

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Consolidated Financial Statements
(unaudited - Prepared by Management)
January 31, 2011

In accordance with National Instrument 51-102, released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended January 31, 2011.

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Consolidated Balance Sheets
(unaudited - Prepared by Management)

(expressed in Canadian dollars)

	January 31 2011	October 31 2010
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	43,132	283,682
Sales taxes recoverable	64,794	38,762
Prepaid expenses and deposits	23,690	31,392
	<u>131,616</u>	<u>353,836</u>
Property and equipment	46,797	51,539
Resource properties (note 6)	10,210,384	9,854,275
	<u>10,388,797</u>	<u>10,259,650</u>
LIABILITIES		
Current liabilities		
Accounts payable and accruals	467,964	216,438
Future income taxes	629,000	666,000
	<u>1,096,964</u>	<u>882,438</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 7)	17,818,195	17,818,195
Contributed surplus	3,497,330	3,413,688
Deficit	(12,023,692)	(11,854,671)
	<u>9,291,833</u>	<u>9,377,212</u>
	<u>10,388,797</u>	<u>10,259,650</u>

Nature of operations and going concern (note 1)

The accompanying notes form an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

(s) Wade K. Dawe
Wade K. Dawe

(s) Michael Gross
Michael Gross

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Consolidated Statements of Operations and Deficit
(unaudited - Prepared by Management)

(expressed in Canadian dollars)

	For the Three-Months Ended January 31	
	2011	2010
	\$	\$
EXPENSES		
Amortization	1,189	6,049
Banking fees	109	350
General and administrative	18,552	15,817
Investor relations and marketing	28	15,303
Listing and regulatory costs	7,127	12,804
Management salaries and services	46,766	54,890
Professional services	21,203	25,980
Stock-based compensation	77,938	72,650
Travel	33,679	4,637
	<u>206,591</u>	<u>208,480</u>
LOSS FROM OPERATIONS	(206,591)	(208,480)
OTHER INCOME (EXPENSES)		
Foreign exchange	299	(399)
Interest	132	1,240
Gain (loss) on disposal of equipment	139	(12,300)
	<u>570</u>	<u>(11,459)</u>
NET LOSS BEFORE INCOME TAXES	<u>(206,021)</u>	<u>(219,939)</u>
RECOVERY OF FUTURE INCOME TAXES	<u>(37,000)</u>	<u>(26,000)</u>
	<u>(37,000)</u>	<u>(26,000)</u>
NET LOSS FOR THE PERIODS	(169,021)	(193,939)
DEFICIT, beginning of periods	<u>(11,854,671)</u>	<u>(11,181,106)</u>
DEFICIT, end of periods	<u>(12,023,692)</u>	<u>(11,375,045)</u>
LOSS PER SHARE - BASIC AND DILUTED	\$ (0.00)	\$ (0.00)
Weighted Average Number of Common Shares		
Basic	53,000,193	53,000,193

The accompanying notes form an integral part of these consolidated financial statements.

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Consolidated Statements of Cash Flow
(unaudited - Prepared by Management)

(expressed in Canadian dollars)

	For the Three-Months Ended January 31	
	2011	2010
	\$	\$
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net loss for the periods	(169,021)	(193,939)
Charges to operations not involving cash		
Amortization	1,189	6,049
Stock-based compensation	77,938	72,650
(Gain) loss on disposal of equipment	(139)	12,300
Recovery of future income taxes	(37,000)	(26,000)
	<u>(127,033)</u>	<u>(128,940)</u>
Net change in non-cash working capital related to operations		
Decrease (increase) in sales taxes recoverable	8,566	7,639
Decrease (increase) in prepaid expenses and deposits	7,702	(10,016)
Increase (decrease) in accounts payable and accruals	37,141	34,469
	<u>(73,624)</u>	<u>(96,848)</u>
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Resource property interests and options, net	(132,467)	(161,178)
Sales taxes recoverable related to resource property interests	(34,598)	1,195
Proceeds on disposal of equipment	139	-
	<u>(166,926)</u>	<u>(159,983)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(240,550)	(256,831)
CASH AND CASH EQUIVALENTS, beginning of periods	<u>283,682</u>	<u>1,156,229</u>
CASH AND CASH EQUIVALENTS, end of periods	<u><u>43,132</u></u>	<u><u>899,398</u></u>
SUPPLEMENTAL INFORMATION		
Interest received during the periods	132	1,240

The accompanying notes form an integral part of these consolidated financial statements.

