

**First Metals Inc.**  
(A DEVELOPMENT STAGE CORPORATION)  
Management Discussion & Analysis (MD&A)  
(Restated)  
For the Nine Months Ended September 30<sup>th</sup> 2007

**January 18, 2008**

**Management's Discussion and Analysis ("MD&A")**

The 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 (July 1, 2007 through September 30, 2007) and nine months (January 1, 2007 through September 30, 2007). This MD&A was prepared by management and has not been reviewed by the Corporation's external auditors. 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](http://www.firstmetalsinc.com)) and filed on the SEDAR website ([www.sedar.com](http://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 30<sup>th</sup>, 2007 and September 30<sup>th</sup>, 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 in accordance with the new financial instruments standards, (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. The amortized cost of the Senior Secured Notes was reduced by \$1,677,767 to \$16,283,245 and the Mineral Interest were reduced by \$1,681,309 to reflect and adjustment to the fair value of the notes at June 30<sup>th</sup> and the related amortization during the three month period ended September 30<sup>th</sup>, 2007. The deferred insurance costs were also reduced by \$3,542.
2. The stock-based compensation expense during the three month period ended September 30<sup>th</sup> was reduced by \$255,991 to reflect the impact of recognizing the May Option grant in the three months ended June 30<sup>th</sup>, 2007.
3. The stock-based compensation expense for the nine month period ended September 30, 2007 was reduced by \$37,742 as a result of adjustments to the valuation assumptions.

The interim financial statements and related notes for the third quarter ended September 30<sup>th</sup>, 2007 have been restated to reflect these changes.

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**Forward Looking Statements**

Certain of the statements made and information contained herein is “forward-looking information” within the mean of the Ontario Securities Act. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitations, risk and uncertainties relating to the future prices of copper, zinc or other metal prices, foreign currency fluctuations; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations, risk associated with the estimation of mineral resources and reserves and the geology, grade and continuity of mineral deposits; the possibility that future exploration, development or mining results will not be consistent with the Corporation’s expectations; operating and capital costs, the potential for and effects of labour disputes or other unanticipated difficulties with or shortages of labour, inability to obtain necessary governmental permits; and other risks and uncertainties, including those described under Risk Factors Relating to the Corporation’s Business as outlined in the Corporations’ Initial Public Offering (“IPO”) available on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

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 in this MD&A describe the Corporation’s expectations as of November 14, 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.

**Company 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 Corporation currently has three projects at various stages of advancement. The Fabie Bay project is now in the advanced exploration and final pre-production stages. An initial blast of the open pit bench of this deposit was successfully undertaken on November 1, 2007. Trucking of the crushed material stockpiled from underground has started and it is anticipated that approximately 15,000 tonnes of both low grade and higher grade material will be delivered to the Horne Mill in Rouyn-Noranda by the time the mill is ready to start on November 17, 2007. The Magusi River and Duprat projects are at advanced exploration and early exploration stages respectively.

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The Corporation does not currently have operating revenues and, until the completion of the refurbishment of the Horne Mill, and the mining and shipment of ore, the Corporation is not expected to have any revenues.

The Horne Mill has been undergoing refurbishment for this purpose since the spring of 2007 and it is forecast to be ready in mid November 2007. The Corporation has placed \$5,600,000 into escrow to provide for the Corporation's payment of the estimated costs of this refurbishment.

**Period from incorporation to March 31, 2006**

The Corporation 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 Fabie Bay project into production.

The success of the IPO and the simultaneous listing of the shares on the Toronto Stock Exchange on September 1, 2006 culminated 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 development expenditures were undertaken. The Corporation obtained the Certificate of Authorization for the de-watering of the existing open pit and underground at Fabie Bay; 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 ("Xstrata Copper"). On June 4, 2007, a definitive agreement was signed for the Custom Milling of ore smelting and sales.

**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 totalling \$750,000 in

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accordance with the purchase agreement were made to Globex. The mining property has been recorded at its purchase price of \$1,000,000 (with further amounts to be paid by way of a share interest in the Corporation of 10% 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 the remaining cash and shares will be paid at the time of achieving Commercial Production. The additional share commitment has been identified in the Note 9 to the financial statements.

