

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

HMZ METALS INC.

For the Periods Ended March 31, 2005 and 2004

HMZ METALS INC.

Consolidated Balance Sheets

As at March 31, 2005 and December 31, 2004

(Expressed in U.S. dollars)

	March 31, 2005 (Unaudited)	December 31, 2004
Assets		
Current assets:		
Cash	\$ 812,100	\$ 112,400
Trade accounts receivable, net	300	118,000
Prepayments to suppliers, net	1,024,300	2,093,800
Due from Hechi Industrial Company Ltd., net (note 4)	752,500	732,900
Due from Biogan International Inc. (note 4)	63,400	61,500
Inventories (note 2)	5,193,600	2,105,800
Other current assets	284,000	791,600
	<u>8,130,200</u>	<u>6,016,000</u>
Deferred share and warrant issue costs (note 5(a))	703,500	479,500
Investment in Gaofeng Mining Co. Ltd.	828,900	828,700
Property, plant and equipment, net	4,549,600	4,611,300
Lease prepayments	70,400	70,300
Future tax asset	309,200	301,400
	<u>\$ 14,591,800</u>	<u>\$ 12,307,200</u>
Liabilities and Shareholder's Equity		
Current liabilities:		
Loans payable (note 4)	\$ 2,913,500	\$ 2,737,000
Payable to Biogan International Inc. (note 4)	1,919,800	1,918,000
Due to Gaofeng Mining Co., Ltd. (note 4)	674,200	625,900
Trade accounts payable	2,535,800	1,463,100
Accrued liabilities and other payables	2,915,700	1,986,100
Income taxes payable	901,900	728,800
	<u>11,860,900</u>	<u>9,458,900</u>
Minority interest	278,500	260,900
Shareholder's equity:		
Capital stock (note 5)	5,866,700	5,866,700
Warrants (note 5)	257,200	257,200
Contributed surplus (note 5(b))	1,502,700	—
Deficit	(5,184,700)	(3,536,500)
Cumulative translation adjustment	10,500	—
	<u>2,452,400</u>	<u>2,587,400</u>
	<u>\$ 14,591,800</u>	<u>\$ 12,307,200</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
Three months ended March 31, 2005 and 2004
(Expressed in U.S. dollars)
(Unaudited)

	2005	2004
Net sales	\$ 3,272,300	\$ 3,468,600
Expenses:		
Cost of sales	(2,516,700)	(2,598,500)
Selling, general and administrative	(167,000)	(151,600)
Operating income	588,600	718,500
Other income (expense):		
Corporate administration	(474,100)	(84,700)
Interest income	13,700	15,200
Other loss	(700)	—
Interest expense	(66,500)	(37,800)
Stock-based compensation (note 5(b))	(1,502,700)	—
	(2,030,300)	(107,300)
Income (loss) before income taxes and minority interest	(1,441,700)	611,200
Income taxes (recovery):		
Current	196,700	—
Future	(7,800)	—
	188,900	—
Income (loss) before minority interest	(1,630,600)	611,200
Minority interest	(17,600)	(34,800)
Net income (loss)	(1,648,200)	576,400
Deficit, beginning of period	(3,536,500)	(2,838,500)
Deficit, end of period	\$ (5,184,700)	\$ (2,262,100)
Earnings (loss) per share, basic and diluted	\$ (1,648,200)	\$ 576,400
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
 Three months ended March 31, 2005 and 2004
 (Expressed in U.S. dollars)
 (Unaudited)

	2005	2004
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ (1,648,200)	\$ 576,400
Items not involving cash:		
Depreciation of property, plant and equipment	78,700	68,900
Amortization of lease prepayments	900	900
Minority interest	17,600	34,800
Stock-based compensation	1,502,700	—
Future income taxes	(7,800)	—
Change in non-cash operating working capital (note 7)	762,700	(1,574,900)
	<u>706,600</u>	<u>(893,900)</u>
Investing activities:		
Capital expenditures	(17,000)	(11,700)
Lease expenditure	(1,000)	—
Long term investments	(200)	—
Advance distribution received from Gaofeng Mining Co. Ltd.	48,300	—
	<u>30,100</u>	<u>(11,700)</u>
Financing activities:		
Proceeds from loans payable	176,500	966,500
Deferred share and warrant issue costs	(224,000)	(22,800)
Loans payable to a related party	—	77,700
	<u>(171,500)</u>	<u>1,021,400</u>
Effect of exchange rate changes on cash	10,500	—
Increase in cash	699,700	115,800
Cash, beginning of period	112,400	245,200
Cash, end of period	<u>\$ 812,100</u>	<u>\$ 361,000</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 24,600	\$ 8,300
Cash paid for income taxes	215,889	—

See accompanying notes to consolidated financial statements.

