

First Metals Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The MD&A has been prepared as of August 11, 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).

HIGHLIGHTS

- The financial statements for the three month period and the six month period end June 30, 2009 are based on the same accounting principles as employed in the annual audited financial statements along with the guidance of SOP 90-7¹.
- During the quarter-ended June 30, 2009, as a result of filing a Notice of Intention ("NOI") under the *Bankruptcy and Insolvency Act* ("BIA"), on January 7, 2009, stopping production at Fabie Bay on January 9, 2009, and negotiating a Proposal with Creditors on May 6, 2009, the main activities during the quarter consisted of maintaining ongoing safety and security at the Mine site, Fabie Bay closure planning and restructuring activities. The Corporation recorded a loss of \$680,503 in the quarter.
- In the corresponding period in 2008, as a result of the Fabie Bay Mine achieving commercial production on March 1, 2008, the Corporation generated net revenues of \$16,705,830 from 4,685,000 pounds of Copper and recorded net comprehensive earnings of \$3,515,579.
- As a result of stopping production at Fabie Bay on January 9, 2009, as well as negotiating a proposal with Creditors, during the six month period ended June 30, 2009, the Corporation recorded net revenues of \$2,061,924. These revenues were offset by operating costs of \$2,815,245 and total other expenses of \$6,480,259 (including valuation adjustments and restructuring costs) which combined with other income of \$129,250 resulted in a net comprehensive loss of \$7,104,330.
- In the corresponding six month period in 2008, the Fabie Bay Mine achieved commercial production on March 1, 2008 which resulted in net comprehensive earnings of \$5,290,411.

¹ S.O.P. 90-7 "Financial Reporting by Entities in Re-Organization under the Bankruptcy Code" provides guidance for distinguishing and the reporting of transactions directly associated with the reorganization as compared to ongoing operations. It also offers guidance regarding the measurement of "liabilities subject to compromise." By analogy, these principles have been applied in these interim financial statements.

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SUMMARIZED PRODUCTION AND FINANCIAL RESULTS

	2009		2008				2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
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	\$ (131)	\$ 2,193	\$ 6,985	\$ 6,517	\$ 16,706	\$ 6,772	-	-
Other revenues (000's)	113	14	204	(76)	61	104	\$ 60	\$ 64
	(19)	2,207	7,190	6,441	16,767	6,876	60	64
Net earnings (loss) (000's)	\$ (681)	\$ (6,424)	\$ (31,670)	\$ (5,467)	\$ 3,516	\$ 1,775	\$ (968)	\$ (687)
Weighted average number of shares (000's)	42,845	42,845	42,845	42,839	41,761	40,184	35,550	33,499
Earnings per share								
Basic	\$ (0.02)	\$ (0.15)	\$ (0.74)	\$ (0.13)	\$ 0.08	\$ 0.04	\$ (0.03)	\$ (0.02)
Diluted	\$ (0.02)	\$ (0.15)	\$ (0.74)	\$ (0.13)	\$ 0.08	\$ 0.04	\$ (0.03)	\$ (0.02)
Cash flow from operating activities (000's)	\$ 1,476	\$ (1,651)	\$ (10,034)	\$ 6,143	\$ 2,544	\$ 955	\$ (7,942)	\$ 3,928
Total assets (000's)	\$ 8,880	\$ 10,409	\$ 11,435	\$ 57,677	\$ 65,573	\$ 55,165	\$ 49,139	\$ 40,382
Total liabilities (000's)	\$ 28,398	\$ 29,272	\$ 23,947	\$ 38,583	\$ 41,146	\$ 38,883	\$ 34,790	\$ 28,597
Shareholder's equity (000's)	\$ (19,518)	\$ (18,863)	\$ (12,511)	\$ 19,094	\$ 24,427	\$ 16,281	\$ 14,349	\$ 11,785

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.

Shipments of Ore from Fabie Bay began in November 2007 and commercial production was achieved on March 1, 2008. As a result, the revenues and net earnings during the periods Q2 -2007 through Q4 - 2007 represent the results of operation for a development stage organization.

CORPORATE STRATEGY

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

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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.

As Fabie was developed, Management planned to utilize excess cash flow to develop Magusi, 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 development project on hold. At that time, the average London Metal Exchange ("LME") price for Copper was U.S. \$2.23/lb which was in excess of the cost of production at Fabie, but the Corporation had received provisional payments for the June through September production were based on higher prices which put additional strain on its future cash flows.