The additional share commitment will be based on the market price at the issue date. It will result in an increase in the share capital of the Corporation, but 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 mineral interests include the following:

	September 30 2007	June 30, 2007	March 31, 2007	December 31, 2006	June 30, 2006
Furniture & fixtures	\$ 349,990	\$ 277,291	\$ 256,809	\$ 190,304	\$ 47,311
Surface equipment	943,363	450,407	366,007	306,872	-
Underground equipment	6,691,043	4,823,814	2,772,205	1,198,394	-
Infrastructure mining	8,160,832	6,833,919	5,850,571	4,100,137	-
Preproduction and Development	3,613,264	2,368,917	1,306,952	658,753	115,918
Mining Properties	1,026,363	1,024,361	1,023,781	1,005,083	1,035,489
Deferred exploration	2,659,842	1,493,969	939,981	404,840	-
Deferred interest & insurance	1,369,678	477,250	-	-	-
	<u>\$ 24,814,374</u>	<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 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 underground mineralization. Underground dewatering continued to provide access via the ramp (previously constructed by Noranda Mines Limited) down to the 150 metre level. This dewatering was successfully completed down to the 90 metre level which was sufficient to provide initial access to the deposit underground. The dewatering 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 deposit in the open pit in preparation for blasting and to estimate more precisely the resources of the Fabie Pit. More than 400 drill holes totalling 4,516 meters were drilled.

The pit has now been drilled off in preparation for blasting and shipping to the Horne Mill. This activity has identified a modest extension of the previously understood limits of the deposit.

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

#### **Mining interest**

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

During the period it began a 3,500-meter diamond drilling program on the Fabie Bay property, designed to confirm historical information and confirm deposit limits at depth. 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 was anticipated in the fourth quarter.

Production drilling was undertaken on the open pit portion of the Fabie Bay copper deposit within the limits of the historical deposit 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 indicate 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 ship material as soon as mill refurbishment is complete.

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

Key mining equipment was delivered during the period and substantial progress was 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 are now 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.

### **Operations for the three month period ended July 1, 2007 to September 30, 2007**

#### **Mining interest**

During the quarter ended September 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 results and finalize deposit limits at depth, continued during the period. In addition, a 10,000-meter diamond drill program on the Magusi River property continued. Core logging, assaying, data analysis and interpretation was on-going.

Refurbishment of the Xstrata Copper Horne mill continued during the period. Installation of piping and pumps required for future tailings disposal was completed during the quarter. The dismantling, refurbishment and reinstallation of crushing, grinding, flotation and thickening circuit components continued and was scheduled to be completed during the fourth quarter of 2007.

Additional production holes and the sinking cut were drilled in the open pit portion of the Fabie Bay copper deposit. These holes were intended to determine the exact deposit limits and to prepare the bench for blasting. Each of the additional production holes was sampled and, together with the holes drilled in the previous quarter, updated resource tonnage and grades were prepared using a 1% copper cut-off grade. The result is a measured mineral resource of 99,800 tonnes at a diluted grade of 2.25% copper. The open pit portion of the deposit is now in a position to produce as soon as mill refurbishment is complete.

Several underground infrastructure installations were completed during the quarter. These improvements included the excavation of two truck loading stations, excavation and construction of an electrical substation at the 45m level and construction of ventilation controls at the 45m, 60m and 105m levels. Excavation of a permanent mine water sump and a second electrical substation, both at the 105m level, was initiated. Refurbishment of the underground refuge station and the underground explosives storage magazine was also initiated. Widening of the

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ramp was completed to the 105m level. Development at the 60m, 75m and 90m levels, in preparation for underground mining, was also started during the period.

