

HMZ METALS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of HMZ Metals Inc. ("HMZ" or the "Company"), is prepared as of August 21, 2008, and constitutes management's review of the factors that affected the Company's financial and operating performance for the six months ended June 30, 2008.

This MD&A should be read in conjunction with the Company's interim financial statements for the 6 months ended June 30, 2008. This MD&A is expressed in Canadian dollars unless otherwise noted.

Cautionary Note on Forward-Looking Statements and Risk Factors

This MD&A contains certain forward-looking statements including estimates, forecasts, and statements as to management's expectations and involve numerous assumptions, risks and uncertainties and, actual results may vary.

The Company does not assume the obligation to revise or update these forward-looking statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events, except as may be required under applicable securities laws.

Loss of Control of Joint Venture Interest

In November 2005 the Company determined that it no longer had control over Guangxi Guanghe Metals Co. Ltd. ("GGM" or the "joint venture") as Hechi Industrial Co. Ltd. ("Hechi" or "the Company's joint venture partner") had failed to; transfer funds that had been earned by the joint venture in accordance with the Cooperative Joint Venture Contract ("the joint venture agreement"), provide monthly operating reports for joint venture assets, provide evidence of compliance with local laws and regulations pertaining to the lawful operation of the assets and enact management, operational and financial protocols mandated by Company and its representatives.

As such the Company ceased consolidating results and recorded its investment at cost effective January 1, 2005. Comparative results as at December 31, 2004 and for the year ended December 31, 2004 have not been restated. For the fiscal year ended December 31, 2005 due to the uncertainty of recovering such amounts, the investment in GGM owned through Biogan BVI International Inc. ("Biogan BVI") (amounting to \$12,856,244) was written down to \$1.00 pending a resolution of the dispute.

The Company has not yet taken steps to dissolve the joint venture and is involved in arbitration proceedings with its joint venture partner. The Company believes that it is unlikely that the Chinese partner will seek, or is able to seek, any further funds from the Company. No claims have been made to date.

Overview of the Company

HMZ is an Ontario based company listed on the CNQ Exchange.

HMZ has been involved in smelting and milling operations through its interest in GGM in the Peoples Republic of China. GGM was established in January 2000 to hold and operate a copper smelter, a base metals mill and a 9% interest in Gaofeng Mining Co. Ltd, ("GMC"), which owns and operates the Gaofeng mine and ore processing facilities; all of which are located in southern China's Guangxi province.

In August 2005, it came to the Company's attention that its joint venture partner had failed to transfer funds that had been earned by the joint venture in accordance with the joint venture agreement.

HMZ is currently in a long standing dispute with Hechi as to the ownership of assets, cash flow and profits derived therefrom. As a result of the above referenced dispute, HMZ has written the value of its indirectly held 92% equity interest and 95% profit interest in GGM down to \$1.00 pending a resolution of the current dispute.

The Company's discovery of the failure to transfer funds that had been earned by the joint venture in accordance with the joint venture agreement occurred shortly before interim financial statements for the six

months ended June 30, 2005 were to be released. The Company took the position that it would not file its interim financial statements for the six months ended June 30, 2005 before meeting with its joint venture partners and establishing the facts surrounding the failure to transfer funds that had been earned by the joint venture in accordance with the joint venture agreement.

In light of the fact that the Company would be late in releasing interim financial statements for the six months ended June 2005 the Company applied for and was granted a Management Cease Trade Order ("MCTO") from the Ontario Securities Commission.

The MCTO is a mechanism which is often requested by senior management of publicly traded Company's in the event of late release of financial statements. Under an MCTO, management and insiders of a publicly traded Company are precluded from trading securities of the Company for that time period for which the MCTO is in effect.

The Board of Directors established a Special Committee to investigate, in conjunction with senior management, independent legal counsel and other advisors, the circumstances surrounding the failure to transfer funds that had been earned by the joint venture in accordance with the joint venture agreement. In connection with the investigation the Special Committee retained the services of Deloitte LLP to conduct a forensic audit of GGM.