On December 18, 2008, the Corporation announced that, in light of the continuing decreases in copper prices it was halting production at the Fabie Bay Mine over the next eight weeks. As a result of the continued depressed copper prices and the inability to obtain short-term liquidity support, 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. On January 9, 2009, the mining of the Fabie Bay Mine ceased.

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 below, there is substantial uncertainty concerning the Corporation's ability to do so. Certain market conditions, including metal prices and financing limitations, challenge the going concern assumption.

The Corporation has incurred significant operating losses since inception, including a net loss of \$7,104,330 (2008 - earnings of \$5,290,411) in the six months ended June 30, 2009. Following the acceptance of the Proposal to Creditors, management believes that the existing cash resources will be adequate to support planned activities for at least the next eighteen months.

The validity of the going concern assumption is dependent on achieving profitable levels of operations and/or through the Corporation's ability to raise additional financing to fund operations or develop mineral deposits.

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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Accounting Principles

The June 30, 2009 financial statements do not include all information and notes required by Canadian Generally Accepted Accounting Principles ("GAAP") in the preparation of annual financial statements. The accounting policies used in the preparation of these unaudited financial statements is the same as those described in the Corporation's audited financial statements prepared in accordance with Canadian GAAP for the year ended December 31, 2008 as described in note 2 of those financial statements and with the exception of the disclosures as described in the paragraph immediately following.

As a result of the Proposal Proceedings, the Corporation is following the accounting policies including disclosure items, applicable to entities that are under creditor protection. In addition to Canadian GAAP, the Corporation has by analogy applied the guidance of the American Institute of Certified Public Accountants Statement of Position 90-7 "Financial Reporting by Entities in Reorganization under the Bankruptcy Code (SOP 90-7)". While SOP 90-7 refers to Chapter 11 in the United States, its guidance, in management's view, is also applicable to an entity restructuring under the BIA.

Consistent with Canadian GAAP, SOP 90-7 does not change the manner in which financial statements are prepared. However, SOP 90-7 does require that the financial statements for periods ending subsequent to the filing date of the NOI, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Revenues, expenses, gains and losses, and provisions for losses that can be directly associated with the reorganization and restructuring of the business are reported separately as reorganization items.

While payments may not be made on liabilities subject to compromise, including long-term debt, interest on debt obligations continues to be recognized. Interest is not recognized as a reorganization item. The balance sheet distinguishes pre-filing liabilities subject to compromise from both pre-filing liabilities that are not subject to compromise and from post-filing liabilities. Liabilities that are affected by the Proposal will be settled for lesser amounts and the resulting adjustments may be material.

SOP 90-7 has been applied effective January 8, 2009 and for subsequent reporting periods while the Corporation continues to operate under the Proposal Protection.

Proposal to Creditors

Under the Proposal, each person holding a proven secured claim shall receive 75 shares of the Corporation for each \$1 of such claim and in addition they shall receive 8 call warrants for each \$1 of proven secured claim. Under the Proposal terms, \$3,000,000 less the proceeds from the sale of equipment will be issued in the form of promissory notes, each with a five year term, issued on a pro rata basis to persons holding a proven secured claim. The Corporation shall distribute \$500,000 pro rata to secured claim holders along with the proceeds from the sale of any equipment by the Corporation over \$1,000. Any proceeds from the future sale of equipment shall be applied to reduce the amounts secured by the new Notes. The secured portion of the claims of

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NoteHolders was determined to be \$3,500,000 and the balance of the NoteHolders' claims, being \$16,500,000 plus interest are treated as unsecured claims.

Each person holding a proven unsecured claim shall receive 2 shares of the Corporation for each \$1 of proven unsecured claims. Alternatively, they may elect to receive, instead of receiving shares, a cash payment equal to ten per cent of that person's proven unsecured claim up to a maximum of \$500.

Following the Court Approval on June 17, 2009, BDO Dunwoody LLP ("BDO"), as Trustee under the Proposal, undertook a process of validate the proofs of claims from Creditors. On July 30, 2009, BDO advised the Corporation that as a result of the completion of the proof of claims process, the Creditors are entitled to receive share certificates for 279,255,365 common shares, Warrant certificates for 245,845,408 warrants, a cash distribution of \$894,981 as well as Promissory Notes totaling \$2,618,000.

As a result of the restructuring, the debts outstanding at June 30, 2009, liabilities subject to compromise as reported in the June 30th balance sheet totalling \$27,795,156 will be converted into commons shares, warrants and a promissory note of \$2,618,000.

