

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 "Corporation"), is prepared as of October 14, 2005 and constitutes management's review of the factors that affected the Corporation's financial and operating performance for the interim period ended June 30, 2005. This MD&A has not been reviewed by the Corporation's auditors.

This MD&A should be read in conjunction with the Corporation's MD&A and audited consolidated financial statements for the year ended December 31, 2004 and unaudited interim period ended March 31, 2005 available on SEDAR under www.sedar.com. This MD&A is expressed in US dollars unless otherwise noted.

Overview of the Corporation

HMZ is a metals Corporation that produces and sells blister copper containing gold and silver, as well as sulphuric acid, zinc concentrates and lead-antimony concentrates. All of the Corporation's products are sold in the People's Republic of China ("PRC").

The main factors affecting the financial results of the Corporation are metal prices, concentrate treatment charges, availability of feed for the smelter and concentrator, foreign exchange exposure and the availability of working capital to fund the purchase of raw materials.

The Corporation operates in China as a Chinese cooperative joint venture Corporation, Guangxi Guanghe Metals Co. Ltd. ("GGM"). HMZ owns an indirect 92 percent equity interest and a 95 percent profit interest in GGM. Hechi Industrial Corporation Limited ("Hechi"); the Corporation's joint venture partner, is a company located in the PRC and owned by Chinese citizens. The principal assets of GGM are the Hechi copper smelter, the Wuxu ore processing facilities and a nine percent interest in Gaofeng Mining Co. Ltd. ("GMC"), which owns and operates the Gaofeng mine and ore processing facilities.

Highlights of the Second Quarter 2005

Positive:

- The Corporation recorded operating income of \$1.5 million for the three months ended June 30, 2005 compared with \$0.5 million in the year earlier period
- Base metals prices remained steady to higher during the period due largely to continued historically low inventory levels at the various metals exchanges and strong global demand. The following is a summary of average London Metals Exchange metal prices for the first six months and second quarters of 2005 and 2004

	First Six Months		Second Quarter	
	2005	2004	2005	2004
Copper (\$ per tonne)	3,327	2,759	3,387	2,788
(\$ per pound)	1.51	1.25	1.54	1.26
Zinc (\$ per tonne)	1,294	1,049	1,273	1,028
(\$ per pound)	0.59	0.48	0.58	0.47
Lead (\$ per tonne)	982	827	986	811
(\$ per pound)	0.45	0.38	0.45	0.37
Gold (\$ per ounce)	428	401	427	393
Silver (\$ per ounce)	7.07	6.45	7.15	6.25

- Completed the initial public offering ("IPO") of the Corporation and listed its Common Shares on the Toronto Stock Exchange under the symbol HMZ.
- Completed a CDN\$15.5 million financing coincident with the IPO.
- Made the final capital contribution of \$7.3 million to GGM.

- Commenced phase one of the Hechi Copper Smelter expansion program with the goal of doubling annual smelter capacity to 10,000 tonnes of blister copper.
- Completed the expansion of the blast furnace and the construction of a second continuous converter allowing the smelter to re-start operations in September at 80% of its forecast capacity.

Negative:

- Higher raw material costs have increased working capital requirements.
- Power interruptions and lack of feed reduced throughput at the Wuxu Mill
- Subsequent to the end of the reporting period the Chinese Renminbi – United States dollar exchange rate was re-valued from 8.27:1 to 8.11:1
- Subsequent to the end of the reporting period an unauthorized transfer of funds was discovered.

Outlook

In August 2005, it came to the Corporation's attention that in July, 2005 there had been an unauthorized transfer of cash of approximately \$1.8 million (RMB 14.5 million) from the Corporation's joint venture GGM to its joint venture partner Hechi. A special committee of the Board of Directors, in conjunction with senior management, independent legal counsel and other advisors is conducting an investigation into the circumstances surrounding this unauthorized transfer of funds with the objective of:

- (i) determining whether there have any other unauthorized transfers of assets from GGM to Hechi;
- (ii) confirming that there are appropriate controls in place to ensure that no further such transfers will occur and,
- (iii) determining what remedies are available to effect the return of the transferred funds or alternatively to put in place terms of repayment or other financial arrangements for reimbursement which are satisfactory to the Corporation.

