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# HELIO RESOURCE CORP.

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## MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended September 30, 2018

## HELIO RESOURCE CORP.

Management Discussion & Analysis  
Quarter ended September 30, 2018

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### INTRODUCTION

This MD&A was prepared by management as at November 29, 2018, and has been reviewed and approved by the Board of Directors. The following discussion of performance, financial condition and future prospects should be read in conjunction with the accompanying unaudited condensed interim consolidated financial statements of Helio Resource Corp. (“Helio” or the “Company”) and the related notes for the quarter ended September 30, 2018, as well as the March 31, 2018 audited consolidated financial statements and notes, prepared in accordance with International Financial Reporting Standards (“IFRS”). The information provided herein supplements, but does not form part of the financial statements. This discussion covers the quarter ended September 30, 2018 and the subsequent period up to the date of issue of this MD&A. Monetary amounts in the following discussion are in Canadian dollars unless otherwise noted.

Additional information, including annual audited consolidated financial statements and more detail on specific mineral properties discussed in this MD&A can be found on the Company’s page at [www.sedar.com](http://www.sedar.com) or on its website, [www.helioresource.com](http://www.helioresource.com).

This MD&A contains Forward-Looking Information.  
Please read the Cautionary Statements on page 3 carefully.

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## FORWARD-LOOKING INFORMATION

This MD&A contains certain forward-looking information and forward-looking statements as defined in applicable securities laws. All statements other than historical fact are forward-looking statements.

The statements reflect the current beliefs of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors which could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed in or implied by the forward-looking statements. This forward-looking information, principally under the heading "Outlook," but also elsewhere in this document, includes estimates, forecasts, plans and statements as to the Company's current expectations concerning, among other things, continuance as a going concern, rights to explore and mine, collection of receivables, the estimation of mineral resources, stability of various governments, anticipated conclusions of economic assessments of projects, requirements for additional capital, the availability of financing, and the future development and costs and outcomes of the Company's Tanzanian exploration project.

Forward-looking statements are based on a number of assumptions, including, but not limited to, ability to access sufficient funds to carry on operations, the outcome of a rescinded offer to acquire all of the outstanding shares of the Company, the outcome of negotiations with the Tanzanian government to reinstate certain of the company's licenses to explore in Tanzania, conditions in financial markets, assumptions regarding general business and economic conditions, interest rates, the global and local supply and demand for labour and other project inputs, changes in commodity prices in general (in particular, the price of gold), the timing of the receipt of regulatory and governmental approvals for our exploration projects, the economic or political climate in Tanzania and globally, changes to legislation generally as well as legislation specifically applicable to the Company's retention-licence tenure in Tanzania, our ability to attract and retain skilled staff, our ability to procure equipment and operating supplies, the receipt of positive results from our exploration project in Tanzania, our ability to obtain exploration licenses and license renewals for our operations, and our ongoing relations with governments, our employees and business partners. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause actual results to vary materially.

Factors that may cause actual results to vary include, but are not limited to: actual exploration results, actual experience in collecting receivables, changes in interest and currency exchange rates, governments and the people they represent including changes to laws, regulations or attitudes, particularly towards mining, acts of foreign governments, delays in the receipt of government approvals, inaccurate geological and engineering assumptions, unanticipated future operational difficulties (including cost escalation, unavailability of materials and equipment, industrial disturbances or other job action, and unanticipated events related to health, safety and environmental matters), political risk (including the risk that the rights to mine the properties explored in Tanzania may be rescinded by the governments or otherwise lost), social unrest, failure of counterparties to perform their contractual obligations, the outcome of legal challenges, changes in general economic conditions or conditions in the financial markets and other risk factors as detailed from time to time in the Company's reports and public filings with the Canadian securities administrators, filed on SEDAR. The Company does not assume the obligation to revise or update forward-looking information after the date of this document nor to make revisions to reflect the occurrence of future unanticipated events, except as may be required under applicable securities laws.

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### **BUSINESS OF THE COMPANY**

The principal business of the Company is the exploration and development of its gold project in Tanzania (the SMP Gold Project). The Company is involved in all aspects of operations in this jurisdiction.

The Company is a reporting issuer in British Columbia and Alberta, and trades on the TSX Venture Exchange under the symbol HRC.

