

First Metals Inc.
(A DEVELOPMENT STAGE CORPORATION)
Management Discussion & Analysis
(Restated)
For the Six Months Ended June 30, 2007

January 18, 2008

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations for the three month (April 1, 2007 through June 30th, 2007) and six month (January 1, 2007 through June 30th, 2007) period ended June 30, 2007. It should be read in conjunction with the Corporation's audited financial statements and accompanying notes for the year ended December 31, 2006 and the MD&A for the year ended December 31, 2006 (collectively, the "Financial Statements"). The annual information form, annual report, other quarterly reports, and other information relating to the Corporation are available on the Corporation's website (www.firstmetalsinc.com) and filed on the SEDAR website (www.sedar.com).

Restatement

Following a continuous review by the OSC, Management conducted a review of the interim financial statements and MD&A for the period ended June 30th, 2007 and has determined that a restatement of this previously filed financial information was appropriate. The restatement adjustments relate to: (a) the initial recording of the Secured Notes as well as the amortization of transaction costs, (b) the recognition of Stock-based Compensation and (c) the transfer of fair value of option exercise from contributed surplus. The financial items being restated are as follows:

1. Deferred debt financing, interest and insurance costs were reduced by \$4,300,084 and the Senior Secured Notes were also reduced by \$3,822,834 while Mineral Interests were increased by \$477,250;
2. Stock-based compensation expense and contributed surplus were increased by \$218,249.
3. Contributed Surplus was reduced \$219,910 and Share Capital was increased by \$219,910.

The interim financial statements and related notes for the second quarter ended June 30th, 2007 have been restated to reflect these changes. In addition to reflecting these changes, the analysis has been reformatted to be consistent with the September 2007 filings.

Overview

The Corporation was incorporated on February 23, 2006 with the mission of rapidly becoming a profitable producer of base metals and associated products.

The Fabie Bay project is now in the most advanced exploration and pre-production stage, and the Corporation has not yet commenced any mining production on it or on the Magusi River and Duprat projects which are at advanced exploration and early exploration stages respectively. Accordingly, the Corporation does not currently have operating revenues and, until the completion of the recommended exploration and development programs on such mineral projects, receipt of required mining licenses and permits for the mining of one or more commercial ore bodies located thereon, and the mining and shipment of ore, the Corporation is not expected to

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have any revenues. The mining licence (“Bail Minier”) for the Fabie Bay project was received on July 16, 2007. While the Corporation is not yet in a position to have its ore received and processed by the Horne Mill, it is in the position that it could ship if the mill were ready to receive.

The Horne Mill has been undergoing a refurbishment project for this purpose since the spring of 2007 and it is forecast to be ready October 2007. As a result, \$5,500,000 has been put into escrow to provide for the Corporation’s payment of the estimated costs of this refurbishment.

Period from incorporation to March 31, 2006

During this period the Corporation was incorporated, and entered into a letter of intent with Globex Mining Enterprises Inc. (“Globex”) with respect to the acquisition of the Mining Claims. No deposit was payable upon execution of the letter of intent, and so the only cash transactions were the receipt of proceeds from the Common Share subscriptions of the Corporation’s founders.

Major developments for the nine month period ended December 31, 2006

The Corporation in this period changed its year end to December 31, resulting in a nine month period for the audited financial statements. The Corporation completed the Special Warrant Offerings and the Initial Public Offering of the Corporation’s shares (the “IPO”) to raise the funds necessary to commence initial preparations of the site, equipment sourcing, hydro installation and other steps towards ultimately putting the project into production. To meet all of the proposed expenditures for 2007, the Corporation entered into a \$20M debt arrangement.

The success of the IPO and the simultaneous listing of the shares on the Toronto Stock Exchange on September 1, 2006 culminated in a successful first six months of existence for First Metals. As part of these events, the Special Warrants previously issued were exchanged for common shares and warrants of the Corporation and the common shares were qualified for trading by the same prospectus.

To develop and prepare the mining properties for production, equipment leases were negotiated, equipment was purchased and some development expenditures were undertaken. The Corporation obtained the Certificate of Authorization for the de-watering of the existing open pit and underground; de-watering of the ramp was completed down to the 50 meter level and other development work proceeded.

