

**FIRST METALS INC.  
(TSX-FMA \$1.00)**

**Recommendation: SPECULATIVE BUY  
12-Month Target: \$1.75**

**INITIATING COVERAGE**

**POTENTIAL FOR NEAR-TERM PRODUCTION IN ESTABLISHED MINING CAMP IN QUÉBEC**

- First Metals completed a 43-101 resource study on the Fabie Bay and Magusi River volcanogenic massive sulphide deposits in June 2006, estimating combined **Inferred Resources** at 2.74 million tonnes containing 113.0 million lbs copper, 198.1 million lbs zinc, 80,675 oz gold and 2.2 million oz silver.
- **Mineralization remains open at depth**, and typical zinc-rich mineralization is curiously absent at the Fabie Bay copper deposit.
- **Fabie Bay is 90% developed, offering potential for near-term production.** The existing resource of 672,800 tonnes grading 2.77% copper could maintain production for 18 months at planned production rates, assuming a positive production decision is reached.
- **The Magusi River copper-zinc deposit could take as little as six months to develop** and extend production to six years.
- **Strong leverage to copper and zinc** – The NAV more than triples and the target more than doubles at current metal prices, assuming all else remains the same.
- **There are several risks still attached to story**, including financing and execution.

**First Metals Inc. is rapidly advancing its Fabie Bay deposit to the point where a production decision can be made, and it has the potential to do the same for its Magusi River deposit. We recommend purchase as a SPECULATIVE BUY, with a 12-month target price of \$1.75/fully diluted share.**

**Sector: MINING, GOLD & PRECIOUS MINERALS**

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Jennings Capital has been engaged by the Company for a fee in the last 12 months.

**Company Statistics**

Market Cap	\$31MM
Basic Shares O/S	31MM
Fully diluted Shares O/S	39MM
52-Week Range	\$0.61 - \$1.15
Dividend	None
Yield	-
Major Shareholders	
RAB Special Situations	13.43%
Jaycap Equity Inc.	10.44%
Cash (9/30/06)	\$10MM
Working Capital (09/30/06)	\$9MM
LT Debt (09/30/06)	-
Book Value \$/Share	\$0.38

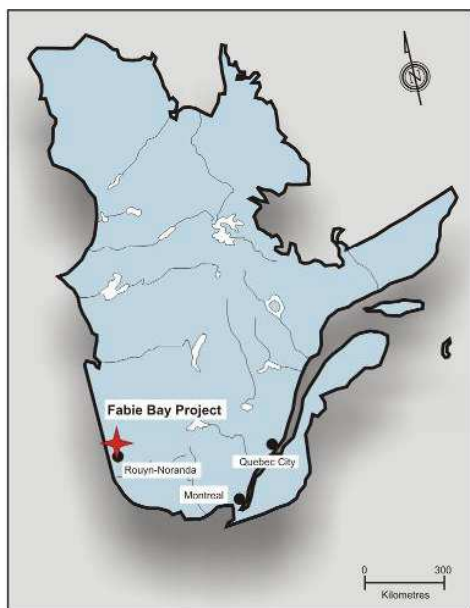


First Metals Inc. is a newly formed public company, created to capitalize on favourable upward trends in metals prices through its Fabie Bay and nearby Magusi River copper-zinc deposits. The properties are located in the historic Noranda Mining Camp of Québec, and starting in April 2007, are expected to produce more than 124 million lbs zinc and 75 million lbs copper, plus payable gold and silver over five years.

## FABIE BAY AND MAGUSI RIVER PROJECTS

### HISTORY

The Fabie Bay and adjoining Magusi River base metal projects consist of 13 unpatented, contiguous mining claims covering approximately 508 hectares located 35 kilometres northwest of Rouyn-Noranda, Québec. Exploration dates back to 1948, but it was not until the mid-1970s that an advanced program of open-pit and underground development at the Fabie Bay project was completed by Noranda Mines Limited. Although Noranda advanced the project to the point of production, depressed metal prices ensued, eventually resulting in the company's departure.



Source: First Metals Inc.

In 2002, Globex Mining Enterprises Inc. staked the ground after the existing owners went bankrupt. In April 2006, First Metals acquired 100% interests in both projects and an additional 2,366 hectares, in return for \$1 million in cash (\$750,000 paid), a 10% equity interest once commercial production is achieved and royalties on future production. The royalties consist of a 2% interest on metal sales and a 10% net profits interest, with the latter becoming active after the recovery of \$10 million of capital. Subsequently, First Metals completed two private placements totalling \$3.1 million followed by an Initial Public Offering totalling \$10.2 million.