### **OUTLOOK & HIGHLIGHTS FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

The Company completed the quarter ended September 30, 2018 with cash of \$85,375.

The broad investment climate for gold-exploration and development companies generally improved over the prior fiscal year with the gold price rising 6% to approximately US\$1,323 per ounce at March 31, 2018, and several M&A deals and financings being completed. Since March 31, 2018 the gold price decreased to a low of US\$1,213 per ounce (London PM Fix) at November 28, 2018. Despite having risen since then, the lower gold price is expected to have a negative impact on the ability to raise capital.

Changes to the Tanzanian mining laws, implemented swiftly and without any industry consultation, on July 10<sup>th</sup>, 2017, have had a strongly negative effect on investor sentiment towards Tanzania. These changes included a 50% increase on royalty rates (to 6%), the addition of a 1% handling fee, a 16% free carried interest by the Tanzanian government, potential cessation of the reimbursement of VAT to certain mining companies, the banning of international arbitration and other substantial modifications to the licensing regime. Further, the new laws repealed the section governing Retention Licences. The Company held four Retention Licences and is in discussions with the Tanzanian government to seek certainty of its licence tenure. The Company has submitted an application for a new Prospecting Licence to cover the ground previously covered by the Retention Licences. Unfortunately, until the Company receives some assurance of its licence tenure, particularly regarding the area covered by the Company's retention licences, the Company has written off the amount capitalised as mineral property acquisition costs as at March 31, 2018.

The current objectives of the Company are to:

1. Continue to minimize outward cash-flow, particularly in relation to overhead and corporate costs.
2. Seek clarity from the Tanzanian government regarding the treatment of Retention Licences.
3. Seek new opportunities.

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Additional funds will be required to meet the Company's contractual obligations to June 30, 2019. The Company's ability to continue as a going concern is dependent upon several factors – principally on the Company's ability to create positive cash-flow in the short term.

### **SMP Gold Project, Tanzania**

As an indication of the development occurring in the area immediately surrounding the SMP Gold Project, Shanta Gold, an AIM-listed gold mining company, commenced production from its New Luika Gold Mine in 2012.

Shanta reported production of

64,000 ounces of gold in 2013,

84,000 ounces of gold in 2014,

81,873 ounces of gold in 2015,

87,713 ounces of gold in 2016, and

79,585 ounces of gold in 2017,

and has issued production guidance of 82,000 to 88,000 ounces for FY 2018.

*Readers are cautioned that the preceding statement is not an indication that such an outcome will occur at the Company's SMP Project, but does demonstrate that the Saza Goldfields host gold occurrences that support mine development.*

### **Capital Transactions**

#### *Debt settlement:*

On June 13, 2018 the Company issued 500,000 common shares and made a cash payment of C\$25,000 pursuant to a debt settlement agreement with an arm's length creditor of the Company to settle outstanding accounts payable of \$262,701, resulting in a gain on debt settlement of \$190,201.

#### *Share consolidation:*

Effective February 8, 2018, the Company completed a share consolidation on the basis of twenty-five (25) pre-consolidation common shares for one (1) post-consolidation common share. All share amounts presented have been retrospectively adjusted to reflect this consolidation.

#### *Offer to purchase Helio received and rescinded*

On June 19, 2017, the Company announced that it had entered into a definitive arrangement agreement with Shanta Gold Limited ("Shanta") pursuant to which Shanta was to acquire all of the issued and outstanding common shares of Helio by way of a

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statutory plan of arrangement. The agreement was to be subject to shareholder and B.C. Supreme Court approval. The agreement specified the terms of a conditional, all-share transaction under which Shanta would acquire 100% of all issued and outstanding Helio shares in exchange for 59.5 million Shanta shares. If approved, Helio shareholders would have received 5.69415 Shanta shares for each Helio share. This offer was rescinded by the offeror on August 18, 2017 due to actions of the Tanzanian government which created significant uncertainty over the status of retention licences. The Company is working to reduce the licence uncertainty and is considering the options available to the Company that will best protect the interests of its shareholders.

#### **Significant Commitments**

On July 1, 2017, the Company assigned its office lease to another company, significantly reducing the Company's future commitments.

## DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

### *Summary of Quarterly Results*

The following table sets out selected unaudited quarterly financial information of the Company and is derived from unaudited quarterly consolidated financial statements prepared by management. The Company's condensed interim consolidated financial statements are prepared in accordance with IFRS applicable to interim financial statements and are expressed in Canadian dollars.

