

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The MD&A has been prepared as of June 26, 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](http://www.firstmetalsinc.com)) and filed on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

#### **Filing Timing:**

On January 7, 2009, the Corporation filed with the Official Receiver a Notice of Intention to File a Proposal ("NOI") under the *Bankruptcy and Insolvency Act* ("BIA"). Subsequently the Corporation was granted various extensions and on April 17, 2009 a proposal was filed with the Official Receiver. On May 6, 2009, the Creditors approved the amended proposal. Subsequently, on June 17, 2009, the Ontario Superior Court of Justice approved the amended proposal (the "Proposal") under the *Bankruptcy and Insolvency Act*. The Proposal is further described on page 3 of this document.

As a result of the filing of the NOI, the significant uncertainties prevented the Corporation from meeting its annual filing requirements. However, once the Proposal was accepted by the Creditors on May 6, 2009, these uncertainties were removed. The Corporation filed its Annual Information Form, Audited Financial Statements, Annual Management Discussion and Analysis as well as the CEO and CFO certificates on June 19, 2009. The completion of these filings enabled the Corporation to complete its quarterly reporting for the period ended March 31, 2009.

As a result of these proposal proceedings, the Corporation has complied with the alternative information guidelines set out in National Policy 12-203, and began on April 15, to issue a bi-weekly press release to keep shareholders and others informed of significant events in relation to the filing of its audited annual financial statements and the interim financial statements.

### STRATEGY AND RISK MANAGEMENT

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. In addition, a Mining Team was assembled and in the late fall of 2006; they developed the operational plans needed to put Fabie Bay into production. Fabie began its initial production in November 2007, during a favourable price environment.

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As Fabie was developed, Management utilized 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.

The suddenness and depth of the metals price declines in the second half of 2008, caught almost all industry participants and observers by surprise. As a result of the price declines, on October 24, 2008, the Corporation announced that it had put the Magusi development project on hold in an effort to preserve cash pending a recovery in copper and zinc prices. 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 period which were based on higher prices and therefore recognized the 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 gradually halting production at the Fabie Bay Mine over the next eight weeks. As a result of the continuing 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 to File a Proposal 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 in the following paragraphs, 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 \$6,423,826 (2008 - earnings of \$1,774,832) in the three months ended March 31, 2009. Following the acceptance of the Proposal as further described below, 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

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necessary if the going concern assumptions were not appropriate. Such adjustments could be material.

The Corporation's ability to continue its operations in the normal course of business is dependent upon its ability to achieve and sustain profitable operations, raise capital to enable it to do so and/or realize on assets as an alternative source of funds

#### **Proposal to Creditors**

Under the proposal terms, 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, \$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 shall be 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 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 and are subject to the proof of 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.

As a result of the restructuring, the debts outstanding at March 31, 2009, substantially all will be converted into equity and an aggregate \$2.6 million secured promissory note.

Following the acceptance of the Proposal, management believes that the existing cash resources will be adequate to support current planned activities for at least the next twelve months.

#### **Accounting Principles**

The March 31, 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

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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.

Following the Court Approval on June 17, 2009, BDO Dunwoody as Trustee under the Proposal has commenced the process of accepting proofs of claims from Creditors which will ultimately determine the Liabilities Subject to Compromise.

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.

### **HIGHLIGHTS**

- Since July 1, 2008, the LME average Copper prices have fallen from U.S. \$3.70/lb to U.S. \$1.30/lb in December 2008. The 65% decline in the price of Copper along with the decision by Xstrata to stop making provisional payments until all overpayments on previous months' production and outstanding milling payments were settled, led to the Corporation's decision to stop production at the Fabie Bay Mine on January 9, 2009.
- The remaining production in the first quarter of 2009, from the Fabie Bay Mine generated net revenues of \$2,193,033 compared to operating costs of \$1,953,990 resulting in net cash contribution of \$239,043.
- During the quarter-end March 31, 2009, the Corporation incurred general administration, professional fees, registry fees and travel expenses of \$286,103 (March 31, 2008 - \$338,194) which were designed to develop an acceptable proposal to creditors and related issues. The expenses in the comparable period in 2008 represented the ongoing corporate activities of a public company.

