

# **Donner Metals Ltd.**

## **Quarterly Consolidated Financial Statements For the Three Months Ended May 31, 2007 (Unaudited)**

### Notice to Reader

The accompanying unaudited consolidated financial statements of Donner Metals Ltd. ("the Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the Company's unaudited interim consolidated financial statements as at and for the three months ended May 31, 2007.



# DONNER METALS LTD.

(An exploration stage company)

## Consolidated Balance Sheets

(Canadian Dollars)

(Unaudited)

	May 31, 2007	February 28, 2007
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,349,427	\$ 7,429,011
Short-term investments	-	1,016,204
Amounts receivable	10,899	12,603
Tax credits recoverable	1,523,366	501,083
Advances for exploration	284,381	791,014
Prepaid expenses	15,974	21,730
	8,184,047	9,771,645
<b>Property and equipment</b>	24,554	26,406
<b>Investment (note 4)</b>	513,745	227,226
	\$ 8,722,346	\$ 10,025,277
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 45,567	\$ 71,785
<b>Future income tax (note 9)</b>	179,276	718,991
	224,843	790,776
<b>Shareholders' equity</b>		
Share capital	8,079,268	8,079,268
Warrants	3,292,063	3,292,063
Contributed surplus	683,313	672,476
Deficit	(3,557,141)	(2,809,306)
	8,497,503	9,234,501
	\$ 8,722,346	\$ 10,025,277

Nature of operations and basis of presentation (note 1)

Approved by the Directors:

"David Patterson"

"Harvey Keats"

See accompanying notes to the consolidated financial statements.

## DONNER METALS LTD.

(An exploration stage company)

### Consolidated Statements of Operations

(Canadian Dollars)

(Unaudited)

	Three months ended May 31,	
	2007	2006
<b>Expenses</b>		
Administration and management fees	\$ 64,530	\$ 68,700
Amortization	3,314	1,307
Audit fees	1,150	-
Directors fees	6,000	6,000
Exploration expenditures ( <b>schedule</b> )	1,433,822	-
Filing and transfer agent fees	4,952	1,063
Legal fees	3,312	320
Office and miscellaneous	9,208	2,491
Promotion	84,316	15,307
Rent	7,500	9,150
Stock-based compensation ( <b>note 6</b> )	10,837	2,003
Telephone and communications	6,185	1,713
Travel	18,631	10,573
<b>Loss before other items and income taxes</b>	<b>(1,653,757)</b>	<b>(118,627)</b>
<b>Other items</b>		
Interest income	79,690	6,339
Gain on deemed disposition of investment ( <b>note 4</b> )	364,142	-
Equity in loss on investment ( <b>note 4</b> )	(77,624)	(34,655)
	366,208	(28,316)
<b>Loss before income taxes</b>	<b>(1,287,549)</b>	<b>(146,943)</b>
<b>Future income tax recovery (note 9)</b>	<b>539,714</b>	<b>-</b>
<b>Loss for the period</b>	<b>\$ (747,835)</b>	<b>\$ (146,943)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding</b>	<b>39,015,820</b>	<b>9,652,419</b>

See accompanying notes to the consolidated financial statements.

**DONNER METALS LTD.**

(An exploration stage company)

**Consolidated Statements of Shareholders' Equity**

(Canadian Dollars)

(Unaudited)

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	<u>Common Shares</u>		<u>Warrants</u>	<u>Contributed</u>		<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>		<u>Surplus</u>			
<b>Balance at February 28, 2007</b>	39,015,820	\$ 8,079,268	\$ 3,292,063	\$ 672,476	\$ (2,809,306)	\$ 9,234,501	
Stock-based compensation	-	-	-	10,837	-	10,837	
Loss for the period	-	-	-	-	(747,835)	(747,835)	
<b>Balance at May 31, 2007</b>	<b>39,015,820</b>	<b>\$ 8,079,268</b>	<b>\$ 3,292,063</b>	<b>\$ 683,313</b>	<b>\$ (3,557,141)</b>	<b>\$ 8,497,503</b>	

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See accompanying notes to the consolidated financial statements.