Quarter ended:	Income (Loss) from Operations and Net Loss	Comprehensive Income / (Loss)	Basic and Diluted Loss per Share from Operations and Net Loss per Share
September 31, 2018	\$ (121,900)	\$ (121,900)	\$(0.01)
June 30, 2018	55,196	55,196	0.01
March 31, 2018	(1,451,993)	(1,886,884)	(0.14)
December 31, 2017	(167,638)	(207,639)	(0.02)
September 30, 2017	(456,497)	(411,497)	(0.04)
June 30, 2017	(194,965)	(194,965)	(0.02)
March 31, 2017	(153,547)	296,345	(0.02)
December 31, 2016	\$ (174,158)	\$ (174,158)	\$(0.02)

The variation in the Company's quarterly net loss over the past eight quarters is largely due to the variation in exploration activity on the Company's properties, which varies with the forecasted availability of funds, with additional fluctuations due to gains recorded on closing of transactions, including in the quarter ended March 31, 2018 when the Company wrote-off their capitalised mineral property acquisition costs as a result of license

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uncertainty, and in the quarter ended June 30, 2018 when the Company recorded a gain on debt settlement. Over the past eight quarters, the Company has maintained a focus on progressively reducing costs and preserving capital. The current September 30, 2018 quarter reflects the Company's minimum costs going forward.

#### *Three months ended September 30, 2018*

When compared to the quarter ended September 30, 2017 ("Q2-17"), the quarter ended September 30, 2018 ("Q2-18") reflects the Company's continued focus on decreasing costs, with an additional gain on settlement in Q2-18.

The loss for the three months ended September 30, 2018 was \$121,900, a significant improvement from the loss for the three months ended September 30, 2017 of \$456,497. The primary driver of the decreased costs was the reduction in exploration costs of \$144,757 and in professional fees of \$172,729.

Salaries, directors fees and consulting costs also decreased by \$15,743 from \$52,004 in Q2-17 to \$36,261 in Q2-18 due to voluntary reductions taken by management and directors.

There were no capital expenditures during either quarter.

#### *Six months ended September 30, 2018*

When compared to the six months ended September 30, 2017 ("YTD-17"), the six months ended September 30, 2018 ("YTD-18") reflects the Company's continued focus on decreasing costs, with an additional gain on settlement in YTD-18.

The loss for the six months ended September 30, 2018 was \$66,704, a significant improvement from the loss for the six months ended September 30, 2017 of \$651,462. The primary driver of the decreased costs was the reduction in exploration costs of \$186,043 and in professional fees of \$171,654. In addition, a gain on debt settlement of \$190,201 significantly reduced the YTD-18 net loss.

Salaries, directors fees and consulting costs also decreased by \$34,378 from \$105,919 in Q2-17 to \$71,541 in Q2-18 due to voluntary reductions taken by management and directors.

There were no capital expenditures during either quarter.

#### *Liquidity, Capital Resources and Cash Flow Analysis*

The Company's primary sources of funding have been from the issuance of common shares and the exercise of share purchase warrants with additional funds coming from

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joint venture agreements, the sale of equipment, and the sale of exploration projects. Management is reviewing all options available to it with regards to future financing options, be it M&A activity, traditional equity raises, or sale of its Tanzanian gold project. However, management remains concerned about the Company's ability to raise additional funding, particularly with the backdrop of the recent actions taken by the Tanzanian government, and management continues to look at ways to cut costs, reassert mineral tenure over the retention licence areas, and preserve its mineral assets in good standing.

Additional funds will be required in order to meet the Company's contractual obligations to September 30, 2019.