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Consolidated Statements of Comprehensive Income (Loss)
(unaudited - Prepared by Management)

(expressed in Canadian dollars)

	For the Three-Months Ended January 31	
	2011	2010
	\$	\$
Net loss for the periods	(169,021)	(193,939)
Other comprehensive income (loss)	<u>-</u>	<u>-</u>
Comprehensive loss for the periods	<u><u>(169,021)</u></u>	<u><u>(193,939)</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(unaudited – Prepared by Management)
January 31, 2011

1. Nature of operations and going concern

Linear Metals Corporation (the “Company”) is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be a development stage company. The recoverability of the amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, obtaining necessary financing and permitting to complete the development, and future profitable production or proceeds from the disposition thereof.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. For the three-month period ended January 31, 2011, the Company incurred a loss of approximately \$0.2 million (year-ended October 31, 2010 - \$0.7 million) and as at January 31, 2011 had an accumulated deficit of approximately \$12.0 million (year-ended October 31, 2010 - \$11.9 million). The Company has no income or cash flow from operations and at January 31, 2011 had negative working capital of approximately \$0.3 million (year-ended October 31, 2010 – positive working capital of approximately \$0.1 million). In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management is evaluating alternatives to secure additional financing (see note 8) so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of properties. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. Accounting Policies

These unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, certain information and note disclosure normally included in annual consolidated financial statements have been condensed or omitted. These interim consolidated financial statements are based on accounting principles and practices consistent with those used in the preparation of the Company’s annual consolidated financial statements. These interim consolidated financial statements should be read together with the Company’s October 31, 2010 audited consolidated financial statements and the accompanying notes.

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(unaudited – Prepared by Management)
January 31, 2011

3. Future Accounting Changes

In February 2008, the Canadian Accounting Standards Board announced that accounting standards in Canada are to converge with International Financial Reporting Standards (“IFRS”) and companies will begin reporting, with comparative data, under IFRS for fiscal years beginning on or after January 1, 2011. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure which the Company is beginning to assess. The Company will commence reporting under the new standards on November 1, 2011. The transition will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. The Company will implement these standards commencing in the first quarter of the year ended October 31, 2012. The Company has begun to assess the impact of adopting IFRS on its financial reporting processes, information systems and internal controls.

In January 2009, the CICA issued the new handbook Section 1582, *Business Combinations*, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of Section 1582 is permitted. This pronouncement further aligns Canadian GAAP with US GAAP and IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company’s financial statements to evaluate the nature and financial effects of its business combinations. The Company is considering the impact of adopting this pronouncement on the consolidated financial statements in connection with the transition to IFRS.

In January 2009, the CICA issued the new handbook Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, effective for fiscal years beginning on or after January 1, 2011. Earlier adoption of these recommendations is permitted. These pronouncements further align Canadian GAAP with US GAAP and IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interest in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within the entity but separate from the parent’s equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent’s ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interest of the parent and the interests of the non-controlling owners. The Company is currently considering the impact of adopting these pronouncements on its consolidated financial statements in connection with the transition to IFRS.

4. Financial Instruments

The Company recognizes financial instruments based on their classification. Depending on the financial instruments’ classification, changes in subsequent measurements are recognized in net income (loss) or comprehensive income (loss).

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(unaudited – Prepared by Management)
January 31, 2011

If a financial instrument is measured at fair value, changes in its fair value shall usually be recognized in net income (loss) in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For investments designated as being available-for-sale, changes in the fair value shall be recorded directly in Shareholders' Equity in a separate account called "Accumulated Other Comprehensive Income (Loss)" until the asset is disposed of or becomes impaired. At that time, the gains and losses are transferred to the Statement of Operations and Deficit.

The Company has implemented the following classifications:

- Cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net income at each period end.
- Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.
- Accounts payable are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

a) Fair market value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value because of the short-term nature of these instruments.

The CICA established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs that are not based on observable market data

The financial instruments recorded at fair value on the consolidated balance sheet are cash and cash equivalents. They are measured using Level 1 of the fair value hierarchy.

