

# COPPER FOX METALS INC

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE QUARTER ENDED JANUARY 31, 2010

March 31, 2010

Management's Discussion and Analysis  
Quarter ended January 31, 2010

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## **Introduction**

This management's discussion and analysis ("MD&A") should be read in conjunction with Copper Fox Metals Inc's (the "Company" or "Copper Fox") unaudited interim financial statements for the three months ended January 31, 2010 and related notes thereto and the audited annual financial statements for the year ended October 31, 2009 and related management discussion and analysis. This information is posted on Sedar at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.copperfoxmetals.com](http://www.copperfoxmetals.com). The reader should be aware that historical results are not necessarily indicative of future performance. The effective date of this MD&A is March 31, 2010. All amounts are in Canadian dollars unless otherwise stated.

## **Description of Business**

Copper Fox is a Canadian-based resource company listed on the TSX-Venture Exchange (CUU) involved in the exploration and development of porphyry copper-molybdenum-gold mineral properties. Copper Fox's activities are focused exclusively on Schaft Creek, one of the largest undeveloped porphyry copper, gold, molybdenum and silver deposits in Canada.

The Schaft Creek deposit is located within a contiguous group of mineral claims that cover 21,025 hectares, the ownership of which was recently transferred to Copper Fox by Teck Resources Limited ("Teck"). The mineral claims covering the Schaft Creek deposit are subject to an earn-back right held by Teck pursuant to an option agreement dated January 1, 2002 (the "Option Agreement") between Teck and Copper Fox. In addition, Copper Fox owns a 100% working interest in another contiguous group of mineral claims covering 3,947 hectares that is not subject to the Option Agreement.

## **Highlights**

### **Feasibility Study:**

On January 21, 2010 the Company announced that it has awarded the contract to complete a feasibility study on the Schaft Creek copper-gold-molybdenum-silver deposit to Wardrop, a Tetra Tech Company ("Wardrop"). It is expected that the feasibility study will be completed in the fourth quarter of 2010.

Management's Discussion and Analysis  
Quarter ended January 31, 2010

**Schaft Creek Mineral Title:**

Copper Fox announced on February 2, 2010 that Teck transferred its ownership in the Schaft Creek Project to Copper Fox pursuant to the Option Agreement. The Schaft Creek Project comprises the Liard, Paramount and West Breccia mineral deposits (the "Schaft Creek deposit") contained within the 21,025 contiguous hectares (or 51,954 acres) of mineral claims conveyed by Teck.

Copper Fox now holds a 100% working interest in the Schaft Creek Project, subject to 30% net proceeds interest royalty held by Liard Copper Mines Limited ("Liard") and the Teck earn-back option. Teck owns 78% of the share capital of Liard which equates to a 23.4% indirect interest in the Schaft Creek Project (the "indirect interest"). Pursuant to the Option Agreement, Copper Fox can acquire Teck's ownership of Liard shareholding (indirect 23.4% interest in the Schaft Creek Project) by completing a Positive Bankable Feasibility Study [as that term is defined in the Option Agreement] on the Schaft Creek deposit thereby increasing its direct and indirect interest in the revenue stream from the Schaft Creek Project to 93.4%.

Teck may at any time elect to exercise the terms and conditions of the Option Agreement. On receipt of the Positive Bankable Feasibility Study, Teck has 120 days in which to elect to either: i) exercise one of its earn-back options, or ii) retain a 1% net smelter return royalty, or iii) receive shares of Copper Fox to a value of \$1,000,000. If Teck elects not to exercise its earn back option, then Copper Fox would retain a 100% working interest in the Schaft Creek project.

The Option Agreement allows Teck the right to exercise its earn back in one of three ways. If Teck elects to exercise its earn back option pursuant to the Option Agreement, then Teck has the right to elect to acquire either a 20%, a 40% or a 75% working interest in the Schaft Creek Project from Copper Fox by solely funding subsequent expenditures equal to either 100%, 300% or 400% of Copper Fox's prior expenditures pursuant to the Option Agreement. In the event Teck elects to earn-back a 75% working interest in the Schaft Creek Project, Teck will also be responsible for arranging Copper Fox's share of project financing and will recover such funds from Copper Fox's share of metal sales until payout is reached.