After initial discussions had been held with several mills in the vicinity, a Letter of Intent was concluded with Xstrata Copper Canada Limited, a division of Falconbridge Limited. On June 4, 2007, a definitive agreement was signed for the Custom Milling of ore.

Operations for the period from April 1, 2006 through December 31, 2006

During this period, the Corporation began more active exploration of its properties, particularly the Fabie Bay and Magusi River properties. The first two payments totaling \$750,000 in accordance with the purchase agreement were made to Globex. The mining property has been

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recorded at its purchase price of \$1,000,000 (with further amounts to be paid by way of a share interest in the Corporation equal to 10% of the outstanding shares at the time of reaching commercial production, the cost of which can not yet be established but will be significant and further consideration by way of Net Metal Return and Net Profit interests) and the outstanding liability on the cash portion of \$250,000 has been shown as due to Globex. Both of these considerations will be paid at the time of achieving Commercial Production. The additional share commitment has been identified in the Note 10 to the financial statements, but not shown as a liability owing to its unquantifiable nature. The additional share commitment will be accounted for based on the market price at the issue date. It will result in an increase in the share capital of the Corporation. No cash consideration will be received in respect of this transaction.

Other amounts disbursed included payments to consultants advising in the process of obtaining permits for the further exploration of the properties, geological and mining consultants and towards the establishment of offices in Rouyn-Noranda. All of these amounts have been recorded as increases in the value of Mineral Properties. Further amounts have been expended on overheads, including Management Fees, listing fees and stock-based compensation, (from the granting of options under the Corporation's Incentive Stock Option Plan) and these have been recorded as Expenses resulting in a Net Loss for the period of \$1,847,203. The Corporation's exploration and development activities in 2006 satisfied the Corporation's obligations with respect to its flow through shares issued as part of its September 1, 2006 IPO.

The Corporation's mineral properties consist of the following

	June 30, 2007	March 31, 2007	December 31, 2006	June 30, 2006
Furniture & fixtures	\$ 277,291	\$ 256,809	\$ 190,304	\$ 47,311
Surface equipment	450,407	366,007	306,872	-
Underground equipment	4,823,814	2,772,205	1,198,394	-
Infrastructure mining	6,833,919	5,850,571	4,100,137	
Preproduction and Development	2,368,917	1,306,952	658,753	115,918
Mining Properties	1,024,361	1,023,781	1,005,083	1,035,489
Deferred exploration	1,493,969	939,981	404,840	
Deferred interest costs	418,757			
Deferred insurance costs	58,493			
	<u>\$ 17,749,929</u>	<u>\$ 12,516,306</u>	<u>\$ 7,864,383</u>	<u>\$ 1,198,718</u>

Operations for the three month period ended March 31, 2007

Mining interest

During the three month period ended March 31, 2007, the Corporation concentrated its activities mainly on the Fabie Bay and Magusi River properties. Surface infrastructure construction including electrical power line, surface electrical distribution, garage, crusher, ventilation & heating systems and site office buildings were substantially completed.

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The dewatering of the open pit on the Fabie Bay property was completed, giving access to the ore body. Underground dewatering continued to provide access via the ramp (previously constructed by Noranda Mines Limited down to the 400 foot level - approximately 125 metres). This dewatering was successfully completed down to the 90 metre level which was sufficient to provide initial access to the ore body underground. The dewatering has revealed that the ramp and other infrastructure, while requiring modest refurbishment, are sound and intact.

A close drill pattern was implemented across the top of the ore body in the open pit in preparation for blasting and to estimate more precisely the resources of the Fabie Pit. More than 400 drill holes totaling 4,516 meters were drilled.

The pit has now been drilled off in preparation for a 50,000 tonne bulk sample, for which the licence was granted in the last quarter of last year. This activity has identified a modest extension of the previously understood limits of the ore in the pit.

Operations for the three month period ended April 1, 2007 to June 30, 2007

Mining Properties

During the three-month period ended June 30, 2007 the Corporation continued to concentrate its activities on the Fabie Bay and Magusi River properties.

