

**First Metals Inc**  
**(A DEVELOPMENT STAGE COMPANY)**  
**(Incorporated under the Canada Business Corporations Act)**

**Management's Discussion and Analysis**

The following discussion (the "MD&A") of the results of operations of the Corporation should be read in conjunction with the financial statements of the Corporation for the 3 months ended June 30, 2006, together with the accompanying notes (collectively, the "Financial Statements").

The following MD&A provides a summary of the audited financial information of the Corporation contained therein. This discussion contains forward-looking statements that involve certain risks and uncertainties which may include, but are not limited to, statements with respect to the future financial or operating performance of the Corporation and its projects, the future price of copper or zinc or other metal prices, the estimation of mineral resources, the realization of mineral resource estimates, the timing and amount of estimated future production, costs of production, capital, operating and exploration expenditures, costs and timing of the development of new deposits, costs and timing of future exploration, requirements for additional capital, government regulation of mining operations, environmental risks, reclamation expenses, title disputes or claims, limitations of insurance coverage and the timing and possible outcome of regulatory matters. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "believes" or variations (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others: general business, economic, competitive, political and social uncertainties; the actual results of current exploration activities; actual results of reclamation activities; conclusions of economic evaluations; fluctuations in the value of Canadian dollars relative to other currencies; changes in project parameters as plans continue to be refined; changes in labor costs or other costs of production; future prices of copper or zinc; possible variations of mineral grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; accidents, labor disputes and other risks of the mining industry, including but not limited to environmental hazards, cave-ins, pit-wall failures, flooding, rock bursts and other acts of God or unfavorable operating conditions and losses; political instability, insurrection or war; delays in obtaining governmental approvals or financing or in the completion of development or construction activities; and the factors discussed in the section entitled "Risk Factors" in the prospectus filed in connection with the Company's Initial Public Offering ("IPO") and available on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)). Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended.

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Forward-looking statements contained herein are made as of the date of this MD&A 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.

**Overview**

The Corporation was incorporated on February 23, 2006 for the sole purpose of creating a company to acquire one or more mineral projects; to obtain additional funds to search for and acquire additional mineral projects; and to obtain required capital for general corporate expenses. See “General Development of the Business” and “Use of Proceeds”.

The Fabie Bay, Magusi River and Duprat projects are considered to be in the exploration and pre-production stage, and the Corporation has not yet commenced any mining operations on any of them. Accordingly, the Corporation does not currently have any revenues (beyond relatively insignificant interest revenues), and, until the completion of the recommended exploration programs on such mineral projects, receipt of required mining licenses and permits for the mining of one or more commercial ore bodies located thereon, and the mining and shipment of ore, the Corporation is not expected to have any revenues.

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

During this period the Corporation was incorporated, and entered into a letter of intent with 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.

As the Corporation’s cash position will not be sufficient to meet all of its proposed cash expenditures for 2006 and, in particular, the costs relating to the permitting, exploration and development of the Fabie Bay and Magusi River projects, the Corporation has completed the Special Warrant Offerings to raise the funds necessary to commence initial operations. Management believes that, in conjunction with the proceeds of the IPO, such arrangements should result in the necessary funds being available to the Corporation to fulfill its payment and other obligations under the Purchase Agreement, and complete the recommended exploration programs at the Fabie Bay and Magusi River projects. In this regard, the Corporation notes that a total of \$9,017,000 of the proceeds from the IPO and the Special Warrant Offerings have been allocated to fund the exploration programs on those mineral projects. The remaining proceeds of the IPO will be allocated towards working capital.

The Corporation had cash balances of \$100 and a shortfall in working capital of \$19,900 as at March 31, 2006. There was a loss for the period from incorporation to March 31, 2006 of \$20,000.

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**3 months ended June 30, 2006**

During this period the Company began more active exploration of its properties, particularly the Fabie Bay and Magusi River properties. The first payment of \$250,000 cash to Globex in accordance with the purchase agreement was paid to them.

The asset 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 Company of 10% at the time of reaching commercial production, the cost of which can not yet be established but will be significant, expected to be in the order of \$3 million or more) and the outstanding liability on the cash portion of \$750,000 has been shown as due to Globex. The liability for the share element has been identified in the Notes to the financial statements but not shown as a liability owing to its unquantifiable nature.

Other amounts were disbursed 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, particularly Management Fees, and these have been recorded as Expenses resulting in a modest Net Loss for the 3 months of just under \$112,000. The expenditure of \$19,000 towards the purchase of one sophisticated project control software (anticipated total price \$50 – 100,000) was the next most significant expenditure.