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- The financial statements for the quarter-end March 31, 2009, are based on the same accounting principles as employed in the annual audited financial statements along with the guidance of SOP 90-7. This guidance recommends subsequent to the filing date of the NOI, the Corporation must distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. In addition the guidance recommends that liabilities which are subject to compromise be reported at the claims amounts expected to be allowed. As a result, for the quarter-end March 31, 2009, the Corporation has included an adjustment to the carrying value of the Senior Secured Notes of \$3,184,635 to recognize that the claims will be settled on the basis of the \$20,000,000 principal plus the estimated accrued interest to the date of the filing of the Proposal to Creditors.
- Another adjustment to the carrying value of liabilities subject to compromise of \$1,372,292 represents the recognition of terminal obligations under operating leases cancelled and employee related obligations.

### NON-GAAP MEASURES - TOTAL CASH COSTS PER POUND OF COPPER CALCULATION

The Corporation has included in this document, certain non-GAAP performance measures, including total cash costs of copper on a produced basis which is consistent with the sales contract with Xstrata Copper Canada Limited. These non-GAAP measures do not have any standardized meaning prescribed by GAAP, nor are they necessarily comparable with similar measures presented by other companies.

Cash costs are presented as they represent an industry standard method of comparing certain costs on a per unit basis. The Corporation believes that certain investors use this information to evaluate the Corporation's performance. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. The Corporation recognizes that there are limitations within these numbers due to the assumptions inherent in estimating copper production and its pricing which can take up to three months to finalize.

During the three months ended March 31, 2009, there was limited production and as a result, the Corporation's total cash operating costs (exclusive of financing costs and income and capital taxes) were Cdn. \$2.49 /lb which is higher than the twelve month average of Cdn \$2.25 in 2008 mainly as a result of the lower production volumes and the termination of operations.

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### SUMMARIZED PRODUCTION AND FINANCIAL RESULTS

	2009		2008			2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Production</b>								
Tonnes Mined <sup>2</sup>	-	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) <sup>4</sup>	1,011	5,021	5,029	4,685	4,450	1,338	-	-
Gold (ozs) <sup>4</sup>	8	76	24	72	96	29	-	-
Silver (ozs) <sup>4</sup>	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) <sup>1</sup>	2.49	2.24	2.18	2.53	\$ 2.04	\$ 1.75	-	-
Net revenues from metal sales (000's) <sup>3</sup>	\$ 2,193	\$ 6,985	\$ 6,517	\$ 16,706	\$ 6,772	-	-	-
Other revenues (000's)	14	204	(76)	61	104	\$ 60	\$ 64	\$ 11
	<u>2,207</u>	<u>7,190</u>	<u>6,441</u>	<u>16,767</u>	<u>6,876</u>	<u>60</u>	<u>64</u>	<u>11</u>
Net earnings (loss) (000's)	\$ (6,424)	\$ (31,670)	\$ (5,467)	\$ 3,516	\$ 1,775	\$ (968)	\$ (687)	\$ (739)
Weighted average number of shares (000's)	42,845	42,845	42,839	41,761	40,184	35,550	33,499	31,392
<b>Earnings per share</b>								
Basic	\$ (0.15)	\$ (0.74)	\$ (0.13)	\$ 0.08	\$ 0.04	\$ (0.03)	\$ (0.02)	\$ (0.02)
Diluted	\$ (0.15)	\$ (0.74)	\$ (0.13)	\$ 0.08	\$ 0.04	\$ (0.03)	\$ (0.02)	\$ (0.02)
Cash flow from operating activities (000's)	\$ (1,651)	\$ (10,034)	\$ 6,143	\$ 2,544	\$ 955	\$ (7,942)	\$ 3,928	\$ (152)
Total assets (000's)	\$ 10,409	\$ 11,435	\$ 57,677	\$ 65,573	\$ 55,165	\$ 49,139	\$ 40,382	\$ 34,807
Total liabilities (000's)	\$ 29,272	\$ 23,947	\$ 38,583	\$ 41,146	\$ 38,883	\$ 34,790	\$ 28,597	\$ 22,581
Shareholder's equity (000's)	\$ (18,863)	\$ (12,511)	\$ 19,094	\$ 24,427	\$ 16,281	\$ 14,349	\$ 11,785	\$ 12,225

#### 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. They are impacted by the level of mine development in the period.

The results for Q1 - 2008 reflect the pre-operating activities until March 1, 2008, as of which time the Corporation determined that commercial production had been achieved as production reached 60% of the design capacity over a continuous thirty day period.

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As a result of the Corporation's decision to stop production at the Fabie Bay Mine on January 9, 2009, processing of ore at the Xstrata Mill was limited to 15,297 tonnes and the production of 1,011,000 pounds of Copper.