HMZ METALS INC.

Notes to the March 31, 2005 Consolidated Financial Statements
(Expressed in U.S. dollars)

1. Basis of presentation:

These unaudited interim consolidated financial statements of HMZ Metals Inc. (the "Company") for the three months ended March 31, 2005 and 2004 have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), except that certain disclosures required for annual financial statements have not been included. Accordingly, these interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2004, except as noted below. The interim unaudited consolidated financials statements include all adjustments that are, in the opinion of management, necessary for fair presentation. These unaudited interim consolidated financial statements have not been reviewed by the Company's auditors. The unaudited interim consolidated financial statements have been prepared on a basis that is consistent with the policies set out in the Company's consolidated annual financial statements for the year ended December 31, 2004, except as noted below.

The results of operations and cash flow for the current periods are not necessarily indicative of the results to be expected for the full year.

Share Incentive Plan

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

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

2. Inventories:

	March 31, 2005	December 31, 2004
Raw materials	\$ 3,502,800	\$ 1,145,900
Work in progress	89,700	89,600
Finished goods	1,298,400	215,300
Spare parts, auxiliary materials and consumables	302,700	246,500
Finished goods in transit	—	408,500
	<u>\$ 5,193,600</u>	<u>\$ 2,105,800</u>

HMZ METALS INC.

Notes to the March 31, 2005 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

3. Related party transactions and balances:

Amounts due from (to) related parties as of March 31, 2005 and December 31, 2004 are summarized as follows:

	Interest rate	March 31, 2005	December 31, 2004
Amount due from Hechi, net (a)	See below	\$ 752,600	\$ 732,900
Amount due from Biogan (b)	Non-interest bearing	63,400	61,500
Payable to Biogan (b)	See below	(1,919,800)	(1,918,000)
Amount due to GMC (c)	Non-interest bearing	(674,200)	(625,900)

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 3(c)).

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

- (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 of \$219,800 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).

HMZ METALS INC.

Notes to the March 31, 2005 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Material transactions with related parties are summarized as follows:

	Three months ended March 31,	
	2005	2004
General and administrative expenses:		
Salaries and staff welfare	\$ 2,400	\$ 4,600
Facilities charges:		
Office building	\$ -	\$ 2,200
Motor vehicles	-	4,300
	\$ -	\$ 6,500
Interest expense	\$ 35,600	\$ 29,300

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 \$18,000 for the three months ended March 31, 2005 (year ended December 31, 2004 - \$40,000).

4. Loans payable:

Loans payable as of March 31, 2005 and December 31, 2004 are as follows:

March 31, 2005	Due date	Interest rate	Amount	
			RMB	U.S. \$
Promissory notes payable	Various (a)	10.000%		376,200
Bank of China	June 11, 2005	6.903%	2,000,000	241,700
Bank of China	April 19, 2005	6.903%	8,000,000	966,600
Bank of China	May 10, 2005	6.786%	8,000,000	966,600
Finance Development Company of Hechi Finance Bureau	November 30, 2000	Interest-free	3,000,000	362,400
			21,000,000	2,913,500

December 31, 2004	Due date	Interest rate	Amount	
			RMB	U.S. \$
Promissory notes payable	Various (a)	10.000%		199,700
Bank of China	June 11, 2005	6.903%	2,000,000	241,700
Bank of China	April 19, 2005	6.903%	8,000,000	966,600
Bank of China	May 10, 2005	6.786%	8,000,000	966,600
Finance Development Company of Hechi Finance Bureau	November 30, 2000	Interest-free	3,000,000	362,400
			21,000,000	2,737,000

HMZ METALS INC.

Notes to the March 31, 2005 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

- (a) The promissory notes payable are due to various individuals and were issued in March and February 2005 and September 2004. The promissory notes payable were unsecured and were repayable on the earlier of the closing of the IPO or various dates as specified in the promissory notes. These notes were repaid on April 7, 2005, subsequent to the closing of the IPO (note 8).