After on-site meetings and numerous discussions between the parties, the Company believed Hechi to be sincere in its indicated willingness to transfer the funds into the joint venture and as such accounted for the USF\$1.8 million disputed amount as an advance to its joint venture partner and therefore a receivable for the joint venture. Financial Statements for the six months ended June 30, 2005 were released October 19, 2005. The MCTO was revoked shortly thereafter.

In an effort to facilitate the conclusion of an amicable resolution of outstanding issues between the parties the Company retained the services of specialist consultants experienced in solving disagreements between foreign entities and their Chinese Partners. Accordingly the Company entered into discussions with its joint venture partner regarding the transfer of funds into the joint venture and other operational issues.

During the period September through November 2005 Hechi worked cooperatively and in an apparently forthright manner with the Company towards a resolution of the funds transfer and other operational issues. In light of the foregoing the Company released its interim financial statements for the period ended September 30, 2005.

During the course of these discussions the joint venture partner refused the Company's third party accounting firms' representatives access to joint venture books and records. This refusal made it impossible for the Company to prepare audited annual financial statements for the year ended December 31, 2005.

The Company and its consultants were of the opinion that they had been engaged in good faith discussions with Hechi. As apparently good faith discussions were abandoned by Hechi in late February 2006 the Company redirected its efforts towards forcing a resolution of outstanding issues under the joint venture agreement to which parties are signatories.

As a result of the indeterminate time frame associated with resolving the dispute with the Hechi, HMZ has taken the decision to write the value of its joint venture interest down to \$ 1.00 pending a resolution of current legal initiatives.

Overall Performance

As previously noted the company changed its method of accounting for the investment in GGM from consolidating its share of the Joint Venture results to the equity method and subsequently wrote down the investment to \$1.00. Any recovery of the investment will be taken into income in the period in which it is received.

Results of Operations

A discussion of the Company's results of operations is effectively precluded by the action of the Company's joint venture partner namely; refusal to provide operating results and refusal to grant access to joint venture accounts and records for the reporting period. As such operations have been limited to efforts to resolve the dispute with Hechi and legal initiatives related thereto.

Consolidated Results of Operations for the first six months of fiscal 2008 vs fiscal 2007

	Six months ended June 30, 2008 \$	Six months ended June 30, 2007 \$
Total Revenues	25,857	4,168
Gross Profit	25,857	-
Gross Margin	100%	-
Income (Loss) from operations	(387,274)	(248,773)
Income (Loss) from discontinued operations	-	-
Net Loss	(387,274)	(248,773)
Net Income / (Loss) per share	(0.00)	(0.00)

Summary of Quarterly Results

	2008		2007			2006		
(\$'000s)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net sales	26	0	0	0	0	0	0	0
Operating income (loss)	(387)	(420)	(521)	(325)	(249)	(467)	(945)	(277)
Net income (loss)	(387)	(420)	(521)	(325)	(249)	(467)	(945)	(277)

Liquidity

The Company has no operating revenues (revenues shown above are sub-lease payments, thus not operating revenue) and relies primarily on equity financings to fund administrative and other operating costs.

Balance Sheet Data

<i>Working Capital</i>	Six months ended June 30, 2008 (\$)	Fiscal year ending December 31, 2007 (\$)
Current Assets	35,088	220,909
Current Liabilities	2,741,009	2,385,261
Working Capital / (Deficit)	(2,705,921)	(2,164,352)
Improvement in working capital versus year earlier period	(259,873)	

Capital Resources

The Company has no operating revenues and relies primarily on equity financings to fund administrative and other operating costs.

Off Balance Sheet Arrangements

The Company had no off balance sheet arrangements through June 30, 2008.

Related Party Arrangements

Pursuant to a voluntary bankruptcy of Biogan International Inc. ("Biogan"), a Delaware Company, the amounts due from and amounts due to Biogan have been written off.

The Company paid consulting fees to the Chief Executive Officer of the Corporation and a company controlled by the Chief Executive Officer of the Company in the amount of \$67,500. In addition, consulting

fees were paid to the Chief Financial Officer and a corporation owned by the Corporate Secretary in the amounts of \$54,000 and \$15,000 respectively.

