

HMZ METALS INC.

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

For the Three Months and Nine Months Ended September 30, 2005 and 2004

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, the statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"Gilles Laverdiere"

Vice Chairman and Chief Executive Officer

HMZ METALS INC.

Consolidated Balance Sheets

As at September 30, 2005 and December 31, 2004
(Expressed in thousands of U.S. dollars)

	September 30, 2005	December 31, 2004
	(Unaudited)	
Current assets		
Cash	\$ 3,714	\$ 112
Trade accounts receivable, net	132	118
Prepayments to suppliers, net	2,013	2,094
Due from Hechi Industrial Company Ltd., net (note 3 (a))	2,574	733
Due from Biogan International Inc. (note 3 (b))	93	61
Inventories (note 2)	7,070	2,106
Other current assets	733	792
	16,329	6,016
Deferred share and warrant issue costs (note 5 (e))	-	480
Investment in Gaofeng Mining Co. Ltd.	848	829
Property, plant and equipment, net	7283	4,611
Lease prepayments	70	70
Future tax asset	350	301
	\$ 24,880	\$ 12,307
Liabilities		
Current liabilities		
Loans payable (note 4)	\$ 2,842	\$ 2,737
Payable to Biogan International Inc. (note 3(b))	177	1,918
Due to Gaofeng Mining Co., Ltd. (note 3(c))	690	626
Trade accounts payable	3,984	1,463
Accrued liabilities and other payables	1,884	1,986
Income taxes payable	969	729
	10,546	9,459
Non-controlling interest	952	261
Shareholders' Equity		
Capital stock (note 5 (a))	15,147	5,867
Warrants (note 5 (a), (d))	1,946	257
Contributed surplus (note 5(f))	1,503	-
Deficit	(5,574)	(3,537)
Cumulative translation adjustment	360	-
	13,382	2,587
	\$ 24,880	\$ 12,307

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Brian M" Cloney
Director

"Gilles Laverdiere"
Director

HMZ METALS INC.

Consolidated Statements of Operations and Deficit

For the Periods Ended September 30, 2005 and 2004

(Expressed in thousands of U.S. dollars, except per share numbers)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net sales	\$ 3,781	\$ 3,138	\$ 13,959	\$ 11,011
Operating Costs				
Cost of sales	3,361	2,897	11,115	9,207
Selling, general and administrative	162	129	486	434
	3,523	3,026	11,601	9,641
Operating Income before the undernoted	258	112	2,358	1,370
Other Expenses (Income)				
Corporate administration	433	146	1,802	297
Interest income	(19)	(12)	(50)	(34)
Other loss	1	124	2	153
Interest expense	133	45	332	133
Stock-based compensation (note 5(f))	-	-	1,503	-
	548	303	3,589	549
Income (loss) before income taxes and non-controlling interest	(290)	(191)	(1,231)	821
Income taxes	66	242	736	242
(Loss) income before non-controlling interest	(356)	(433)	(1,967)	579
Non-controlling interest	4	(2)	70	56
Net (Loss) Income	(360)	(431)	(2,037)	523
Deficit, beginning of period	5,214	1,844	3,537	2,798
Deficit, end of period	\$ 5,574	\$ 2,275	\$ 5,574	\$ 2,275
Basic and diluted (loss) income per common share, basic (note 6)	\$(0.01)	\$ (431,000)	\$ (0.05)	\$ 523,000
Weighted average number of common shares outstanding, basic (note 6)	69,197,000	1	41,864,000	1

See accompanying notes to consolidated financial statements.

HMZ METALS INC.