#### RESULTS OF OPERATIONS AND OPERATIONAL REVIEW - THREE MONTHS ENDED MARCH 31, 2009 AND 2008

During the three month period ended March 31, 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.

During the first two months of 2008, the Corporation was in the pre-operating stage, until commercial production was achieved effective March 1, 2008. Net revenues were capitalized and offset against mine development costs.

The tables which follow provide an analysis of revenues.

#### A. Revenues by Metal (\$ Canadian)

	Three Months ended March 31	
	2009	2008
Copper	\$ 2,484,817	\$ 7,627,635
Gold	8,530	24,597
Silver	8,431	15,588
	2,501,778	7,667,820
Treatment, refining charges	(258,709)	(742,824)
Net metal royalty	(50,036)	(153,356)
<b>Net revenue</b>	<b>\$ 2,193,033</b>	<b>\$ 6,771,640</b>

The net revenues for the three-month period ended March 31, 2009 were \$2,193,033 as a result of stopping production on January 9, 2009. In the quarter ended March 31, 2008, the revenues generated during the months of January and February were deferred and offset against mineral interest and mine development. In addition to the lower production levels, Copper generated net revenues of Cdn. \$2.17/lb. in the quarter ended March 31, 2009 (March 31, 2008 - Cdn.\$3.40/lb).

#### B. Sales by Payable Metal

	Three Months ended March 31	
	2009	2008
Copper (lbs)	1,011,349	1,996,766
Gold (ounces)	8	47
Silver (ounces)	536	2,956

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The difference in the production levels is a result of the suspension of production on January 9, 2009 whereas the quarter-end March 31, 2008 includes the revenues generated from the entire month of March 2008.

### C. Sales by Payable Metal Deferred during Pre-Operating Period <sup>(Note 1)</sup>

	Three Months ended March 31	
	2009	2008
Copper (lbs)	-	2,652,110
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 interest.

### D. Average Metal Prices & Foreign exchange rates

	Three Months ended March 31	
	2009	2008
Copper (US\$/lbs)	2.00	3.83
Gold (US\$/ounces)	890.20	895.95
Silver (US\$/ounces)	12.51	17.17
US\$/CDN\$ exchange rate	1.25	1.00

#### Note:

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

### Net Revenues

Treatment and refining charges represent contractual payments made to Xstrata for smelting and refining the concentrate which is sold to Xstrata under contract. The treatment charges that were incurred in the Quarter ended March 31, 2009 include all final adjustments under the terms of the contract.

Net royalty expenses represent net metal return payments to Globex based on 2% of the estimated metal content of the ore which is extracted from the Fabie Bay property.

### Operating Costs

During the three month period ended March 31, 2009 the total operating costs were lower than the previous period as there was production only for part of a month in 2009 following the announcement of the shutdown of the Fabie Bay Mine.

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**Mining and development costs** represent the ongoing mining and development costs at the Fabie Bay property following the achievement of commercial production on March 1, 2008. The \$1,054,357 in the period ended March 31, 2009 is lower than the corresponding period in 2008 by \$345,195 as a result of the production in 2009 being only for part of a month.

**The milling and ore transportation costs** represent the third party payments to an outside contractor which transported the Fabie Ore to a storage facility at Xstrata's Horne milling facilities. The costs of \$899,633 for the quarter ended March 31, 2009 are lower than the comparable period in 2008 by \$688,375 as outlined above as a result of fewer working days in the current quarter following the decision to shut-down the Fabie Bay Mine.

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 \$579,357 for the quarter-ended March 31, 2009 as compared to the quarter-end March 31, 2008 of \$1,244,472.

During the quarter ended March 31, 2009, the remaining **asset retirement costs** of \$23,091 (March 31, 2008) were charged to operations as a result of the suspension of the Fabie Bay Mine operations.

During the three month period ended March 31, 2009, **Other Expenses** representing administration, professional fees, share registry fees and travel expenses totalled \$286,103 (March 31, 2008 - \$338,194) which were designed to develop an acceptable proposal to creditors, maintain the corporate existence, and related issues. The expenses in the comparable period in the previous year supported the ongoing corporate activities of the Corporation as a public company.

During the quarter ended March 31, 2009, the **interest expense** totalled \$943,234 as compared to \$305,297. During the previous year, the interest expense for the first two months of the year was capitalized as the Corporation had not achieved Commercial Production until March 1, 2008. Interest was not terminated by the filing of the NOI, but stopped following the filing of the Proposal on April 17, 2009.