Financial and Other Instruments

Due to the short term nature of Company's cash, accounts receivable, trade payables and accrued liabilities approximate their carrying values.

Critical Accounting Estimates

Management of the Company is required to make estimates in preparing financial statements in conformity with generally accepted accounting principles. These estimates affect the reported amounts of liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Changes to these estimates could result in material changes to these line items. The critical accounting estimates made by Company relate to accounting for the items relating to property and investments (see discussion of the write off of the company's investments on page 1).

Translation of Foreign Currency

The reporting currency of the Company is the Canadian dollar and the functional currency of GGM is the Chinese Remimbi ("RMB"). In the event of a successful resolution of the current dispute with Hechi, the RMB will be the currency in which the Company conducts its primary economic activities.

Impairment of Long-Lived Assets

This policy requires the Company to estimate undiscounted future cash flows expected to be generated by the assets of the Company. Due to the uncertainty of the Company's interest in GGM and any future cash flows, the investment is being carried at \$1.00.

Legal Action

As of the date hereof HMZ is involved in legal actions against both its Chinese cooperative joint venture partner ("Hechi") and former Chief Executive Officer and Director of the Company; Mr. Gilles Laverdiere.

The legal action against Hechi consists of a) an action under the arbitration provisions of the cooperative joint venture agreement that governs the operations of the Company's 92% owned joint venture company in China and b) an action by the Company against Hechi in The People's High Court, Guangxi, P.R.C. for the return of capital, profits and damages.

In addition to the above the Company has received a statement of claim from former Chief Executive Officer and Director Mr. Gilles Laverdiere in which Mr. Laverdiere claims amounts allegedly due from August 2005 through the date of his resignation May 16, 2006. The Company has in turn filed a statement of defence and counterclaim to which Mr. Laverdiere subsequently filed a response regarding the forgoing. As of the date hereof the Company is preparing its response and is of the opinion that the claim is of no merit, is vigorously defending same and has presented a counterclaim.

As these issues are currently before the Arbitration Tribunal and the Courts, the Company is necessarily constrained from discussing these issues in detail.

Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares and an unlimited number of Special Shares, issuable in series with such attributes as designated by and at the discretion of, the board of directors of the Company. Each Common Share and Series I Special Share entitles the holder of record thereof to vote at all meetings of shareholders of the Company.

	Number Outstanding
Common Shares	109,998,400
Common Share Purchase Warrants Exercise prices range from \$0.05 - \$0.15 per share and expiry dates range from June 30, 2008 – November 15, 2009	23,014,427
Series I Special Shares Convertible into common shares of the Company for no additional payment provided that the Company has received confirmation that certain debts incurred in connection with the acquisition of the GGM assets by the Company's Joint Venture partner have been paid in full.	30,200,000

Subsequent Events

During April, May and June 2008 the Company has raised, \$259,500 through the issuance of non-interest bearing redeemable convertible debentures. The Debentures are convertible into Units on a dollar for dollar basis. Each Unit is priced at \$0.05 and consists of one common share and one-half common share purchase warrant. Each full warrant is exercisable at \$0.10 for the first twelve months from closing and at \$0.20 for the second twelve months from closing. Conversion of the Debentures will occur subsequent to and therefore not be subject to a 1:5 share consolidation which share consolidation is subject to shareholder approval at a meeting of shareholders to be held June 30, 2008 and regulatory approval. Proceeds from the Debentures will be used to fund working capital requirements.

During April 2008 the Company cancelled the 1,925,000 options outstanding to acquire common shares which had an exercise price of \$0.40 and were due to expire in March 2010.

The company plans to dissolve the Special Committee as a result of the completion of its mandate – The Committee was set up to independently monitor management's review of losses sustained by HMZ's China subsidiary Guangxi Guanghe Metals ("GGM").

The Committee is comfortable that management is vigorously pursuing recovery of the assets misappropriated from GGM.