In the event that the Corporation is unsuccessful in its effort to recover all funds transferred without authorization, it may be necessary to record a write-off of any unrecoverable amounts in the third quarter ended September 30, 2005.

This issue is consuming a significant portion of senior management time and must be resolved as quickly and efficiently as possible. It is not expected that this will affect ongoing operating results of the Corporation.

The copper market continued its strength in the first half of the year as world mine production was lower than expected resulting in continuing high copper prices as well as treatment charges. This continues to be positive for HMZ as its copper smelter expansion program continued during the second quarter with a majority of this work completed in the third quarter. Production at the Corporation's Hechi copper smelter restarted in the third quarter. The Hechi smelter, now the largest in China's Guangxi province, is currently operating at 80% of its forecast expanded capacity of 10,000 tonnes of blister copper per year. Full capacity is expected to be achieved in the first quarter of 2006 with the installation of an oxygen plant. The funds for this expansion (approximately \$3.7million) were provided from the \$7.3 million contributed to GGM from the initial public offering in April 2005.

The balance of the funds are intended for the acquisition of an additional 20% of the Gaofeng mine and to provide the necessary working capital which should reduce the risk of being short of smelter feed in the future. Organizational restructuring of the government agency that owns this 20% interest of Gaofeng is delaying completion of this transaction.

Information is being gathered to evaluate two projects including a former gold producer and a large base metal tailings project of significant indicated value. In addition, now that the Corporation has made the final capital contribution required under the GGM joint venture, the Corporation is being presented with other opportunities for future growth. These opportunities are being carefully evaluated and prioritized in a disciplined manner.

Operating Review

Three months ended June 30, 2005 compared with the three months ended June 30, 2004

For the three months ended June 30, 2005, the Corporation recorded a consolidated net loss of \$29,400 on net sales of \$6.9 million compared with consolidated net income of \$0.4 million on net sales of \$4.4 million for the same period in 2004. This sales increase is due to a 21% increase in the price of copper combined with a 51% increase in sales of blister copper. Cost of sales for the three months ended June 30, 2005 was \$5.2 million compared with \$3.7 million in the same period of 2004. This 41% increase in cost of sales is due to the additional sales of blister copper.

Operating income during the second quarter of \$1.5 million increased by \$1.0 million. However, net income before taxes and non-controlling interest increased by only \$200,000 mostly due to the higher administration costs associated with being a public Corporation during the second quarter of 2005. Corporate administration costs were \$0.8 million higher than in the same period of 2004. It is expected that these costs will stabilize over the next six months to approximately \$0.6 million per quarter. In prior years the Corporation was private and not required to incur the costs associated with regulatory disclosure and shareholder issues. In addition, the Corporation is taxable during 2005 in China and recorded a tax expense of \$0.5 million for the second quarter compared with nil for the same period in 2004.

Net cash used by operating activities was \$3.8 million for the three months ended June 30, 2005 compared with cash generated of \$290,000 for the same period of 2004. During the second quarter of 2005 the Corporation paid creditors of Biogan \$1.5 million as part of the requirements under the IPO. Promissory notes of \$376,200 were also repaid from the proceeds of the financing completed on April 6, 2005. Decreases to accounts payable and accrued liabilities used \$1.9 million of working capital during the three months ended June 30, 2005.

Six months ended June 30, 2005 compared with the six months ended June 30, 2004

For the six months ended June 30, 2005, the Corporation recorded a consolidated net loss of \$1.7 million on net sales of \$10.2 compared with consolidated net income of \$1.0 million on net sales of \$7.9 million for the same period in 2004. Net sales were higher than the same period of 2004 by \$2.3 million or 29% due again to a combination of higher metal prices and sales volume.

Cost of sales for the period ended June 30, 2005 was \$7.8 compared with \$6.3 million in the same period of 2004, higher by \$1.4 million or 23%. During the first quarter, the Corporation recorded a non-cash stock-based compensation expense of \$1.5 million and corporate costs increased by \$1.2 million during the six months of 2005. In prior years the Corporation was private and therefore did not incur the costs associated with regulatory disclosure and shareholder issues. As a result, corporate administration costs for the first six months of 2005 were significantly higher than the same period of 2004.

Income taxes increased to \$0.7 million in the first six months of 2005 compared with nil for the same period of 2004 as losses incurred in prior years have been used up for tax purposes.

