

# **LINEAR METALS CORPORATION**

## **Management Discussion and Analysis**

### **Quarterly Report – January 31, 2009**

*This Management Discussion and Analysis of Linear Metals Corporation (the “Company”) provides analysis of the Company’s financial results for the three-month period ended January 31, 2009. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes to the unaudited financial statements.*

*This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address anticipated operating costs, possible future resource property expenditures, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects are considered forward-looking because we have used what we know and expect today to make a statement about the future. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Forward looking statements usually include words such as may, expect, plan, anticipate, budget, believe or other similar words. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Additional details of the specific risks associated with the operations of the Company and such forward looking statements are set out below under “Risks and Uncertainties”. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward looking statements.*

#### **1.1 Date of Report**

This report is prepared as of March 13, 2009.

#### **1.2 Nature of Business and Overall Performance**

Linear Metals is a junior exploration company listed on the Toronto Stock Exchange. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The Company owns or controls, under option, an interest in four properties, including two properties in Mexico, through its subsidiary Linear Metal Corp. Mexico, S.A. de C.V., and two properties in Canada. The Company has focused its exploration activities primarily on the Cobre Grande property in Mexico and on the KM61 property in Canada, where the Company has made significant mineral discoveries, leading to the announcement of National Instrument 43-101 compliant resource estimates for each property during calendar 2008.

During the three-month period ended January 31, 2009, the Company incurred a loss before income taxes of \$0.4 million. This is approximately \$0.3 million greater than the loss before income taxes incurred by the Company during the three-month period ended January 31, 2008. The Company has recognized a net loss after taxes of \$0.4 million, compared to a net loss of \$0.1 million in the same period during the prior fiscal year. The change in the loss before income taxes was primarily attributable to a \$0.1 million write-down of certain resource properties during the current period, a foreign exchange loss of approximately \$0.1 million during the current period, and a decrease in interest income of approximately \$0.1 million compared to the same period in fiscal 2008. The net income after taxes was impacted by a future income tax recovery of \$0.1 million arising from the recovery of future tax assets previously subject to a full valuation allowance. The Company continues to have no revenue-producing operations and is dependent on future equity financings and/or project financing alternatives, to fund future operations and continue exploration programs.

In light of current market conditions, management has implemented significant cost reduction strategies to reduce the Company’s day to day operating costs and to ensure the Company manages through these difficult market conditions. The Company’s priority is to maintain legal title to its material mineral properties, those with established mineral resources, while continuing to seek strategic opportunities. During the current quarter, the Company temporarily suspended its exploration activities until there is an improvement in the financial markets and/or an opportunity to raise additional equity financing at improved levels. Despite these efforts, there is no guarantee that the Company will be able to raise capital in the future and continue as a going concern.

### 1.3 Selected Annual Information

Expressed in thousands of Canadian dollars, except per share amounts:

Fiscal Year	2008	2007	2006
Revenues	\$ 263	\$ 280	\$ 4
Net loss	\$ 1,485	\$ 1,112	\$ 249
Basic & diluted net loss per share	\$ 0.04	\$ 0.03	\$ 0.02
Total assets	\$ 18,432	\$ 13,902	\$ 2,148
Cash dividends per common share	N/A	N/A	N/A

*This financial data has been prepared in accordance with Canadian generally accepted accounting principles, and all figures are stated in Canadian dollars.*

The Company was incorporated on November 17, 2004 as a wholly-owned subsidiary of Linear Gold Corp. ("Linear Gold") and was inactive prior to March 2006. The Company received interests in mineral properties from Linear Gold during a corporate reorganization that occurred during the second quarter of fiscal 2006.

The reorganization resulted in the distribution of 100% of the Company's shares by Linear Gold in June 2006 and since then the Company has operated as a stand-alone entity. The Company expects to record losses until such time as an economic resource is identified, developed and exploited on one or more of the Company's properties. The Company's net losses in the future will be significantly impacted by any write-downs or abandonments of any resource properties.

### 1.4 Results of Operations

The Company has no operating revenues and is dependent on equity financings and/or project financing alternatives to fund its operations. As a result, the Company continues to incur operating losses.

