

First Metals Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The MD&A has been prepared as of November 12, 2009 and should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2008 and related notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles "GAAP". This MD&A was prepared by Management and the Corporation's external auditors were not specifically engaged to review this document.

The following should also be read in conjunction with the 2008 Annual Information Form, as well as other information relating to the Corporation, all of which is available on the Corporation's website (www.firstmetalsinc.com) and filed on the SEDAR website (www.sedar.com).

The results for the nine month period ended September 30, 2009 are disclosed in the financial statements as the period from January 1, 2009 to September 1, 2009 before the implementation of the Plan of Arrangement and the period from September 1, 2009 to September 30, 2009 after the implementation of the Plan of Arrangement. The Plan of Arrangement with Creditors is described in Note 1 to the interim financial statements and "the Plan of Arrangement with Creditors and Fresh Start" section of this report.

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HIGHLIGHTS

- During the quarter-ended September 30, 2009, the Corporation completed the restructuring which resulted in the elimination of \$27.7 M. of debt which was exchanged for \$2.6 M of promissory notes, cash of \$895,000 and the issuance of 279 M. common shares and 25.8 M. common share purchase warrants.
- As a result of the substantial realignment of the equity and non-equity interests, the Corporation applied the fresh start accounting concepts and offset the deficit of \$28,739,294 which had arisen prior to the completion of the reorganization, along with adjustments to the carrying value of warrants and contributed surplus which resulted in total shareholders' equity of \$4,247,251 at the period end as compared to a deficiency in shareholders' equity of \$12,511,486 at December 31, 2008.

PLAN OF ARRANGEMENT WITH CREDITORS AND "FRESH START"

Plan of Arrangement with Creditors

First Metals Inc. (the "Corporation") was founded in February 2006 with a view towards taking advantage of the then prevailing metal prices and anticipated further improvements. In order to achieve this objective, the Fabie Bay, Magusi River and the Duprat properties were acquired from Globex Mining Enterprises Inc. ("Globex"). A small executive team was created to quickly raise private equity funds, undertake its Initial Public Offering, and issue Senior Secured Notes. A Mining Team was assembled and in the fall of 2006; the operational plans needed to put Fabie Bay into production were developed. Fabie began its initial production in November 2007.

In the latter part of 2008, prices of base metals fell precipitously, with copper's decline being the most dramatic. First Metals Inc, like many other mining companies, suffered on the back of these falling prices and was forced to cease production.

On January 7, 2009, FMA filed a Notice of Intention ("NOI") to file a proposal under the *Bankruptcy and Insolvency Act* ("BIA"). After receiving various extensions, on April 17, 2009, a proposal was filed with the official receiver. An amended Proposal was tabled and accepted by the creditors of the Corporation on May 6, 2009 and subsequently, on June 17, 2009 it was approved by the Ontario Superior Court of Justice.

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On July 10, 2009, First Metals Inc. announced the terms of the amended proposal. Under the amended proposal, persons holding a proven secured claim received 75 shares of the Corporation and 8 call warrants (18 month term exercisable at \$0.03 per share for the first 12 months and \$0.05 per share for the remaining six months) for each \$1 of proven secured claim. Persons holding proven secured claims also received \$2,618,000 face value of promissory notes and cash of \$882,000, on a pro rata basis. Each person holding a proven unsecured claim had the option to receive 2 common shares for each \$1 of proven unsecured claim held or a cash payment equal to ten per cent of their proven unsecured claim, up to a maximum of \$500.

In accordance with the Proposal, on July 30, 2009, BDO Dunwoody ("BDO"), as Proposal Trustee, advised FMA that creditors were entitled to receive 279,255,363 common shares, 25,845,408 warrants, cash distributions of \$894,981 as well as promissory notes totaling \$2,618,000. Following the receipt of the approval of the Toronto Stock Exchange ("TSX"), on September 4, 2009, the cash, shares, warrants and promissory notes were issued with a September 1, 2009 effective date. This resulted in FMA issuing commons shares, warrants and promissory notes with a fair value of \$11,435,033 as well as cash of \$894,981 in order to eliminate liabilities subject to compromise of \$27,735,651.

Fresh Start Accounting

Effective, September 1, 2009, the Plan of Arrangement was completed which resulted in a realignment of equity and non-equity interests. Prior to the Plan of Arrangement, the Corporation faced the prospect of being unable to meet its obligations to creditors due to challenging market conditions and the lack of liquidity in the markets necessary to meet the short-term operating requirements.

The Corporation's balance sheet as at September 1, 2009 has been prepared under the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1625, "Comprehensive Revaluation of Assets and Liabilities" ("fresh start accounting").

Under this accounting guidance, the financial reporting prior to the realignment of the equity and the implementation of the Plan of Arrangement is described as the "Predecessor" (January 1, 2009 - August 31, 2009) and the period following the implementation of the Plan of Arrangement (after September 1, 2009) reflects the surviving "Corporation."

Under fresh start accounting, FMA was required to determine its enterprise value. The enterprise value of \$4,377,315 was determined based on the fair value of the debt converted into equity and of the issuance of common shares and warrants of the Predecessor to the creditors. The enterprise value is reflected in the share capital (\$3,937,943) and warrants (\$439,372) of the Corporation as of September 1, 2009.

For purposes of this report, reported Revenues and Net Earnings (loss) were unaffected by the financial Plan of Arrangement. The results for the interim period ended September 30, 2009, as discussed in this report, includes the period from January 1 to September 1, 2009 before the Plan of Arrangement (the results of the "Predecessor") and the period from September 1, 2009 to

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September 30, 2009 after the implementation of the Plan of Arrangement (the results of the "Corporation"), and are discussed on a quarterly basis and for the nine month period on a comparative basis.

As a result of both, (a) the suspension of the Fabie operations on January 9, 2009 and (b) additional cost saving measures that have been implemented during and immediately following the adoption of the Proposal, readers should be cautioned when projecting future expenses and outcomes.