A 3,500-meter diamond drilling program on the Fabie Bay property, designed to confirm historical information and confirm ore limits at depth, began during the period. In addition, a 10,000-meter diamond drill program on the Magusi River property was initiated and is now 50% complete. Results received to date confirm historical information. In addition, an airborne geophysical survey was completed during the period and analysis of the data has been initiated.

A custom milling, smelting and mill refurbishment contract for Fabie ore production was completed with Xstrata Copper. Refurbishment of the Horne mill has been initiated. The dismantling, refurbishment and reinstallation of crushing, grinding, flotation and thickening circuit components continues. Completion is anticipated in October 2007.

Production drilling was undertaken on the open pit portion of the Fabie Bay copper mine within the limits of the historical ore outline. A total of 400 vertical holes were completed on a 2.7 meter by 2.7 meter pattern to a depth of 10 meters. Each of the production holes was sampled and assay results have indicated that, in certain areas, the zone extends slightly beyond the previously assumed historical limits. Additional production drill holes and the sinking cut will be completed shortly. The open pit will be in a position to produce as soon as mill refurbishment is complete.

Dewatering of the underground workings is substantially complete. Excavations are in very good condition and rehabilitation of the primary ramp and several of the ore zone accesses have been completed. Underground ventilation and electrical power distribution have been re-established. Development, in preparation for underground mining, has been initiated.

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Installation of the 31-km Hydro Quebec power line to Fabie, as well as the 5000 kVA on-site electrical power distribution station, has been completed.

Key mining equipment was delivered during the period and substantial progress has been achieved on the construction and installation of key surface infrastructure including primary mine ventilation, compressed air plant, crushing, office/dry complex, drill core handling/storage, site security and maintenance shop facilities. The engineering and geology personnel recently relocated from the Rouyn-Noranda office will now be based in the on-site office complex.

Key personnel required for mine operations have been hired and are currently focused on completing required pre-production activities, both on surface and underground.

The Corporation and Xstrata completed the Agreement for Custom Milling and production of concentrates as well as sale of contained metals on June 4, 2007.

Financing Activities

On May 4, 2007, First Metals Inc. issued \$20,000,000 in Senior Secured Notes with interest payable at 14%. Each \$1,000 Note, which has a term of 5 years and 1 day, was offered at a purchase price of 98% of the principal amount thereof and is callable by the Company at any time following 24 months from the closing. The notes contain fixed and floating charges over all of the Corporation's assets.

The Senior Secured Notes contain certain financial maintenance covenants. A Collateral Agent and a lien over all of the property and assets of the Corporation have been established. Interest is paid quarterly.

In addition, for each \$1,000 in principal amount of Notes acquired, the purchasers received, for no additional consideration, a share purchase warrant to acquire a total of one hundred common shares of the Company at an exercise price of \$1.35 per share expiring 5 years and 1 day from July 30, 2007, the date the Escrow Release Conditions were achieved. A total of 2 million share purchase warrants have been issued.

The proceeds from the sale of the Notes will be used to complete underground development at the Fabie Bay Copper Mine near Rouyn-Noranda, Québec, and refurbishment of the Horne Mill pursuant to the terms of the agreement between the Corporation and Xstrata and for general working capital purposes.

Summary of Quarterly Financial Information

All amounts are in Canadian Dollars and the Financial Statements are prepared in accordance with Canadian GAAP. The following table sets forth selected quarterly financial information for each of the last six quarters, the entire period since incorporation of the Corporation.

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Quarter ending	Revenue \$	Net loss \$	Net loss per share* \$
June 30, 2007	11,405	739,347	0.02
March 31, 2007	14,491	591,554	0.02
December 31, 2006	53,160	1,344,157	0.05
September 30, 2006	33,358	352,127	0.02
June 30, 2006	9,260	111,734	0.01
March 31, 2006	-	20,000	0.01

* Loss per share data is basic and diluted as exercise of warrants and options would be anti dilutive and based on the weighted average number of shares outstanding during the period.