The net cash used by operating activities was \$3.1 million for the six months ended June 30, 2005 compared with cash used by operating activities of \$0.6 million for the same period of 2004. The increase in net cash used was mostly due to a \$2.7 million increase in inventories. The other current assets increase was basically offset by a similar increase in current liabilities.

Capital and lease expenditures for the six months of 2005 amounted to \$649,900 compared with \$13,700 for first six months of 2004. In April, 2005 the Corporation made a capital contribution of \$7.3 million to GGM, the joint venture of which the Chinese partner owns an 8% interest. As a result, the partner's share of the contribution is \$0.6 million and is included in fixed assets and will be depreciated on the same basis as operating assets. Capital expenditures in the amount of \$3.7 million are budgeted to fund the expansion of the copper smelter to increase throughput to 10,000 tonnes of copper per year. To the end of June, 2005 \$55,200 had been spent on the project.

Summary of Quarterly Results

	2005		2004			2003		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
(\$000's)								
Net sales	6,905	3,272	4,778	3,138	4,404	3,469	9,701	6,756
Operating income (loss)	1,510	589	(758)	112	540	718	304	462
Net income (loss)	(29)	(1,648)	(431)	338	377	577	155	366

Hechi Copper Smelter

The Hechi copper smelter produces blister copper and consists of a blast furnace and a continuous horizontal converter. It is located in the city of Hechi in the province of Guangxi and acquires its feed from local base metal mines. The Hechi copper smelter complex also produces sulphuric acid which is sold locally.

As of the date of this writing phase one of the Hechi smelter expansion program is complete and operations began at an increased throughput the last week of September, 2005. The first phase included an increase in size of the blast furnace to 6.7 m² and the addition of a second continuous converter. The second phase of the expansion program should be completed by the end of the first quarter 2006 and will consist of the installation of an oxygen plant and modernization of the smelters' sulphuric acid plant which will enhance sulphuric acid recoveries and reduce hazardous emissions surpassing the environmental standards of the PRC.

For the second quarter of 2005, income before taxes was \$1.6 million on net sales of \$6.7 million compared with income before taxes of \$0.6 million on net sales of \$3.9 million the same period of 2004.

Results for the smelter during the first six months and second quarters of 2005 and 2004 are shown in table below.

	First Six months		Second Quarter	
	2005	2004	2005	2004
Cu Concentrate (t)	10,414	11,405	6,051	4,435
Cu Concentrate Grade (%)	19.8	17.8	19.8	15.8
Blister Copper Production (t)	2,011	2,027	1,171	710
Blister Copper Sales (t)	2,315	1,517	1,337	887
Sulphuric Acid Production (t)	7,261	7,674	3,925	2,590
Sulphuric Acid Sales (t)	6,331	5,484	4,111	2,112
Gold (kg)	11.5	32.1	11.5	10.5
Silver (kg)	7,509	10,310	7,509	5,058
Net Sales	\$9,772,100	\$7,088,400	\$6,704,400	\$3,908,200
Income before taxes and non-controlling interest	\$2,080,200	\$1,363,600	\$1,494,000	\$612,200

The smelter operated for 70 days in current reporting period in comparison to 61 days in the year earlier period

Gold and silver are produced as by-products of blister copper production. In the table above there is no difference in the amounts produced during the six month period ended June 30, 2005 and the amounts shown for the three months ended June 30, 2005 as no recovery information to calculate the production was available for the first quarter 2005.

Wuxu Mill

The Wuxu Mill is a custom milling operation which treats zinc-lead ore from area mines. During the three months ended June 30, 2005 the Wuxu mill incurred a loss before taxes of \$11,100 on net sales of \$200,700 compared to a loss of \$123,200 on net sales of \$498,400 for the same period of 2004.

The second quarter 2005 results for the Wuxu milling operation are shown in the table below:

	First Six Months		Second Quarter	
	2005	2004	2005	2004
Ore Milled (t)	5,726	7,603	2,226	4,700
Zn Grade (%)	5	12	4	10
Pb/Sb Grade (%)	4	5	4	5
Zn Concentrate (t)	304.2	911	91.2	466
Pb/Sb Concentrate (t)	235	313	92.8	227
Zn Conc. Grade (%)	55	53.5	54.1	54
Pb/Sb Conc. Grade (%)	44.2	46	48.8	49
Net Sales	\$405,300	\$784,700	\$200,700	\$498,400
Income before taxes and non-controlling interest	(\$42,500)	(\$161,000)	(\$11,100)	(\$123,200)

From time to time the Wuxu mill has experienced power interruptions and difficulty in sourcing adequate local ore and has operated below capacity. Indications from recent trends were more positive. However, the second quarter would indicate that this is not dependable. Multiple small mine closures in the region have both reduced the availability of and increased the cost of ore as well as reduced the grade of the feedstock.

