distribution of assets of the Company or the return of capital in the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company for the purpose of winding-up its affairs and will be entitled to a preference over the common shares for the amount of US\$ 0.0001 per Special Share. Subject to the rights, privileges, restrictions and conditions that may be attached to a particular series of Special Shares by the directors of the Company in accordance with the rights, privileges, restrictions and conditions attached to the Special Shares, the holders of the Special Shares will be entitled to receive notice of and to attend and vote, voting together with the holders of common shares, at any meeting of the shareholders of the Company, except meetings at which only holders of another class or series of shares of the Company are entitled to vote. The holders of any series of Special Shares will be entitled to receive only such dividends, if any, as are calculated and stipulated at the time

HMZ Metals Inc.

of issue thereof.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

9. Share Capital (continued)

Series I Special Shares (continued)

An aggregate of 30,200,000 Special Shares have been issued as Series 1 Special Shares. Holders of Series 1 Special Shares will be entitled to receive notice of and to attend and vote (one vote per share, voting together with the common shares and all other voting shares) at all meetings of the shareholders of the Company, except meetings at which only holders of another class or series of shares of the Corporation are entitled to vote. The holders of Series 1 Special Shares will not be entitled to receive any dividends.

Each Series 1 Special Share will be convertible into one Common Share, subject to adjustment for normal anti-dilution events, including the subdivision, consolidation or reclassification of the outstanding common shares. The Series 1 Special Shares will only be convertible in accordance with the provisions of the Fushan Agreement, described below.

Each Series 1 Special Share will be redeemable by the Company on payment of a redemption price of US\$ 0.0001. The Series 1 Special Shares will only be redeemable in accordance with the provisions of the Fushan Agreement. In addition, upon any liquidation, dissolution or winding up of the Company or other distribution of the assets of the Company to the shareholders of the Company for the purpose of winding-up its affairs, after the payment or provision for the payment of all debts and liabilities of the Company, each holder of Series 1 Special Shares will be entitled to receive the amount of US\$ 0.0001 per Series 1 Special Share in priority to any distribution being made to the holders of common shares. The holders of Series 1 Special Shares will not be entitled to participate any further in the liquidation, dissolution or winding up of the Company or other distribution of the assets of the Company to the Shareholders of the Company.

The Company and Fushan Industrial Co. Ltd. ("Fushan"), a corporation incorporated under the laws of the British Virgin Islands, all of the outstanding shares of which are owned by the Hechi shareholders, have entered into the Fushan Agreement. The Fushan Agreement provides, among other things, that Fushan will not encumber or dispose of any of the Series 1 Special Shares until the Company receives confirmation that approximately RMB 44,135,000 (approximately US\$ 5,300,000), (the "HPMC Payment") being the outstanding amount of the original indebtedness of HPMC to the Hechi Prefecture Government which was assumed by Hechi in connection with its acquisition of the Hechi Assets from HPMC, which outstanding amount is required to be paid by Hechi to the Hechi Prefecture Government by June 2013. Confirmation of the Hechi Payment will take the form of a confirmation to be received by the Company, such confirmation to be in form acceptable to the Company in its sole discretion, that (i) the HPMC Payment has been made or satisfactory arrangements for the payment of the HPMC Payment are in place and that the Hechi Assets are no longer, or, after the completion of such arrangements will not be, subject to repossession by HPMC or any governmental authority in the PRC and (ii) the Hechi Indebtedness has been paid in full or satisfactory arrangements for the payment of the Hechi Indebtedness are in place and that the Hechi Assets are no longer, or, after the completion of such arrangements will not be, subject to repossession by the Hechi Creditors ("HPMC Payment Confirmation"). Notwithstanding the rights, privileges, restrictions and conditions attached to the Series 1 Special Shares: (i) Fushan may not convert the Series 1 Special Shares prior to the Company receiving the HPMC Payment Confirmation; and (ii) the Company may not redeem the Series 1 Special Shares unless Hechi or the Hechi shareholders do not make the HPMC Payment by May 15, 2013 (or such later date as the Company may agree in

Notes to Financial Statements*December 31, 2007 and 2006**(Unless noted, all dollar amounts are expressed in Canadian dollars)*

9. Share Capital (continued)

writing) or the interest of GGM in the Hechi Assets is materially decreased (as determined in the sole discretion of a committee of the directors of the Company) as a result of either the Hechi Indebtedness or the HPMC Payment not being satisfied or paid, as applicable, at any time prior to the Company receiving the Hechi Payment Confirmation. In the event that the Company becomes entitled to redeem the Series 1 Special Shares, the Company may, upon giving notice to Fushan in accordance with the provisions of the Series 1 Special Shares, redeem all of the then outstanding Series 1 Special Shares on payment of a redemption price of US\$ 0.0001 per Series 1 Special Share.

Finally, pursuant to the terms of the Fushan Agreement, Fushan will use best efforts to (i) preserve the ownership interests of the parties in GGM pursuant to (and cause Hechi to perform under) the Amended and Restated Joint Venture Contract, (ii) ensure the continued operation of GGM, and (iii) ensure GGM's continued ownership of the Hechi Assets, irrespective of any law, regulation or rule in the PRC (whether currently existing or implemented in the future) which may affect Fushan's ability, right or entitlement to own the Series 1 Special Shares or for the shareholders of Fushan to maintain their interest in Fushan.