An example of how the Teck earn-back option works based on the assumption that Teck elects to exercise either 20%, 40% or 75% earn-back is set out below. This example assumes that Copper Fox has incurred a total of \$50.0 million of qualifying expenditures pursuant to the Option Agreement at the time Teck makes its election.

Copper Fox Expenditure As per Option Agreement	Earn-Back Percentage Elected by Teck	Multiple of Copper Fox Expenditures Required from Teck	Capital Expenditure required by Teck to Complete Earn-Back
50,000,000	20	100%	50,000,000
50,000,000	40	300%	150,000,000
50,000,000	75	400%	200,000,000

Management's Discussion and Analysis  
Quarter ended January 31, 2010

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**Reporting Standards:**

The Canadian Accounting Standards Board has announced that International Financing Reporting Standards (IFRS) will replace Canada's current GAAP for publically-accountable, profit-oriented enterprises starting January 1, 2011. The Company is currently evaluating the different accounting policy options that will be available under IFRS, particularly as it relates to the carrying value of its mineral property, the accounting for stock based compensation, the accounting for its asset retirement obligation and the accounting for future income taxes.

In addition, the Company management have been attending training courses on the transition to IFRS specific to mining company operations, that include the differences between Canadian GAAP and IFRS, internal control policies and procedures that may require changes, and the requirements for ensuring appropriate financial reporting staff and controls that will be required up to and including the adoption of IFRS.

**Operating and Financing Activities**

The Company's focus in 2010 is to complete the feasibility study of the Schaft Creek deposit. Completion of the feasibility study on the Schaft Creek Project allows Teck the ability to determine their future role in the Schaft Creek Project and at the same time depending on Teck's decision will determine the ownership interests in the Schaft Creek Project. Completion of the feasibility study includes updating of the various geotechnical and engineering components as well as a continuation of the environmental and socio-economic studies related to development of the Schaft Creek deposit.

To the end of December 2009, Copper Fox incurred a total of \$43,299,162 of expenditures that have been accepted by Teck as applicable expenditures pursuant to the Option Agreement on the Schaft Creek Project

During the quarter ended January 31, 2010, Copper Fox made considerable progress toward completing an updated geological model for the Schaft Creek deposit. Cambria Geosciences Limited compiled all geological and analytical information collected prior to 2006 and during the 2007 and 2008 field seasons and is incorporating this into an updated geological model. The geological model will be used by AMEC Americas Limited to complete an updated mineral resource estimate for the Schaft Creek deposit. The mineral resource estimate used in the Pre-feasibility Study had an effective date of June 27, 2007 and included all diamond drilling results to December 31, 2006. The updated mineral resource estimate along with current metallurgical test work results will be used to prepare an updated mineral reserve estimate.

Road access and terrain hazards related to the proposed access route have been assessed. The proposed access route minimizes environmental impact and was selected in consultation with the various groups of the Tahltan Nation.

## Management's Discussion and Analysis Quarter ended January 31, 2010

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During the quarter ended January 31, 2010, Copper Fox continued the sampling and data collection for the ongoing environmental and socio-economic studies of the Schaft Creek deposit. Copper Fox commenced its Environmental and Socio-economic studies at the Schaft Creek deposit in November 2005. The reports summarizing these studies for the period 2005 to 2009 are expected to be completed in the first half of 2010. The completion of these reports allows the Company to prepare and file the environmental assessment application for the Schaft Creek Project. On receipt of the approval of the environmental assessment certificate, construction permits for the development of the Schaft Creek deposit can be obtained.