This combined with increased cost of supplies has prevented the Wuxu mill from attaining profitability. Management intends to analyse the output of each mine in the area in order to determine an appropriate stable feed of ore to the mill and determine whether an expansion is warranted to bring costs down. Other alternatives are also being reviewed.

Capital Resources and Liquidity

Working capital at the end of June 2005 was \$7.9 million compared with a working capital deficiency of \$3.4 million at the end of December 2004.

On April 6, 2005, the Corporation completed its initial public offering and issued 38,843,750 Units at CDN\$0.40 per Unit for gross proceeds of CDN\$15.5 million before the costs of issue. Each Unit consists of one common share and one warrant to purchase a common share at CDN\$0.50 per share for two years after the closing of the offering. The exercise of the warrants can be accelerated by the Corporation if the shares trade at a 20 day weighted average price of CDN\$0.80 per share or more.

Of the amount raised the Corporation made its final capital contribution to GGM joint venture in the amount of \$7.3 million. The major portion of this contribution will be used for the Hechi copper smelter expansion. A portion of the proceeds of the offering was used to fund the \$1.5 million paid to Biogan's creditors as part of the restructuring requirement while \$0.7 million was used to reduce accounts payable and \$1.1 million to pay accrued liabilities and other payables. The majority of accounts payable were related to the cost of completing the IPO.

Based on the Corporation's current operating plan and current metal prices, the operations of the Corporation will generate positive cash flow. Capital improvements to the Hechi copper smelter will increase its production capacity by approximately 100 percent. This is expected to increase cash flow from the smelter by approximately \$1.0 million per annum starting in four to six months. The acquisition of an additional 20 percent interest in GMC should generate dividends of \$2.0 million per year based on the projections for the Gaofeng mine.

The Corporation's administration costs, which are expected to increase to approximately \$200,000 per month, will partially offset these anticipated cash improvements.

Although there are no assurances that these projections will be achieved, management believes that sufficient cash will be available to finance the Corporation's operating requirements in China for the foreseeable future, to implement its business plan and to provide the funding necessary to complete the reviews and the due diligence on two projects contemplated by the existing letters of intent.

Off Balance Sheet Arrangements

The Corporation periodically engages in the purchase and sale of certain copper futures contracts on the Shanghai Metals Exchange. These are not acquired to hedge specific forecast sales of copper from the Hechi copper smelter, and, accordingly are not treated as hedges. There were no contracts outstanding at the end of June 2005.

Related Party Arrangements

The Corporation has related party debt balances with Hechi and Biogan. The debts are a result of advances made to HMZ to fund working capital requirements. During the second quarter of 2005, all but \$0.4 million was repaid. A schedule of related party transactions and balances can be found in note 8 to the audited consolidated financial statements of the Corporation for the year ended December 31, 2005.

Financial and Other Instruments

As at June 30, 2005, the Corporation had \$2.8 million (RMB 23 million) in short-term debt, denominated in RMB. A RMB 3,000,000 loan from the Finance Development Company of Hechi Finance Bureau was due November 2000 and remains unpaid. The Corporation has taken the position that no interest was specified in the loan and therefore no interest is payable. The Corporation is negotiating settlement of the debt and has not accrued any amount for interest charges. It is possible that a negotiated settlement may include interest charges booked in a later reporting period.

The Corporation has a potential foreign exchange exposure for the RMB loans in the event that the RMB is re-valued higher. Pressure to revalue the RMB (which was pegged to the United States dollar at a rate of RMB 8.2727 to \$1.00 during the reporting period) recently resulted in such a re-valuation from the previous exchange rate to RMB 8.11 to US\$1.00. This re-valuation has resulted in an unrealized foreign exchange loss of approximately \$57,000 based on current debt levels.

Critical Accounting Estimates

Management of the Corporation 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 Corporation relate to accounting for the items relating to property, plant, equipment, inventory and joint venture investments which are set out below.