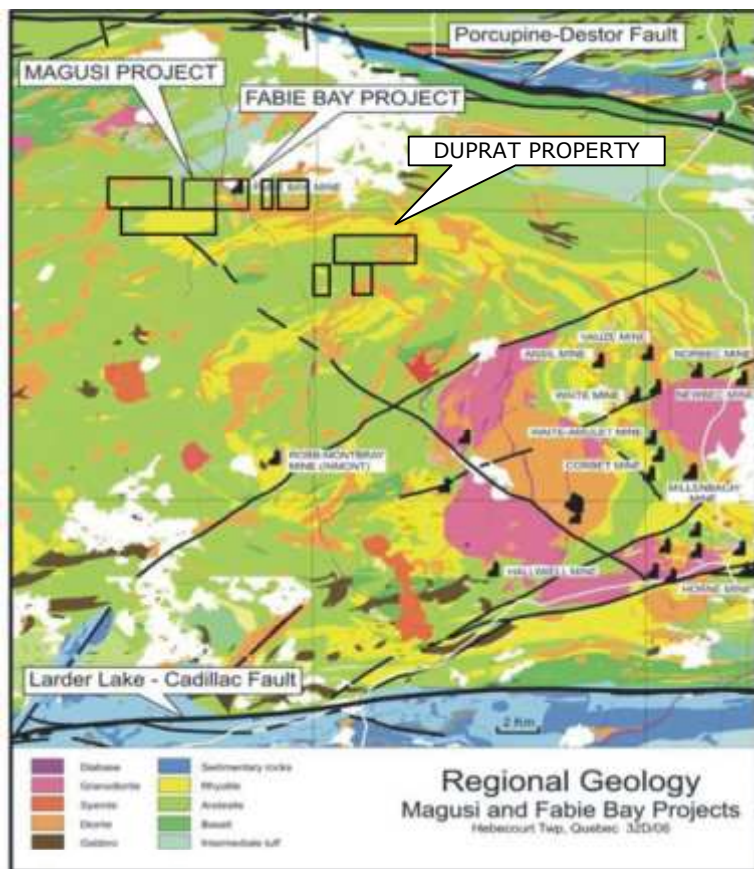
Access to the properties is gained from a network of gravel and forestry roads branching off provincial highways 117, 101 and 388. First Metals recently upgraded and widened the main access road and commissioned Québec Hydro to construct a 31-kilometre power line to the properties. The lines are expected to be charged by the end of January.

### GEOLOGY

Fabie Bay and Magusi River are described as volcanogenic massive sulphide deposits (VMS) that are hosted by a folded sequence of Archean-aged volcanic flows and sills forming part of the Blake River Group. The deposits lie at what is generally considered the northern limits of the Noranda Complex, a

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caldera-like structure bounded to the north and south by the mineral-rich Porcupine-Destor and Larder-Cadillac structural breaks.



Source: Micon International Ltd.

Fabie Bay strikes northeasterly and dips moderately to the south. Sulphide mineralization occurs in the form of 65% massive fine-grained pyrrhotite, 25% pyrite and 9% finely banded and disseminated chalcopyrite. Unlike the typical VMS deposit, Fabie Bay lacks any significant zinc mineralization, although this could reflect insufficient drilling or fault displacement.

For the most part, Magusi River is similar to Fabie Bay, although both zinc- and copper-rich lenses are present. Mineralization strikes easterly, dips to the south and is characterized by fine-grained pyrite with subordinate chalcopyrite and sphalerite. Both lenses contain recoverable gold and silver.