Consolidated Statements of Cash Flows

For Periods Ended September 30, 2005 and 2004
(Expressed in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Cash Provided from (Used for)				
Operating activities				
Net income (loss)	\$ (360)	\$ (431)	\$ (2,037)	\$ 523
Items not involving cash:				
Depreciation of property, plant and equipment	94	76	258	221
Amortization of lease prepayments	1	1	3	3
Non-controlling interest	41	(2)	691	56
Fair value of warrants issued on promissory notes	-	-	50	-
Stock-based compensation	-	-	1,503	-
Future income taxes	(32)	-	(49)	-
Change in non-cash operating working capital (note 8)	(1,959)	384	(5,731)	(1,379)
	(2,215)	28	(5,312)	(576)
Investing activities				
Capital expenditures	(2,094)	(4)	(2,890)	(17)
Lease expenditure	-	1	(1)	-
Short-term investments	-	(24)	-	(24)
Advance distribution received from Gaofeng Mining Co. Ltd.	(48)	-	-	-
	(2,143)	(27)	(2,791)	(41)
Financing activities				
Common share issue	-	245	9,280	245
Issuance of warrants	(21)	-	1,638	-
Loans payable	63	(112)	-	1,036
Share and warrant issue costs	-	(64)	480	(151)
Loans payable to a related party	-	(141)	105	(46)
	42	(72)	11,503	1,084
Effect of exchange rate changes on cash	214	-	202	-
(Decrease) Increase in Cash	(4,102)	(71)	3,602	467
Cash, Beginning of period	7,816	783	112	245
Cash, End of period	\$ 3,714	\$ 712	\$ 3,714	\$ 712
Supplemental Disclosure of Cash Flow Information				
Cash paid for:				
Interest	99	49	265	133
Income taxes	111	-	501	-

See accompanying notes to consolidated financial statements.

HMZ METALS INC.

Notes to the Consolidated Financial Statements
(Unless noted, all dollar amounts are expressed in U.S. dollars)
(unaudited)

1. Basis of Presentation:

These unaudited interim consolidated financial statements of HMZ Metals Inc. (the "Corporation") for the three months and nine months ended September 30, 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 Corporation's audited consolidated financial statements for the year ended December 31, 2004. The interim unaudited consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. These unaudited interim consolidated financial statements have not been reviewed by the Corporation's auditors. The unaudited interim consolidated financial statements have been prepared on a basis that is consistent with the policies set out in the Corporation's consolidated annual financial statements for the year ended December 31, 2004, except for the new pronouncement and accounting for the share incentive plan described below.

On January 1, 2005, the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline No. 15 "Consolidation of Variable Interest Entities" ("AcG -15") which requires that the Corporation consolidate a variable interest entity when the Corporation has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. As at September 30, 2005 the Corporation had no entities which would qualify as a variable interest under ACg-15.

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 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 board of directors. 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.

The Corporation accounts for stock-based compensation using the fair value method. Under this method the Corporation 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:

(000's, unaudited)

	September 30, 2005	December 31, 2004
Raw materials	\$ 5,657	\$ 1,146
Work in progress	92	90
Finished goods	814	215
Spare parts, auxiliary materials and consumables	507	246
Finished goods in transit	-	409
	\$ 7,070	\$ 2,106

HMZ METALS INC.

Notes to the Consolidated Financial Statements (continued)
(Unless noted, all dollar amounts are expressed in U.S. dollars)
(unaudited)

3. Related Party Transactions and Balances:

Amounts due from (to) related parties as of September 30, 2005 and December 31, 2004 are summarized as follows:

	Interest rate	September 30, 2005	December 31, 2004
Amount due from Hechi, net (a)	See below	\$ 2,574,000	\$ 733,000
Amount due from Biogan (b)	Non-interest bearing	93,000	61,000
Payable to Biogan (b)	See below	(177,000)	(1,918,000)
Amount due to GMC (c)	Non-interest bearing	(690,000)	(626,000)

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

- (a) Amount due from Hechi Industrial Ltd. ("Hechi") in 2004 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 \$553,000 from Hechi, being the excess dividends received by Hechi from GMC in a prior year (note 3(c)).

The amount due at September 30, 2005 includes \$1.8 million representing the amount transferred in July, 2005 (note 9).

On September 27, 2005 GGM entered into an agreement with Hechi Industrial Copper Smelter ("HISC"), a division of Hechi Industrial Limited, GGM's joint venture partner. The agreement provides for HISC to complete the smelter expansion at a cost of \$4.0 million. The agreement is a turn key agreement subject to proportionate adjustment in the event the planned expansion of 10,000 tonnes per annum is not met. No further amount will be payable in the event the capacity is exceeded. Phase one of the project was completed in September with the balance to be completed by May, 2006. The Corporation has accrued \$1,977,000 for costs incurred but not invoiced to the end of September 2005.

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 International Inc. ("Biogan") mainly represents professional expenses paid by the Corporation on behalf of Biogan.

The payable to Biogan in 2004 includes a note payable amounting to \$1,700,000, which is payable on demand from Biogan. The remaining balance of \$218,000 represents additional non-interest bearing advances. This amount was repaid from the proceeds of the IPO financing.