### **Restructuring and Re-Organization Expenses**

As a result of the filing of the NOI, the Corporation incurred **Re-organization professional fees** of \$215,355 representing payments to the Corporation's legal counsel, the Proposal Trustee and Noteholders' Counsel. No comparable expenses were incurred in the previous year.

For the quarter-end March 31, 2009, an **adjustment to the carrying value of the Senior Secured Notes** including accrued interest of \$3,184,635 has been recognized to reflect that the claims will be settled on the basis of the \$20,000,000 principal plus the estimated accrued interest

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to the date of the filing of the Proposal to Creditors. No comparable expenses were incurred in the previous year.

Another **adjustment to the carrying values due to restructuring** of \$1,372,292 represents the recognition of operating leases cancelled and obligations to terminated employee. No comparable expenses were incurred in the previous year.

#### Income and Mining Tax Recovery

In the quarter-ended March 31, 2009, there has been no provision (recovery) for current or future mining and income taxes as a result of the adjustments made in the fourth quarter of 2008. In the comparable period in 2008, the Corporation provided \$50,174 Part XII.6 taxes on flow-through expenditures.

#### 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 <sup>(Notes below)</sup> \$
March 31, 2009	2,193,033	(6,423,826)	(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)
June 30, 2007	11,405	(739,347)	(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.

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The loss of \$6,423,826 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 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.

### 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 \$803,739 represent GST/QST related to January production as well as other liabilities which have not been compromised by the filing process.

#### Current Assets

Total current assets decreased by \$404,831 to \$4,229,594 as at March 31, 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 \$1,632,513 reflecting final operating payments on the Fabie Bay operations, restructuring costs and the discharge of statutory government obligations.
- The amounts and settlements receivable from Xstrata increased by \$1,794,435 from \$534,336 at December 31, 2008 to \$2,328,771 at March 31, 2009 representing the final value for the December and January production.
- Accounts receivable increased by \$108,824 from \$336,381 at December 31, 2008 to \$445,205 at March 31, 2009. The increase mainly relates to GST and PST recoverable on costs, development expenditures and continuing costs. The recoveries have been delayed as a result of the NOI filing process.
- Inventories decreased by \$598,341 from \$903,270 at December 31, 2008 to \$304,929 at March 31, 2009 mainly as a result of the processing of the ore stockpile and the "clean-out" of the mill circuits following the final processing.
- Deposits on contracts and prepaid expenses decreased by \$77,236 from \$460,722 at December 31, 2008 to \$383,486 at March 31, 2009 as a result of prepaid costs being charged to operations.

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

### Current Liabilities

Total current liabilities decreased by \$3,573,910 from \$4,377,649 at December 31, 2008 to \$803,739. 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.

### Operating Activities

Cash used in operating activities totalled \$1,651,194 in the quarter ended March 31, 2009 compared to cash generated from operations of \$954,715 in the quarter-ended March 31, 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.

### Financing Activities

During the quarter-ended March 31, 2009 there were no financing activities whereas in the comparable period in 2008, the Corporation made payments on capital lease obligations of \$851,147.

### Investing Activities

In the quarter-ended March 31, 2009, the Corporation generated \$18,681 from the sale of miscellaneous equipment whereas in the comparable quarter in 2008, the Corporation invested \$830,270 in mineral interests as well as property, plant and equipment.

### Net Cash Flow

For the quarter-ended March 31, 2009, cash and cash equivalents decreased by \$1,632,513 as compared to \$726,702 in the comparable period in the prior year. The decrease in the current year is mainly as a result of the suspension of the Fabie Bay Mine which resulted in a loss for the quarter as compared to earnings in the comparable period in the previous year.

### Contractual Commitments

As at March 31, 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	44,487	-		44,487
	<u>2,259,234</u>	<u>1,976,381</u>	<u>175,110</u>	<u>4,410,725</u>

# **First Metals Inc.**

## **MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009**

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 July 2009. 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 and the shares referred to above.

### **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 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 March 31, 2009 totalled \$690,700.

#### **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

# **First Metals Inc.**

## **MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009**

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 March 31, 2009, the Corporation did not have any loans or indebtedness beyond the Notes, obligations under capital leases and normal trade payables. The Notes restricted the Corporation from incurring additional indebtedness without Noteholder approval. Under these arrangements, liens and capital lease obligations created after the closing date were limited to \$3,000,000 outstanding at any one time. Management monitored this restriction on an ongoing basis and prior to December 31, 2008 the Corporation was in compliance with the restriction.