## DONNER METALS LTD.

(An exploration stage company)

### Consolidated Statements of Cash Flows

(Canadian Dollars)

(Unaudited)

Cash provided by (used for):	Three months ended May 31,	
	2007	2006
<b>Operating activities</b>		
Loss for the period	\$ (747,835)	\$ (146,943)
Items not involving cash:		
Amortization	3,314	1,307
Stock-based compensation	10,837	2,003
Gain on deemed disposition of investment	(364,142)	-
Equity in loss of investment	77,624	34,655
Future income tax recovery	(539,714)	-
Accrued interest income	16,204	-
Changes in non-cash working capital items:		
Amounts receivable	1,704	(7,703)
Tax credits recoverable	(1,022,283)	-
Advances for exploration	506,633	-
Prepaid expenses	5,756	3,120
Accounts payable and accrued liabilities	(26,219)	(26,057)
	<u>(2,078,121)</u>	<u>(139,618)</u>
<b>Financing activities</b>		
Common shares issued for cash	-	5,750
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,463)	(264)
Purchase of long term investment	-	-
Redemption of short-term investment	1,000,000	-
	<u>998,537</u>	<u>(264)</u>
<b>Change in cash and cash equivalents</b>	<u>(1,079,584)</u>	<u>(134,132)</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>7,429,011</u>	<u>756,464</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 6,349,427</u>	<u>\$ 622,332</u>

Cash and cash equivalents are comprised of \$5,322,051 (2006 - \$622,332) of cash and \$1,027,376 (2006 - \$Nil) of cash equivalents.

#### Supplemental cash flow information

Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	\$ -	\$ -
Stock-based compensation transferred to share capital on exercise of stock options	\$ -	\$ 4,007

See accompanying notes to the consolidated financial statements.

## **DONNER METALS LTD.**

(An exploration stage company)

### **Notes to the Consolidated Financial Statements**

**May 31, 2007**

(Canadian Dollars)

(Unaudited)

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#### **1. Nature of Operations and Basis of Presentation**

Donner Metals Ltd. (the "Company") was incorporated on June 28, 2005, pursuant to the Business Corporations Act of British Columbia. The Company is a public company and its shares are listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The Company is engaged in the identification, acquisition, exploration and development of mineral resources and is considered to be in the exploration stage as it has not placed any of its mineral properties into production. As of the date of this report, the Company has not determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for property and equipment is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the exploration of the property and future profitable production from the property or proceeds from disposition.

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the financial statements required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three month period ended May 31, 2007 are not necessarily indicative of the results that may be expected for the year ended February 29, 2008. The balance sheet at February 28, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

#### **2. Significant Accounting Policies**

These interim financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual financial statements for the year ended February 28, 2007 (except as described in note 3). For further information, refer to the financial statements and notes thereto included in the Company's Annual Report to Shareholders for the year ended February 28, 2007.

#### **3. Changes in Accounting Policies**

Effective March 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants new Handbook Sections 1530 "*Comprehensive Income*" ("HB 1530"), 3855 "*Financial Instruments – Recognition and Measurement*" ("HB 3855"), 3861 "*Financial Instruments – Disclosure and Presentation*" ("HB 3861") and 3865 "*Hedges*" ("HB 3865").

The objective of these new standards is to account for more assets and liabilities at fair value including non-financial derivatives (note 8).

HB 1530 establishes standards for reporting and display of comprehensive income (loss). Comprehensive income (loss) is defined as net income (loss) plus other comprehensive income (loss). Other comprehensive income (loss) comprises revenues, expenses, gains and losses that are excluded from net income (loss), such as, unrealized gains and losses of available for sale securities.

HB 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

HB 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them.

These standards require that financial assets be classified as either trading, available for sale, held-to-maturity or loans and receivables and financial liabilities be classified as either trading or other financial liabilities. Fair value

## DONNER METALS LTD.

(An exploration stage company)

### Notes to the Consolidated Financial Statements

May 31, 2007

(Canadian Dollars)

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is used for initial measurement for all classes. Fair value is used for subsequent measurement for all classes except for available-for-sale assets (where equity instruments do not have a quoted market price in an active market), loans and receivables and other financial liabilities where amortized cost using the effective interest method is used.

### 3. Changes in Accounting Policies (cont'd)

The adoption of these standards has resulted in the Company recognizing available-for-sale investments and all derivative and other financial instruments held for trading as assets or liabilities at fair value. As at March 1, 2007, there were no derivative financial instruments or other financial instruments held for trading. As at March 1, 2007, there was \$1,016,204 of short-term investments classified as available-for-sale that was previously recorded at fair value. Accordingly, there were no transitional adjustments in respect to these standards that were recorded to opening asset and liability balances and accumulated other comprehensive income (loss).

Gains and losses associated with items designated as trading are recorded in operations, separate from any interest or dividends earned on these items. Gains and losses associated with items designated as available-for-sale are recorded as unrealized within other comprehensive income (loss) until such time the item is disposed of or incurs a decline in fair value that is on an other than temporary basis, at which time any gains or losses are then realized and reclassified to operations.