Share Purchase Plan

The share purchase plan entitles certain employees of the Company to contribute up to 10% of their annual base salary to purchase common shares. The Company matches each participant's contribution. At December 31, 2007 no shares had been issued under this plan.

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 Company or any subsidiary thereof who is designated under the share bonus plan from time to time. At December 31, 2007 no shares had been issued under this plan.

10. Common Share Warrants

A summary of the Company's outstanding common share purchase warrants, as at December 31, 2007 and 2006 and changes during the years are as follows:

	Number	Amount
Balance – December 31, 2005	48,792,738	\$ 2,465,531
Issued pursuant to private placement (<i>note 9(a)</i>)	4,589,927	91,891
Issued pursuant to private placement (<i>note 9(b)</i>)	5,070,000	41,685
Balance – December 31, 2006	58,452,665	2,599,107
Issued pursuant to private placement (<i>note 9(c)</i>)	6,744,500	69,407
Issued pursuant to private placement (<i>note 9(d)</i>)	1,010,000	8,344
Issued pursuant to private placement (<i>note 9(e)</i>)	5,600,000	16,516
Expired	(48,792,738)	(2,465,531)
Balance – December 31, 2007	23,014,427	\$ 227,843

HMZ Metals Inc.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

10. Common Share Warrants (continued)

The fair value of the warrants issued in 2007 has been determined to be \$94,267, using the Black-Scholes option pricing model based on the following assumptions:

Risk free interest rate	3.76% - 4.13 %
Dividend yield	NIL
Expected stock volatility	81 %
Expected life	2 Years

The fair value of the warrants issued in 2006 has been determined to be \$133,576 using the Black-Scholes option pricing model based on the following assumptions:

Risk free interest rate	4.18 %
Dividend yield	NIL
Expected stock volatility	81 %
Expected life	2 Years

11. Contributed Surplus and Stock Options

	2007	2006
Opening balance	\$ 1,848,700	\$ 1,848,700
Expiry of warrants	2,465,531	-
Closing balance	\$ 4,314,231	\$ 1,848,700

A summary of the Company's outstanding stock options as at December 31, 2007 and 2006 and changes during the years are as follows:

	2007		2006	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Options outstanding, January 1	1,925,000	\$ 0.40	6,900,000	\$ 0.40
Options cancelled / expired	-	-	(4,975,000)	(0.40)
Options outstanding, December 31	1,925,000	\$ 0.40	1,925,000	\$ 0.40

HMZ Metals Inc.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

11. Contributed Surplus and Stock Options (continued)

As of December 31, 2007, options outstanding and exercisable are summarized as follows:

Exercise Price	Number Granted	Weighted Average Contractual Life (Years)	Number Exercisable
\$ 0.40	1,925,000	2.24	1,925,000

12. Changes in Non-Cash Operating Working Capital

	2007	2006
Decrease in accounts receivable	\$ 2,277	\$ 3,335
Decrease (increase) in prepaids	7,796	(11,050)
Increase in accounts payable and accrued liabilities	422,220	466,899
	\$ 432,293	\$ 459,184

13. Commitment and Contingencies

Commitment

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 \$747,000 relating to breach of contract and wrongful dismissal. The Company has commenced a counterclaim in which it claims damages in the amount of \$15,000,000. No accrual has been set except for amounts in accounts payable and accrued liabilities as outcome is not determinable.

Notes to Financial Statements

December 31, 2007 and 2006

(Unless noted, all dollar amounts are expressed in Canadian dollars)

14. Subsequent Events

- a) During January 2008, the Company issued 4,000,000 common shares at a deemed price of \$0.015 per common share in lieu of cash to repay shareholder debt due to a lack of working capital.
- b) The Toronto Stock Exchange (“TSX”) de-listed the common shares of HMZ Metals Inc. at the close of business on January 18, 2008 for failure to meet continued listing requirements of the TSX. Effective the same date, the Company received conditional approval to list its common shares on the CNQ Stock Exchange. Trading of the Company’s common shares is subject to the prior filing of outstanding interim financial statements and audited annual financial statements, any cease trade order or default of a securities commission requirement must be remedied and completion of all CNQ Listing Documentation and payment of the Listing Fee. CNQ also reserves the right to amend or waive any of the above conditions prior to final approval.
- c) During April and May 2008, the Company raised \$236,500 under its non-brokered private placement of Convertible Debentures (the, “Debentures”). The Company paid a finders fee equal to \$10,320 and issued 258,000 warrants to purchase common shares in connection with the above and anticipates closing the balance of the \$350,000 on or before June 6, 2008. The Debentures are non-interest bearing and are convertible into Units on a dollar for dollar basis. Each Unit is priced at \$0.05 and consists of one common share and one-half common share purchase warrant. Each full warrant is exercisable at \$0.10 for the first twelve months from Closing and at \$0.20 for the second twelve months from Closing. A finder’s fee consisting of a cash payment equal to 8% of the cash raised under the Debentures and that number of warrants to purchase common shares at \$0.05 for a term of two years, that is equal to 10% of the number of Units issuable on conversion of the Debentures is payable as applicable. Conversion of the Debentures will occur subsequent to and therefore not be subject to a proposed 5:1 share consolidation. The proposed share consolidation is subject to shareholder and regulatory approval.
- d) During April 2008, the Company cancelled the 1,925,000 options outstanding to acquire common shares of the Company which had an exercise price of \$0.40 and were due to expire in March 2010.