The Corporation is currently awaiting final approvals from the Toronto Stock Exchange (TMX) prior to making the distribution to Creditors and issuing the common shares.

RESULTS OF OPERATIONS AND OPERATIONAL REVIEW - THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

Revenue Analysis

A. Revenues by Metal (\$ Canadian)

	Three Months ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
Copper	\$ -	\$ 18,678,391	\$ 2,353,707	26,306,026
Gold	-	96,684	8,530	121,281
Silver	-	114,125	8,431	129,713.00
	-	18,889,200	2,370,668	26,557,020
Final pricing adjustments	(131,110)	-	-	-
Treatment, refining charges	-	(1,782,263)	(258,708)	(2,525,087)
Net metal royalty	-	(401,107)	(50,036)	(554,463)
Net revenue	\$ (131,110)	\$ 16,705,830	\$ 2,061,924	\$ 23,477,470

During the three month period ended June 30, 2009, there was no production. In April and May 2009, the Corporation received the final payments from Xstrata for December and January production and as a result recorded final pricing adjustments of \$131,000. In the corresponding period in 2008, the Corporation produced 4,685,000 pounds of Copper which resulted in net revenues of \$16,705,830.

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During the six month period ended June 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 four months following the achievement of Commercial Production on March 1, 2008.

B. Sales by Payable Metal

	Three Months ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
Copper (lbs)	-	4,685,000	1,011,349	6,681,775
Gold (ounces)	-	72	8	120
Silver (ounces)	-	5,304	536	8,260

During the six month period ended June 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 during the six month period which compares with 6,681,775 pounds in the six month period ended June 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.

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

	Three Months ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
Copper (lbs)	-	-	-	2,453,225
Gold (ounces)	-	-	-	48
Silver (ounces)	-	-	-	2,585

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 June 30		Six Months ended June 30	
	2009	2008	2009	2008
Copper (US\$/lbs)	-	3.80	2.00	3.81
Gold (US\$/ounces)	-	893.95	890.20	895.95
Silver (US\$/ounces)	-	16.17	12.51	17.17
US\$/CDN\$ exchange rate	1.149	1.007	1.201	1.006

Note:

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

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Operating Costs

Mining and development, Milling and Ore Transportation

During the three month period ended June 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 \$9,575,073.

During the six month period ended June 30, 2009, as a result of stopping production on January 9, 2009 the costs totalled \$1,953,990 as compared to \$12,562,634 in the corresponding period in 2008.

On-going site operating costs

During the three month period ended June 30, 2009, as a result of stopping production, the Corporation incurred ongoing site security and safety costs of \$224,133. There were no comparable costs in the previous year.

Depreciation, Depletion and Amortization

Under the Corporation's accounting policy, no amortization is recorded until the assets are substantially complete and ready for use. Depreciation and amortization is also not provided on assets which are idled. As a result of the suspension of production, depreciation, depletion and amortization totalled only \$34,674 for the quarter-ended June 30, 2009 as compared to the quarter-end June 30, 2008 of \$3,018,280. During the six month period ended June 30, 2009, the total depreciation, depletion and amortization was \$614,031 as compared to \$4,262,752 in the same period in 2008.

Other Expenses

During the three month period ended June 30, 2009, Other Expenses representing administration, professional fees, share registry fees and travel expenses totalled \$185,760 (June 30, 2008 - \$655,589). These expenditures represent the ongoing administration and public company expenses.

During the six month period ended June 30, 2009, Other Expenses representing administration, professional fees, share registry fees and travel expenses totalled \$547,689 (June 30, 2008 - \$1,151,588). The reduction in the ongoing administration and public company expenses is a result of lower stock based compensation, as well as reduced professional and management fees.

Interest Expense

During the three month period ended June 30, 2009, no interest expense was reported as a result of the filing of the proposal to creditors. In the corresponding period in 2008, interest on the senior secured notes and capital leases totalled \$901,964.

During the six month period ended June 30, 2009, an interest expense of \$943,235 was reported. The interest represents interest on Senior Secured Notes and Capital Leases up to April 17, 2009,

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the date that the Proposal was issued to Creditors. In the corresponding six month period in 2008, interest on the senior secured notes and capital leases totalled \$1,207,561. During the first two months of the 2008, interest was capitalized as the Corporation had not achieved Commercial Production until March 1, 2008.