### *Financial Instruments*

The Company's financial instruments consist of cash, receivables, security deposits, marketable securities, accounts payable, due to related parties, and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest risk arising from the financial instruments. The Company is exposed to credit risk in relation to the VAT receivables balances, particularly those receivable from the Tanzania Revenue Authority. A full provision has been taken in relation to those receivable amounts as they have been outstanding for an extended period of time. Interest risk and credit risk are managed for short-term deposits by maintaining them in redeemable GIC's or Savings Accounts belonging to a major Canadian bank or credit union. Credit risk is managed for receivables by seeking prompt payment, monitoring the age of receivables, and making follow up inquiries when receivables are not paid in a timely manner. The Company manages its currency risk by periodically adjusting the principal foreign currency cash balances to approximately match foreign currency liabilities. This helps to reduce the Company's gains and losses as a result of fluctuations in foreign exchange rates. Interest on short-term deposits is classified as interest income on the Consolidated Statement of Comprehensive Loss. There are no gains, losses or expenses associated with this financial instrument. The Company does not engage in any hedging activities. Other financial instruments do not generally expose the Company to risk that is significant enough to warrant reducing via purchasing specific insurance or offsetting financial instruments. Further discussion of these risks is presented in Note 6.b of the audited consolidated financial statements for the year ended March 31, 2018.

### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE**

The Company has provided a breakdown of expensed exploration costs in Note 8 of the unaudited condensed interim consolidated financial statements for the quarter ended September 30, 2018. In addition, significant components of general and administrative expenses are shown separately on the *Consolidated Statements of Loss and Comprehensive Loss*, also part of the unaudited condensed interim consolidated financial statements for the quarter ended September 30, 2018.

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### RISK FACTORS

The Company is exposed to the following risks, in addition to those risks noted elsewhere in this MD&A.

#### *Macroeconomic Risk*

The significant outflow of capital from the resource sector, particularly the exploration sector, has led to a substantial reduction in the availability of funding for exploration companies. This situation has severely affected the ability for exploration companies to access capital through traditional means. If these factors persist over the long term, companies will become insolvent, and / or projects will take longer to develop, or may not be developed at all.

#### *Political Policy Risk*

Numerous governments around the world are looking at ways to secure additional benefits from mining companies, an approach recognized as “*Resource Nationalism*.” The Tanzanian government has taken steps in this direction over the past two years. Mechanisms used by governments include increases to royalty rates and corporate tax rates, implementation of “windfall or super taxes”, and carried or free-carried interests to the benefit of the state. Extreme cases in Venezuela and Argentina have resulted in the nationalization of active mining interests. Such changes are viewed negatively in the investment community and can lead to share price erosion, and difficulty in accessing capital to advance projects.

#### *Licensing Risk*

The Company is reliant on the respective Ministries of Mines in the jurisdictions in which it operates in order to properly track licences granted to explore certain regions. The Company routinely needs to obtain new licences, renew existing licences or convert licences from one type to another, and occasionally needs to register a change in a licence owner when earn-in requirements have been met. The Company must rely on the Ministries to complete these transactions fairly, accurately and properly.

The Tanzanian government has removed the definition of Retention Licences from the mining law, creating significant uncertainty for the Company’s four Retention Licences. As a result, until the Company receives some assurance of its licence tenure, particularly regarding the area covered by the Company’s retention licences, the Company has written off the amount capitalised as mineral property acquisition costs as at March 31, 2018.

#### *Exploration Risk*

Mineral exploration and development involve a high degree of risk and few projects are ultimately developed into producing mines. There is no assurance that the Company’s future exploration and development activities will result in the definition of a commercial ore body. Whether an ore body will be commercially viable depends on a number of factors

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including the particular attributes of the deposit such as size, grade and proximity to infrastructure, as well as mineral prices and government regulations, including environmental regulations.

#### *Financial Capability and Additional Financing*

The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for further exploration and development of its projects. Although the Company has been successful in the past in financing its activities through the issuance of equity securities, there can be no assurance that it will be able to obtain sufficient financing in the future to execute its business plan, particularly with ongoing uncertainty in the global financial markets, and the prevailing investment climate of risk aversion. A discussion of risk factors particular to financial instruments is presented in Note 6.b of the audited consolidated financial statements for the period ended March 31, 2018.

The Company has not commenced commercial mining operations and has no assets other than cash, short term deposits, receivables, a small amount of prepaid expenses and a small amount of marketable securities. The Company has no history of earnings, and is not expected to generate earnings or pay dividends until the company's exploration project is sold or taken into production.

#### *Commodity Prices*

The strength of the mineral industry varies with the price of metals. The prices of gold and other commodities have fluctuated widely in recent years and are affected by factors beyond the control of the Company including, but not limited to, international economic and political trends, currency exchange fluctuations, economic inflation and expectations for the level of economic inflation in the consuming economies, interest rates, global and local economic health and trends, speculative activities and changes in the supply of gold due to new mine developments, mine closures as well as advances in various production and use technologies of gold. All of these factors will have impacts on the viability of the Company's exploration projects that are impossible to predict with certainty.