## RESERVES AND RESOURCES

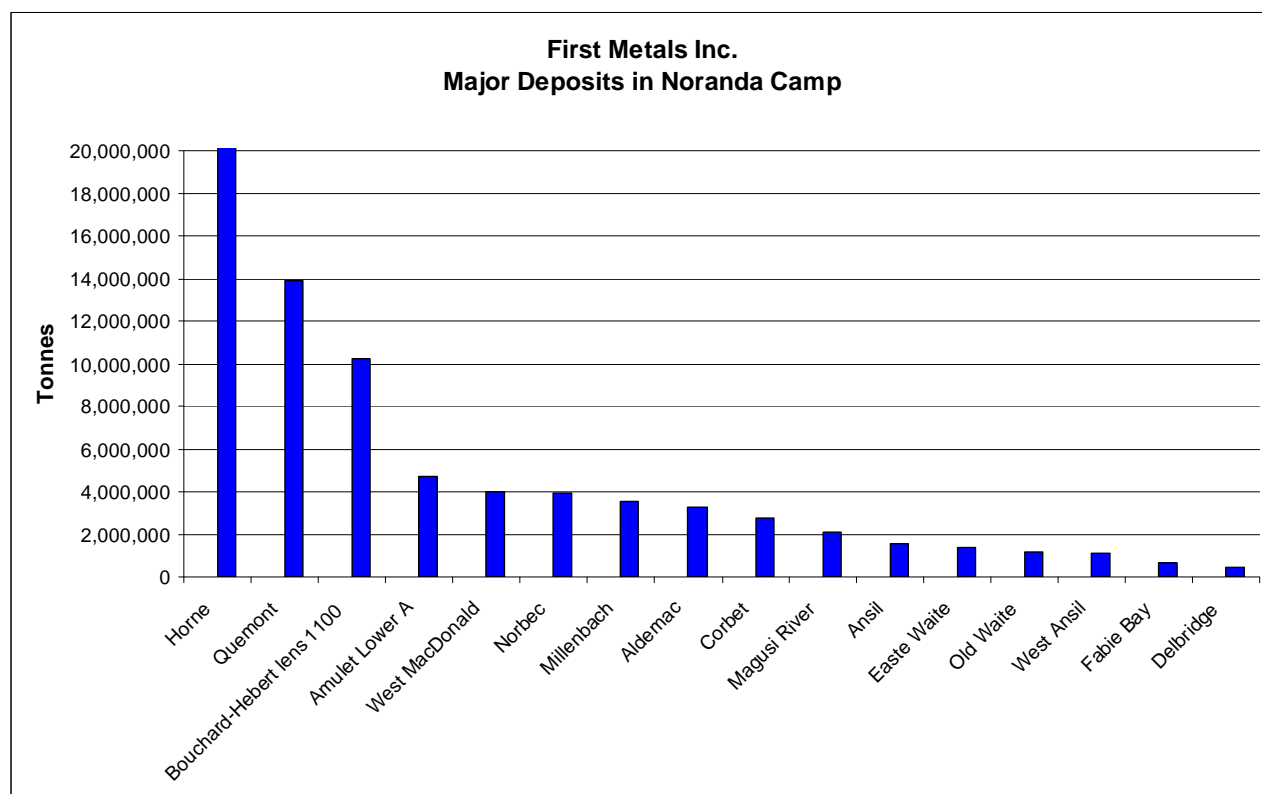
First Metals has not outlined any reserves, but it did complete 43-101 compliant resource studies on both projects in June 2006. Combined, the Fabie Bay and Magusi River deposits were estimated with an **Inferred Resource** of 2.74 million tonnes containing 113.0 million lbs copper, 198.1 million lbs zinc, 80,675 oz gold and 2.2 million oz silver, enough to sustain production for up to six years at planned production rates. We break the resource estimates out in the next table.

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<b>First Metals Inc.</b>					
<b>Summary of 43-101 Inferred Resource Estimates</b>					
<b>Deposit</b>	<b>Tonnes</b>	<b>Metal Grades</b>			
		<b>Cu</b>	<b>Zn</b>	<b>Au (g/t)</b>	<b>Ag (g/t)</b>
Fabie Bay lens	672,800	2.77%	-	-	-
Magusi Zn-rich lens	1,230,000	0.40%	7.10%	1.89	29.00
Magusi Cu-rich lens	838,860	3.30%	0.30%	0.22	39.10
<b>Combined</b>	<b>2,741,660</b>	<b>1.87%</b>	<b>3.28%</b>	<b>0.92</b>	<b>24.97</b>

Source: Micon International Ltd.

Mineralization remains open at depth and thus, offers good potential for expansion with further drilling and development. For comparison, the next table summarizes some of the more significant deposits discovered in the Noranda Camp, which to date, has produced 103 million tonnes of ore averaging 2.20% copper, 1.33% zinc, 4.12 g/t gold and 19.33 g/t silver. Note that the Horne deposit, which produced 54.3 million tonnes of ore, is intentionally depressed in our table so that the Camp's more typical deposit size is emphasized.



Source: Micon International Ltd. and Jennings Capital Inc.