Key surface infrastructure was completed during the quarter including the site office complex, security gatehouse and primary ventilation fans. The surface crusher was successfully tested and commissioned. During the period, construction of the warehouse facility, installation of the mine air heating and primary compressor plants, as well as equipping of the maintenance garage, were all initiated and scheduled for completion early in the fourth quarter. Upgrading of the site access road to semi-trailer haulage standards was well advanced at the end of the period. Construction of the 'Megadome' ore storage and transfer facility, located near the entrance of the Xstrata Copper Horne smelter complex, was substantially completed. All of the required mobile equipment units required for underground development and production are now on site.

During the period, the total workforce was doubled to accommodate the increasing pace of underground pre-production development and stope preparation.

At the present time, approximately 90% of the personnel required for operations are in place. In spite of the current mining labour shortage, First Metals has been successful in attracting highly experienced and qualified individuals for all positions.

### **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 has been appointed 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 are being used to complete underground development at the Fabie Bay Copper Mine near Rouyn-Noranda, Québec, refurbishment of the Horne Mill pursuant to the terms of the agreement between the Corporation and Xstrata Copper as well as to meet general working capital needs.

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**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 7 quarters, the entire period since incorporation of the Corporation.

Quarter ending	Revenue \$	Net loss \$	Net loss per share* \$
September 30, 2007	63,941	686,918	0.02
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:**

**Three months ended September 30, 2007**

For the quarter ended September 30, 2007, the Corporation reported a net loss of \$686,918 (\$0.02 per share) compared to a net loss of \$352,127 (\$0.02 per share) for the same period in 2006. The main expenses in the period reflect Stock-based compensation of \$154,851 (2006, \$161,180), general and administrative costs for the operations office in Rouyn-Noranda and the Head Office in Toronto of \$259,623 (2006, \$10,015) as well as professional fees of \$134,791 (2006, \$30,904) and management fees of \$98,750 (2006, \$100,200).

These expenses do not include exploration and development costs which have been capitalized as Deferred Development costs which will be amortized over the expected life of the deposits presently estimated to be 6 years.

The increase in the net loss of \$334,791 for the three months ended September 30, 2007 over 2006 is mainly attributable to:

- I. an increase of \$249,608 in the general and administration expenses (Rouyn-Noranda and Head Office in Toronto costs) from \$10,014 in 2006 to \$259,623 in 2007 as a result of

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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;

- II. an increase of \$103,889 in the professional fees from \$30,904 in 2006 to \$134,793, due to an increase in corporate activity;
- III. a decrease in interest costs of \$1,632 as incremental interest on capital equipment has been deferred to be amortized as production commences, and
- IV. an increase in Part XII.6 interest expense of \$25,399 on flow-through expenditures which were renounced to subscribers at December 31, 2006 and the expenditures were subsequently incurred by the Corporation whereas there were no flow-through expenditures in the comparable period last year.

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 seven 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 September 30, 2007. Interest and other revenues for the three month period totalled \$2,066 compared to nil in the same quarter in 2006.

**Nine months ended September 30, 2007**

For the nine months ended September 30, 2007, the Corporation reported a net loss of \$2,017,819, compared to a net loss of \$483,860 for the comparable period ended September 30, 2006.

The increase in the net loss of \$1,533,959 for the nine months ended September 30, 2007 over 2006 is mainly attributable to:

- I. an increase of \$337,213 in stock-based compensation expense from \$161,180 in 2006 to \$498,393 in 2007 as a result of additional option grants to Directors, as well as Senior Officers and Mine Management Staff.
- II. an increase of \$665,723 in the general and administration expenses from \$30,709 in 2006 to \$696,432 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 \$364,081 in the professional fees from \$42,604 in 2006 to \$406,685 in 2007, due to an increase in corporate activity.

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**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 restricted 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 Copper. Subsequent to June 30, all of the conditions outlined above were satisfied for release of this escrow.

From the release, \$5.6M was placed in escrow to satisfy the Corporation's obligations for funding the mill refurbishment program at the Horne Mill and the remaining \$9.5M became available to the Corporation 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 September 30, 2007 was \$5,668,727 and an additional \$5,582,908 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. Further details are provided in Note 6 to the financial statements.