During the three-month period ended January 31, 2009, the Company incurred a net loss of \$0.4 million. The Company's operating expenses during the period totalled \$0.2 million, a decrease of 7% over the previous year, due to the Company's efforts to reduce operating expenditures during the current quarter. Significant operating expenses included \$0.1 million in management salaries and services, including director insurance premiums, accrued director fees, and a total of \$17,500 paid to Linear Gold during the period pursuant to a Management Services Agreement. The Company recorded non-cash stock-based compensation expense of \$79,048 attributable to the estimated fair value of stock options earned during the period as well as a non-cash amortization expense of \$5,342, representing amortization of the Company's non-exploration capital assets. In addition, the Company capitalized \$43,997 of non-cash stock-based compensation expense during the current period to resource properties, attributable to the estimated fair value of stock options earned by the Company's exploration personnel and also capitalized \$4,567 of non-cash amortization expense attributable to the use of capital assets in the Company's exploration activities. The Company also recognized a future income tax recovery of \$0.1 million relating to the recovery of the valuation allowance on the Company's future tax assets.

During the three-month period ended January 31, 2009, the Company wrote off resource property expenditures of \$0.1 million related to termination of its property option on the Bateman property in Canada. The Company will continue to review its portfolio of resource properties and write-down the carrying costs of any properties considered to be impaired in value.

The Company incurred a currency exchange loss of \$63,281 during the current period relating to its foreign currency transactions and as a direct result of the weakening of the Mexican peso relative to the Canadian dollar during the quarter. The Company may continue to incur foreign exchange gains and losses arising from changes in the value of the Mexican and U.S. currencies used in the conduct of its business, relative to the Canadian dollar.

Beginning during the fourth quarter of fiscal 2008 and continuing throughout the current quarter, the Company has taken a number of measures to significantly reduce its cash operating expenditures during the challenging period in the financial markets.

## 1.5 Summary of Quarterly Results

Expressed in thousands of Canadian dollars, except per share amounts:

	Fiscal 2009	Fiscal 2008				Fiscal 2007		
	Q1 Jan-09	Q4 Oct-08	Q3 * Jul-08	Q2 * Apr-08	Q1 Jan-08	Q4 Oct-07	Q3 Jul-07	Q2 Apr-07
Revenues	\$ 6	\$ 18	\$ 39	\$ 74	\$ 132	\$ 84	\$ 96	\$ 82
Net loss	\$ (362)	\$ (559)	\$ (348)	\$ (462)	\$ (116)	\$ (440)	\$ (274)	\$ (252)
Basic & diluted net loss per share	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.01)
Total assets	\$ 18,047	\$ 18,432	\$ 19,138	\$ 19,343	\$ 20,573	\$ 13,902	\$ 13,917	\$ 14,259

*This financial data has been prepared in accordance with Canadian generally accepted accounting principles, and all figures are stated in Canadian dollars.*

*\*The financial information for Q2 and Q3 of fiscal 2008 has been adjusted to reflect the treatment of the recovery of future tax assets previously subject to a full valuation allowance, resulting in an increase in the Q2 net loss of \$1.1 million and a decrease in the Q3 net loss of \$0.1 million.*

Prior to Linear Gold's reorganization and distribution of the Company's shares on June 26, 2006, the Company was a wholly-owned subsidiary of Linear Gold, and prior to March 2006, the Company was inactive. As discussed in section 1.3, the Company received its mineral properties during the second quarter of fiscal 2006.

## 1.6 Liquidity, Capital Resources and Going Concern

As of January 31, 2009, the Company had working capital of \$0.8 million. During the three-month period ended January 31, 2009, the Company recovered \$21,555 from operating activities, the result of the receipt of \$0.1 million in sales taxes receivable, and \$0.6 million to fund net cash resource property expenditures for the period, including sales taxes recoverable on resource property expenditures.

The Company requires additional funding to continue its exploration programs and in light of the current market conditions, management has implemented significant cost reduction strategies to reduce the Company's day to day operating costs and ensure the Company manages through these difficult market conditions. The Company's objective is to maintain legal title to its material mineral properties with established mineral resources. During the current quarter, the Company temporarily suspended its exploration activities. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient and there remains some uncertainty as to the ability of the Company to continue operating as a going concern. Failure to continue to operate as a going concern could result in the loss of its interest in its resource properties and/or the infinite suspension of its exploration activities. The Company's financial statements and management's discussion and analysis do not reflect adjustments to the carrying values of assets and liabilities that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

## 1.7 Off-Balance Sheet Arrangements

At January 31, 2009, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

## 1.8 Disclosure Controls and Internal Controls Over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure and to provide reasonable assurance that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized, and reported within the time period specified in those rules.