CORPORATE STRATEGY

As the Fabie Bay Mine was developed, management planned to utilize excess cash flow to develop the Magusi River deposit, as metal prices had, indeed, continued to improve and Fabie's cash flow was projected to be more than sufficient for this purpose. As a result of the significant Copper and Zinc price declines from July 2008 to October 2008, on October 24, 2008, the Corporation announced that it had put the Magusi River development project on hold.

The continued decline in the Copper prices, resulted in the Corporation announcing on December 18, 2008, that it was halting production at the Fabie Bay Mine over the next eight weeks.

On January 7, 2009, the Corporation announced that it had filed an NOI under the BIA. This decision was made with a view towards positioning the Corporation to maximize its value to all stakeholders and positioning the Corporation to resume operations during the next metals cycle.

Now that the Corporation has successfully completed the reorganization process, it is focused on sustaining the Corporation and is specifically evaluating options to create shareholder value by either (a) developing the Magusi deposit, (b) undertaking additional exploration to further define previously identified anomalies, (c) partnering with other organizations or (d) a combination of these to achieve these corporate goals.

Given the limited financial resources at its disposal, management recognizes the urgency to implement an effective liquidity strategy in a timely manner.

These corporate goals will require additional technical, human and financial resources. Despite these challenges, the Corporation believes that it can exploit its mining and corporate finance relationships to move forward.

GOING CONCERN AND CONTINUATION OF THE BUSINESS

These financial statements have been prepared on a going-concern basis which contemplates that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. As described in the following paragraphs there is substantial uncertainty concerning the Corporation's ability to do so.

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Certain market conditions, including metal prices and financing limitations, challenge the going concern assumption.

The Corporation has incurred significant operating losses since inception. Following the re-organization, management believes that the existing cash resources will be adequate to support planned activity levels for at least the next twelve months.

The validity of the going concern assumption is dependent on raising additional financing for the development of mineral deposits and achieving profitable levels of operations.

The financial statements do not reflect any adjustments in the carrying values of the assets and liabilities, the reported expenses, and the balance sheet classifications used that would be necessary if the going concern assumptions were not appropriate. Such adjustments could be material.

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SUMMARIZED PRODUCTION AND FINANCIAL RESULTS

	2009			2008				2007
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Production								
Tonnes Mined ²	-	-	-	86,063	175,333	111,967	83,318	69,423
Tonnes Milled	-	-	15,297	109,839	111,196	105,552	86,447	27,387
Payable Copper (000's lbs) ⁴	-	-	1,011	5,021	5,029	4,685	4,450	1,338
Gold (ozs) ⁴	-	-	8	76	24	72	96	29
Silver (ozs) ⁴	-	-	536	5,074	2,312	5,304	5,541	617
Estimated Value of Metal Shipments U.S. (000's)	-	-	\$ 2,035	\$ 7,939	\$ 9,067	\$ 16,344	\$ 17,172	\$ 5,139
Estimated realizable copper prices, net of royalty, treatment & refining charges (Cdn \$ /lb)	-	-	2.17	1.39	1.74	3.57	\$ 3.40	\$ 3.29
Royalty, treatment & refining charges (Cdn \$/lb)	-	-	0.31	0.50	0.38	0.47	\$ 0.56	\$ 0.48
Total cash cost (Cdn \$/lb) ¹	-	-	2.49	2.24	2.18	2.53	\$ 2.04	\$ 1.75
Net revenues from metal sales (000's) ³	\$ (4)	\$ (131)	\$ 2,193	\$ 6,985	\$ 6,517	\$ 16,706	\$ 6,772	-
Other revenues (000's)	30	113	14	204	(76)	61	104	\$ 60
	<u>26</u>	<u>(19)</u>	<u>2,207</u>	<u>7,190</u>	<u>6,441</u>	<u>16,767</u>	<u>6,876</u>	<u>60</u>
Net earnings (loss) (000's)	\$ (475)	\$ (681)	\$ (6,424)	\$ (31,670)	\$ (5,467)	\$ 3,516	\$ 1,775	\$ (968)
Weighted average number of shares (000's)	131,844	42,845	42,845	42,845	42,839	41,761	40,184	35,550
Earnings per share								
Basic	\$ (0.00)	\$ (0.02)	\$ (0.15)	\$ (0.74)	\$ (0.13)	\$ 0.08	\$ 0.04	\$ (0.03)
Diluted	\$ (0.00)	\$ (0.02)	\$ (0.15)	\$ (0.74)	\$ (0.13)	\$ 0.08	\$ 0.04	\$ (0.03)
Cash flow from operating activities (000's)	\$ (863)	\$ 1,476	\$ (1,651)	\$ (10,034)	\$ 6,143	\$ 2,544	\$ 955	\$ (7,942)
Total assets (000's)	\$ 7,101	\$ 8,880	\$ 10,409	\$ 11,435	\$ 57,677	\$ 65,573	\$ 55,165	\$ 49,139
Total liabilities (000's)	\$ 2,854	\$ 28,398	\$ 29,272	\$ 23,947	\$ 38,583	\$ 41,146	\$ 38,883	\$ 34,790
Shareholder's equity (000's)	\$ 4,247	\$ (19,518)	\$ (18,863)	\$ (12,511)	\$ 19,094	\$ 24,427	\$ 16,281	\$ 14,349

Notes

1. Refer to discussion on non-GAAP measures.
2. In Q1 - 2009, only broken ore was hauled from the mine due to the anticipated stop in production which occurred on January 9, 2009
3. Q1 - 2008 represents month of March only. During the pre-operating period prior to March 1, 2008, revenues have been offset against the Mine Development Costs.
4. Adjusted for final weights and assays.

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RESULTS OF OPERATIONS AND OPERATIONAL REVIEW - THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

Revenue Analysis

A. Revenues by Metal (\$ Canadian)

	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
Copper	\$ -	\$ 10,557,152	\$ 2,484,817	34,567,988
Gold	-	67,008	8,530	182,320
Silver	-	72,796	8,431	196,434.00
	-	10,696,956	2,501,778	34,946,742
Final pricing adjustments	(4,325)	(2,270,322)	(135,436)	-
Treatment, refining charges	-	(1,794,829)	(258,708)	(4,275,065)
Net metal royalty	-	(115,268)	(50,036)	(677,669)
Net revenue	\$ (4,325)	\$ 6,516,537	\$ 2,057,598	\$ 29,994,008

During the three month period ended September 30, 2009, there was no production. In the corresponding period in 2008, the Corporation produced 5,035,639 pounds of Copper which resulted in net revenues of \$6,516,537.