Since the Corporation is in the development phase, the revenues represent interest earned on short-term investments and the variations in the net loss represent variations in planning, general management, financing activities and corporate activities. The preproduction and development costs have been capitalized in the Mineral Interests as shown on the Balance Sheet.

Results of operations – Financial Results

Three months ended June 30, 2007

For the quarter ended June 30, 2007, the Corporation reported a net loss of \$739,347 (\$0.02 per share) compared to a net loss of \$111,734 (\$0.01 per share) for the same period in 2006. The main expenses in the period reflect general and administrative costs for the operations office in Rouyn-Noranda and the Head Office in Toronto of \$194,494 as well as professional fees of \$143,432 and management fees of \$78,750. These expenses do not include exploration and development costs of the Fabie deposit which have been deferred (or “capitalized”) rather than being expensed. The Deferred Development costs will be amortized over the expected life of the deposits presently estimated to be 6 years.

The increase in the net loss of \$627,613 for the three months ended June 30, 2007 over 2006 is mainly attributable to:

- I. an increase of \$280,262 in stock-based compensation expense from nil in 2006
- II. an increase of \$173,800 in the general and administration expenses (Rouyn-Noranda and Head Office in Toronto costs) from \$20,694 in 2006 to \$194,494 in 2007 as a result of increased planning and management of the development activities needed to commence mining operations at the Fabie Bay project as well as the significant efforts directed towards the raising of additional capital.
- III. an increase of \$131,732 in the professional fees from \$11,700 to \$143,432 in 2006, due to an increase in corporate activity; and
- IV. a decrease in interest costs of \$13,873 as incremental interest on capital equipment has been deferred to be amortized as production commences.

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Readers should be reminded that the year earlier period is not really comparable in view of the very formative stage that the Corporation was then in, being only one to four months after incorporation, when its main activities were directed towards its IPO and listing.

The Corporation is still at the exploration and development stage and as a result generated no operating revenue in the three month period ended June 30, 2007. Interest and other revenues for the three month period totaled \$11,405 compared to \$9,260 in same quarter in 2006.

Six months ended June 30, 2007

For the six months ended June 30, 2007, the Corporation reported a net loss of \$1,330,901, compared to a net loss of \$131,734 for the six months ended June 30, 2006.

The increase in the net loss of \$1,199,167 for the six months ended June 30, 2007 over 2006 is mainly attributable to:

- I. an increase of \$343,542 in stock-based compensation expense from nil in 2006
- II. an increase of \$416,115 in the general and administration expenses from \$20,694 in 2006 to \$436,809 in 2007 mainly as a result of the creation of an office in Rouyn-Noranda in the summer of 2006 which focuses on planning and managing of the exploration and development activities.
- III. an increase of \$260,192 in the professional fees from \$11,700 to \$271,892 in 2006, due to an increase in corporate activity

Liquidity and Capital Resources

Senior Secured Notes

The completion of the \$20,000,000 financing referred to above has been calculated to satisfy the Corporation's financial requirements for completing the Fabie Bay project. Originally, the bulk of these funds were held in escrow awaiting the completion of the two conditions for their release: (1) the receipt of the mining permit and (2) the definitive Custom Milling agreement with Xstrata. Subsequent to June 30th, all of the conditions outlined above were satisfied for release of this escrow.

From the release, \$5.5M was placed in escrow to satisfy the Corporation's obligations for funding the mill refurbishment program at the Horne Mill and \$9.5M was released to the Corporation without restrictions to complete the development program at the Fabie site. Prior to the release from escrow, the funds were already accounted for as cash of the Corporation but with restrictions, as the Corporation was already liable for its repayment.

The Company's cash and cash equivalents at June 30, 2007 was \$1,338,836 and an additional \$15,063,608 was held as restricted cash, in escrow to fund the refurbishment of the Horne Mill. A significant portion of this escrow has been committed to refurbishment work undertaken and is expected to be paid to Xstrata Copper in the final quarter of this year.

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Short-term investments

The Term deposits increased from \$681,416 at March 31, to \$1,623,455 at June 30, 2007. The increase reflects the receipt of funds from the exercise of warrants and options.