## DEVELOPMENT PROGRAM - CERTIFICATE OF AUTHORIZATION

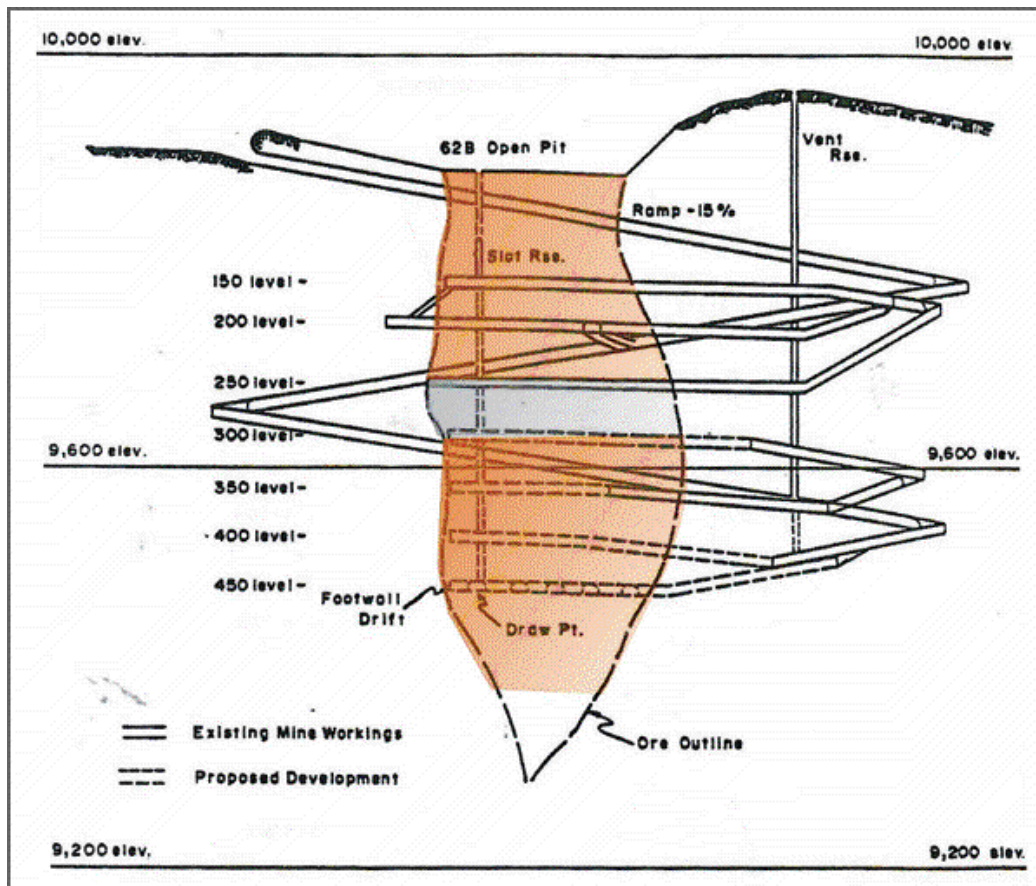
On November 20, First Metals received a key permit from the Québec provincial government for the Fabie Bay deposit – the Certificate of Authorization (CA). The CA allows the Company to complete the following:

- Dewater the open pit and ramp areas;
- Construct and monitor a 6,000-cubic metre settling pond;
- Discharge the treated water;
- Extract 21,000 tonnes of underground waste rock;
- Build a 300-square metre stockpile and crusher area;
- Build a 1,500-square-metre waste rock storage area; and
- Build a 2,010-square-metre loam stockpile for future site reclamation.

Since then, management has, among other things, upgraded and widened the access roads, completed the clay core for the discharge pond and rehabilitated the ventilation raise. Pit dewatering remains on schedule for completion by year-end, with access to the underground facilities via the main ramp expected to be available in early 2007. Mining activities are expected to follow in April.

### First Metals Inc.

#### Fabie Bay Underground Development



Source: First Metals Inc.

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The Magusi River project is less advanced than Fabie Bay, but management indicates that it could be developed quickly, subject to receipt of the necessary permits. Actual development is scheduled to start at the end of Q3/2007.

## **MINING AND PROCESSING**

First Metals proposes to mine the deposits by underground methods at a rate of 1,200-1,500 tonnes per day. Run-of-mine material would be crushed on site, but trucked elsewhere for further processing. For valuation purposes, we are assuming that the higher end of the production range is achieved and that the two deposits are mined consecutively, putting expected commercial production start-up for Magusi River in mid-2008. That said, management has indicated its expectations for a quicker development period, which, if achieved, would have a positive impact on our valuation, assuming all else remains the same.

The most logical designations for both deposits are the nearby Horne smelter (owned by Xstrata Plc) and Bouchard-Hébert mill (owned by Breakwater Resources), with which negotiations are ongoing. Should a final agreement not be reached, alternative arrangements would become necessary and likely require an adjustment to our model. For comparison, management estimates that it would cost \$5/tonne to truck run-of-mine material to Horne, versus \$15/tonne to truck it across the Ontario border to the Kidd Creek smelter in Timmins.