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(unaudited – Prepared by Management)
January 31, 2011

b) Foreign currency rate risk management

A portion of the Company's transactions occur in the United States and Mexican currencies; accordingly, the related financial assets and financial liabilities are subject to fluctuations in the respective exchange rates.

c) Concentration of credit risk

The Company does not believe it is exposed to any significant concentrations of credit risk, except that a significant portion of its cash and cash equivalents are on deposit with a major Canadian chartered bank, and all of the sales taxes recoverable are with either the government of Canada or the government of Mexico.

d) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Cash and cash equivalents are held in either bank accounts or interest-bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value.

e) Interest rate risk

The Company has cash and cash equivalents and no interest-bearing debt; accordingly, interest income is subject to fluctuations in interest rates.

5. Capital Management

The Company's capital structure consists of share capital and contributed surplus, which at January 31, 2011 totalled \$21.3 million (October 31, 2010 - \$21.2 million). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financings. Future financings are dependent on market conditions, and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(unaudited – Prepared by Management)
January 31, 2011

6. Resource Properties

	<u>January 31, 2011</u>	<u>October 31, 2010</u>
Canada		
KM61	\$ 8,369,492	\$ 8,367,492
Seymour Lake	1,161,425	1,160,023
Other	5,000	-
Mexico		
La Morena	<u>674,467</u>	<u>326,760</u>
	<u>\$ 10,210,384</u>	<u>\$ 9,854,275</u>

The Company holds a 100% interest in the KM61, Seymour Lake and La Morena properties, subject to certain net smelter royalties. On November 4, 2010, the Company entered into two separate option agreements to acquire up to a 100% interest, subject to certain net smelter royalties, in two early-stage exploration properties in Ontario, Canada by making payments and incurring exploration expenditures over a two-year period.

7. Capital Stock

a) Common Shares

The Company has authorized an unlimited number of common shares without par value.

The following is a summary of common share capital activity during the three-month period ended January 31, 2011:

	<u>Three-months ended January 31, 2011</u>	
	<u>Number</u>	<u>Amount</u>
Balance outstanding - beginning of period	53,000,193	\$ 17,818,195
Shares Issued	-	-
Less: Share issue costs	<u>-</u>	<u>-</u>
Balance outstanding - end of period	<u>53,000,193</u>	<u>\$ 17,818,195</u>

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(unaudited – Prepared by Management)
January 31, 2011

b) Stock Options

The following is a summary of stock option activity during the three-month period ended January 31, 2011:

	<u>Three-months ended January 31, 2011</u>	
	<u>Number</u>	<u>Weighted average exercise price</u>
Outstanding, beginning of period	3,525,000	\$ 0.31
Granted	400,000	0.26
Exercised	-	-
Expired	-	-
Outstanding, end of period	<u>3,925,000</u>	<u>\$ 0.31</u>

As at January 31, 2011, the Company has outstanding stock options entitling the holders to acquire additional common shares as follows:

Weighted average exercise price per share	Number outstanding	Expiry date	Number exercisable
0.14	150,000	August 3, 2015	-
0.15	2,425,000	August 24, 2014	1,212,500
0.25	150,000	January 28, 2016	-
0.27	250,000	November 8, 2015	-
0.28	200,000	October 21, 2014	60,000
0.40	150,000	September 4, 2014	75,000
<u>1.00</u>	<u>600,000</u>	January 31, 2013	<u>450,000</u>
<u>\$ 0.31</u>	<u>3,925,000</u>		<u>1,797,500</u>

8. Subsequent Events

On February 9, 2011, the Company completed an agreement with East African Pure Gold Limited (“EAPG”) and B&M Mining Company Limited (“B&M”) to earn an initial 80% interest in three mineral exploration concessions located in Kenya (the Nyanza Project). Under the terms of the agreements, the Company can earn an 80% interest in the concessions by incurring exploration expenditures of US\$4.0 million and making cash payments to EAPG and B&M totalling US\$300,000 over a four year period.

LINEAR METALS CORPORATION
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements
(unaudited – Prepared by Management)
January 31, 2011

On February 24, 2011, the Company completed a non-brokered private placement of 3,333,333 common shares priced at \$0.30 per share, for total gross proceeds of \$1,000,000. Officers and directors of the Company subscribed for 1,666,666 common shares pursuant to the private placement.