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 in note 1, 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.

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

Liabilities subject to compromise consist of the following:

	<u>March 31, 2009</u>
Senior Secured Notes .....	\$ 20,000,000
Capital Leases .....	3,187,198
Operating Leases.....	951,632
Trade payables and other accrued liabilities .....	2,223,077
Interest on Senior Secured Notes .....	<u>1,686,999</u>
Total Liabilities subject to compromise .....	<u>\$ 28,048,906</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, it would be premature to estimate 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 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) start-up and continued production at the Horne Mill, (ii) development and operating risks at the Magusi Deposit, (iii) exploration risks, (iv) environmental risks and hazards (v) uninsurable risks, (vi) market factors and volatility of commodity prices, (vii) exchange rate fluctuations, (viii) management influence and control (now substantially reduced owing to the capital reorganization), (ix) loss of mining claims, (x) ability to arrange additional financing and (xi) 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.

### Copper Prices

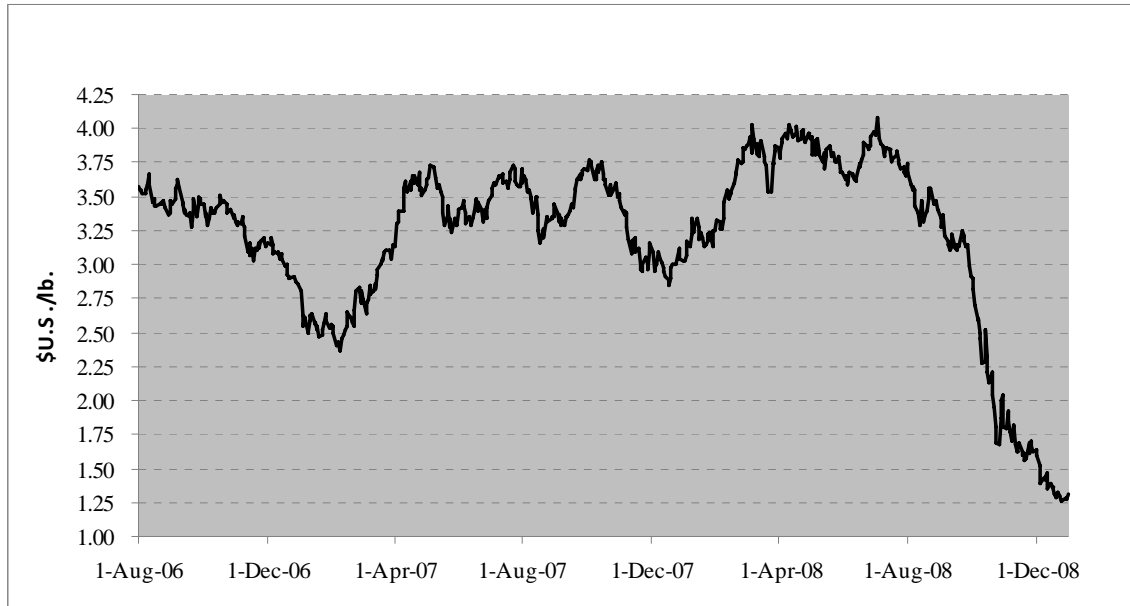
#### Overview:

In August 2006 when the Corporation issued its IPO, 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.

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

### COPPER PRICES DURING THE PERIOD FROM AUGUST 2006 TO DECEMBER 2008



#### LME Prices, Provisional and Final Pricing:

##### Basis of Pricing:

In accordance with the Corporation's accounting policy, revenue from the sale of metal in concentrate 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.

In accordance with the custom milling agreement, forty-five days after the production month, the Corporation receives 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.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

### 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.

During the period prior to achieving commercial production, net revenues were recorded as a reduction of the pre-production and mine development costs. These provisional payments were based on an average copper price of U.S. \$2.98/lb. Accordingly, the final payment for November 2007 production was based on the average LME prices for February 2008 (U.S. \$3.58/lb) and correspondingly the December 2007 production was based on the average LME pricing for March 2008 (U.S. \$3.83/lb.).