HB 3865 establishes standards for when and how hedge accounting may be applied. Hedging is an activity designed to modify an entity's exposure to one or more risks by creating an offset between changes in the fair value of, or the cash flows attributable to, the hedged item and the hedging item (or changes resulting from a particular risk exposure relating to those items). The Company has not undertaken hedging activities in the past or during the three months ended May 31, 2007 and therefore the adoption of HB 3865 did not have any impact on the Company's financial position, operations or cash flows.

### 4. Investment

	May 31, 2007		
	Percentage of Ownership	Carrying Value	Market Value
<u>Knight Resources Ltd.</u>	15.7%	\$ 513,745	\$ 3,337,403

  

	February 28, 2007		
	Percentage of Ownership	Carrying Value	Market Value
<u>Knight Resources Ltd.</u>	18.1%	\$ 227,226	\$ 1,668,701

As at May 31, 2007, the Company owns 12,360,750 common shares of Knight Resources Ltd. ("Knight"). This investment is accounted for using the equity method. Knight has directors and officers in common with the Company. The Company's share of Knight's net loss from March 1, 2007 to May 31, 2007 was \$77,624. As a result of share issuances by Knight from March 1, 2007 to May 31, 2007, the Company recorded a gain on deemed disposition of \$364,142.

## DONNER METALS LTD.

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### Notes to the Consolidated Financial Statements

May 31, 2007

(Canadian Dollars)

(Unaudited)

The market value was determined using the closing quoted price of Knight's stock on the TSX Venture Exchange on May 31, 2007 and February 28, 2007 as applicable.

#### 5. Mineral Properties

The Company's mineral properties are comprised of an option earn-in agreement in the Matagami Mining Camp of Quebec and wholly owned mineral claims and interests in joint venture agreements in South Voisey Bay, Labrador, Canada. Although the Company holds some interests in mineral properties through joint venture agreements, none of the Company's operations are carried on through joint venture entities.

#### 5. Mineral Properties

##### Matagami Property

<b>Cumulative expenditures</b>	<u>May 31, 2007</u>	<u>February 28, 2007</u>
Exploration expenditures (not including option payments)	\$ 4,739,237	\$ 2,283,132
Refundable tax credits and mining duties	(1,523,366)	(501,083)
	<u>\$ 3,215,871</u>	<u>\$ 1,782,049</u>

On June 12, 2006, the Company entered into an Option and Joint Venture Agreement (OJVA) with Xstrata plc. ("Xstrata") (formerly Falconbridge Limited) for the joint exploration of the Matagami Mining Camp of Quebec for volcanogenic massive sulphide deposits. The Matagami Project has an area of mutual interest of 4,737 square kilometres and over 2,000 mineral claims covering approximately 500 square kilometres. The Company has the option to earn a 50% participating joint venture interest in the Matagami Project by:

- 1) incurring a total of \$20 million of expenditures on exploration and related work as follows:
  - i) \$4 million on or before May 31, 2007 (incurred);
  - ii) an aggregate of \$8 million on or before May 31, 2008;
  - iii) an aggregate of \$10 million on or before November 30, 2008;
  - iv) an aggregate of \$12 million on or before May 31, 2009;
  - v) an aggregate of \$16 million on or before May 31, 2010;
  - vi) an aggregate of \$20 million on or before May 31, 2011; and
- 2) In the event that a discovery is made during the option period, the Company will contribute an additional expenditure of up to \$3 million towards establishing an inferred resource on new discoveries. Exploration work in Fiscal 2007 resulted in discoveries at Bracemac and Macleod. Expenditures at Bracemac and Macleod subsequent to the discoveries are being applied towards the \$3 million additional expenditure requirement.

The Company has agreed to incur at least \$10 million of expenditures on exploration. The Company was also required to issue Xstrata 1 million common shares of its own stock, which were issued on September 29, 2006.

Upon the expenditure of up to \$23 million by the Company, five separate joint ventures will be formed, covering the property and the area of interest. In each of the five joint venture areas, Xstrata has the option to earn back a 15% interest in such area by incurring up to \$20 million on a feasibility study.