Restructuring and Re-Organization Expenses

During the three month period ended June 30, 2009, the Corporation incurred **re-organization professional fees** of \$217,053 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 six month period ended June 30, 2009, the re-organization professional fees totalled \$432,408 for the purposes as outlined above. No expenses were incurred in the comparable period in the previous year.

Adjustments to carrying value of secured notes

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

In accordance with the accounting guidance for Corporations undergoing reorganization under Bankruptcy legislation, during the six month period ended June 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 representing interest to the date of the filing of the Proposal to Creditors (April 17, 2009). No comparable expenses were incurred in the previous year.

Adjustments for operating leases and other liabilities

During the three month period ended June 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 six month period ended June 30, 2009. No comparable expenses were incurred in the previous year.

Income and mining tax recovery

In the quarter-ended June 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 June 30, 2008, the Corporation recorded a total income and mining tax recovery of \$942,631 as a result of earnings generated in the quarter and management's assessment at that time of the continued earnings.

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During the six month period ended June 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 six month period ended June 30, 2008, the Corporation recorded a total income and mining tax recovery of \$892,457 as a result of earnings generated on a year to date basis and management's assessment at that time of the continued earnings for the year.

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) \$
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)
Sept. 30, 2007	63,941	(686,918)	(0.02)

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 shares 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.
- Since the Corporation was in the pre-operating stage prior to the achievement of Commercial Production on March 1, 2008, the prior revenues represent only interest income earned on excess funds.
- The net revenues from the shipments of materials during the fourth quarter of 2007 of \$3,993,060 and the net pre-operating revenues of \$3,509,231 in the first quarter of 2008 have been offset against the pre-production and mine development costs. In total, net pre-operating revenues of \$7,502,291 have been received.

The reduction in the loss of \$680,503 in the quarter 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

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of \$22,030,824 related to the carrying value of the Magusi property and mining equipment acquired under capital leases provided 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.

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.

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

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 has 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

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Corporation at any time following 24 months from the closing. Interest was payable quarterly. The Notes contain fixed and floating charges over all of the Corporation's assets.

In addition, for each \$1,000 in principal amount of Notes issued, the purchasers received, for no additional consideration, share purchase warrants to acquire a total of one hundred common shares of the Corporation 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. In aggregate, 2 million share purchase warrants were issued. A collateral agent was appointed and a lien over all of the property and assets of the Corporation was established.

As a result of the Proposal which was accepted by the Creditors, this obligation will be partially replaced with promissory notes of \$2,618,000 with a five year term. Interest will be payable annually one year from the issue date based on an annual 5% interest rate.

LIQUIDITY

Working Capital

As a result of the filing of the NOI and the application of SOP 90-7 the balance sheet has been restructured from December 31, 2008 to reflect pre-filing accounts payable and accrued liabilities as trade payables and other accrued liabilities subject to compromise. The remaining accounts payable and accrued liabilities of \$257,273 amounts owing for post NOI filings.

Current Assets

Total current assets decreased by \$1,693,808 to \$2,940,617 as at June 30, 2009 compared to \$4,634,425 at December 31, 2008. The main components of the current asset change were:

- Cash and cash equivalents increased by \$49,568 reflecting the net impact of final receipts from Xstrata for December and January production, final operating payments on the Fabie Bay operations, restructuring costs and the discharge of statutory government obligations.
- 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 \$311,759 from \$336,381 at December 31, 2008 to \$24,622 at June 30, 2009. The decrease mainly results from the offsetting of GST and PST recoverable on costs against G.S.T and P.S.T. liabilities subject to compromise.
- Inventories decreased by \$598,341 from \$903,270 at December 31, 2008 to \$304,929 at June 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 \$298,440 from \$460,722 at December 31, 2008 to \$162,282 at June 30, 2009 as a result of prepaid costs being charged to operations.

Current Liabilities

Total current liabilities decreased by \$4,120,376 from \$4,377,649 at December 31, 2008 to \$257,273 at June 30, 2009. As a result of the NOI filing, generally pre-filing liabilities are stayed and have been reclassified as liabilities subject to compromise. The current portion of capital leases has also been reclassified. The reclassification of the trade payables and the current portion of the capital leases accounts for \$3,292,894 of the reduction and the remainder is a result of the discharge of statutory remittances.

Operating Activities

Cash generated in operating activities totalled \$1,476,453 in the quarter ended June 30, 2009 compared to cash generated from operations of \$3,545,003 in the quarter-ended June 30, 2008. The reduction is a result of incurring a loss in the current quarter as compared to earnings in the previous year as well as the result of Xstrata stopping provisional payments and offsetting outstanding amounts.