As the Corporation is a development stage organization, revenues are limited to interest earned on cash held with the Corporation's financial institutions. During the three months ended June 30, 2007, the Corporation recorded interest income of \$10,789 compared to \$10,396 in the three months ended March 31, 2007.

During the period ended June 30, 2007, the Corporation has financed the operations from the proceeds received from the issuance of common shares for warrants exercised which generated \$1,718,262.

The Corporation is not aware of any trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, its liquidity either materially increasing or decreasing at present or in the foreseeable future beyond the commencement of operations referred to above.

Currently the Corporation does not have any loans or bank debt beyond the Senior Secured Notes. The Senior Secured Notes restrict the Corporation from incurring additional indebtedness without Noteholder approval.

Net Cash Flow

During the quarter ended June 30, 2007, cash and cash equivalents increased by \$875,864 compared to an increase of \$2,293,268 in the corresponding period in 2006. The reduction in the cash and cash equivalents in the current quarter compared to the same period in 2006 is mainly a result of a lower level of proceeds from the issuance of common shares and warrants and the increase in expenditures of \$4,034,905 spent on the Mineral Properties.

Operating Activities

During the quarter ended June 30, 2007, cash of \$152,009 was used in operating activities which compared to \$71,686 used in operating activities during the quarter ended June 2006. The increase in cash used in operating activities reflects the increased management activities during the quarter compared to the same period in the prior year

During the six months ended June 30 2007, Net Cash of \$342,877 was generated in operating activities compared to \$91,686 used in Operating Activities in the previous year. The change in Cash generated during the six months ended June 30, 2007 compared to the previous year is a result of the reduction of receivables and deposits as well as an increase in accounts payable.

At June 30, 2007, the Corporation had working capital of \$13,274,828 compared to \$3,591,028 at December 31, 2006. During the next quarter, the Corporation will incur exploration, development and operating expenses without corresponding revenues. Therefore, readers should be aware that cash balances will decline accordingly.

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During the three months ended June 30, 2007, financing activities generated \$21,325,104 which compares with \$3,563,672 in the corresponding period last year. The increase of \$17,761,432 is mainly a result of the net proceeds of \$16,090,340 from the issue of the Senior Secured Notes.

During the six month period ended June 30, 2007 financing activities generated \$22,417,168 compared to \$3,563,672 during the first six months of 2006. The increase of \$18,853,496 in the six month period ended June 30, 2007 compared to the same period in 2006 is mainly a result of the net proceeds of \$16,090,340 from the issue of the Senior Secured Notes.

During the three month period ended June 30, 2007 \$5,232,623 was invested in Mineral Properties compared to \$1,198,718 in the three months ended June 30, 2006. The increase of \$4,033,905 reflects the increased activities as the Corporation progresses towards production from the Fabie Mine.

As a result of operations, financing and investment activities, the Cash and Cash equivalents increased by \$875,864 during the three month period ended June 30, 2007. During the three month period ended June 30, 2006, the cash and cash equivalents increased by \$2,293,268.

During the six month period ended June 30, 2007, the Cash and Cash equivalents decreased by \$2,189,109 compared to the net increase in Cash and Cash equivalents of \$2,273,268 in the first six months of 2006.

As a result of differences in the nature and level of activities in the six month and three month periods, the comparative figures from the year earlier period are not meaningful.

Financing Activities

During the three months ended June 30, 2007, financing activities generated \$21,325,104 which compares with \$3,563,672 in the corresponding period last year. The difference is mainly as a result of the issuance of the Secured Notes.

During the six month period ended June 30, 2007, financing activities generated \$22,417,168 compared to \$3,563,672 during the first six months of 2006. The increase of \$18,853,496 in the six month period ended June 30, 2007 compared to the same period in 2006 is mainly a result of the net proceeds of \$16,090,340.

Investing Activities

During the three month period ended June 30, 2007, \$5,233,623 was invested in Mineral Properties compared to \$1,198,718 in the three months ended June 30, 2006. The increase of \$4,034,905 reflects the increased activities as the Corporation progresses towards production from the Fabie Deposit.