As for metallurgy, recent results from the Fabie Bay zone suggest that upwards of 93% of the copper can be recovered in a concentrate averaging as high as 24% copper. As part of the development process, First Metals plans to extract 40,000 tonnes from the base of the pit for final metallurgical testing. Micon International noted that historic metallurgical tests by Noranda resulted in similarly favourable results for Magusi River, but these will need to be confirmed by additional tests.

## **PRODUCTION, CAPITAL REQUIREMENTS AND OPERATING COSTS**

Management indicates that Fabie Bay can be advanced to production in Q2/2007 for a modest capital investment of \$25 million, reflecting the previous development by Noranda. Of this, \$10 million will have been spent by year-end to cover such items as the power line, mining equipment and surface infrastructure. The remainder is allocated for mill refurbishment and working capital purposes.

Based on the existing inferred resource and discussions with management, we expect Fabie Bay to produce 35.3 million lbs copper over 14 months. Cash costs are estimated at \$84.54/tonne milled or US\$1.39/lb copper produced. We expect commercial production from Magusi River to follow in mid-2008 and average 30.0 million lbs zinc and 10.2 million lbs copper, plus payable gold and silver, annually over approximately 3.5 years. Cash costs are forecast at \$88.35/tonne milled or, based on our metal price assumptions, approximately US\$0.61/lb zinc-equivalent.

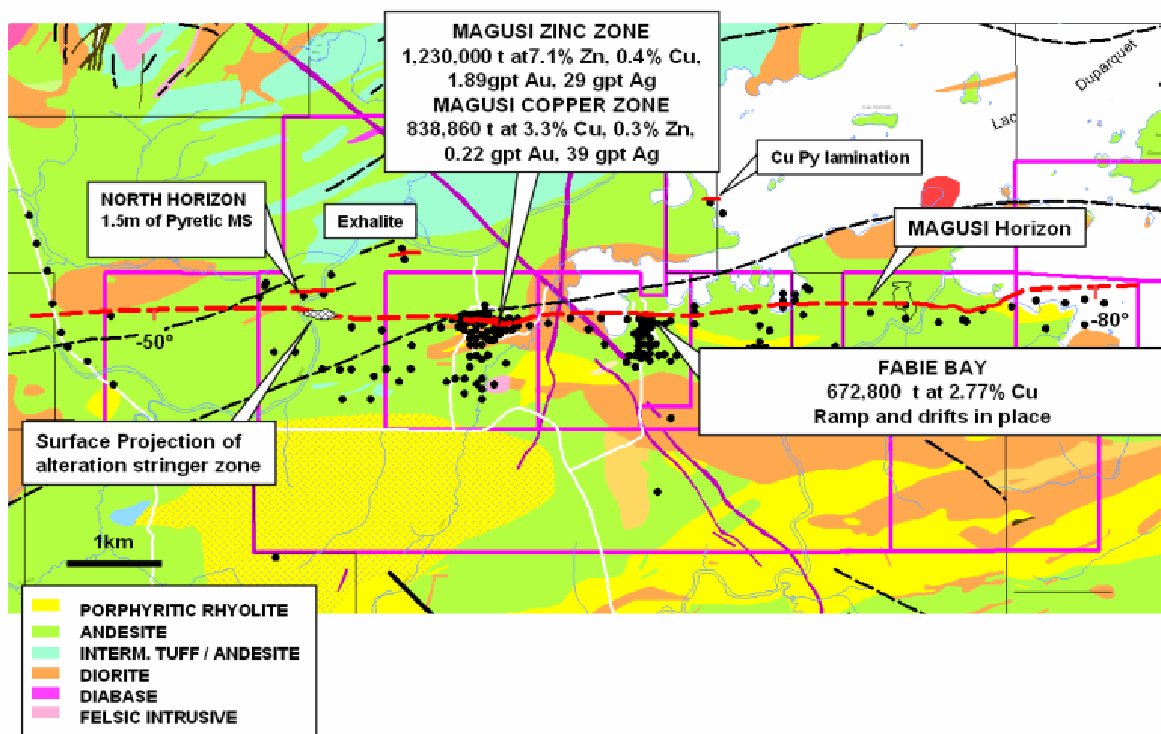
<b>First Metals Inc.</b>					
<b>Summary of Production and Operating Costs</b>					
	2007E	2008E	2009E	2010E	2011E
Annual production rate (tonnes)	405,000	525,000	525,000	525,000	525,000
Daily	270	350	350	350	350
<u>Mill head grades (recoverable)</u>					
Copper	2.70%	2.78%	2.97%	2.97%	2.97%
Zinc	-	6.82%	6.82%	6.82%	6.82%
Gold (g/t)	-	1.20	1.20	0.70	1.27
Silver (g/t)	-	29.13	29.13	32.16	28.70
<u>Payable metal</u>					
Copper (000 lb)	20,500	17,196	9,742	19,484	8,349
Zinc (000 lb)	0	22,150	39,756	19,878	42,596
Gold (oz)	0	5,042	9,050	4,578	9,688
Silver (oz)	0	61,360	110,134	198,619	97,485
<u>Cash costs</u>					
Per tonne milled	\$85.62	\$85.81	\$87.71	\$89.32	\$87.48