During the nine month period ended September 30, 2009, the revenue represented nine days production whereas in the corresponding period in 2008, the revenues represent the value of the production during the seven months following the achievement of Commercial Production on March 1, 2008.

B. Sales by Payable Metal

	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
Copper (lbs)	-	5,035,639	1,011,349	11,715,592
Gold (ounces)	-	87	8	204
Silver (ounces)	-	3,900	536	12,158

During the nine month period ended September 30, 2009, 15,297 dry metric tonnes, with an average head grade of 2.54% copper were processed. Copper recovery for the limited production in January averaged 93.74 % and the concentrate grade averaged 21.04 % copper. This resulted in Copper production of 1,011,349 pounds during the nine month period which compares with 11,715,592 pounds in the nine month period ended September 30, 2008. As displayed in the next table, in 2008, 2,435,225 pounds of Copper were produced in the preproduction period January 1, 2008 to February 28, 2008.

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C. Sales by Payable Metal Deferred during Pre-Operating Period ^(Note 1)

	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
Copper (lbs)	-	-	-	2,453,316
Gold (ounces)	-	-	-	48
Silver (ounces)	-	-	-	2,586

Notes:

1. Initial shipments of ore started in November 2007 and during the pre-production period to February 29, 2008, the pre-operating revenues were offset against the mineral interests.

D. Average Metal Prices & Foreign exchange rates

	Three Months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
Copper (US\$/lbs)	-	1.95	-	3.04
Gold (US\$/ounce)	-	837.38	-	867.51
Silver (US\$/ounce)	-	14.14	-	15.84
US\$/CDN\$ exchange rate	-	1.042	-	1.028

Note:

The average metal prices include the production during the pre-operating period.

Operating Costs

Mining and development, Milling and Ore Transportation

During the three month period ended September 30, 2009, as a result of stopping production on January 9, 2009, there were no costs incurred. In the corresponding period in 2008, the costs totalled \$8,626,670.

During the nine month period ended September 30, 2009, as a result of stopping production on January 9, 2009, the costs totalled \$1,981,476 as compared to \$21,189,303 in the corresponding period in 2008.

On-going site operating costs

During the three month period ended September 30, 2009, as a result of stopping production, the Corporation incurred ongoing site security and safety costs of \$199,405. There were no comparable costs in the previous year.

During the nine month period ended September 30, 2009, the ongoing site security and safety costs have totalled \$396,052.

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Depreciation, Depletion and Amortization

As a result of the suspension of production, depreciation, depletion and amortization totalled only \$34,679 for the quarter-ended September 30, 2009 as compared to the quarter-end September 30, 2008 of \$3,389,045. During the nine month period ended September 30, 2009, the total depreciation, depletion and amortization was \$648,709 as compared to \$7,651,797 in the same period in 2008.

Other Expenses

During the three month period ended September 30, 2009, Other Expenses representing administration, professional fees, share registry fees and travel expenses totalled \$201,874 (September 30, 2008 - \$481,016). These expenditures represent the ongoing administration and public company expenses. In the current quarter, the expenses have been reduced by \$279,143 by eliminating management fees, reducing the use of professional consultants and reducing other overhead costs.

During the nine month period ended September 30, 2009, Other Expenses representing administration, professional fees, share registry fees and travel expenses totalled \$652,179 (September 30, 2008 - \$1,195,092). The reduction of \$542,912 is mainly a result of reductions in professional fees, management fees and travel and accommodation.

Interest Expense

During the three month period ended September 30, 2009, interest expense of \$11,760 was recorded representing accrued interest on the promissory notes which were issued on September 1, 2009 and other miscellaneous amounts. In the corresponding period in 2008, interest on the senior secured notes and capital leases totalled \$912,021.

During the nine month period ended September 30, 2009, an interest expense of \$954,994 was reported. The interest represents interest on Senior Secured Notes and Capital Leases up to April 17, 2009, the date that the Proposal was issued to Creditors along with the interest expense for September 2009. In the corresponding nine month period in 2008, interest on the senior secured notes and capital leases totalled \$2,119,582.

Restructuring and Re-Organization Expenses

During the three month period ended September 30, 2009, the Corporation incurred **re-organization professional fees** of \$34,638 representing payments to the Corporation's legal counsel, the Proposal Trustee and Noteholders' counsel. No comparable expenses were incurred in the previous year.

During the nine month period ended September 30, 2009, the re-organization professional fees totalled \$467,046 for the purposes as outlined above. No expenses were incurred in the comparable period in the previous year.

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Adjustments to carrying value of secured notes

During the three month period ended September 30, 2009, no further adjustments to carrying value of the secured notes were made. No comparable expenses were incurred in the prior year.

During the nine month period ended September 30, 2009, an **adjustment to the carrying value of the Senior Secured Notes** including accrued interest of \$3,184,635 has been recognized. This adjustment reflects the Notes at the estimated claims settlement value rather than the amortized cost as reported at December 31, 2008. The liability reflects the original principal of \$20,000,000 plus accrued interest of \$1,686,999. No comparable expenses were incurred in the previous year.

Adjustments for operating leases and other liabilities

During the three month period ended September 30, 2009, there were no further adjustments to carrying values due to restructuring. No comparable expenses were incurred in the prior year.

In order to reflect the operating leases and other liabilities, at the estimated claims settlement value, an adjustment of \$1,372,292 was recorded during the nine month period ended September 30, 2009. No comparable expenses were incurred in the previous year.

Income and mining tax recovery

In the quarter-ended September 30, 2009, there has been no provision (recovery) for current or future mining and income taxes as a result of the continued losses of the Corporation. In the quarter-ended September 30, 2008, the Corporation recorded a total income and mining tax recovery of \$1,681,084 based on management's assessment of the financial results for the year at that time.