The Chief Executive Officer and the Chief Financial Officer have also designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial

reporting and the preparation of financial statements for external purposes. Internal controls systems, no matter how well they are designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

The Company has limited staffing and in many instances, the implementation of internal controls relying on segregation of duties is not possible. The Company relies on senior management review and approval to ensure that the controls are as effective as possible.

There were no changes in internal controls over financial reporting during the Company's most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### **1.9 Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the consolidated financial statements include the value of stock-based compensation and the Company's estimate of recoverable value of its mineral properties and related deferred expenditures. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend upon a variety of factors, including the market value of the Company's shares and the financial objectives of the stock-based instrument holders.

The Company's recoverability of the recorded value of its mineral properties and associated deferred expenses is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is dependent on a number of factors, including environmental, legal and political risks, the existence of economically recoverable reserves, and the ability of the Company to obtain necessary financing to complete the development and future profitable production or the proceeds of disposition thereof.

### **1.10 Transactions with Related Parties**

There were no transactions with related parties during the period ended January 31, 2009.

### **1.11 Changes in Accounting Policies**

Effective November 1, 2008, the Company adopted the provisions of Section 1400: *General Standards of Financial Statement Presentation*, which requires management to assess and disclose an entity's ability to continue as a going concern in both interim and annual financial statements.

In February 2008, the Canadian Accounting Standards Board announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS") and companies will begin reporting, with comparative data, under IFRS for fiscal years beginning on or after January 1, 2011. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure which the Company is beginning to assess. The Company will commence reporting under the new standards on November 1, 2011. The Company has begun to assess the impact of IFRS on the Company, its information systems and its financial statements.

### **1.12 Risks and Uncertainties**

The Company's financial instruments consist of cash, receivables and accounts payable. Management does not believe these financial instruments expose the Company to any significant interest, currency or credit risks arising from these financial instruments, with the exception of the sales taxes recoverable. All of the sales taxes recoverable are with either the government of Canada or the government of Mexico. The fair market values of these financial instruments approximate their carrying values, unless otherwise noted.

The Company's Cobre Grande property is held pursuant to a Purchase Option Agreement, described in section 1.14. The Purchase Option Agreement expires on March 13, 2009 and, in accordance with the terms of the agreement, the Company will have no further legal right to the property beyond this date. Nevertheless, Linear has advised the Community of its interest in making the final payments and exercising its purchase option, subject to the Community's choice of consideration being acceptable to Linear, or alternatively, in renegotiating the terms of the Option Agreement. Linear has also advised the Community that it does not have US\$12 million and it is unlikely that the Company could raise US\$12 million in the current market. Should the Community decide to discontinue discussions with the Company or pursue the US\$12 million option, there is a risk that the Company will lose all rights to the Cobre Grande project, resulting in a material write-down of approximately \$6.6 million in costs associated with the property.

In conducting its business, the principal risks and uncertainties faced by the Company relate to exploration and development success as well as metal prices and market sentiment to a lesser extent.

Exploration for minerals and development of mining operations involve many risks, many of which are outside the Company's control. In addition to the normal and usual risks of exploration and mining, the Company often works in remote locations that lack the benefit of infrastructure and easy access.

The prices of metals fluctuate widely and are affected by many factors outside of the Company's control. The relative prices of metals and future expectations for such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. The Company relies on equity financing for its long-term working capital requirements and to fund its exploration programs. The Company does not have sufficient funds to put any of its resource interests into production from its own financial resources. There is no assurance that such financing will be available to the Company, or that it will be available on acceptable terms.

### **1.13 Outstanding Share Data**

#### **a) Common Shares**

The Company has authorized an unlimited number of common shares without par value.

At January 31, 2009 and March 12, 2009, the Company had issued and outstanding 38,000,193 common shares with a recorded value of \$16,926,212.