During the six month period ended June 30, 2007, \$9,885,546 was invested in Mineral Properties compared to \$1,198,718 in the same period in 2006. During the first six months of 2007, expenditures of \$6,502,737 on underground equipment and infrastructure equipment,

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preproduction and development of \$1,710,164, deferred exploration of \$1,108,407 and other furniture and equipment of \$86,988 as well as deferred interest and insurance of \$477,250. In 2006, the expenditures of \$1,198,718 represented investments in mining properties, deferred exploration and furniture and fixtures.

As a result of differences in the nature and level of activities in the three month and six month periods, the comparative figures from the year earlier period are not meaningful.

Key Economic Trends

The financial performance of the Corporation will be directly affected by the activities conducted on the Fabie Bay and Magusi River projects in conjunction with their development for commercial production of copper and zinc. It is anticipated that the development funding required for the Magusi project will be supplied by cash flow from the Fabie Bay project once it reaches commercial production.

Until such time as commercial production is achieved (and there can be no assurance it will be), the Corporation will continue to incur administrative costs and exploration and development expenditures that are either deferred or expensed, depending upon the nature of those expenditures, resulting in continuing operating losses and even larger cash drains. In the future, the financial performance of the Corporation will become more closely linked to the prices obtained for the copper and zinc produced by the Corporation. To date, copper and zinc prices have continued to be at levels that are significantly higher than estimated production costs.

Exchange rates

The Corporation reports its financial results in Canadian dollars. The Corporation's revenues, if any, will be primarily, if not completely, earned in U.S. dollars, but its costs are in Canadian dollars.

The Canadian dollar appreciated relative to the U.S. dollar during 2004 and 2005 as the average rate for December 2005 was C\$1.16/U.S.\$, compared to C\$1.32/U.S.\$ in the fourth quarter of 2003. The Canadian dollar was reasonably stable relative to the U.S. dollar during 2006 with an average rate of C\$1.14/U.S.\$. During the first quarter of 2007, the Canadian dollar averaged C\$1.17/U.S.\$ and the Canadian dollar average C\$1.10/U.S.\$ for the second quarter. For the first six months of 2007, the Canadian dollar has averaged C\$1.14/U.S.\$ and has reached historic heights of U.S.\$0.95/C\$1.00.

If this trend continues the effect will be to reduce the Canadian dollar increment to revenue which will be earned in the first instance in U.S. dollars. As the Corporation's costs are and will be incurred in Canadian dollars, the effect will be to reduce the Corporation's margins against the situation if the Canadian dollar were not rising against the US dollars.

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Risk Factors

The Corporation's operations and results are subject to a number of different risks at any given time. These factors, include but are not limited to disclosures regarding exploration, operating risks related to the start-up of the Horne Mill facility, project delay, titles to properties, price fluctuations and share price volatility, operating hazards, insurable risks and limitations of insurance, management, regulatory requirements, currency fluctuations and environmental regulations risks.

Exploration for mineral resources involves a high degree of risk. The cost of conducting programs may be substantial and the likelihood of success is difficult to assess. For a more complete discussion of these risks and others, reference should be made to the December 31, 2006 Management Discussion and Analysis and the IPO.

Accounting Policies

Initial adoption of Accounting Policies

The Financial Statements of the Corporation are prepared in accordance with Canadian GAAP. The Corporation has identified the accounting policies that are critical to the understanding of the Corporation's operations and financial results in the Corporation's Financial Statements and the notes thereto for the year ended December 31, 2006.

The Interim Financial Statements of the Corporation and notes thereto for the six month period ended June 30, 2007 have been prepared using the same accounting policies and methods as were used for the Financial Statements for the year ended December 31, 2006 except for the following new accounting pronouncements which have been adopted.

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Corporation adopted CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation.

As required by the implementation of these new standards, the comparative Interim Financial Statements have not been restated.

Future Changes in Accounting Standards

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments-Disclosures, and section 3863, Financial Instruments-Presentation. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 will replace section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The mandatory effective date is for annual and interim

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periods in fiscal years beginning on or after October 1, 2007. The Company will begin application of these sections, effective January 1, 2008.