During the nine month period ended September 30, 2009, there has been no provision (recovery) for current or future mining and income taxes as a result of the continued losses of the Corporation. In the nine month period ended September 30, 2008, the Corporation recorded a total income and mining tax recovery of \$2,573,541 as a result of earnings generated on a year to date basis and management's assessment at that time of the expected results for the year.

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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 eight quarters.

Quarter ended	Revenue \$	Net earnings (loss) \$	Net earnings (loss) per share (Notes below) \$
Sept. 30, 2009	26,000	(474,811)	(0.00)
June 30, 2009	(131,110)	(680,503)	(0.02)
March 31, 2009	2,193,033	(6,423,827)	(0.15)
Dec 31, 2008	6,985,453	(31,669,828)	(0.74)
Sept 30, 2008	6,517,000	(5,467,314)	(0.13)
June 30, 2008	16,705,830	3,515,579	0.08
March 31, 2008	6,771,640	1,774,832	0.04
Dec. 31, 2007	60,356	(968,319)	(0.03)

Notes:

- Prior to March 31, 2008, the loss per share data is basic and diluted as the exercise of warrants and options would be anti-dilutive and therefore the loss per share is based on the weighted average number of shares outstanding during the period. In the quarter-ended March 31, 2009, the basic and fully diluted earnings per share were the same, as the exercise prices of the options and warrants were greater than the average of the stock price.
- In the quarters ended June 30, 2008, September 30, 2008 and December 31, 2008, the basic and fully-diluted (loss) earnings per share calculations produce the same results.

The loss of \$474,811 in the quarter ended September 30, 2009, as compared to the loss of \$680,503 in the quarter-end June 30, 2009 is mainly a result of a reduction in the restructuring professional fees as the majority of the work was completed in early August 2009.

The reduction in the loss of \$680,503 in the quarter ended June 30, 2009, as compared to the loss of \$6,423,827 in the quarter March 31, 2009 is mainly a result of no additional provisions to adjust the carrying value of liabilities subject to compromise which were adjusted in the quarter ended March 31, 2009.

The loss of \$6,423,827 in the quarter March 31, 2009 as compared to the loss of \$31,699,828 in the quarter December 31, 2008 is mainly a result of the impact of the asset impairment provision of \$22,030,824 recorded in the fourth quarter of 2008.

The loss of \$31,699,828 in the quarter December 31, 2008 as compared to the loss of \$5,467,314 in the quarter September 30, 2008 is a result of the continued decline in LME Copper prices and the Corporation's decision to record an asset impairment provision of \$22,030,824 related to the carrying value of the Magusi property and mining equipment acquired under capital leases. The average net realizable Copper price/lb declined from Cdn. \$1.74 in the quarter ended September 30, 2008 to Cdn \$1.39 in the quarter ended December 31, 2008.

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The loss of \$5,467,314 in the quarter September 30, 2008 as compared to earnings of \$3,515,579 in the quarter ended June 30, 2008 is a result of the sudden and dramatic decline in LME Copper prices. The average net realizable Copper price/lb declined from Cdn. \$3.57 in the quarter ended June 30, 2008 to Cdn \$1.74 in the quarter ended September 30, 2008.

Earnings of \$3,515,579 in the quarter June 30, 2008 as compared to earnings of \$1,774,812 in the quarter ended March 31, 2008 is a result of the income earned during the three months of production whereas the previous quarter represented the earnings for production for only one month. In addition, the Corporation recognized the benefits of prior years' loss carryforwards.

Earnings of \$1,774,812 in the quarter ended March 31, 2008 as compared to the loss of \$968,319 in the quarter ended December 31, 2007 is a result of the achievement of Commercial production on March 1, 2008.

The increase in the loss in the quarter ended December 31, 2007 of \$968,319 compared to the loss of \$686,918 in the quarter ended September 30, 2007 was a result of increased professional fees and an increase in the stock-based compensation recognized in the quarter.

LIQUIDITY

Working Capital

At September 30, 2009, following the completion of the re-organization, the Corporation had total current assets of \$1,196,615 and total current liabilities of \$92,360 which is reflected in net working capital of \$1,104,255.

Current Assets

Total current assets decreased by \$3,437,810 to \$1,196,615 as at September 30, 2009 compared to \$4,634,425 at December 31, 2008. The main components of the current asset change were:

- Cash and cash equivalents decreased by \$1,708,275 as a result of the \$894,981 paid to Creditors as well as the ongoing costs incurred during the proposal period.
- The amounts and settlements receivable from Xstrata decreased by \$534,336 from December 31, 2008 as the final payments (net of offsetting liabilities to Xstrata) for December and January production were received in April and May 2009.
- Accounts receivable decreased by \$261,606 from \$336,381 at December 31, 2008 to \$74,775 at September 30, 2009. The decrease mainly results from the offsetting of G.S.T. and P.S.T. recoverable on costs against G.S.T and P.S.T. liabilities.
- Inventories decreased by \$604,615 from \$903,270 at December 31, 2008 to \$298,655 at September 30, 2009 mainly as a result of the processing of the ore stockpile and the "clean-out" of the mill circuits following the final processing in January 2009.

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- Deposits on contracts and prepaid expenses decreased by \$327,558 from \$460,722 at December 31, 2008 to \$133,164 at September 30, 2009 as a result of prepaid costs being charged to operations.
- Income taxes receivable of \$75,083 represents exploration tax credits for 2008 which have been delayed as a result of the Proposal process.

Current Liabilities

Total current liabilities decreased by \$4,285,289 from \$4,377,649 at December 31, 2008 to \$92,360 at September 30, 2009 as a result of the completion of the Proposal process.

Operating Activities

Cash used in operating activities totalled \$862,862 in the quarter ended September 30, 2009 compared to cash generated from operations of \$6,143,168 in the quarter-ended September 30, 2008.

During the nine month period ended September 30, 2009, the Corporation used \$1,037,603 in operating activities compared to generating \$9,641,964 from operating activities in the comparable period in 2008. The difference is a result of the production shutdown in January 2009.