- (c) Amount due to Gaofeng Mining Co. Ltd. ("GMC") includes advances received by the Corporation in 2004 and 2003 amounting to \$12,000 and \$60,000 respectively and excess dividends received by Hechi from GMC amounting to \$553,000, the liability of which was transferred to GGM during the year referenced in (a) above).

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Notes to the Consolidated Financial Statements (continued)
(Unless noted, all dollar amounts are expressed in U.S. dollars)
(unaudited)

Material transactions with related parties are summarized as follows:

	Nine Months Ended September 30,	
	2005	2004
General and administrative expenses:		
Salaries and staff welfare	\$ 3,000	\$ 8,000
Facilities charges:		
Office building	\$ -	\$ 4,000
Motor vehicles	-	9,000
	\$ -	\$ 13,000
Interest expense	\$ 109,000	\$ 59,000

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 totaling \$nil for the three months ended September 30, 2005 (2004 - \$20,000).

4. Loans Payable:

Loans payable as of September 30, 2005 and December 31, 2004 are as follows:

September 30, 2005	Due date	Interest rate	Amount	
			RMB	U.S. \$
Bank of China	October 15, 2005	6.786%	2,000,000	247,000
Bank of China	October 20, 2005	6.786%	8,000,000	988,000
Bank of China (b)	October 29, 2005	6.786%	10,000,000	1,236,000
Finance Development Company of Hechi Finance Bureau	November 30, 2000	Interest-free	3,000,000	371,000
			23,000,000	2,842,000
December 31, 2004	Due date	Interest rate	RMB	U.S. \$
Promissory notes payable	Various	10.000%		199,000
Bank of China	June 11, 2005	6.903%	2,000,000	242,000
Bank of China	April 19, 2005	6.903%	8,000,000	967,000
Bank of China	May 10, 2005	6.786%	8,000,000	967,000
Finance Development Company of Hechi Finance Bureau	November 30, 2000	Interest-free	3,000,000	362,000
			21,000,000	2,737,000

These represent loans from the Bank of China to the Hechi copper smelter to fund the purchases of raw material for the copper smelter. On April 28, 2005, the Hechi copper smelter borrowed RMB 10,000,000 (approximately \$1,208,000) from the Bank of China. Pursuant to the loan agreement, the copper smelter and Guangxi Hechi Zhong Tian Zhi Ye Limited, a third party, entered into a

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Notes to the Consolidated Financial Statements (continued)
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Share Loan Agreement (the "SLA") effective on April 29, 2005 to share the loan. The copper smelter received RMB 6,000,000. Pursuant to the SLA, each party shall be responsible for its respective principal and quarterly interest payable thereon. At the end of September 2005, Guangxi Hechi Zhong Tian Zhi Ye Limited has not repaid the principal of RMB 4,000,000 to the copper smelter and is included in Other current assets. The loan is secured on the properties of Guangxi Hechi Zhong Tian Zhi Ye Limited.

5. Capital Stock and Options:

Authorized:

Unlimited common shares with no par value

Common Shares	<u>Number</u>	<u>Amount</u>
Balance outstanding, March 31, 2005 and December 31, 2004	1	\$ 5,867,000
Issued pursuant to financing of the Initial Public Offering (a)	38,843,750	9,280,000
Issued to the shareholders of Biogan International Inc. "Biogan")(b)	30,353,330	-
Balance outstanding, September 30, 2005	69,197,081	15,147,000

Special Shares Series 1	<u>Number</u>	<u>Amount</u>
Balance outstanding, March 31, 2005	-	-
Issued pursuant to acquisition of Biogan (BVI) International Inc. (c)	30,200,000	-
Balance outstanding, September 30, 2005	30,200,000	

- (a) On April 6, 2005 the Corporation completed an initial public offering and issued 38,843,750 units for proceeds of \$10,918,000 net of issue costs (gross proceeds of CDN\$15,538,000). Each unit was comprised of one Common Share and one Common Share Purchase Warrant. 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. The net fair market value after issue costs ascribed to the common shares is \$9,280,000 and to the Warrants \$1,638,000 (note 5(e)).
- (b) Pursuant to the IPO, the Corporation issued 30,353,330 common shares to the shareholders of Biogan. No value has been ascribed to these shares as the value is reflected in the capital of \$5,867,000 pursuant to the continuity of interest method of accounting for the acquisition of Biogan by the Corporation as described in note 1 of the Corporation's audited consolidated financial statements for the year ended December 31, 2004. 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 Corporation.
- (c) 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 Corporation or the return of capital in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation for the purpose of winding-up its affairs and will be entitled to a preference over the common shares for the amount of \$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

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Notes to the Consolidated Financial Statements (continued)
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directors of the Corporation in accordance with the rights, privileges, restrictions and conditions attached to the Special Shares, the holders of 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 Corporation, except meetings at which only holders of another class or series of shares of the Corporation 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 of issue thereof.