**Short-term investments**

The Term deposits increased from \$1,338,836 at June 30<sup>th</sup> to \$6,376,482 at September 30<sup>th</sup>, 2007. The increase reflects the release of funds which were held in Escrow at June 30<sup>th</sup>, 2007, cash generated from operating activities which were offset by the increase in the Mineral Interest during the period.

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 September 30, 2007, the Corporation recorded interest income of \$61,875 compared to \$33,358 in the three months ended September 30, 2006.

During the period ended September 30, 2007, the Corporation has financed the operations from the \$9,480,700 of net proceeds received from the Senior Secured Notes as well as the proceeds received from the issuance of common shares and for warrants exercised which generated \$91,249.

The Corporation believes that it has adequate resources to complete the development of the Fabie property, meet the working capital needs as it arranges for material to be processed at the Horne Mill as well as maintain its core operations for the balance of the fiscal year by which time profitable revenues producing operations will have begun.

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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 September 30, 2007, cash and cash equivalents increased by \$4,329,891 compared to an increase of \$7,049,816 in the corresponding period in 2006. The difference is a result of the issuance of the \$10,200,000 from the IPO in September 2006 and the offsetting impact of \$5,242,152 more that was spent on the development of the Mineral Properties.

### **Operating Activities**

The cash flow from Operating Activities was \$3,927,849 for the three months ended September 30, 2007 compared with \$147,492 for the quarter ended September 30, 2006. Despite the increase in the net loss for the period ended September 30, 2007, the Corporation received the positive impact of changes in non-cash working capital balances.

During the nine months ended September 30 2007, Net Cash of \$4,270,726 was generated from Operating activities compared to \$54,197 in the previous year. The change in Cash generated during the nine months ended September 30, 2007 compared to the previous year is a result of the positive impact of changes in non-cash working capital balances.

At September 30, 2007, the Corporation had working capital of \$3,025,171 compared to \$3,591,028 at December 31, 2006. The working capital included cash of \$5,582,908 held in Escrow to Fund the Mill refurbishment and provided for the accrued mill refurbishment costs of \$3,604,000. During the next quarter, the Corporation will incur exploration, development and operating expenses with modest initial revenue expected to be generated. Therefore, readers should be aware that cash balances are expected to continue to decline accordingly.

### **Financing Activities**

During the three months ended September 30, 2007, financing activities generated \$1,589,787 which compares with \$8,724,617 in the corresponding period last year. The difference is mainly as a result of the issuance of common share and warrants in September 2006.

During the nine month period ended September 30, 2007 financing activities generated \$24,006,955 compared to \$12,289,899 during the first nine months of 2006. The increase of \$11,717,056 in the nine month period ended September 30, 2007 compared to the same period in

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2006 is mainly a result of the net proceeds of \$16,090,340 from the issue of the Senior Secured Notes.

**Investing Activities**

During the three month period ended September 30, 2007, \$7,064,445 was invested in Mineral Properties compared to \$1,822,293 in the three months ended September 30, 2006. The increase of \$5,242,152 reflects the increased activities as the Corporation progresses towards production from the Fabie Deposit. In addition during this period, \$3,604,000 was incurred to refurbish the Horne Mill.

During the nine month period ended September 30, 2007, \$16,949,991 was invested in Mineral Properties compared to \$3,021,011 in the same period in 2006. During the first nine months of 2007, expenditures of \$10,189,835 on underground equipment and infrastructure equipment, preproduction and development of \$2,954,511, deferred exploration of \$2,276,281 and other furniture and equipment of \$159,686 as well as deferred interest and insurance of \$1,369,678 were incurred. In 2006, the expenditures of \$3,021,011 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 nine month periods, the comparative figures from the year earlier period are not meaningful.

**Related Parties 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 \$309,000 (comparative amounts: period up to September 30, 2006 - \$195,000) was paid during the period ended September 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.

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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.