Source: Jennings Capital Inc.

Our metal price forecasts are as follows: copper, US\$2.65/lb in 2007, US\$1.88/lb in 2008 and US\$1.50/lb in 2009 onwards; zinc, US\$1.35/lb in 2007, US\$0.85/lb in 2008 and US\$0.75/lb in 2009 onwards; gold, US\$625/oz in 2007, US\$650/oz in 2008 onwards; and silver, US\$12.00/oz in 2007, US\$13.00/oz in 2008 and US\$14.00/oz in 2009 onwards.

## EXPLORATION UPSIDE

In addition to Fabie Bay and Magusi River, First Metals has a 100% interest in 1,466 hectares of ground, mostly extending along strike of the deposits. Among the targets of immediate interest are eight geophysical anomalies, half of which are described as characterizing VMS mineralization and the other half as characterizing gold mineralization. Accordingly, there is potential for the discovery of new mineralization with additional drilling.



Source: First Metals Inc.

Beyond Fabie Bay and Magusi River, First Metals owns 921 hectares of claims collectively referred to as the Duprat project. Exploration there is much earlier staged than at the other properties, so we would characterize the project as a longer-term play. The recent discovery by Alexis Minerals Corp. to the southeast also attests to the Camp's exploration potential. In March, Alexis and Falconbridge released a preliminary resource for the West Ansil zone, outlining an **Indicated Resource** of 530,000 tonnes grading 3.4% copper, 1.4 g/t gold, 9.2 g/t silver and 0.4% zinc, and an **Inferred Resource** of 600,000 tonnes grading 3.3% copper, 0.3 g/t gold, 5.9 g/t silver and 0.2% zinc.

## BALANCE SHEET AND CAPITAL REQUIREMENTS

On September 30, First Metals had working capital of \$8.7 million and no long-term debt. Cash totalled \$0.74 million and short-term deposits, \$8.6 million. In addition, the Company had 920,000 options outstanding, priced at \$1.00 per share, plus nearly 7.6 million warrants outstanding, priced at \$0.30-\$1.25/share. The options and warrants expire over the next three years and would represent an equity capital inflow of \$7.24 million, if exercised.

On September 1, First Metals completed an initial public offering consisting of nearly 3.7 million flow-through shares priced at \$1.10/share and nearly 6.2 million units priced at \$1.00/share. A unit consisted of one share and one-half of one warrant, with a full warrant exercisable at \$1.25/share until September 1, 2008.

Based on our analysis, First Metals needs to issue new equity or arrange a debt facility in order to execute on its 2007 development plans. Based on discussions with management, our valuation assumes that the latter option is pursued and totals \$15 million.

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## VALUATION AND RECOMMENDATION

We have modelled First Metals' projected cash flows at the metal prices summarized earlier in the report and conservatively determined the 2007 net asset value (NAV) to be \$0.91/fully diluted share, discounted at 10%. **Applying a hybrid multiple of 1.25x NAV to reflect the precious metals component, near-term production potential and exploration upside generates a 12-month target of \$1.13/fully diluted share.** Our valuation incorporates working capital, options and warrants, plus the short-term debt financing assumptions discussed above.

We have forecast EPS estimates for 2007 and 2008 of \$0.14/share. **Applying a multiple of 10.0x EPS to our estimates generates a 12-month target of \$1.35.**

We have forecast CFPS for 2007 and 2008 of \$0.46/share. **Applying a multiple of 6.0x CFPS to our estimates generates a 12-month target of \$2.74.**

**Given equal weight to NAV, EPS and CFPS, we generate a blended 12-month target of \$1.75/fully diluted share for First Metals Inc.** That said, our valuation is highly sensitive to copper and zinc prices, as indicated in the table below.