#### *Environment*

Both the exploration and any future production phases of the Company's operations will be subject to environmental protection regulations in the jurisdictions in which it operates. Globally, environmental legislation is evolving towards stricter standards and enforcement, more stringent environmental impact assessments of new mining projects and increasing liability exposure for companies and their directors and officers. There is no assurance that future environmental regulations will not adversely affect the Company's operations.

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### *Financial Instrument Risk*

As a result of its use of financial instruments, the Company is subject to credit risk, interest rate risk, currency risk, liquidity risk and other price risk. Apart from currency and credit risk, these risks are considered to be small. These risks are discussed comprehensively in Note 6.b of the audited consolidated financial statements for the year ended March 31, 2018. In addition, there have been discussions with the tax authority in Tanzania and in Canada pertaining to the refundability of VAT and GST amounts that the Company is claiming. As a result, a provision has been taken to reduce the VAT and GST receivables to \$nil. While some of the amount written off may have a chance of being collected, there also exists the potential for tax assessments to be raised that could exceed the amount that has been provided.

### *Liquidity of Common Shares*

There can be no assurance that an active and liquid market for the Company's common shares will develop or continue to exist, and an investor may find it difficult to resell common shares. In addition, trading in the common shares of the Company may be halted at other times for other reasons, including for failure by the Company to submit documents to the Exchange in the time periods required.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

Certain new accounting standards, amendments and interpretations were adopted by the Company for the first time in the current year. The adoption of these new standards has had an impact on the Company's financial statements:

As a result of adopting IFRS 9, *Financial Instruments*, \$25,000 was moved from accumulated other comprehensive income to deficit, resulting in an adjustment to April 1, 2018 opening balances.

The new standards adopted are more fully described in Note 3.c) of the unaudited condensed interim consolidated financial statements for the quarter ended September 30, 2018.

### **Upcoming Changes in Accounting Standards**

There are changes expected to IFRS. Those that have been announced and are most likely to have some impact on the Company are described in detail in Note 3.o) of the audited consolidated financial statements for the year ended March 31, 2018. The Company is currently reviewing the impact of these changes. They are not anticipated to have a material impact on the Company's financial statements, but may result in additional disclosures in future years.

## **RELATED PARTY TRANSACTIONS**

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The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. Amounts due to related parties are included in accounts payable and accrued liabilities.

#### a) Legal services

During the year, the Company received legal services of approximately \$9,100 (six months ended September 30, 2017 – \$80,000) from MOI Solicitors LLP, and Bennet Jones LLP, law firms in which the Corporate Secretary of the Company is a partner. \$63,000 of this amount was payable at September 30, 2018 (March 31, 2018 – \$71,400) and was included in due to related parties.

#### b) Key management personnel

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management includes the Company's directors and members of the senior management group. Details of key management personnel compensation is as follows:

	Six months ended September 30, 2018	Six months ended September 30, 2017
Salaries and short-term employee benefits, including amounts recorded as exploration costs	\$ 51,154	\$ 88,541
Directors' fees	12,000	12,000
Operator fees for the SMP to Plinian Capital	--	49,913
	<u>\$ 63,154</u>	<u>\$ 150,454</u>

Apart from legal services noted in a), \$25,232 was payable to related parties at September 30, 2018 (March 31, 2018 - \$14,600) and was included in due to related parties.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company is not a party to any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

### OUTSTANDING SHARE DATA

The following section updates the Outstanding Share Data provided in the condensed interim consolidated financial statements for the six months ended September 30, 2018.

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### Common Shares:

Shares outstanding at September 30, 2018 and November 29, 2018	10,949,318
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### Stock Options:

Options outstanding at September 30, 2018 and November 29, 2018	172,000
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### Warrants:

Warrants outstanding at September 30, 2018 and November 29, 2018	Nil
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## APPROVAL

Richard D. Williams, M.Sc., P.Geo., Helio's CEO and a Qualified Person under National Instrument 43-101 has reviewed and approved the technical information contained in this document.

The Board of Directors of the Company has approved the disclosure contained in this MD&A.

## ADDITIONAL INFORMATION

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