### 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.

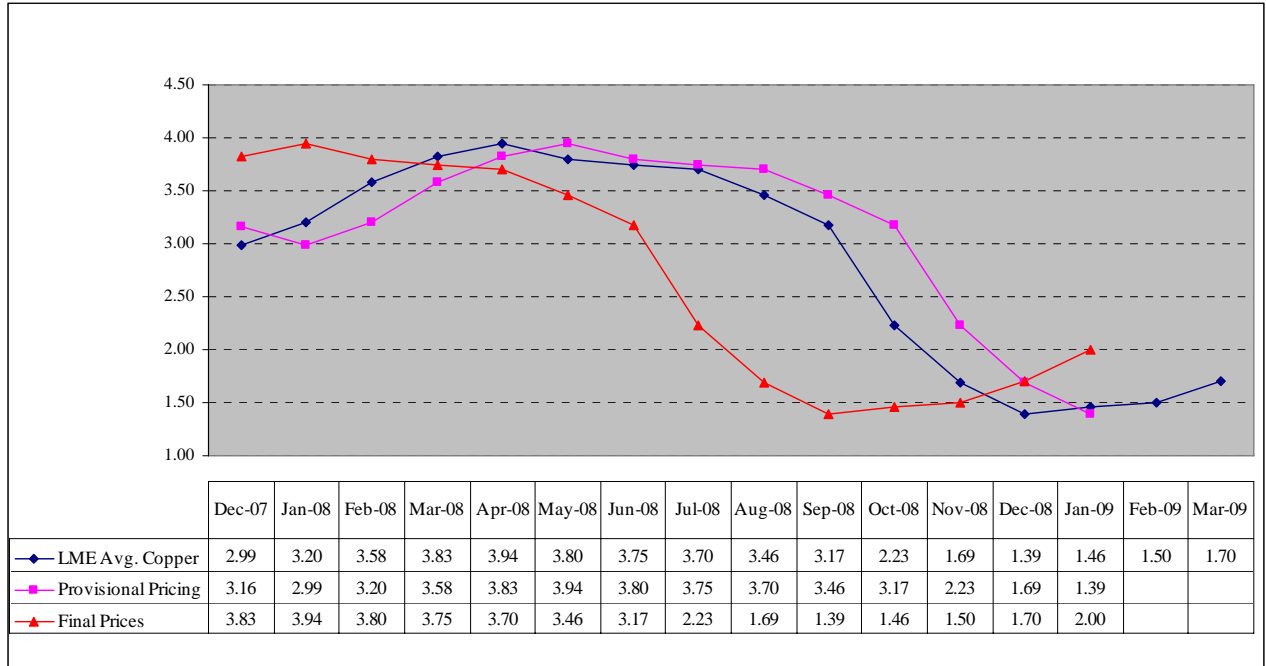
The sudden and dramatic decline in prices resulted in significant overpayments to First Metals in a number of months during the second half of 2008 as the provisional settlements significantly exceeded the final settlements even after reflecting the 10% holdbacks and final adjustments to weights and 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.

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

### LME PRICES, PROVISIONAL AND FINAL PRICING DURING 2008:



#### 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.

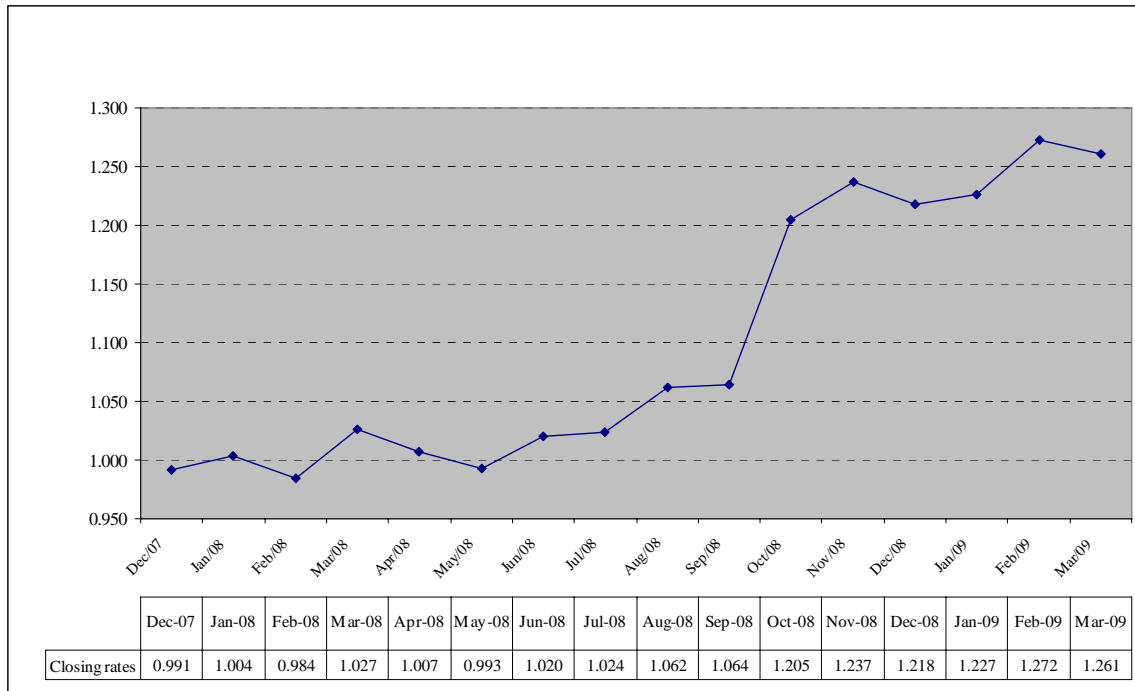
# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