5. Capital stock and Options:

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, 2004	1	\$ —	\$ 5,866,700	\$ 5,866,700
Acquisition of Biogan International (BVI), Inc. by HMZ Metals Inc. on August 25, 2004	—	5,866,700	(5,866,700)	—
Balance, December 31, 2004 and March 31, 2005	1	\$ 5,866,700	\$ —	\$ 5,866,700

- (a) Share and warrant issue costs:

The Corporation has incurred \$224,000 during the three month period ended March 31, 2005 and \$448,500 for the year ended December 31, 2004 in share issuance costs in connection with the issuance of warrants and the proposed IPO. Of these costs, \$21,000 was netted to the proceeds from the issuance of the 671,000 Class A Special Warrants at \$0.50 per warrant in 2004.

- (b) Share Incentive Plan

Share Option Plan

Pursuant to the share option plan, the directors have the authority to grant options to any director, employee (full-time or part-time), officer or consultant of the Corporation or any subsidiary thereof. Options must be exercised no later than 10 years after the date of the grant, or such earlier period as determined by the directors at the time of the grant, and

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Notes to the March 31, 2005 Consolidated Financial Statements (continued)
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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. All options vested immediately on issue.

The compensation expense for options granted during the three months ended March 31, 2005 of \$1,502,700 is included in the in consolidated statement of operations and deficit.

The fair value was estimated using the Black-Scholes fair value option-pricing model using the following assumptions:

Dividend yield of 0%,
Risk-free interest rate 3.95%,
Expected volatility 81% and
Expected life of 5 years.

The shares of the Company began trading on the TSX on April 6, 2005. As a result there is no trading history to establish the expected volatility. The Company has used the average volatility for nine companies with assets in the PRC or considered to be comparable.

(d) Share Purchase Plan

The share purchase plan entitles certain employees of the Corporation to contribute up to 10% of their annual base salary to purchase common shares. The Corporation matches each participant's contribution. At March 31, 2005, 636,000 shares have been reserved for issue under the share purchase plan.

(e) Share Bonus Plan

The share bonus plan permits common shares to be issued as a discretionary bonus to any director, employee (full-time or part-time), officer or consultant of the Corporation or any subsidiary thereof who is designated under the share bonus plan from time to time. At March 31, 2005, 691,971 shares have been reserved for issuance under the share bonus plan. At March 31, 2005, no shares had been issued under this plan.

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Notes to the March 31, 2005 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

6. Segment information:

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

For the Three Months Ended March 31, 2005

	PRC GGM Headquarters	Copper Refinery	Wuxu Mill	Corporate and other	Total
Net sales to external customers	\$ —	\$ 3,067,700	\$ 204,600	\$ —	\$ 3,272,300
Interest income	—	13,700	—	—	—
Interest expense	—	60,300	—	6,200	66,500
Depreciation and amortization	100	74,800	4,300	400	79,600
Income (loss) before income taxes and minority interest	(23,500)	596,200	(31,400)	(1,983,000)	(1,441,700)
Total assets	3,026,500	10,227,700	380,600	957,000	14,591,800
Capital expenditures	—	17,100	1,000	—	18,100

For the Three Months Ended March 31, 2004

	PRC GGM Headquarters	Copper Refinery	Wuxu Mill	Corporate and other	Total
Net sales to external customers	\$ —	\$ 3,182,200	\$ 286,300	\$ —	\$ 3,468,500
Interest income	—	11,100	—	—	11,100
Interest expense	—	37,800	—	—	37,800
Depreciation and amortization	100	65,400	4,300	—	69,800
Income (loss) before income taxes and minority interest	(17,700)	751,400	(37,800)	(84,700)	(611,200)
Total assets	2,702,100	7,260,800	388,800	134,700	10,486,400
Capital expenditures	—	800	11,200	—	12,000

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Notes to the March 31, 2005 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

7. Analysis of Changes in non-cash operating working capital:

	March 31, 2005	December 31, 2004
Decrease (increase) in trade accounts receivable, net	\$ 117,700	\$ (117,700)
Increase in inventories	(3,087,800)	(14,200)
Decrease (increase) in prepayments to suppliers, net	1,069,500	(1,657,800)
Increase in other current assets	507,600	(706,200)
Increase (decrease) in trade accounts payable	1,072,700	1,187,200
Increase in amount due to a related party	1,800	32,100
Increase (decrease) in accrued liabilities and other payables	929,600	(275,500)
Increase in amount due from a related party	(21,500)	(231,300)
Increase in income taxes payable	173,100	516,700
	\$ 762,700	\$ (1,266,700)

8. Subsequent events:

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 was exercised, allowed 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 was exercisable at any time prior to the date that is no later than 30 days after the closing of the IPO. The option was cancelled effective April 30, 2005.

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 and has engaged an accounting firm in the PRC to complete the capital verification report as required pursuant to the Amended and Restated Joint Venture Contract.