Proceeds totaling \$3,100,000 were received from the first two rounds of financing as outlined in greater detail elsewhere and from this the advance of \$50,000 by way of shareholder loan was repaid.

**Key Economic Trends**

The financial performance of the Corporation will be directly affected by the exploration activities to be conducted on the Fabie Bay and Magusi River projects in conjunction with their possible development for commercial production of copper and zinc. See “General Development of the Business”, “Fabie Bay Project” and “Magusi River Project”. Should the results of such exploration activities warrant bringing either or both of the Fabie Bay or Magusi River projects into commercial production, substantial additional funds will be required to do so. 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 expenditures that are either deferred or expensed, depending upon the nature of those expenditures, resulting in continuing operating losses. In the future, should the development of the Corporation’s mineral projects occur, the financial performance of the Corporation will become more closely linked to the prices obtained for the copper and zinc produced by the Corporation. Management is of the view that while the average price for copper and zinc may not be sustainable at recent levels, the long-term forecast for them is sufficient to warrant the Corporation’s focus on copper and zinc projects. See “Trends”.

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The Corporation reports its financial results in Canadian dollars. The Corporation's revenues, if any, will be primarily, if not completely, earned in U.S. dollars, but its costs are in Canadian dollars. The Canadian dollar appreciated relative to the U.S. dollar during 2004 and 2005 as the average rate for December 2005 was C\$1.16/U.S.\$, compared to C\$1.32/U.S.\$ in the fourth quarter of 2003.

The Canadian dollar was reasonable stably relative to the U.S. dollar during the first three months of 2006 as the average rate for March 2006 was also C\$1.16/U.S.\$ and for the first seven months of 2006 as a whole the average has been \$1.14.

The exploration and development of the Corporation's mineral projects will require substantial additional financing. Failure to obtain sufficient financing will result in the delay or indefinite postponement of exploration, development or production on any or all of such projects, and may even cause a loss of project interest. There can be no assurance that additional capital or other types of financing will be available when needed or that, if available, the terms of such financing will be favorable to the Corporation. See "Risk Factors".

## **Liquidity and Capital Resources**

### **Cash and cash flows and Working capital**

Cash flow used for operations was \$72,000 during the three months ended June 30, 2006. Working capital at June 30, 2006 was \$1,485,000 representing a very significant improvement from the previous quarter end owing to the completion of the first two rounds of financing. Further improvement is expected from the completion of the IPO but then following periods will see significant expenditures (as suggested in the Use of Proceeds table in the Prospectus) without corresponding revenues being available. Therefore, readers should be aware that cash balances will fall in the following quarters.

Cash provided from financing activities totaled \$3,544,000 for the period and came mainly from the issuance of shares for \$2,835,000, net of issuance expenses of \$265,000 and from the establishment as an account payable of the balance to pay for the acquisition of the Mining Claims to Globex of \$750,000. See "Prior Sales".

In the period, the Company invested a total of \$1,199,000 in long-term assets. The acquisition of Mining Claims amounted to \$1,000,000 and the exploration expenses relating to this property amounted to \$171,000. Office equipment was acquired for \$27,000.

The net change in cash balances as a result of operations, financing and investment activities was a net inflow of \$2,373,000 during the period.

The Corporation anticipates the possibility of adding to its financial resources by obtaining a working capital facility with a Canadian chartered bank or other financial institution. This would likely take place only after the Corporation has achieved commercial production at one of its mineral projects.

Depending on the future course and results of exploration activities, additional recourse may need to be made to the capital markets by way of additional equity or other financings.

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**Related Party Transactions**

The Corporation receives Management Services from five Promoters and Principal Shareholders who are also Directors of the Company. These services cover all of the senior management functions and extend to investor relations services and financial advisory services. Management fees as disclosed in the financial statements are paid in respect of these services and will continue to be pursuant to management contracts whose details are summarized elsewhere.

**Further Information**

Periodic information updates and quarterly financial results will be posted both at [www.sedar.com](http://www.sedar.com) and on the Company's own website, [www.firstmetalsinc.com](http://www.firstmetalsinc.com) (to be available in early September 2006).

Management has assessed the effectiveness of the Company's financial reporting disclosure controls and procedures as at June 30, 2006, and has concluded that such financial reporting disclosure controls and procedures were effective at that date.