### \$U.S./\$Cdn Exchange Rates

The Corporation reports its financial results in Canadian dollars. The majority of its costs are incurred in Canadian dollars, while its metal sales are completely realized in U.S. dollars.

### \$U.S./\$CDN EXCHANGE RATES JANUARY 1, 2008 TO MARCH 31, 2009



For the year of 2008, the Canadian dollar averaged C\$1.07/U.S.\$ . During the fourth quarter the Canadian dollar averaged C\$1.22/U.S.\$ . The precipitous fall in the Canadian dollar tended to mitigate the fall in U.S. dollar quoted price of copper in the similar period. In the quarter-ended March 31, 2009, the Canadian dollar averaged C\$1.25/U.S.\$

In order to minimize the risks from the conversion of U.S. dollar receipts, Management has adopted a policy of generally converting U.S. dollar receipts as received and it works with its bankers and their currency traders to exploit market opportunities in some cases selling the U.S. dollars forward in advance of being received.

### CHANGES IN ACCOUNTING POLICIES

#### Adoption of Accounting Changes

On January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections Section 1535, Capital Disclosures; Section 3862, Financial

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1400, Financial Statement Presentation. In accordance with the transitional provisions, prior periods have not been restated. The principal changes resulting from these new standards are described below:

Section 1535, Capital Disclosures - establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard, the Corporation is required to disclose quantitative and qualitative information about its objectives, policies and procedures for managing capital.

Section 3031, Inventories - provides guidance on the determination of costs and the subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Section 3862, Financial Instruments - disclosures - requires entities to disclose quantitative and qualitative information that enable users to evaluate (a) the significance of financial instruments for the Corporation's financial performance, and (b) the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks.

Section 3863, Financial Instruments - presentation - establishes the standards for the classification of financial instruments as liabilities or equity and the classification of related gains, income, and/or losses in the statement of operations. The adoption of these standards did not result in any changes to the Corporation's financial statements.

Section 1400, General Standards of Financial Statement Presentation was amended to include guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern, taking into account all available information about the future, which is at least, but not limited to twelve months from the balance sheet date.

### **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

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

### FOR THE QUARTER ENDED MARCH 31, 2009

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.

#### **Future 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.

#### **International Financial Reporting Standards (IFRS)**

In February 2008, the CICA 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. The Corporation is currently in the planning stages and cannot at this time determine the impact of the transition to IFRS. As at December 31, 2008, the Corporation is in the process of completing "Phase 1 – Preliminary Study" which is to analyze the existing financial reporting and identify the key impact areas of IFRS.

#### **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 - \$ 75,000) was paid in connection with these agreements in 2009.

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 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 March 31, 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 March 31, 2009.

#### 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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 with the following identified material weakness:

- The filing of the NOI on January 7, 2009, has created organizational risks as the Corporation's staff complement has been reduced and a number of individuals are now retained on a part-time basis. These changes have impacted the Corporation's ability to process in a timely fashion, the volume of the work required at the mine site as well as the segregation of duties. Currently, the Corporation employs only one full time individual with the requisite financial skills and core knowledge of the business needed to determine appropriate critical accounting estimates in accordance with Generally Accepted Accounting Principles and reflect these concepts in the compilation of the Corporation's financial statements.

# **First Metals Inc.**

## **MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)**

### **FOR THE QUARTER ENDED MARCH 31, 2009**

- The financial reporting is processed using an enterprise resource planning and reporting system which is not widely used in the mining industry which results in potential additional risks if the organization suffers further staff cut-backs.