During the quarter, Copper Fox also completed additional optimization test work to increase the percentage recovery of the copper-gold-molybdenum-silver from the mineralization at Schaft Creek. As set out in the pre-feasibility study dated September 15, 2008, the Schaft Creek deposit contains measured and indicated resources of 1.39 billion tonnes grading 0.25% copper, 0.18 g/t gold, 0.02% molybdenum and 1.55 g/t silver. This resource base supports a proven and probable mineable mineral reserve of 821 million tonnes grading 0.30% copper, 0.21 g/t gold, 0.02% molybdenum and 1.76 g/t silver. Marginal increases in metal recoveries would be expected to have a significant impact on the overall economic viability of the Schaft Creek deposit. The results of this test work when received will be incorporated into the feasibility study that is currently in progress.

As part of the feasibility study, Copper Fox is required to ensure that a mineral inventory does not exist in areas where infrastructure related to the proposed mine is proposed to be located. During the second quarter, Copper Fox plans to complete a detailed deep penetrating TITAN Direct Current Induced Potential (DCIP) and Magnetotelluric (MT) survey over that portion of the Schaft Creek Project where the processing plant (the mill) and the tailings storage facility are currently located. The purpose of the survey is to more precisely define the limits of two large Induced Potential anomalies that were identified in 2008. Induced Potential is a common geophysical survey used in the exploration of porphyry copper deposits. Contingent on the results of the TITAN DCIP and MT survey, a diamond drilling program may be required to test these IP anomalies.

### First Quarter Overview

#### **Revenues:**

The Company has no income producing assets and has not reported any revenue from operations for any of the quarters ended January 31, 2010 or January 31, 2009. The Company is considered to be in the exploration and development stage.

#### **Expenses:**

A comparison of the expenses incurred by Copper Fox for the period January 31, 2010 and January 31, 2009 are set out below. During the quarter ended January 31, 2010 Copper Fox incurred expenses of \$446,822 compared to \$29,135,359 for the quarter ended January 31, 2009.

Management's Discussion and Analysis  
Quarter ended January 31, 2010

	2010	2009
Expenses:		
Administration	\$ 147,079	\$ 157,106
Amortization and accretion	34,327	41,828
Professional fees	104,593	72,681
Processing fees	18,136	5,214
Property write down	-	31,000,000
Rent	7,559	12,774
Stock based compensation	119,031	(5,291)
Travel	25,934	19,063
Exchange (gain)/loss	(9,607)	-
Interest income	(230)	(370)
Loss before income taxes	446,822	31,303,005
Future income tax reduction	-	(2,167,646)
Net loss	446,822	29,135,359

The decrease in expenditures is primarily related to the write down of the mineral properties and a recovery of future income taxes of \$2,167,646 as a result of the write down in the first quarter of 2009. This resulted in a net decrease in expenditures of \$28,832,354 in the first quarter of 2010 compared to the prior year. These transactions did not affect the cash flow of the Company's operations. The balance of expenditures increased by \$143,817 mainly due to stock based compensation which also does not affect the cash flow of the Company.

**Loss:**

Copper Fox reported a net loss and comprehensive loss for the period ended January 31, 2010 of \$446,822 (2009 - \$29,135,359).

**Loss per Share:**

Loss per share is computed by dividing net loss for the period by the weighted average number of shares outstanding. In computing loss per share the weighted average number of shares outstanding during the quarter ended January 31, 2010 was 242,441,587 (2009 - 112,501,585) common shares. Stock options and warrants granted by the Company during this period have not been included in the computation of loss per share as they are anti-dilutive.

The loss per share for the period ended January 31, 2010 was (\$0.00) compared to a loss per share of (\$0.26) for the period ended January 31, 2009.

Management's Discussion and Analysis  
Quarter ended January 31, 2010

**Cash Flow and Loss:**

Copper Fox reported a loss for the quarter ended January 31, 2010 of \$446,822 compared to a loss of \$29,135,359 for the same period in 2009. Included in the loss is \$119,031 of stock based compensation charges and \$34,327 of amortization and accretion which do not affect the cash flow of the Company. Cash flow from operations for the quarter was (\$1,017,670) compared to \$777,085 for the quarter ended January 31, 2009.