Related Party Transactions

The Corporation continued to receive Management and Financial services from six Insiders of the Corporation. The management service agreements were designed during the development stage to provide the Company with strategic direction, overall financing strategies, financial planning and reporting, operations planning, mine development strategies and investor relations and marketing strategies.

Under the terms of the service agreements, these Insiders are entitled to monthly fees ranging from \$3,600 to \$11,600 per month, including car and home office allowances. The individual fees have been mutually agreed to and reflect the individual's level of service and do not exceed market comparable rates for such services.

A total of \$207,900 (comparative amounts: period up to June 30, 2006 - \$87,100) was paid during the period ended June 30, 2007.

On May 3, 2007, a shareholder who is also an Officer, Director and Promoter of the Company who had loaned the Company \$30,000 on an unsecured basis and completely free of interest or other consideration, was repaid in full without interest or other consideration.

These transactions are measured at the exchange amount, which approximates the fair value as agreed between management and the related parties except to the extent that the Related Parties may have willingly given value greater than received in order to benefit the Company.

Critical Accounting Policies and Estimates

Going Concern

As is common with companies in the exploration and development phase, the Corporation's ability to meet its obligations and continue as a going concern is dependent upon its ability to achieve profitable operations and/or the discovery, development and sale of mining reserves. The Company cannot reasonably expect to earn revenue in the development stage of operations. Only when the current construction stage of mine development is complete and commercial production is achieved, will the Company's viability as a going concern be established. Management's plans to achieve profitable and self sustaining operations include the completion of the Fabie development (and subsequently to develop the Magusi ore body) to enable the Company's mineral projects to enter into production.

Significant Accounting Policies

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of recoverable value on its mineral properties as well as the value of stock-

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based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Corporation's control.

Mineral Interests

Mineral interests represent capitalized expenditures relating to the acquisition, exploration, development and operation of specific mineral properties including plant and equipment. The recovery of costs of mining claims and deferred exploration is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development and future profitable production or proceeds from disposition of such properties.

Stock based compensation

The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing of exercise is out of the Corporation's control and will depend, among other things, upon a variety of factors including the market value of the Corporation's shares and financial objectives of the holders of the options. The Corporation has used historical data to determine volatility in accordance with Black-Scholes modeling requirements; however, the future volatility is inherently uncertain and the model has limitations. While these estimates can have a material impact on stock-based compensation and, hence, results of operations, there is no impact on the Corporation's financial condition.

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting, in accordance with GAAP, focusing in particular on controls over information contained in the interim and annual financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure.

The CEO and CFO have supervised the design and evaluation of the operating effectiveness of the Corporation's disclosure controls and procedures, as well as the design of internal controls over financial reporting, as defined under *Multilateral Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings*.

In addition to restating the June 30th financial statements, to correct; (a) the initial recording of the Secured Notes as well as the amortization of transaction costs, (b) the recognition of Stock-based Compensation and (c) the transfer of fair value of options exercised from contributed surplus, the CEO and CFO considered whether it was appropriate to issue updated certificates.

As background, the certifying officers reviewed the CSA guidance (*CSA Staff Notice 52-316, Certification of Design of Internal Control Over Financial Reporting*) which deals with the

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reporting of weaknesses if the certifying officers are aware of a weakness in the design of the issuer's ICFR.

The certifying officers concluded that the restatement related to the Secured Notes resulted from management not fully applying the revised financial instrument requirements in a timely manner. In order to mitigate this risk, procedures have been implemented to formalize the evaluation of new accounting pronouncements and solicit independent input from accounting experts.

The certifying officers concluded that the restatement related to the recording of the Stock-based Compensation and the transfer of the fair value of options exercised are the result of the failure to document all option arrangements in a timely manner and ensure that the corporate records are in agreement with the accounting records and reports. In order to mitigate these risks, the accountability for the corporate records and the accounting records has been formalized and in addition, reconciliation procedures have been implemented to ensure that the financial reporting reflects the corporate records.