Financing Activities

During the quarter-ended September 30, 2009, there were no financing activities whereas in the comparable period in 2008, the Corporation entered into new capital leases which totalled \$1,677,388 for mining equipment as well as making payments of \$1,058,967 on existing capital leases. In addition, the corporation made a \$155,012 deposit against the closure obligations.

Investing Activities

In the quarter-ended September 30, 2009, there have been no investing activities. In the comparable quarter in 2008, the Corporation invested \$2,143,941 in property, plant and equipment, as well as, development expenditures of \$2,443,836.

During the nine month period ended September 30, 2009, the Corporation generated \$242,309 from the sale of miscellaneous equipment and made miscellaneous property payments of \$17,902. In the comparable six months in 2008, the Corporation invested \$3,548,408 in property, plant and equipment as well as development expenditures of \$1,768,448.

Net Cash Flow

For the quarter-ended September 30, 2009, cash and cash equivalents decreased by \$862,862 as compared to an increase of \$2,221,366 in the comparable period in the prior year.

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For the nine months ended September 30, 2009, cash and cash equivalents decreased by \$813,294 as compared to an increase of \$3,271,060 in the comparable period in the prior year. The difference is a result of operations in 2008 whereas the Fabie Bay operations were suspended on January 9, 2009.

CAPITAL RESOURCES

INITIAL INVESTING AND FINANCING ACTIVITIES

Purchase of Mining Properties

On April 26, 2006, the Corporation acquired the Fabie Bay, Magusi River and Duprat mining claims and certain additional neighbouring claims from Globex. The consideration consisted of cash of \$1,000,000 and a share commitment (satisfied by the issue of 3,886,018 shares on April 25, 2008), future payment of a 2% net metal return once Commercial Production was achieved and the future payment of a 10% net profit interest on any earnings from the mining claims after the recoupment of \$10,000,000 in net project capital and deduction for costs such as development costs and working capital.

Senior Secured Notes and 5% Promissory Notes

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

As a result of the Proposal which was accepted by the Creditors, this obligation was fully satisfied through the issuance of shares, warrants and five year term, 5% promissory notes which totalled \$2,618,000. If the Corporation sells any major equipment, the proceeds shall be distributed to persons holding promissory notes. The proceeds would initially be applied against unpaid interest and subsequently against principal. Interest will be payable annually one year from the issue date based on an annual 5% interest rate.

If a decision is made to develop the Magusi River deposit, then significant additional development, equipment and expenditures for the treatment of ore will be needed. Current estimates of the costs have not been completed.

Debt-forgiveness

Following the completion of the claims adjudication process, all of the Senior Secured Notes along with accrued interest, obligations under capital leases and trade payables and other accrued liabilities which totalled \$27,735,651 were irrevocably and finally cancelled and settled by the issuance to the: (a) Noteholders, promissory notes with a face value of \$2,618,000, cash of \$882,000, 273,433,229 common shares and 25,845,408 common share purchase warrants and (b) other Creditors, cash payments of \$12,981 as well as 5,822,134 common shares.

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For tax purposes, the gain will be fully offset through a combination of loss carry forwards and unclaimed Canadian development and exploration expenditures.

Contractual Commitments

General

As at September 30, 2009, the Corporation had the following contractual commitments in the normal course:

	<u>Less than 1 year \$</u>	<u>1 to 3 years \$</u>	<u>Greater than 3 years \$</u>	<u>Total \$</u>
Site Security, Safety and Access	224,998	-	-	224,998
Office space	63,543	145,859	133,015	342,417
	<u>288,541</u>	<u>145,859</u>	<u>133,015</u>	<u>567,415</u>

Mine Closure Obligations

As a condition of the Fabie Bay Mine operating permit approval process, the Corporation agreed with the Ministère des Ressources Naturelles - Mines (MRN-M) to undertake a closure and restoration plan once mining was completed.

In 2008, the Corporation estimated that Gross Asset Retirement Obligation at \$569,501 and made the required initial deposit of \$155,012. During the third quarter of 2009, the Corporation made payments to an environmental consultant and a contractor which totalled \$291,780. Management believes that it has satisfied the obligations related to the Fabie Bay Mine and is in discussions to have their initial deposit returned. The expenditures in the current year were designed to ensure that the nearby Magusi property remained unencumbered.

RISKS AND UNCERTAINTIES

The Corporation's operations and results are subject to a number of risks at any given time. The risks relating to the business conducted by the Corporation include (i) development and operating risks at the Magusi Deposit, (ii) exploration risks, (iii) environmental risks and hazards (iv) uninsurable risks, (v) market factors and volatility of commodity prices, (vi) exchange rate fluctuations, (vii) management influence and control (now substantially reduced owing to the capital reorganization), (viii) loss of mining claims, (ix) ability to arrange additional financing and (x) changes in regulatory requirements.

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.