Translation of Foreign Currency

The reporting currency of the Corporation is the United States dollar. The functional currency of GGM is the RMB since it is the currency in which the Corporation conducts its primary economic activities. Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the applicable transaction dates. Foreign currency monetary assets and liabilities are translated into RMB at the applicable PBOC rates as at the date of the balance sheet.

The PBOC rates have been fixed within a narrow band for several years. If the Corporation chooses to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and may not be successful. In addition, currency exchange losses may be magnified by PRC exchange control regulations that restrict the ability of the Corporation to convert RMB to United States dollars. There is no assurance that the value of the monetary assets and liabilities of the Corporation as stated in United States dollars may be realizable at the rates ed, or at all. Accordingly, the assumptions upon which the statements are based are subject to circumstances beyond the control of the Corporation.

Determination of Mineral Reserves

One of the most significant estimates which impacts the accounting for property, plant, equipment and joint venture investments and the related depreciation and amortization, is the estimate of proven and probable reserves. The process of estimating reserves is complex, requiring significant assumptions, estimates and decisions regarding economic (i.e. metal prices, production costs and exchange rates), engineering, geophysical and geological data. A material revision to existing reserve estimates could occur because of changes to any of these factors. Changes in these reserves could result in impairment of the carrying amount of property, plant and equipment and a change in amortization expense.

Impairment of Long-Lived Assets

This policy requires the Corporation to estimate undiscounted future cash flows expected to be generated by the assets of the Corporation. Because of fluctuating commodity prices, it is difficult to predict with certainty either the revenue expected to be generated or the costs of concentrate to be refined. In addition to this price uncertainty, the Corporation is also exposed to potential currency fluctuations against the reference price of these commodities (the United States dollar) against the RMB. The combination of price uncertainty and exchange rate uncertainty makes the estimate of future cash flows uncertain. If the RMB appreciates significantly, the operating profit of the Corporation in terms of the United States dollar may decline to the point where the Corporation would not be able to recover the carrying value of its assets which are carried in historical United States dollars.

Inventory

Copper ingots and concentrate inventories are valued at the lower of cost and realizable value. Costs represent the average cost.

Outstanding Share Data

The Corporation 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 Corporation. Each Common Share and Series I Special Share entitles the holder of record thereof to vote at all meetings of shareholders of the Corporation.

The table below summarizes the capital stock of the Corporation as at October 14, 2005:

	Number Outstanding
Common Shares	69,197,081
Common Share Purchase Warrants - Listed Exercise price is \$0.50 per share and the expiry date is April 5, 2007. Should the Corporation's common shares trade at or above \$0.80 per share on a volume weighted basis for a period of twenty trading days the Corporation can give notice to the holders and accelerate the expiry date provided that the accelerated expiry date is not less than 30 days from the notice date.	38,843,750
Common Share Purchase Warrants - Not Listed 6,198,638 common share purchase warrants are exercisable at \$0.50 per share and 4,198,750 common share purchase warrants are exercisable at \$0.40 per share, the expiry date for the above range from April 5 th to April 30 th , 2007.	10,397,388
Series I Special Shares Convertible into common shares of the Corporation for no additional payment provided that the Corporation has received confirmation that certain debts incurred in connection with the acquisition of the GGM assets by the Corporation's Joint Venture partner have been paid in full.	30,200,000
Stock Option Plan – Options Exercise price is \$0.40 expiry date is March 27, 2010.	6,900,000

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This MD&A contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include estimates, forecasts, and statements as to management's expectations with respect to, among other things, future production, capital and production costs, demand and market outlook for commodities and the resulting metal prices, opportunities, the size and quality of the Corporation's mineral reserves and mineral resources and the financial results of the Corporation. These forward-looking statements involve numerous assumptions, risks and uncertainties and actual results may vary.

Factors that may cause actual results to vary include, but are not limited to, changes in commodity, raw material and material and equipment prices, changes in interest and currency exchange rates, inaccurate geological and metallurgical assumptions (including changes with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalation, unavailability of materials and equipment, delays in the receipt of government approvals, industrial disturbances or other job action, and unanticipated events related to health, safety and environmental matters), political risk, social unrest, and changes in general economic conditions or conditions in the financial markets.

The Corporation 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.