During the six month period ended June 30, 2009, the Corporation used \$174,741 in operating activities compared to generating \$3,498,795 from operating activities in the six months ended June 30, 2008. The difference in the current period as compared to the previous year is mainly a result of being in operations in the prior year.

Financing Activities

During the quarter-ended June 30, 2009, there were no financing activities whereas in the comparable period in 2008, the Corporation received \$55,000 from the exercise of employee stock options and payments on capital leases of \$862,909 along with the final payment due on the mineral property of \$250,000.

During the six month period ended June 30, 2009, there were no financing activities whereas in the comparable period in 2008, the Corporation received \$55,000 from the exercise of employee stock options and the Corporation made payments on capital leases of \$1,431,328 along with the final payment due on the mineral property of \$250,000.

Investing Activities

In the quarter-ended June 30, 2009, the Corporation generated \$209,378 from the sale of miscellaneous equipment and made a claim payment of \$3,750 to maintain a Fabie claim in good standing. In the comparable quarter in 2008, the Corporation invested \$1,576,880 in property, plant and equipment offset by metal receipts which were deferred.

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During the six month period ended June 30, 2009, the Corporation generated \$242,211 from the sale of miscellaneous equipment and made miscellaneous property payments of \$17,902. In the comparable six months in 2008, the Corporation invested \$1,404,467 in property, plant and equipment offset by metal receipts which were deferred.

Net Cash Flow

For the quarter-ended June 30, 2009, cash and cash equivalents increased by \$1,682,081 as compared to \$1,776,396 in the comparable period in the prior year.

For the six months ended June 30, 2009, cash and cash equivalents increased by \$49,568 as compared to \$1,049,694 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.

Contractual Commitments

As at June 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>
Capital Leases	1,769,302	1,567,310	77,994	3,414,606
Equipment leases	445,445	409,071	97,116	951,632
Office space	13,783	145,108	114,877	273,768
	<u>2,228,530</u>	<u>2,121,489</u>	<u>289,987</u>	<u>4,640,006</u>

As a result of the acceptance on May 6, 2009, of the Proposal, these commitments (except that for office space) will be extinguished.

As a result of the Court Approval on June 17, 2009, the Corporation anticipates making a distribution to Creditors in August 2009 once the necessary final approvals are received from the TMX. The Secured Creditors will receive a cash distribution of \$500,000 as well as the proceeds from the sale of equipment which total \$382,000 (includes dispositions which occurred late in 2008) and the shares referred to above. In addition, other cash payments to creditors of \$12,981 are anticipated.

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. As part of that agreement, the Corporation has previously made a deposit of \$155,012. During 2008, the Corporation estimated its gross Asset

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Retirement Obligations at \$569,501. Since the filing of the NOI, the Corporation has developed closure plans which are designed to eliminate the environmental risks related to potentially acid-generating materials and also properly secure the Fabie Bay Mine access and openings. Based on the current plans, management estimates that expenditures of approximately \$325,000 will be made in the current year with the remainder of the expenditures dependent upon the future development of the nearby Magusi property. The expenditures in the current year are designed to ensure that the Magusi property remains unencumbered.

CAPITAL RESOURCES

Senior Secured Notes

The completion of the \$20,000,000 Senior Secured Notes ("Notes") financing, was designed to meet 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. Subsequent to June 30, 2007, all of the conditions outlined above were satisfied and this escrow was released.

From the release, \$5,000,000 was placed in escrow to satisfy the Corporation's obligations for funding the mill refurbishment program at Xstrata's Horne Mill and the remaining \$9.5 million net of fees and commissions, became available to the Corporation to complete the development program at the Fabie Bay Mine. Prior to the release from escrow, the funds were already accounted for as cash of the Corporation, but with restrictions, as the cash was earmarked for the payment of the mill refurbishment.

The Corporation's cash and cash equivalents at June 30, 2009 totalled \$2,372,781.

Flow-through Financing

On December 21, 2007, the Corporation completed a flow-through financing consisting of 2,799,996 units priced at \$1.10/unit resulting in gross proceeds of \$3,080,000. A unit consisted of a flow-through share and a half warrant, with a whole warrant entitling the holder to purchase a common share at \$1.75 in the first year and \$2.00 in the subsequent year. The share issue costs totalled \$170,653. These funds were used to finance a 20,000 meter drilling program on the Magusi River property which was completed early in 2008.