The limited staff complement requires the Corporation's senior management to participate in most aspects of each transaction cycle. Consequently there is an inherent risk of management overriding controls and procedures. In order to mitigate the potential risks as a result of the reduced staff, the Corporation implemented a number of financial system management exception reports which enables the senior management group to review, analyze and follow-up on unusual items. The Corporation has engaged a qualified independent management accountant as needed. The Chief Financial Officer also ensures that the audit committee is aware of the critical assumptions and estimates contained in the financial statements.

In order to mitigate the financial reporting systems risks, the Chief Financial Officer has gained a detailed knowledge of the systems and developed a strategy which includes migrating some of the processing from the mine site to the corporate office as well as simplifying the processing within the system.

The Chief Executive Officer and the Chief Financial Officer have filed certificates on SEDAR as required under National Instrument 52-109 with guidance on CSA Staff Notice 52-316 regarding assertions on material facts, assertions on the fair presentation of the Corporation's financial statements, acknowledgements on the design and effectiveness of disclosure controls and procedures, and of internal control over financial reporting.

#### **SUBSEQUENT EVENTS**

##### **Proposal to Creditors**

On January 7, 2009, the Corporation filed a NOI to restructure the affairs of the Corporation and amend the terms of any and all agreements between the Corporation and affected creditors which resulted in claims being fully and finally resolved and settled. A proposal to creditors was issued on April 17, 2009.

The Proposal was accepted by the creditors on May 6, 2009 and was approved by the Ontario Superior Court of Justice on June 17, 2009.

Under the terms of the Proposal, each person holding a proven secured claim shall receive 75 shares of the Corporation and 8 call warrants for each \$1 of proven secured claim; \$3,000,000 less proceeds from the sale of equipment of promissory notes (the "New Notes"), each with a five year term shall be issued on a pro rata basis to persons holding a proven secured claim; and 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 future proceeds from the sale of equipment shall be applied to reduce the amounts secured by the new Notes. The secured portion of the claims of NoteHolders was determined to be \$3,500,000 and the balance of the NoteHolders' claims, being \$16,500,000 plus interest unpaid and accrued and interest on unpaid interest were categorized as an unsecured claim.

# **First Metals Inc.**

## **MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)**

### **FOR THE QUARTER ENDED MARCH 31, 2009**

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 a cash payment equal to ten per cent of that person's proven unsecured claim up to a maximum of \$500.

Based on the current estimates for secured claims and unsecured claims, approximately 314 million common shares may be issued in conjunction with the debt-forgiveness which when fully implemented may result in a total of approximately 356 million shares outstanding. The foregoing is subject to the proof of claims process being administered by the Proposal Trustee, BDO Dunwoody.

If the associated call warrants were to be exercised, then an additional approximately 28 million shares would be issued resulting in approximately 384 million shares outstanding on a fully diluted basis (with cash proceeds to the Corporation of \$840,000 to \$1,400,000).

Following the approval of the Superior Court of Ontario and anticipating the proof of secured and unsecured claims, management has estimated that the "debt forgiveness" for tax purposes will be approximately \$19,455,000 and it will result in an elimination of the non-capital loss carry forwards of \$2,703,776 as reported at December 31, 2008 plus further amounts resulting from the first quarter loss, as well as a further reduction in the undepreciated capital cost allowance and cumulative Canadian development expenditures and the Cumulative Canadian exploration expenditures on a combined basis of \$13,701,515. At December 31, 2008, these combined pools totalled \$32,727,585.

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.

## **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 \$6,412,076 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

# First Metals Inc.

## MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009

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 March 31, 2009, there were 42,851,198 outstanding common shares and 2,958,636 stock options outstanding. As at March 31, 2009, the weighted average remaining contractual life of outstanding options was approximately 1.27 years (December 2008 - .94 years) and a total of 2,132,386 (December 31, 2008 - 2,674,886) options were exercisable at a weighted average exercise price of \$1.07 (December 31, 2008 - \$1.08).

At March 31, 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
	<b>3,399,997</b>		

# **First Metals Inc.**

## **MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A) FOR THE QUARTER ENDED MARCH 31, 2009**

As noted above, the Corporation expects to issue approximately 314 million additional shares and 28 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 Corporation's Initial Public Offering ("IPO") available on the SEDAR website ([www.sedar.com](http://www.sedar.com)).

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

Forward-looking statements in this MD&A describe the Corporation's expectations as of 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](http://www.sedar.com)) and on the Corporation's own website ([www.firstmetalsinc.com](http://www.firstmetalsinc.com)).