

## Form 51-102F1

### MANAGEMENT DISCUSSION AND ANALYSIS FOR HELIO RESOURCE CORP.

#### INTRODUCTION

Prepared on February 23, 2009 for the quarter ended December 31, 2008, this Management, Discussion and Analysis (“MD&A”) supplements, but does not form part of the unaudited interim consolidated financial statements of Helio Resource Corp. (the “Company”). This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements for the nine month period ended December 31, 2008 and the related notes which have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

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).

Monetary amounts in the following discussion are in Canadian dollars unless otherwise noted.

## **FORWARD-LOOKING INFORMATION**

This MD&A contains certain forward-looking information as defined in the Securities Act (Ontario). Forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “is estimated”, “forecasts”, “anticipates” or “does not anticipate”, or “believes”, or variation of such words and phrases or by statements that certain actions, events or results “may”, “could”, “should”, “would”, “might” or “will” be taken, occur or be achieved.

Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. This forward-looking information includes estimates, forecasts, and statements as to management’s expectations concerning the future development and costs of the Company’s exploration projects. This forward-looking information involves numerous assumptions, risks and uncertainties and actual results may vary materially.

Forward-looking information is based on a number of assumptions, including, among others, assumptions regarding general business and economic conditions, interest rates, costs of construction and costs of production, production and productivity levels, market competition, and receipt of necessary approvals. The foregoing list of assumptions is not exhaustive. Events or circumstances could cause actual results to differ materially.

Factors that may cause actual results to vary include, but are not limited to: business and economic conditions in the mining industry generally, the global and local supply and demand for labour and other project inputs, prices for commodities to be produced, changes in commodity prices, changes in interest and currency exchange rates, inaccurate geological and engineering assumptions (including assumptions related to the tonnage, grade and recoverability of reserves and resources), unanticipated future operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalation, unavailability of materials and equipment, government action or 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 (including the risk that the rights to mine the properties explored may be rescinded by the governments or otherwise lost), social unrest, 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 filed with the Canadian securities administrators. Certain of these risks are described in more detail in the annual information form of the Company and in its public filings with the SEC and Canadian securities administrators. The Company does not assume the obligation to revise or update forward-looking information after the date of this document or to make revisions to reflect the occurrence of future unanticipated events, except as may be required under applicable securities laws.

## **BUSINESS OF THE COMPANY**

The principal business of the Company is the exploration and development of the SMP Gold Project in Tanzania.

The Company also holds title to 21 exploration licences in Namibia, nine of which are subject to a joint venture agreement with Desert Minerals (UK) Ltd, a private exploration company.

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

## **OUTLOOK**

The Company completed the quarter ended December 31, 2008 with no long term debt and \$2.9 million in cash and redeemable short-term deposits.

The Company continues to conserve capital. From January 1, 2009 until the completion of the next round of financing, 25% of management salaries and 100% of directors' fees are being deferred. At the same time, management is more optimistic that additional funding can be raised if the current strength in the gold price and the apparent institutional appetite for equity financings continues. Additional financing would allow the Company to resume its drilling activities on the SMP Gold Project as soon as the cessation of the rainy season in April / May.

Importantly, even without additional funding, the Company has sufficient cash reserves to:

- maintain the Company as a going-concern for the next two years;
- keep all key licences in Tanzania in good standing;
- successfully complete the earn-in requirements on all of the licences that comprise the SMP Gold Project in Tanzania.

## **HIGHLIGHTS FOR THE QUARTER ENDED DECEMBER 31, 2008**

### SMP Gold Project

During the quarter, the Company completed its 2008 diamond drilling program at the SMP Gold Project (26,592m in 153 drill holes). The Company also commenced a planned 3,000m Reverse Circulation (RC) drill program at the Porcupine Target, but this was suspended before the year-end due to poor drilling rates and the onset of the wet season.

On October 6, the Company published the results from ten diamond drill holes from the Porcupine Target (up to 40.1m grading 2.2g/t Au) which confirmed bedrock gold mineralisation along a 500m+ strike length.

On October 16, the Company announced that it had signed a Letter of Intent to acquire a 100% interest, subject to a 2% royalty, in the Saza West licence, located immediately west of the SMP Gold Project, adding an additional 7km of strike length of the Saza Shear Zone to the project. To earn a 100% interest, the Company has to issue 1,025,000 shares over a 4 year period. The option agreement has no exploration expenditure requirements.

On November 10, the Company announced drilling results from an additional five diamond drill holes from the Porcupine Target, at the SMP Gold Project, with results up to 51.7m grading 2.1g/t gold. These results confirmed excellent continuity of gold grades and mineralized widths from surface to a depth of more than 200m below surface.

### **Financial**

Net loss for the nine months ended December 31, 2008 was \$8,579,405 as compared with a net loss of \$3,642,144 for the nine months ended December 31, 2007. The increased loss reflects the increased rate of drilling in the current period.