Capital Resources

Early in the fall of 2008, the Corporation had acquired all of the equipment needed to operate the Fabie Bay Mine and it had secured the equipment needed to start the development of the Magusi River Property.

As at June 30, 2009, the Corporation did not have any loans or indebtedness beyond the Notes, obligations under capital leases and normal trade payables.

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In accordance with the Proposal which was accepted by the Creditors on May 6, 2009, the proceeds from the sale of any equipment by the Corporation shall be distributed to persons holding secured claims and this amount shall be applied to repayment of the \$3 million Note issued pursuant to the Proposal. In addition to this provision, the Proposal includes a schedule of major mobile and fixed equipment and facilities. As part of the development of future plans to exploit the Magusi River deposit, management and the Board of Directors will decide whether to retain these assets for future development activities.

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

Liabilities Subject to Compromise

As described on page 3 of this MD&A and note 1 to the interim financial statements, as a result of the NOI process, generally pre-petition liabilities may be subject to compromise or other treatment and generally, actions to enforce or otherwise effect payment of pre-petition liabilities are stayed.

SOP 90-7 requires pre-filing liabilities of the debtor that are subject to compromise to be reported at the claims amounts expected to be allowed, even if they may be settled for lesser amounts. The amounts currently classified as liabilities subject to compromise may be subject to future adjustments, depending upon actions including the evaluation of the proofs of claim by BDO as Proposal Trustee.

Liabilities subject to compromise consist of the following:

	<u>June 30, 2009</u>
Trade payables and other accrued liabilities	\$ 1,974,582
Capital Leases	3,181,943
Senior Secured Notes	20,000,000
Interest on Senior Secured Notes	1,686,999
Operating Leases.....	<u>951,632</u>
Total Liabilities subject to compromise	<u>\$ 27,795,156</u>

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 is very dependent on the prices obtained for the copper, zinc, 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

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significant amount which would be required to complete the Magusi development or lesser amount to complete the bulk sample which has now been permitted.

RISKS AND UNCERTAINTIES

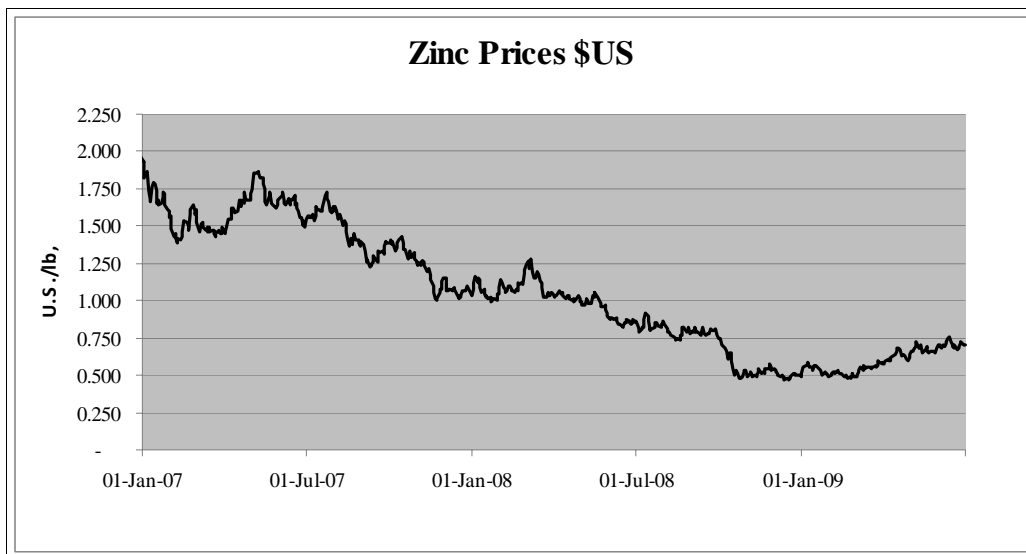
The Corporation's operations and results are subject to a number of risks at any given time. The risks relating to the business conducted by the Corporation include (i) development and operating risks at the Magusi Deposit, (ii) exploration risks, (iii) environmental risks and hazards (iv) uninsurable 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.

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

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. The future Zinc prices will impact the ability to put the Magusi Deposit into production and if so, its rate of return.