Valuation Method	Parameter (\$/shr)	Multiple	Valuation (\$/shr)
NAV @ 10% discount	\$0.91	1.25x	\$1.13
Average of 07E and 08E EPS	\$0.14	10.00x	\$1.35
Average of 07E and 08E CFPS	\$0.46	6.0x	\$2.74
<b>Average</b>			<b>\$1.74</b>
<b>@ US\$3.00/lb Cu and US\$2.00/lb Zn</b>			
	NAV	Multiple	<b>Impact on Target</b>
NAV @ 10% discount	\$3.23	1.25x	\$4.04
Average of 07E and 08E EPS	\$0.48	10.00x	\$4.75
Average of 07E and 08E CFPS	\$0.80	6.00x	\$4.78
<b>Average</b>			<b>\$4.52</b>

Source: Jennings Capital Inc.

## RECOMMENDATION

Our valuation of First Metals depends entirely on the Company's ongoing drilling, development and financing success. Still, we believe that the potential to participate in the current metal price environment and to outline additional tonnage offers a compelling story for risk-tolerant investors. **For these reasons, we believe that the stock could increase by 75% over the next 12 months and thus, warrants a SPECULATIVE BUY recommendation for First Metals Inc.**

<b>First Metals Inc.</b>						
<b>Summary of Financial Estimates (MM)</b>						
	<b>2006E</b>	<b>2007E</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
<b>Revenue</b>						
Payable copper	\$0.0	\$59.7	\$35.0	\$15.7	\$31.4	\$13.5
Payable zinc	\$0.00	\$0.00	\$28.29	\$32.06	\$16.03	\$34.35
Payable gold	\$0.00	\$0.00	\$3.56	\$6.32	\$3.20	\$6.77
Payable silver	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.87</u>	<u>\$1.66</u>	<u>\$2.99</u>	<u>\$1.47</u>
<b>Gross metal sales</b>	<b>\$0.00</b>	<b>\$59.70</b>	<b>\$67.76</b>	<b>\$55.76</b>	<b>\$53.65</b>	<b>\$56.06</b>
TC/RCs and freight	<u>\$0.00</u>	<u>\$12.40</u>	<u>\$13.25</u>	<u>\$11.92</u>	<u>\$12.77</u>	<u>\$11.80</u>
<b>Net metal sales</b>	<b>\$0.00</b>	<b>\$47.30</b>	<b>\$54.52</b>	<b>\$43.84</b>	<b>\$40.88</b>	<b>\$44.26</b>
<b>Other income</b>	<b>\$0.05</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.05</b>	<b>\$0.00</b>	<b>\$0.00</b>
<b>Operating Expenses</b>						
Royalties	\$0.00	\$0.95	\$1.09	\$0.88	\$0.82	\$0.89
Direct mining costs	\$0.00	\$22.28	\$31.80	\$34.13	\$34.13	\$34.13
Corporate G&A	\$0.31	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50
Stock-based compensation	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other	<u>\$0.16</u>	<u>\$0.16</u>	<u>\$0.16</u>	<u>\$0.16</u>	<u>\$0.16</u>	<u>\$0.16</u>
Total operating expenses	<b>\$0.57</b>	<b>\$23.88</b>	<b>\$33.55</b>	<b>\$35.66</b>	<b>\$35.60</b>	<b>\$35.67</b>
<b>EBITDA</b>	<b>(\$0.51)</b>	<b>\$23.41</b>	<b>\$20.96</b>	<b>\$8.23</b>	<b>\$5.28</b>	<b>\$8.58</b>
Depreciation and amortization	\$0.00	\$16.04	\$10.93	\$3.09	\$3.09	\$3.09
Interest expense	\$0.00	\$1.69	\$0.00	\$0.00	\$0.00	\$0.00
<b>EBT</b>	<b>(\$0.51)</b>	<b>\$5.68</b>	<b>\$10.03</b>	<b>\$5.13</b>	<b>\$2.18</b>	<b>\$5.49</b>
Income tax expense (recovery)	\$0.00	\$0.00	\$3.61	\$1.85	\$0.79	\$1.98
Earnings before NPI royalty	<b>(\$0.51)</b>	<b>\$5.68</b>	<b>\$6.42</b>	<b>\$3.29</b>	<b>\$1.40</b>	<b>\$3.52</b>
Net profits interest	\$0.00	\$0.00	\$0.64	\$0.33	\$0.14	\$0.35
<b>Net earnings</b>	<b>(\$0.51)</b>	<b>\$5.68</b>	<b>\$5.78</b>	<b>\$2.96</b>	<b>\$1.26</b>	<b>\$3.16</b>
EPS (basic)	<b>(\$0.02)</b>	<b>\$0.18</b>	<b>\$0.19</b>	<b>\$0.10</b>	<b>\$0.04</b>	<b>\$0.10</b>
<b>EPS (fully diluted)</b>	<b>(\$0.01)</b>	<b>\$0.13</b>	<b>\$0.14</b>	<b>\$0.07</b>	<b>\$0.03</b>	<b>\$0.07</b>
<b>Cash flow from operations</b>	<b>(\$0.35)</b>	<b>\$21.89</b>	<b>\$16.87</b>	<b>\$6.21</b>	<b>\$4.51</b>	<b>\$6.42</b>
CFPS (basic)	<b>(\$0.01)</b>	<b>\$0.71</b>	<b>\$0.55</b>	<b>\$0.20</b>	<b>\$0.15</b>	<b>\$0.21</b>
<b>CFPS (fully diluted)</b>	<b>(\$0.01)</b>	<b>\$0.52</b>	<b>\$0.40</b>	<b>\$0.15</b>	<b>\$0.11</b>	<b>\$0.15</b>
<b>Capex</b>	\$10.00	\$18.00	\$7.50	\$0.25	\$0.25	\$0.25
<b>Free Cash Flow</b>	<b>(\$10.35)</b>	<b>\$3.89</b>	<b>\$9.37</b>	<b>\$5.96</b>	<b>\$4.26</b>	<b>\$6.17</b>
<b>Per fully diluted share</b>	<b>(\$0.26)</b>	<b>\$0.09</b>	<b>\$0.22</b>	<b>\$0.14</b>	<b>\$0.10</b>	<b>\$0.15</b>
Basic shares O/S	30.83	30.83	30.83	30.83	30.83	30.83
Fully diluted shares	39.33	42.41	42.41	42.41	42.41	42.41