**Total Assets:**

Total assets of the Company at January 31, 2010 are \$13,338,501 (October 31, 2009 - \$13,555,763).

**Selected Financial Information**

	Net Loss	Net (loss)/income per share - basic and diluted
<u>2010</u>		
First Quarter	\$ (446,822)	\$ -
<u>2009</u>		
Fourth Quarter	\$ 1,533,575	\$ 0.01
Third Quarter	\$ (491,057)	\$ -
Second Quarter	\$ (431,763)	\$ -
First Quarter	\$ (29,135,359)	\$ (0.26)
<u>2008</u>		
Fourth Quarter	\$ 1,890,230	\$ 0.02
Third Quarter	\$ (1,307,512)	\$ (0.01)
Second Quarter	\$ (720,878)	\$ (0.01)

**Liquidity and Capital Resources:**

The Company's working capital was \$1,303,090 at January 31, 2010. The Company has sufficient funds available to meet its current obligations. Pursuant to a private placement of securities in the share capital of Copper Fox issued during 2009, Copper Fox issued a total of 108,052,553 warrants with an exercise price of \$0.075. Each warrant allows the holder thereof to purchase one common share in the share capital of the Company. This series of warrants expire on June 1, 2010 (10,968,759), on June 16, 2010 (8,156,509) and on July 13, 2010 (88,927,285). If all of the \$0.075 warrants are exercised, a total of \$8,103,941 would be received by Copper Fox. In a second private placement completed in October 2009, Copper Fox issued 11,886,341 warrants at an exercise price of \$0.115. These warrants expire on October



Management's Discussion and Analysis  
Quarter ended January 31, 2010

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21, 2010 and if all warrants are exercised, a total of \$1,366,929 would be received by Copper Fox. As of the date of this MD&A (March 31, 2010) 15,645,113 of the \$0.075 warrants and 316,665 of the \$0.115 warrants have been exercised. A total \$1,209,781 was received by Copper Fox and resulted in the issuance of 15,961,778 common shares of the Company. It is expected that the exercise of these warrants should continue into the second quarter.

The cash requirements in the coming months will be significant as the Company works toward completing the feasibility study. At the end of this quarter the Company has spent approximately \$43 million toward this study. The Company will require additional capital to complete this study and to provide for the administration of its Calgary and Vancouver offices. The Company believes that it will raise this capital required to complete the Feasibility Study through the continued exercise of its outstanding options and warrants and if necessary through the public market.

**Off Balance Sheet Arrangements:**

The Company has no off balance sheet arrangements other than commitments for office rental space that is disclosed in the audited financial statements for the year ended October 31, 2009.

**Related Party Transactions:**

During the quarter ended January 31, 2010 directors and officers of the Company incurred \$127,568 (2009 - \$95,000) for management and technical services on behalf of the Company. In addition, \$28,478 (2009 – Nil) of legal fees were paid during the quarter ended January 31, 2010 to a legal firm in which one of the Company's Directors is a partner. At January 31, 2010 Nil (2009 – \$22,083) is included in accounts payable for management and technical services and \$11,427 (2009 – Nil) is included in accounts payable for legal fees. These transactions were recorded at the exchange amount agreed to by the related parties.

**Mineral Property:**

At January 31, 2010, Copper Fox had made expenditures of \$43,299,162 which have been accepted by Teck as allowable expenditures pursuant to the Option Agreement with Teck. Copper Fox's balance sheet shows a carrying value of the Schaft Creek Project to be \$11,009,047, an increase of \$2,575,713 from January 2009. The write down in carrying value of Copper Fox's interest in the Schaft Creek Project was based on a number of factors indicating impairment including its market capitalization, the value of competing offers to acquire the company and its working capital deficiency.