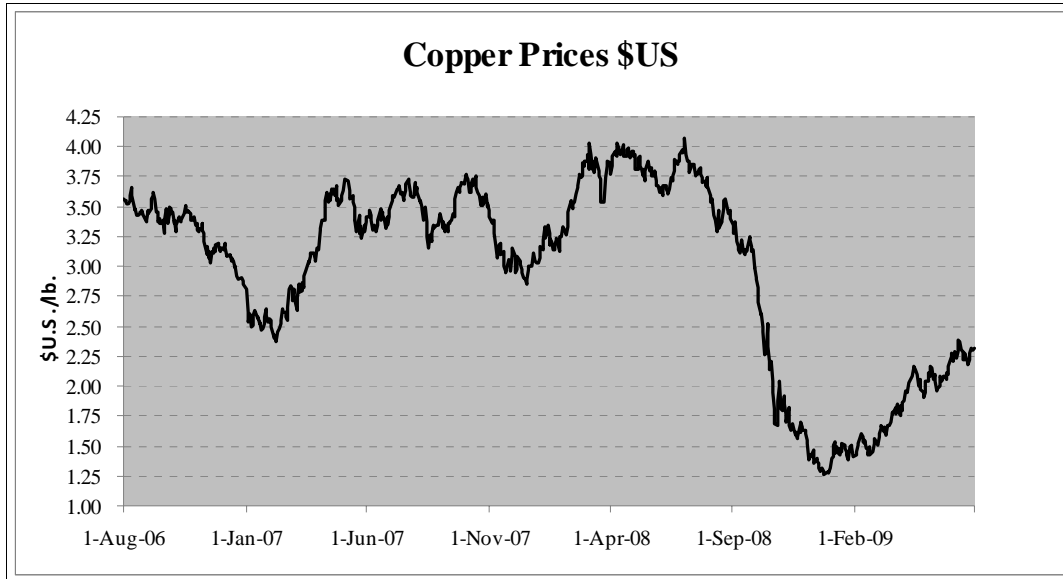


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Copper Prices

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.



LME Prices, Provisional and Final Pricing:

Basis of Pricing:

In accordance with the Corporation's 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 custom milling agreement, forty-five days after the production month, the Corporation received a "**provisional payment**" representing 90% of the estimated value of the monthly production (Xstrata's estimates of the weights and assays valued on the basis of the LME average in the month following).

For financial reporting purposes, revenue is initially recorded based on Management's best estimate of production during the month priced on the basis of the LME three month forward prices. Revenue from the sale of metal is subject to adjustment upon final settlement of shipment weights, assays and metal prices. The final settlements are based on the average pricing during the third month following production. In the normal course, the "**final payment**" is received fifteen days after the end of the third month following production.

First Metals Inc.

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Financial Reporting:

The Corporation began shipping material in November 2007 and received a provisional payment for the November and December production on January 15, 2008. The chart and data table below highlights the LME average copper prices, provisional prices and the final metal settlement prices in the respective periods.

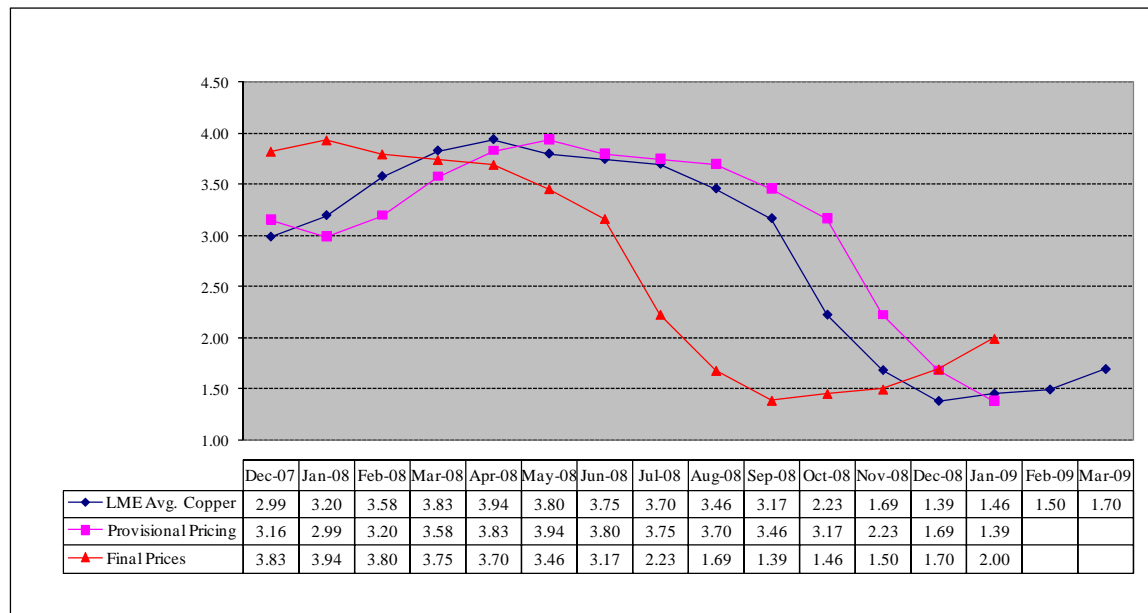
Dramatic Changes in Prices:

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 in a number of months during the second half of 2008 as the provisional settlements significantly exceeded the final settlements even after reflecting the 10% holdbacks and final adjustments to weights and assays.

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



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Notes:

1. LME Avg. Copper represents the posted prices for the individual months; Provisional Pricing represents the pricing applied to payments received in the following month; and Final Prices represents the LME average for the third month following the production period.
2. During the period displayed, the LME Copper prices averaged U.S.\$3.13/lb and the Provisional prices averaged U.S. \$3.27/lb with the final pricing averaging U.S. \$2.74/lb.
3. Since production at the Fabie Bay Mine ceased on January 9, 2009, provisional and final pricing was no longer applicable.

CHANGES IN 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 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. Key areas of estimation, where management has made difficult, complex or subjective judgments include amounts and settlements receivable, inventory valuations, asset retirement obligations, finite lives and carrying value of property, plant and equipment, the ability to use income tax loss carry forwards and other future income tax assets and the recoverability of mineral interests which require estimates of future cash flows.

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.

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MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that comparative figures for 2010 be based on 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:

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	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.

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 - \$ 145,000) was paid in connection with these agreements in 2009.

First Metals Inc.

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 June 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 June 30, 2009.

Internal Control 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.

There have been no significant changes in the Corporation's internal control over financial reporting during the three months ended June 30, 2009.

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.

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MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

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 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.

SUBSEQUENT EVENTS

Proposal to Creditors

On July 30, 2009, BDO as Trustees advised the Corporation that as a result of the completion of the proof of claims process, the Creditors are entitled to receive share certificates for 279,255,365 common shares, Warrant certificates for 25,845,408 warrants, a cash distribution of \$894,981 as well as Promissory Notes totaling \$2,618,000.

The Corporation has made application to the Toronto Stock Exchange to have the share and the shares issuable upon exercise of the warrants that the Corporation proposes to issue pursuant to the Order of the Superior Court of Ontario, accepted and listed for trading. The Corporation is currently awaiting final approvals from the TMX prior to making the distribution to Creditors and issuing the common shares. Once this approval has been received and the additional shares are issued, 322,106,563 common shares will be outstanding.

Based on the information received to date, management has estimated that the "debt forgiveness" for tax purposes will be approximately \$18,810,049 as compared to the Corporation's estimate of the total pool of eligible tax deductions of approximately \$35,000,000.

Commitments

On July 16, 2009, the Corporation entered into a 5 year lease from August 1, 2009 to July 31, 2014. for office premises. Following a six month period in which the Corporation will only be responsible for its proportionate share of all operating costs, the monthly rental will be approximately \$6,300.

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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 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 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 and significant amounts of parts and mining equipment. 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 related 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.

OUTSTANDING SHARE DATA

The Corporation's authorized share capital is an unlimited number of common shares without par value. As at June 30, 2009, there were 42,851,198 outstanding common shares and 1,823,636

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stock options outstanding. As at June 30, 2009, the weighted average remaining contractual life of outstanding options was approximately 1.61 years (December 2008 - .94 years) and a total of 1,428,636 (December 31, 2008 - 2,674,886) options were exercisable at a weighted average exercise price of \$1.13 (December 31, 2008 - \$1.08).

At June 30, 2009, the Corporation had 3,399,997 share purchase warrants outstanding that entitle the holders to acquire common shares as follows:

Description	Number of warrants	Exercise price (Average)	Expiry date
Issued with Senior Secured Notes	2,000,000	\$ 1.35	July 31, 2012
Issued with 2007 Flow-through offering	1,399,997	\$ 1.75 - \$2.00	December 21, 2009
	3,399,997		

As noted above, the Corporation expects to issue approximately 279 million additional shares and 25 million warrants (with the exercise of three and five cents for twelve and eighteen months respectively) to its creditors pursuant to the Proposal.

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 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).

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.

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MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

Forward-looking statements in this MD&A describe the Corporation's expectations as of June 26, 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).