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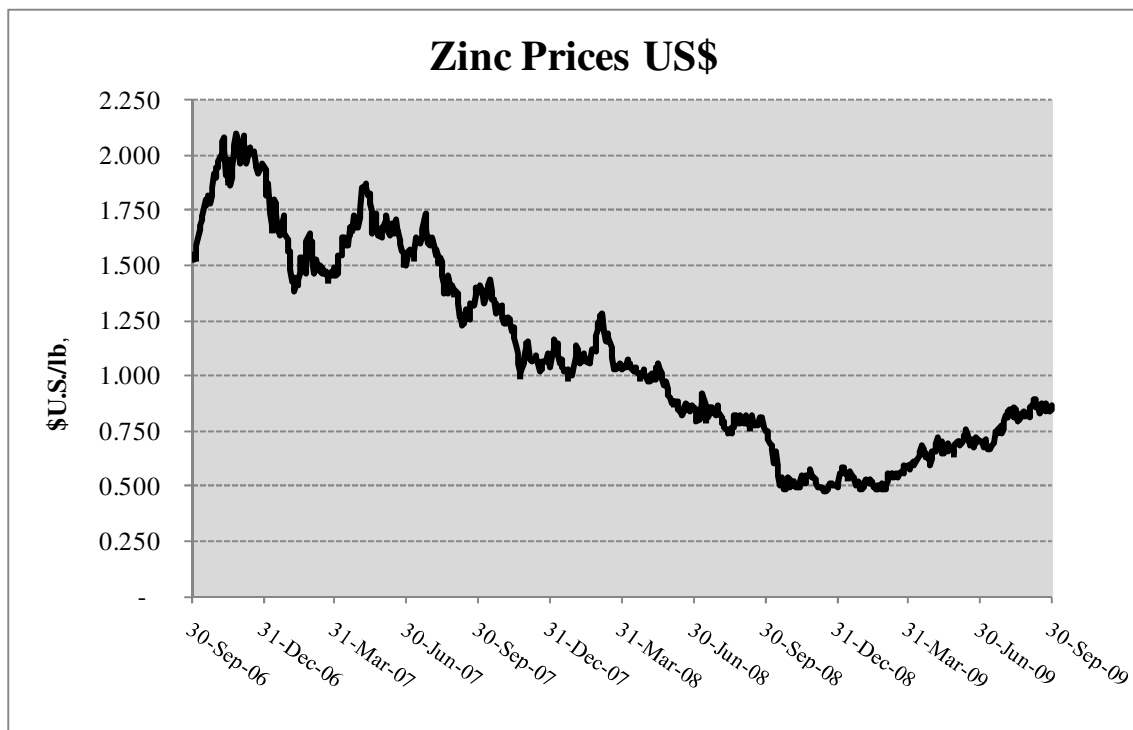
Production of mineral resources also involves a high degree of risk. Working underground exposes workers to risks. Working with heavy equipment and explosives is also inherently risky.

KEY ECONOMIC TRENDS

The financial performance of the Corporation has been directly affected by the operating activities of the Fabie Bay Mine and the development activities on the Magusi River deposit. The financial performance of the Corporation was very dependent on the prices obtained for the copper, gold and silver produced by the Corporation. The adverse trend in the price of Copper in the second half of 2008 resulted in the cessation of development and production noted above. While the 2009 trend has been more favourable, no estimate has been made as to when the recovery in prices of Copper and Zinc would be sufficient to enable the Corporation to raise the significant amount which would be required to complete the Magusi development.

Zinc Prices

In August 2006, when the Corporation issued its IPO, the Zinc price was U.S. \$1.53 /lb. During the subsequent calendar year the Zinc price has traded in a range between U.S. \$1.93 /lb in January 2007 and U.S. \$1.02 /lb in December 2007. In 2008, the Zinc prices traded from a high of U.S. \$1.28 /lb in March 2008 to a low of U.S.\$0.48 /lb. in December 2008. During 2009, the price of Zinc has steadily improved reaching a high of U.S. \$0.89 /lb on September 8th and reaching over U.S. \$1.00 since the quarter end. The future Zinc prices will impact the ability to put the Magusi Deposit into production and if so, its rate of return.



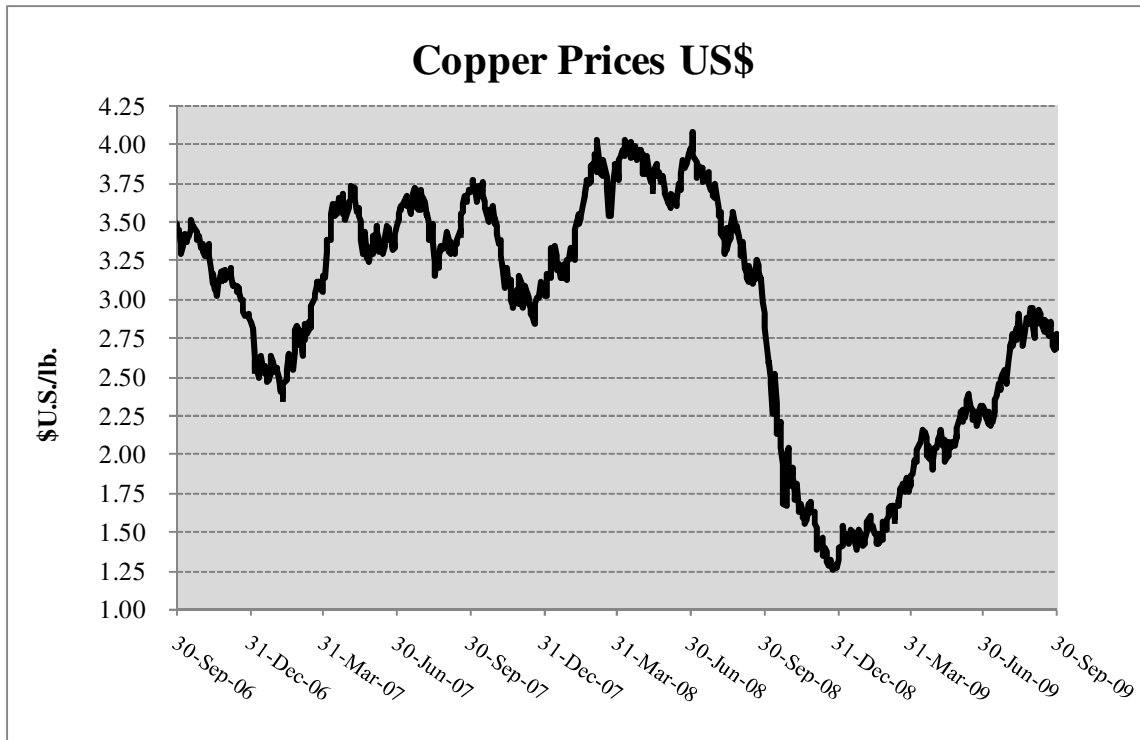
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Copper Prices

In August 2006, the Copper price was U.S. \$3.57 /lb. During the subsequent calendar year the Copper price has traded in a range between U.S. \$2.37 /lb in February 2007 and U.S. \$3.76 /lb in October 2007. In 2008, the Copper prices traded from a high of U.S. \$4.07 /lb on July 3 to a low of U.S. \$1.26 /lb. on December 24, 2008. During 2009, the price of Copper has steadily improved reaching a high of U.S. \$2.94 /lb on August 31st.