The pre-feasibility study date September 15, 2008, that is filed on SEDAR estimated that the Schaft Creek deposit has a proven and probable mineable reserve of 821 million tonnes grading 0.30% copper, 0.21 g/t gold, 0.02% molybdenum and 1.76 g/t silver. The mineable reserve was estimated to generate total revenues of \$25.5 billion over a 22.6 year mine life. With a net smelter return of \$31.50 per tonne and a total operating cost of \$12.50 per tonne of ore processed, the Schaft Creek Project was estimated to generate Net Present Value of the cash flow stream of \$2.7 billion



Management's Discussion and Analysis  
Quarter ended January 31, 2010

using a discount rate of 8% after recovery of capital costs and before taxes.

A comparison and details of these expenditures related to the Schaft Creek project for 2008, 2009 and 2010 are as follows:

	Expenditures November 1, 2009 to January 31, 2010	Expenditures November 1, 2008 to October 31, 2009	Expenditures November 1, 2007 to October 31, 2008
Drilling Program/camp activities	\$ 52,530	\$ 173,034	\$ 8,661,113
Environmental Program	396,086	424,208	2,670,108
Feasibility Study	473,550	844,558	2,843,863
Social License	25,371	52,594	235,616
Geology, Engineering, Metallurgy	173,360	221,835	1,277,769
Testing, Assaying, Mapping, Etc.	11,300	36,071	371,362
Miscellaneous	21,301	37,332	247,269
Mineral property write down	-	(31,000,000)	-
Tax benefit - Capital Compensation/ARO	-	93,958	260,160
	\$ 1,153,498	\$ (29,116,410)	\$ 16,567,260

## Share Capital

The Company has 258,318,437 shares, 103,977,116 warrants and 12,485,000 options outstanding as of the effective date of this MD&A of March 31, 2010.

## Basis of Presentation

The accompanying financial statements of Copper Fox have been prepared by management in accordance with Canadian generally accepted accounting principles.

## Critical Accounting Policies

A summary of significant accounting policies is presented in note 3 of the Company's audited financial statements. There were no additional policies in the interim statements.

Management's Discussion and Analysis  
Quarter ended January 31, 2010

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## **Forward-looking Statements**

This MD&A includes "forward-looking information" within the meaning of the Canadian securities laws. Statements, other than statements of historical fact, may constitute forward-looking information and include, without limitation: anticipated timing and content of upcoming work programs, geological interpretations, receipt of property titles, and proposed mineral recovery processes; anticipated dates for receipt of permits, approvals, anticipated results of drilling programs, technical studies and other economic analyses; anticipated availability and terms of future financing; future production, operating and capital costs; and operating or financial performance.

Information concerning mineral reserve and resource estimates also may be deemed to be forward-looking information in that it reflects an estimation of the quality of metals that could be encountered if a mineral deposit were developed and mined. For any forward looking information given, management has, in part, relied on its independent technical consultants and assumes that the conclusions and recommendation of the independent consultants related to and including assay results, proposed recovery procedures, mining methods, operating and capital costs it has received are reliable and that its consultants has applied geological and engineering interpretation methodologies which are consistent with industry standards.

Forward-looking information involves various risks and uncertainties. There can be no assurance that such information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such information. Important factors that could cause actual results to differ materially from management's expectations include: fluctuations in metal prices, currency exchange rates; uncertainties relating to interpretation of drill results, the geology, continuity and grade of mineral deposits; uncertainty of estimates of capital and operating costs, recovery rates, production estimates and estimated economic return; the need for co-operation of government agencies in the exploration and development of properties and the receipt of permits; the need to obtain additional financing to fund activities and uncertainty as to the availability and terms of future financing; the possibility of delay in exploration or development programs or in project construction; uncertainty as to timely receipt of permits and other governmental, regulatory and other approvals; and other risks and uncertainties disclosed in the company's filings with Canadian securities regulatory authorities at [www.sedar.com](http://www.sedar.com).

The forward-looking information in this MD&A is based on management's current expectations and Copper Fox assumes no obligations to update such information to reflect later events or developments, except as required by law. Additional information, about the risks and uncertainties of the Company's business is provided in its disclosure materials, including its most recent annual and quarterly filings, filed with the securities regulatory authorities in Canada available at [www.sedar.com](http://www.sedar.com).