**Contractual Commitments**

As at September 30, 2007, the Corporation had the following commitments:

	<u>Less than 1 year \$</u>	<u>1 to 3 years \$</u>	<u>Greater than 3 years \$</u>	<u>Total \$</u>
Capital Leases	552,731	4,096,629	183,677	4,833,037
Office space	19,710	123,990		143,700
Management agreements	103,950	415,800		519,750
Equipment leases	150,885	819,180		970,065
Drilling program	275,000			275,000
	<u>1,102,276</u>	<u>5,455,599</u>	<u>183,677</u>	<u>6,741,552</u>

**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 costs are in Canadian dollars, the Corporation's revenues, if any, will be primarily, if not completely, earned in U.S. dollars.

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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.\$. For the first six months of 2007, the Canadian dollar has averaged C\$1.14/U.S.\$. During the third quarter the Canadian dollar has continued to appreciate and averaged C\$1.04/U.S.\$.

As of November 13, 2007, the Canadian dollar was trading at U.S. \$1.037. As the Corporation's costs are and will be incurred in Canadian dollars, the effect of a buoyant Canadian dollar is to reduce the Corporation's margins against the situation if the Canadian dollar were not rising against the US dollar. The Corporation is considering strategies and mechanisms to mitigate the impact of further fluctuations in Canadian/U.S. dollar exchange rates.

### **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 nine month period ended September 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.

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

**Critical Accounting Assumptions, Policies and Estimates**

Certain accounting policies require Management to make estimates or assumptions that in some cases relate to matters that are inherently uncertain. The Interim Financial Statements of the Corporation and notes thereto for the nine month period ended September 30, 2007 have been prepared using the same estimates and methods as were used for the Financial Statements of the Corporation for the year ended December 31, 2006.

The critical accounting assumptions and estimates used in the preparation of the financial statements include the Corporation's assumption that it is a going concern, estimate of recoverable value on its mineral properties as well as the value of stock-based compensation. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Corporation's control.

**Going Concern Assumption**

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 Corporation 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 Corporation'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 Corporation's mineral projects to enter into production.

**Mineral Interests**

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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, 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 September 30<sup>th</sup> and June 30<sup>th</sup> 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 reporting of weaknesses if the certifying officers are aware of a weakness in the design of the issuer's ICFR.

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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 September 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 September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting beyond the hiring of a Vice President of Finance which materially enhances financial controls.

### **Outstanding Share Data**

The Corporation's authorized share capital is an unlimited number of common shares without par value. As at September 30, 2007, there were 33,576,334 outstanding common shares and 3,738,049 stock options outstanding. The weighted-average remaining contractual life of outstanding options was approximately 2.0 years and a total of 2,420,549 options were exercisable at a weighted average exercise price of \$1.04.

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

Description	Number of warrants	Exercise price	Expiry date
1 <sup>st</sup> Financing (Class A Special Warrants)	975,000	\$ 0.30	October 19, 2007
2 <sup>nd</sup> Financing (Class B Special Warrants)	1,510,350	\$ 0.75	November 10, 2007
IPO Warrants	2,988,050	\$ 1.25	September 1, 2008
Secured Note Warrants	2,000,000	\$ 1.35	July 31, 2012
	<b>7,473,400</b>		

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 September 30 financial statements, Globex would be entitled to 3,357,633 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](http://www.sedar.com)) and on the Corporation's own website ([www.firstmetalsinc.com](http://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.

**Subsequent Events**

- a. During the period following September 30<sup>th</sup>, 960,000 1<sup>st</sup> Financing (Series I Warrants) were exercised at \$0.30 and 1,495,350 2<sup>nd</sup> Financing (Series II Warrants) were exercised at \$0.75 which generated total proceeds of \$1,409,512.
- b. The Company has received notification by Xstrata Copper that the initial start-up of the Horne Mill is scheduled for November 17, 2007.
- c. During the period from September 30<sup>th</sup>, 2007, to November 13<sup>th</sup>, 2007, an additional \$1,100,000 of costs has been incurred on the Mill refurbishment bringing the total incurred costs to \$4,700,000 at the date that the financial statements were approved by the Board.