On November 6, 2007, the Company completed a brokered private placement financing of 3,900,000 flow-through common shares at a price of \$1.80 per flow-through share, for aggregate gross proceeds of \$7,020,000. In connection with the financing, the Company incurred total issue costs of \$606,259, comprised of an agents' commission of \$386,100, representing 5.5% of the gross proceeds, legal and other fees of \$105,499 and the issuance of 234,000 agents' compensation options to purchase 234,000 common shares, exercisable at \$1.80 per compensation option until May 6, 2009 and valued at \$114,660. A portion of the agents' commission was paid through the issuance of 147,841 non flow-through common shares valued at \$266,114.

The Company was required to spend funds raised through the issuance of flow-through shares on qualified Canadian mineral exploration expenditures, as defined by Canadian income tax legislation, prior to December 31, 2008. This requirement was met by the Company during the current period and prior to the required date of December 31, 2008.

The Company has accounted for the future income tax liability associated with the issuance of flow-through shares consistent with the consensus reached in the CICA's Emerging Issues Committee Abstract - 146, which suggests that future tax liabilities associated should be recognized as a reduction of shareholders' equity at the time the Company files the renouncement documents with the tax authorities. During February 2008, with an effective date of December 31, 2007, the Company renounced the qualifying Canadian exploration expenditures to investors. The renunciation resulted in the recognition of a future tax liability of \$1.9 million, which was recorded as a reduction of share capital on the fiscal 2008 balance sheet. As at January 31, 2009, the future tax liability has been reduced by a recovery of future tax assets of the Company, previously subject to a full valuation allowance, in the amount of \$1.1 million.

b) Warrants

At January 31, 2009, the Company had 3,392,500 warrants outstanding with a value of \$1,562,185, with each warrant entitling the holder to purchase a common share at an average exercise price of \$2.20 per share, expiring February 22, 2009. On February 22, 2009, all of these outstanding warrants expired unexercised.

c) Stock Options

At January 31, 2009 and March 12, 2009, the Company had 3,097,500 stock options outstanding, exercisable into common shares of the Company at an average exercise price of \$1.07 per share, expiring between August 29, 2009 and March 25, 2013.

d) Agent Options

At January 31, 2009 and March 12, 2009, the Company had 234,000 agent options outstanding, exercisable into common shares of the Company at an exercise price of \$1.80 per share, expiring May 6, 2009.

### **1.14 Deferred Resource Property Expenditures**

Details of the Company's Deferred Resource Property Expenditures during the three-month period ended January 31, 2009 are included in Schedule "A".

During the current period, the Company incurred deferred exploration expenditures of \$0.5 million, 16% of which were incurred in Mexico on the Company's Cobre Grande Project. The Company incurred \$0.4 million, or 80% of its total net exploration expenditures, on the KM61 Project in Ontario, Canada. Net geology and drilling expenditures on all properties totalled approximately \$0.4 million, representing 77% of the total resource property expenditures incurred during the year.

During the current period, the Company temporarily suspended its exploration activities and expects to resume activity when market conditions allow the Company to obtain additional funding. The Company's objective is to maintain legal title to its material mineral properties, but cannot guarantee that adequate financing will be available in the future to continue its exploration programs.

#### **Cobre Grande**

During the three-month period ended January 31, 2009, the Company incurred total costs of \$0.1 million at Cobre Grande, consisting of costs associated with the temporary suspension of exploration activities at Cobre Grande.

In May 2008, an independent 43-101 compliant Inferred Mineral Resource Estimate for the Main Zone of the Cobre Grande Project was completed. The 49.8 million tonnes of 0.92% Copper Equivalent Inferred Mineral Resource includes in-situ metal quantities of 545 million pounds of copper, 44 million pounds of molybdenum, 243 million pounds of zinc, and 21 million ounces of silver.

In addition to the 43-101 compliant Inferred Mineral Resource Estimate for the Main Zone, the second hole in the El Oso Zone (previously referred to as the Northwest Skarn), Hole CG-68, located 600 metres east of the north end of the Main Zone, returned 228 metres of 0.91% copper equivalent starting at 29 metres, representing a new discovery. Drilling in the final half of the year extended the mineralization beyond the limit of the resource encompassed by the 43-101 resource, taking the full strike of the Main Zone to 1,600 metres.