Series 1 Special Shares

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 Corporation, 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 Corporation on payment of a redemption price of \$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 Corporation or other distribution of the assets of the Corporation to the shareholders of the Corporation for the purpose of winding-up its affairs, after the payment or provision for the payment of all debts and liabilities of the Corporation, each holder of Series 1 Special Shares will be entitled to receive the amount of \$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 Corporation or other distribution of the assets of the Corporation to the shareholders of the Corporation.

The Corporation 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 Corporation receives confirmation that approximately RMB 44,135,000 (approximately \$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 Corporation, such confirmation to be in form acceptable to the Corporation 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 Corporation receiving the HPMC Payment Confirmation; and (ii) the Corporation 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 Corporation may agree in 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 Corporation) as a result of

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Notes to the Consolidated Financial Statements (continued)
(Unless noted, all dollar amounts are expressed in U.S. dollars)
(unaudited)

either the Hechi Indebtedness or the HPMC Payment not being satisfied or paid, as applicable, at any time prior to the Corporation receiving the Hechi Payment Confirmation. In the event that the Corporation becomes entitled to redeem the Series 1 Special Shares, the Corporation 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 \$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.

(d) Common Share Purchase Warrants	<u>Number</u>	<u>Amount</u>
Balance outstanding March 31, 2005 and December 31, 2004	671,000	\$ 257,000
Issued pursuant to Initial Public Offering (i)	42,286,750	1,638,000
Issued pursuant to acquisition of Biogan (BVI) International Inc. ("Biogan BVI") (ii)	5,493,738	-
Issued pursuant to repayment of Promissory Notes (iii)	341,250	51,000

(i) The fair value of the warrants, net of costs, issued pursuant to the IPO see (a) above.

(ii) Issued pursuant to the acquisition of Biogan BVI. No fair market value has been ascribed to these warrants pursuant to the continuity of interest method of accounting for the acquisition of Biogan by the Corporation as described in note 1 of the Corporation's audited consolidated financial statements for the year ended December 31, 2004.

(iii) At various dates, the Corporation issued 341,250 warrants as additional consideration to various lenders to loan to the Corporation by way of promissory notes. The fair value of these warrants in the amount of \$51,000, calculated using the Black-Scholes valuation model, has been expensed as interest costs.

The fair value of these warrants is shown, on a combined basis with other warrants issued, within shareholders' equity on the balance sheet as Warrants.

(e) **Share and Warrant Issue Costs:**

The Corporation has incurred \$nil during the three months ended September 30, 2005 (2004 - \$87,000) and \$1,282,000 during the nine months ended September 30, 2005 (2004 - \$480,000) in share issuance costs in connection with the issuance of warrants and the IPO. Of these costs, \$21,000 was netted against the proceeds from the issuance of the 671,000 Class A Special Warrants at Cdn\$0.50 per warrant in 2004 and the balance netted against the proceeds of the common shares issued in the IPO.

(f) **Share Option Plan**

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

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Notes to the Consolidated Financial Statements (continued)
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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 nine months ended September 30, 2005, of \$1,503,000, is included in the 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 five years.

The Corporation has used the average volatility for nine companies with assets in the PRC or considered to be comparable.

(g) *Share Purchase Plan*

The share purchase plan entitles certain employees of the Corporation to contribute up to 10% of their annual base salary to purchase common shares. The Corporation matches each participant's contribution. At September 30, 2005, 636,000 shares have been reserved for issue under the share purchase plan.

(h) *Share Bonus Plan*

The share bonus plan permits common shares to be issued as a discretionary bonus to any director, employee (full-time or part-time), officer or consultant of the Corporation or any subsidiary thereof who is designated under the share bonus plan from time to time. At September 30, 2005, 691,971 shares have been reserved for issuance under the share bonus plan. At September 30, 2005, no shares had been issued under this plan.

6. Earnings per Common Share

Basic earnings (loss) per share ("EPS") has been calculated using the weighted-average number of common shares outstanding during the periods as the inclusion of Warrants, Stock Options and Special Series I Shares would be anti-dilutive. Please refer to outstanding share data in the management discussion and analysis for the period ended September 30, 2005.