LME Prices, Provisional and Final Pricing:

Basis of Pricing:

Under the revenue recognition policy, revenue is recognized when persuasive evidence of a sales agreement exists, the title and risk is transferred to the customer, collection is reasonably assured, and the price is reasonably determinable. Under the Xstrata agreement, forty-five days after the production month, FMA received a “**provisional payment**” representing 90% of the estimated value of the monthly production.

Revenue was initially recorded based on Management’s best estimate of production during the month, based on the LME three month forward prices. The final settlements were based on the average pricing during the third month following production. In the normal course, the “**final payment**” was received fifteen days after the end of the third month following production.

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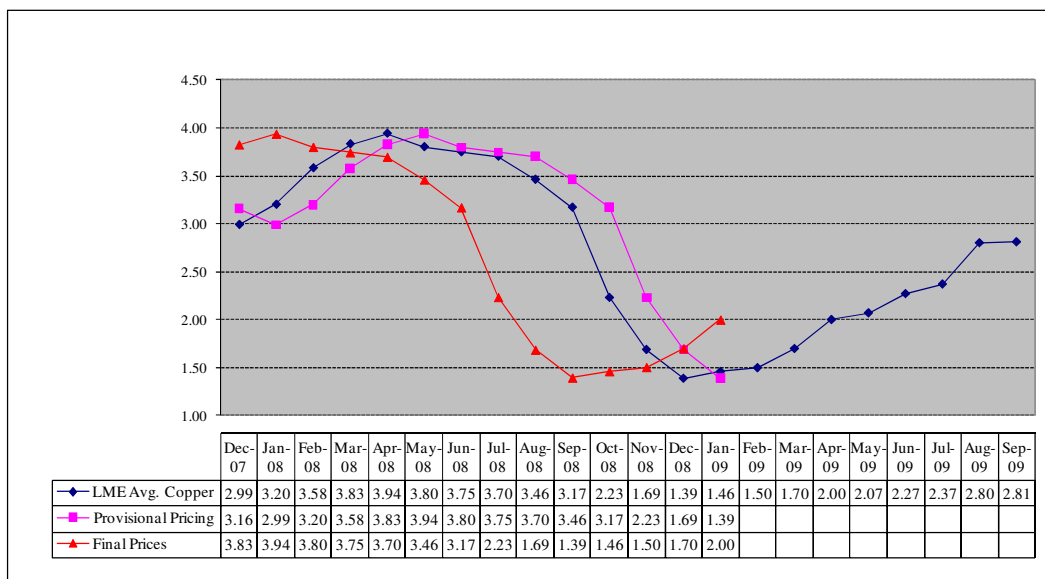
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Dramatic Changes in Prices:

During the period between the achievement of commercial production on March 1, 2008 and July 31, 2008, the LME price averaged U.S. \$3.80/lb. Suddenly, in August and September, the Copper prices declined by 6% and 8% respectively from the previous month. In October 2008, the LME average copper price dropped by 30% from the previous month. The graph on the preceding page illustrates the monthly decline in Copper prices, which translated into a 63% decline in the last six months of 2008.

The sudden and dramatic decline in prices resulted in significant overpayments to First Metals. At December 31, 2008, the Corporation had been overpaid U.S. \$1,929,178 for July and September production (3,267,000 pounds of Copper). In accordance with its contract terms, Xstrata recovered the overpayments by offsetting provisional and final payments during the period January 1, 2009 through March 31, 2009.

LME PRICES, PROVISIONAL AND FINAL PRICING DURING 2008 AND 2009



Notes:

1. LME Avg. Copper is the posted prices for the individual months; Provisional Pricing is the pricing for payments in the month following the production period. Final Prices is the LME average in the third month following production.
2. On January 9, 2009, production at the Fabie Bay Mine ceased and as a result, provisional and final pricing was not applicable beyond the first month of 2009.

ACCOUNTING POLICIES

Critical accounting assumptions, policies and estimates

The preparation of the Corporation's interim financial statements requires management to make certain estimates that affect the amounts reported in the financial statements. Note 2 to the

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Financial Statements for the year ended December 31, 2008 summarized the significant accounting policies and also identified that certain accounting policies require management to make estimates or assumptions that in some cases are inherently uncertain.

The critical accounting assumptions and estimates used in the preparation of these interim statements include the Corporation's assumption that it is a going concern, an estimate of recoverable value of its mineral properties, and the carrying value of the plant, property and equipment, as well as the value of its stock based compensation.

Significant changes in the assumptions, including those with respect to future business plans and cash flows, could materially change the recorded carrying amounts.

Adoption of Accounting Changes

The CICA has issued a new standard which affects the financial disclosures and results of operations of the Corporation for interim and annual periods beginning October 1, 2008. The Corporation has adopted the requirements commencing in the quarter ending March 31, 2009.

Section 3064, establishes revised standards for *Goodwill and Intangible Assets* recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew Emerging Issues Committee ("EIC") 27, *Revenues and Expenditures during the Pre-operating Period*. As a result of the withdrawal of EIC 27, the Corporation will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations.

In March 2009, the CICA adopted EIC-174 "Mining Exploration Costs." The EIC provides guidance on accounting and the impairment review of exploration costs. This standard is effective for fiscal years beginning January 1, 2009 and did not have a significant impact on these interim financial statements. On March 24, 2009, EIC-126, "Accounting by Mining Enterprises for Exploration Costs" was withdrawn.

International Financial Reporting Standards (IFRS)

In 2008, the Canadian Accounting Standards Board confirmed that publicly listed companies will be required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Early adoption may be permitted; however, it would require exemptive relief on a case by case basis from the Canadian Securities Administrators. First Metals expects its first financial statements presented in accordance with IFRS to be for the three month period ended March 31, 2011, which includes presentation of its comparative results for fiscal 2010 under IFRS.