Source: Jennings Capital Inc.

## MANAGEMENT – OFFICERS AND BOARD OF DIRECTORS

### James Beatty, Chief Executive Officer

James Beatty holds a Masters of Business Administration from York University and has over 30 years of experience in the investment sector. He has served as a director for numerous mining and exploration companies, including Campbell Resources Inc. and Westfield Minerals. Mr. Beatty is also Chairman of Canary Resources Inc., which is engaged in the development and production of coal bed methane in Eastern Kansas and Western Missouri.

### Brian Ferguson, President

Brian Ferguson is a professional engineer with over 40 years of operating experience in mine planning, engineering and development. Mr. Ferguson was formerly Vice President, Mining and a senior executive with Falconbridge Ltd.

### Charles Gryba, Chief Operating Officer

Charles Gryba is a professional engineer with over 30 years of operating experience with major and junior mining companies. He also has established two private corporations, Urban Mining International Inc. and DPM Mining Inc., which market a patented mining method in Canada and abroad.

### James Richardson, Chief Financial Officer and Secretary-Treasurer

James Richardson is a Chartered Accountant with nearly 40 years of international experience in financial management. He is also a director and officer of Waseco Resources Inc., as well as a director of Argus Corporation and Roxmark Mines Limited.

## BOARD OF DIRECTORS

### James Beatty, Chairman

See biography provided above.

### Brian Ferguson, Director

See biography provided above.

### Charles Gryba, Director

See biography provided above.

### Kenneth Hill, Director

Kenneth Hill is a professional engineer with over 40 years of experience in mine design, development and operations. Mr. Hill is also Vice-President and a director of Yukon Gold Corporation Inc. and prior to that, was vice president at several mining companies, including Inmet Mining Corp, Northgate Exploration Ltd. and Dome Mines Ltd.

### James J. Jaski, Director

Jay Jaski is President and CEO of Regent Mercantile Bancorp Inc., a merchant bank and Limited Market Dealer focused on the resource sector. From 1999 to 2004, he was Vice-Chairman and COO of Octagon Capital Corporation. Mr. Jaski is also a director of Captus Power Corp. and of Pure Nickel Inc.

### Richard Lister, Director

Richard Lister holds a B.Sc. and M.Sc. in Metallurgical Engineering and Material Sciences, as well as a Ph.D. from the University of Toronto. He has over 40 years of experience in the mining, metallurgical and chemical industries, and continues to provide consulting services to several companies.

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**James Richardson, Director**

See biography above.

**George Salamis, Director**

George Salamis is a geologist with over 15 years of experience in various aspects of the mining industry, including field program management, business development and global equity financing. He is also CEO of Caledon Resources Plc and a director of Dynasty Gold Corp.

**Richard Williams, Director**

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