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Notes to the Consolidated Financial Statements (continued)
(Unless noted, all dollar amounts are expressed in U.S. dollars)
(unaudited)

7. Segment Information

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

For the Nine Months Ended September 30, 2005

(000's, unaudited)

	GGM Headquarters	Copper Smelter	Wuxu Mill	Corporate and other	Total
Net sales to external customers	\$ -	\$ 13,414	\$ 545	\$ -	\$13,959
Interest income	-	50	-	-	50
Interest expense	55	219	-	-	274
Depreciation and Amortization	3	228	13	14	258
Income (loss) before income taxes and non-controlling interest	(126)	2,356	(98)	(3,362)	(1,230)
Total assets	8,912	13,593	429	1,946	24,880
Capital expenditures	53	2,143	3	591	2,790

For the Nine Months Ended September 30, 2004

(000's, unaudited)

	Headquarters	GGM Smelter	Copper Wuxu Mill	Corporate and other	Total
Net sales to external customers	\$ -	\$ 9,996	\$1,015	\$ -	\$11,011
Interest income	-	34	-	-	34
Interest expense	-	133	-	-	133
Depreciation and amortization	-	211	13	-	224
Income (loss) before income taxes and non-controlling interest	(52)	1,333	(163)	(297)	821
Total assets	2,683	7,279	361	429	10,752
Capital expenditures	-	1	11	5	17

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Notes to the Consolidated Financial Statements (continued)
(Unless noted, all dollar amounts are expressed in U.S. dollars)
(unaudited)

For the Three Months Ended September 30, 2005

(000's, unaudited)

	GGM Headquarters	Copper Smelter	Wuxu Mill	Corporate and other	Total
Net sales to external customers	\$ -	\$ 3,642	\$ 140	-	\$ 3,782
Interest income	-	19	-	-	19
Interest expense	51	82	-	-	133
Depreciation and amortization	3	85	5	6	99
Income (loss) before income taxes and non-controlling interest	(77)	276	(56)	(433)	(290)
Total assets	8,912	13,593	429	1,946	24,880
Capital expenditures	1	2,088	2	4	2,095

For the Three Months Ended September 30, 2004

(000's, unaudited)

	GGM Headquarters	Copper Smelter	Wuxu Mill	Corporate and other	Total
Net sales to external customers	\$ -	\$ 2,907	\$231	-	\$3,138
Interest income	-	34	-	-	34,000
Interest expense	-	67	-	-	67
Depreciation and amortization	-	73	4	-	77
Income (loss) before income taxes and non-controlling interest	(12)	(31)	(2)	(146)	(191)
Total assets	2,683	7,279	361	429	10,752
Capital expenditures	-	-	-	3	3

HMZ METALS INC.

Notes to the Consolidated Financial Statements (continued)
(Unless noted, all dollar amounts are expressed in U.S. dollars)
(unaudited)

8. Analysis of Changes in Non-Cash Operating Working Capital:

(000's, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Decrease (increase) in trade accounts receivable, net	\$ 790	\$ 674	\$ (14)	\$(25)
Increase in inventories	(1,728)	(179)	(4,964)	(699)
Decrease (increase) in prepayments to suppliers, net	(1,319)	(234)	81	(65)
Increase in other current assets	95	4	58	(126)
Increase (decrease) in trade accounts payable	2,186	(30)	2,521	116
Increase (decrease) in amount due to a related party	(175)	-	(1,677)	-
Increase (decrease) in accrued liabilities and other payables	127	62	(102)	(666)
Decrease (increase) in amount due from related party	(1,881)	(155)	(1,873)	(155)
Increase in income taxes payable	(57)	242	240	241
	\$ (1,959)	\$ 384	\$ (5,731)	\$(1,379)

9. Subsequent Events:

In August 2005, it came to the Corporation's attention that in July 2005 there had been an unauthorized transfer of cash of approximately \$1.8 million (RMB 14.5 million) from the Corporation's joint venture GGM to its joint venture partner Hechi. A special committee of the Board of Directors, in conjunction with senior management, independent legal counsel and other advisors is conducting an investigation into the circumstances surrounding this unauthorized transfer of funds.

Management believes that it has made significant progress to recovering the funds and as such has chosen not to provide for unrecoverable amounts during the third quarter of 2005.

In the event that the Corporation is unsuccessful in its effort to recover all funds transferred without authorization, it may be necessary to record a write-off of any unrecoverable amounts in the fourth quarter ended December 31, 2005.