Based on a review of the risks, the nature of the restatements, the materiality of the adjustments and the appropriateness of the disclosures as outlined above, the CEO and the CFO have concluded that the Corporation's disclosure controls and procedures are effective at June 30, 2007 to ensure that information required to be disclosed in reports that the Corporation files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

To reflect the growing complexity of the organization and the transactions that it was undertaking, as the organization moved towards the commencement of commercial production, the Company commenced in Q1 the recruiting of a Vice-President Finance who joined the organization at the beginning of Q3. Management is confident that this individual will strengthen the organizational and control environment.

Changes in Internal Control over Financial Reporting

On an ongoing basis, the Corporation reviews the effectiveness of all aspects of the organization including the internal controls over financial reporting. There have been no changes in internal control over financial reporting during the quarter ending June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Outstanding Share Data

The Corporation's authorized share capital is an unlimited number of common shares without par value. As at June 30, 2007, there were 33,369,667 outstanding common shares and 3,293,049 stock options outstanding. The weighted-average remaining contractual life of outstanding options was approximately 2.56 years and a total of 2,320,549 options were exercisable at a weighted average exercise price of \$1.03.

At June 30, 2007, the Corporation has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

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Description	Number of warrants	Exercise price	Expiry date
1 st Financing (Class A Special Warrants)	1,116,667	\$ 0.30	October 19, 2007
2 nd Financing (Class B Special Warrants)	1,575,350	\$ 0.75	November 10, 2007
IPO Warrants	2,988,050	\$ 1.25	September 1, 2008
Secured Note Warrants	2,000,000	\$ 1.35	July 17, 2012
	7,680,067		

As outlined above, once the Corporation achieves Commercial Production as defined in the agreement with Globex, the Corporation will issue shares equal to 10% of the then issued and outstanding shares as part of the consideration for the acquisition of the property. Based on the June 30 financial statements, Globex would be entitled to 3,336,967 shares. Accordingly, the actual number of shares when issued will be at least equal to this number of shares.

Further Information

Additional disclosures concerning the Corporation's general and administrative expenses and Mineral Interests are provided in the interim financial statements available through both the SEDAR website (www.sedar.com) and on the Corporation's own website (www.firstmetalsinc.com).

Outlook

The Corporation looks forward to the commencement of production and the achievement of positive cash flow from operations, both presently expected to be achieved by the end of the year.

Readers are directed to the following paragraphs of this Discussion where safe haven is claimed with respect to forward looking statements.

Forward Looking Statements

This MD&A was prepared by management and has not been reviewed by the Corporation's external auditors. This discussion contains forward-looking statements that involve certain risks and uncertainties which may include, but are not limited to, statements with respect to the future financial or operating performance of the Corporation and its projects, the future price of copper or zinc or other metal prices, the estimation of mineral resources, the realization of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of regulatory matters.

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Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved.

Forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Such factors include, among others: general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; fluctuations in the value of Canadian dollars relative to other currencies; changes in project parameters as plans continue to be refined; changes in labour costs or other costs of production; future prices of copper or zinc; possible variations of mineral grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labour disputes and other risks of the mining industry, including but not limited to environmental hazards, cave-ins, pit-wall failures, flooding, rock bursts and other acts of God or unfavourable operating conditions and losses; political instability, insurrection or war; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; and the factors discussed in the section entitled “Risk Factors” in the prospectus filed in connection with the Corporation’s Initial Public Offering (“IPO”) and available on the SEDAR website (www.sedar.com).

Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended.

Forward-looking statements in this MD&A describe the Corporation’s expectations on August 9, 2007 and the Corporation disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

Accordingly, readers should not place undue reliance on forward-looking statements.

Subsequent Events

On July 16, 2007, the Ministry of Natural Resources and Wildlife of the Province of Quebec issued a surface and underground mining license to the Company. The 20 year mining license applies to an area covering 11.467 hectares which encompasses the Fabie Copper Deposit near Rouyn-Noranda Quebec.

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The receipt of the mining license satisfies the condition precedent to the release from escrow of the funds generated through the issuing of Senior Secured Notes as described in Note 8.

On July 30, 2007, \$15.0 M. of Escrowed funds were released as a result of the completion of various conditions as required under the Escrow agreement and a further \$5.5 M. was placed in escrow to cover the mill refurbishment costs pursuant to the Xstrata Custom Milling Agreement. The Corporation received \$9.5 M.