The Company can earn up to a 100% interest in the Cobre Grande Purchase Option Agreement. A payment of US\$90,000 was made in March 2008 and a final payment of US\$90,000 will be required in March 2009 in order for the Company to earn an 80% interest in the Cobre Grande Purchase Option (the "Purchase Option"). The Purchase Option, expiring in March 2009, entitles the holders to acquire the property from the Community of San Baltazar Guelavila (the "Community"), the underlying owner of the concessions. The final purchase payment will be determined by the Community, which can choose between a US \$12.0 million buyout, a 2% net smelter return ("NSR") royalty, or a 15% carried joint venture interest in any future mining projects from the concession. The Company can also acquire the remaining 20% interest in the Purchase Option Agreement, from Linear Gold, at any time prior to December 31, 2012, for US\$1.2 million.

## **KM61**

During the three-month period ended January 31, 2009, the Company incurred total costs of \$0.4 million, including drilling costs of \$0.1 million, at its 100%-owned KM61 molybdenum project located near Armstrong, Ontario. In November 2008, the Company completed the drill program that was initiated during the first quarter of fiscal 2008, having completed approximately 30,000 metres of drilling in a total of 86 holes.

In December 2008, an independent 43-101 Mineral Resource Estimate for the Main Zone at KM61 was completed, with an indicated resource of 66.6 million tonnes at 0.063% molybdenum equivalent and an inferred resource of 38.9 million tonnes at 0.065% molybdenum equivalent.

The Company holds a 100% interest in the property, subject to a 0.5% NSR over the majority of the property, with the balance subject to a 3% NSR. The Company can repurchase 50% of the 0.5% NSR for \$250,000 and/or 50% of the 3% NSR for \$1,000,000.

## **Other**

In February 2008, the Company acquired the right to earn up to a 100% interest in the Bateman property, located 50 kilometres west of Thunder Bay, Ontario, Canada, pursuant to an option agreement with an initial payment of \$10,000. During the current quarter, the Company decided to terminate its interest in the Bateman Property, resulting in a write-down of resource properties of \$137,690.

### **1.15 Management Changes**

In December 2008, as part of the overall cost reduction strategy, the Company and Dr. Robert Page, the Company's Vice-President – Exploration, reached an agreement through which Dr. Page will continue to provide his services to the Company through a consulting agreement, rather than as a full-time employee.

Effective February 1, 2009, also as part of the overall cost reduction strategy, the Company and Mr. Brian MacEachen, the Company's President and CEO, reached an agreement through which Mr. MacEachen will continue to provide his services to the Company through a consulting agreement, rather than as a full-time employee.

### **1.16 Other Information**

Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**LINEAR METALS CORPORATION**

Schedule of Resource Properties  
for the three-month period ended January 31, 2009

Schedule "A"

**Details of Resource Properties**

	Cobre Grande Mexico	La Morena Mexico	KM61	Seymour Lake and Other	January 31, 2009
<b>Mineral Properties</b>					
Balance, beginning of period	\$ 165,941	\$ 204,651	\$ 22,440	\$ 59,107	\$ 452,139
Expenditures during period	5,486	1,494	-	-	6,979
Costs written off	-	-	-	-	-
Balance, end of period	<u>171,427</u>	<u>206,145</u>	<u>22,440</u>	<u>59,107</u>	<u>459,118</u>
<b>Deferred Exploration expenditures:</b>					
Drilling	-	-	143,175	3,329	146,504
Geochemistry	-	-	723	9,174	9,897
Geology	55,374	-	218,049	2,501	275,924
Property evaluation	5,287	-	858	2,656	8,801
Supervision	18,989	-	55,369	-	74,358
Trenching	-	-	20,215	2,959	23,174
	<u>79,650</u>	<u>-</u>	<u>438,389</u>	<u>20,619</u>	<u>538,658</u>
Balance, beginning of period	<u>6,371,155</u>	<u>857,731</u>	<u>7,857,917</u>	<u>770,301</u>	<u>15,857,104</u>
	6,450,805	857,731	8,296,306	790,920	16,395,762
Costs written off	-	-	-	(137,690)	(137,690)
Balance, end of period	<u>6,450,805</u>	<u>857,731</u>	<u>8,296,306</u>	<u>653,230</u>	<u>16,258,072</u>
<b>Mineral properties and deferred exploration expenditures</b>	<u>\$ 6,622,231</u>	<u>\$ 1,063,876</u>	<u>\$ 8,318,746</u>	<u>\$ 712,337</u>	<u>\$ 16,717,190</u>