In order to prepare for the changeover to IFRS, the Corporation has reviewed the following three phases in its consideration of an IFRS conversion plan:

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Phase	Description and status
Preliminary Planning and Scoping	The Corporation has studied current requirements under IFRS standards and has provided an initial assessment to the Audit Committee. The key areas of greatest potential impact include exploration and development costs, property, plant & equipment, and impairment of assets.
Detailed Impact Assessment	The Corporation is in the process of its detailed review of IFRS relevant to the Corporation and identification of key differences. The Corporation has not yet determined the specific impact of the transition to IFRS, but will continue its analysis.
Implementation	As a result of the limited nature of the current operations, the Corporation fully expects it will be able to adopt the new standards according to plan and on schedule.

RELATED PARTY TRANSACTIONS

During the initial development stages, the Corporation entered into management service agreements and a financial advisory service agreement, each with a director or a company controlled by a director. The agreements were designed to provide the Corporation with: strategic direction, overall financing strategies, financial planning and reporting, operations planning, mine development strategies and investor relations and marketing strategies at reasonable costs.

Under the terms of the management service agreements, the shareholder or the company controlled by a shareholder was entitled to monthly fees ranging from \$3,600 to \$11,600 per month, including car and home office allowance. The individual fees reflected the individual's level of service and did not exceed market comparable rates. All of these agreements expired in the second quarter of 2008. A total of Nil (2008 - \$185,000) was paid in connection with these agreements in 2009.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures (DCP)

First Metal's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the design of the Corporation's disclosure controls and procedures as defined in the rules of the Canadian Securities Administrators as of September 30, 2009. Based on that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as of September 30, 2009.

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Internal Controls Over Financial Reporting (ICFR)

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Corporation's controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Corporation are being made only in accordance with authorization of the Corporation's management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the annual financial statements or interim financial statements.

During the third quarter of the current year, the Vice-President of Operations and the Director of Administration both left the organization as full time employees, but have agreed to continue as part-time consultants. These changes were part of the scaling back of the operations in Rouyn-Noranda. These departures will impact the segregation of duties and the communication of operating information needed to support the review of the results of operations. In order to mitigate these risks, the CFO has implemented additional analytical reviews of all of the disclosure and financial statement items.

Management conducted an evaluation of the design of the Corporation's internal controls over financial reporting based on the criteria established in *Internal Control over Financial Reporting – Guidance for Smaller Public Companies* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Chief Executive Officer and the Chief Financial Officer have concluded, based on their evaluations, that the Corporation's internal controls over financial reporting have been sufficiently well designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's Generally Accepted Accounting Principles.

Limitation of Controls and Procedures

The Corporation's management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must

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be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and the breakdown can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more individuals, or by unauthorized override of the controls. The design of any system of controls is also based in part upon certain assumptions regarding the likelihood of future events, and there can be no assurance that any design will achieve the control objectives under all future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

OUTSTANDING SHARE DATA

The Corporation's authorized share capital is an unlimited number of common shares without par value. As at September 30, 2009, there were 322,106,561 outstanding common shares and 1,473,636 stock options outstanding. As at September 30, 2009, the weighted average remaining contractual life of outstanding options was approximately 1.69 years (December 2008 - .94 years) and a total of 1,123,636 (December 31, 2008 - 2,674,886) options were exercisable at a weighted average exercise price of \$0.99 (December 31, 2008 - \$1.08).

At September 30, 2009, the Corporation had share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Description	Number of warrants	Exercise price	Expiry date
Issued with Notes	2,000,000	\$ 1.35	July 31, 2012
Issued with the 2007 flow-through offering	1,399,996	\$1.75 - \$2.00	December 21, 2009
Issued in connection with the reorganization	25,845,408	\$0.03 - \$0.05	March 1, 2011
	29,245,404		

OUTLOOK

As outlined earlier, as a result of the sudden and dramatic decline in Copper prices in the period between July and December 2008, the Corporation was required, in the fourth quarter of 2008, to put the Magusi River development project on hold and then, on December 18, 2008, the Corporation announced that it was prematurely stopping the production from the Fabie Bay Mine.

Subsequently, on January 7, 2009, the Corporation announced that it had filed a NOI. On May 6, 2009, the Proposal was accepted by the creditors and on June 17, 2009 the Proposal was approved by the Ontario Superior Court of Justice.

Inherent in making the Proposal management anticipates that it would finalize the closure and remediation activities related to the Fabie Bay mine so that: (a) the environment would be

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protected, (b) the Corporation met its obligations to the MRN-M, and (c) the Magusi River property remained unencumbered for future potential development.

At the time that the Magusi River project was placed on standby, the Corporation had invested \$6,416,749 in exploration and ramp development which had been partially financed by \$3,100,000 from the flow-through share financing completed in December 2007. Other than maintaining the claims in good standing, there are no significant ongoing costs associated with the project while on standby.

As a result of the acceptance of the Proposal by the creditors on May 6, 2009, the Corporation has focused on completing the orderly shut-down of the Fabie Bay Mine and completing various studies and plans so that the Magusi River deposit can be economically exploited in the future, when Zinc and Copper prices return to more favourable levels.

While still requiring more favourable prices, the Corporation continues to benefit from having a public listing, which provides access to capital through the public markets; it also retains ownership of a significant poly-metallic, near surface deposit which has been delineated to a depth of 350 meters and remains open to depth, as well as surrounding lands which are prospective for additional deposits.

The Corporation has also retained valuable infrastructure which would allow for an early resumption of development, including an all season road, hydro to the site, fully equipped office, dry, mechanical and maintenance shops, mining equipment and significant amounts of spare parts. In addition, it is permitted to extract a 50,000 tonne bulk sample and has completed the portal and initiated ramp construction. All of the preliminary engineering has been completed, in order to develop the Magusi River Deposit.

However, the Corporation will need to address a number of the project risks which include: securing adequate financing for the project, negotiating acceptable commercial terms for the processing of ore, as well as rebuilding a mining team.

FORWARD LOOKING STATEMENTS

Certain of the statements made and information contained herein are “forward-looking information” within the meaning 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 and foreign currency fluctuations; risks associated with the need to raise a significant amount of capital to undertake necessary development; risks inherent in mining including environmental hazards, industrial accidents, unusual or unexpected geological formations; risks 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

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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 Corporation's Initial Public Offering ("IPO") available on the SEDAR website (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 12, 2009, 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.

FURTHER INFORMATION

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