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(An exploration stage company)

### **Notes to the Consolidated Financial Statements**

**May 31, 2007**

(Canadian Dollars)

(Unaudited)

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#### South Voisey Bay Properties

The Company's South Voisey Bay properties (the "Combined Property") are comprised of the following:

- i) Eight licences covering approximately 297.5 km<sup>2</sup> held 100% by SVBN with the exception of a 37.25 km<sup>2</sup> licence held 75% by SVBN (the "SVBN Property");
- ii) One licence covering approximately 39.5 km<sup>2</sup> owned 52.38% by the Company and 47.62% by Northern Abitibi Mining Corp. (the "Donner/Northern Abitibi Property"); and
- iii) One licence covering approximately 35.5 km<sup>2</sup> and owned 51.68% by the Company and 48.32% by Commander Resources Ltd. (the "Donner/Commander Property").

TeckCominco Limited ("TeckCominco") has a right to earn 50% of the Company's interest in any deposits discovered and developed on the Combined Property. TeckCominco can earn this interest by funding the Company's share of feasibility costs and arranging the Company's share of production financing.

#### **5. Mineral Properties (cont'd)**

As at May 31, 2007, the Company has outstanding share issuance commitments relating to the South Voisey Bay properties as follows:

- a) A commitment to issue 10,000 shares upon incurring \$1 million in exploration on the Turpin claims which are now included in the property held by SVBN. The Company has not yet triggered this commitment; and
- b) A commitment to issue 25,000 shares upon incurring \$1 million in exploration on the Thistle II claims which are now included in the property held by SVBN. The Company has not yet triggered this commitment.

There are Net Smelter Royalty ('NSR') agreements on certain South Voisey Bay mineral licenses ranging up to 3%.

#### **6. Stock Options**

The Company uses the fair value based method of accounting for all stock-based awards. During the three months ended May 31, 2007, the Company recorded \$10,837 of stock-based compensation pursuant to 50,000 previously granted stock options vesting during the period. As at May 31, 2007, \$5,085 of compensation cost remains to be incurred pursuant to 25,000 stock options that will vest over the next three months.

#### **7. Related Party Transactions**

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The following is a summary of the related party transactions that occurred throughout the periods ended May 31:

- a) incurred \$40,530 (2006 - \$52,700) for management fees to a company controlled by the CEO of the Company and a company controlled by the CFO of the Company;
- b) incurred \$40,470 (2006 - \$Nil) for technical services to a company controlled by the CEO and to a company controlled by the Vice-President of Exploration of the Company;
- c) incurred \$6,000 (2006 - \$6,000) for directors fees to a director of the Company and a company controlled by a director of the Company; and

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(An exploration stage company)

### Notes to the Consolidated Financial Statements

May 31, 2007

(Canadian Dollars)

(Unaudited)

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d) incurred \$7,500 (2006 - \$7,500) for rent to a company with a common director.

#### 8. Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. A financial asset is any asset that is i) cash; ii) a contractual right to receive cash or another financial asset from another party; iii) a contractual right to exchange financial instruments with another party under conditions that are potentially favorable to the entity; or iv) an equity instrument of another entity. A financial liability is any liability that is a contractual obligation to i) deliver cash or another financial asset to another party; or ii) exchange financial instruments with another party under conditions that are potentially unfavorable to the entity. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

As at May 31, 2007, the Company's financial instruments are cash and cash equivalents, amounts receivable, tax credits recoverable, advances for exploration and accounts payable and accrued liabilities. The amounts reflected in the balance sheet are carrying amounts and approximate their fair values due to the short-term nature and negligible credit losses.

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to interest rate risk, credit risk and currency risk is small.

#### 9. Income Taxes

Significant components of the company's future tax liabilities and assets are as follows:

	May 31, 2007	February 28, 2007
Future income tax assets (liabilities):		
Flow-through share renunciation	\$ (2,041,376)	\$ (2,041,376)
Resource pools	1,219,807	709,805
Non-capital losses carried forward	267,310	216,540
Share issue costs	368,609	390,690
Property, plant and equipment	6,374	5,350
Valuation allowance	-	-
	<u>\$ (179,276)</u>	<u>\$ (718,991)</u>

**DONNER METALS LTD.**

(An exploration stage company)

**Schedule of Exploration Expenditures**

(Canadian Dollars)

(Unaudited)

	Three months ended May 31,	
	<u>2007</u>	<u>2006</u>
<b>Matagami Property</b>		
Drilling	\$ 1,707,741	\$ -
Environment, health & safety	38,652	-
Geology	174,463	-
Geophysics	268,683	-
Other	218,971	-
Property maintenance	7,125	-
Technical services	40,470	-
	<hr/>	<hr/>
	2,456,105	-
Refundable tax credits	(835,979)	-
Mining duties refund	(186,304)	-
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	\$ 1,433,822	\$ -