## **EVENTS SUBSEQUENT TO THE NINE MONTHS ENDED DECEMBER 31, 2008**

### **SMP Gold Project- Tanzania**

On January 7, 2009, the first property payment of \$25,000 and 150,000 shares was paid to Thorntree Minerals in respect of the new 34 km<sup>2</sup> Saza West licence.

On January 15, 2009, the Company released results from 26 diamond drill holes completed in the Kenge NW Zone (up to 13.5m grading 3.35g/t Au)

On January 26, 2009, the Company released results from a further eleven diamond drill holes from the Porcupine Target (up to 46m at 2.1g/t gold and 44.1m grading 2.1g/t Au).

The results confirm that mineralisation shows good continuity along strike to the west of previous detailed drilling.

On February 2, 2009, the Company reported drilling results from nine diamond drill holes from the Mbenge Zone, Kenge Target. The drilling confirmed that gold mineralisation extends eastwards from previous drilling, with one hole intersecting 16m grading 3.8g/t gold in an area not previously drill tested. Mineralisation potentially extends a further 500m further east, where RC drilling from 2007 successfully intersected bedrock gold mineralisation.

The Company still has results from 10 drill holes to report from the Porcupine Target, five diamond drill holes from the Konokono Target, and 30 drill holes from the Kenge Main Zone. These remaining results are expected to be received before the end of February, 2009.

## **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 interim consolidated financial statements are prepared in accordance with Canadian GAAP and expressed in Canadian dollars.

Period	Revenues	Loss from Operations and Net Loss	Basic and Fully Diluted Loss per Share from Operations and Net Loss
December 31, 2008	Nil	(2,489,191)	(0.05)
September 30, 2008	Nil	(4,381,841)	(0.09)
June 30, 2008	Nil	(1,708,373)	(0.04)
March 31, 2008	Nil	(1,628,312)	(0.02)
December 31, 2007	Nil	(772,008)	(0.02)
September 30, 2007	Nil	(1,678,564)	(0.05)
June 30, 2007	Nil	(1,191,572)	(0.03)
March 31, 2007	Nil	(1,239,628)	(0.04)

### *Results of Operations*

At present, the Company has no mineral-producing properties and therefore has no revenue from any mineral properties.

*Three months ended December 31, 2008*

The loss for the three months ended December 31, 2008 increased to \$2,489,191 as compared to a loss of \$772,008 for the three months ended December 31, 2007. The increase over the prior year's quarter was driven primarily by the increase in exploration costs of \$1.6 million.

Exploration costs of \$1,847,833 (2007 - \$292,148) increased versus the equivalent quarter of the preceding year due to the large drilling program conducted on the Company's SMP Gold Project in Tanzania. In October 2008, the company scaled down from having five diamond drill rigs extracting core for assaying. This compares with one diamond drill rig and one reverse-circulation rig drilling in the quarter ended December 31, 2007. The increase in exploration costs in Tanzania was partly offset by a reduction in exploration costs in Namibia.

Professional fees have decreased substantially due to not requiring the services of a recruiting agency in the current quarter while having acquired in-house expertise in order to replace more expensive consultants used in the previous quarter.

Salaries and consulting costs of \$130,849 (2007 - \$95,601) increased as a result of increases in staffing and pay rates in order to accommodate the higher activity level of the Company in July 2008 – October 2008.

Filing and transfer agent fees have decreased substantially mainly due to the lack of any financing activity during the quarter.

Stock based compensation has increased from \$53,786 for the three months ended December 31, 2007 to \$90,545 for the three months ended December 31, 2008. This is related to the timing of vesting of option grants.

Marketing costs have increased to \$70,637 from \$50,200 as a result of attending an additional conference in the quarter ended December 31, 2008 when compared to the quarter ended December 31, 2007.

Amortization expense has increased in the current quarter as a result of owning more rapidly-depreciating field equipment than in the previous period.

The foreign exchange loss has increased due to the volatility experienced in the currency markets, primarily the strengthening of the US dollar while the Company held a significant amount of drilling-related US-denominated payables.

*Nine months ended December 31, 2008*

The loss for the nine months ended December 31, 2008 increased to \$8,579,405 as compared to a loss of \$3,642,144 for the nine months ended December 31, 2007. The increase over the prior year's period was driven primarily by the increase in exploration costs of \$4,328,455.

Exploration costs of \$6,908,664 (2007 - \$2,580,209) increased versus the equivalent period of the preceding year due to the large drilling program conducted on the Company's SMP Gold Project in Tanzania. In September 2008, five diamond drill rigs were extracting core for assaying. This compares with one diamond drill rig and one reverse-circulation rig drilling for part of the nine months ended December 31, 2007. The increase in exploration costs in Tanzania was partly offset by a reduction in exploration costs in Namibia.

Marketing costs have increased to \$174,731 from \$152,480 as a result of attending an additional conference in the period ended December 31, 2008 when compared to the period ended December 31, 2007.

Salaries and consulting costs increased to \$352,559 (2007 - \$294,561) as a result of increases in staffing and pay rates in order to accommodate the higher activity level of the Company in July 2008 – October 2008.

Stock based compensation has increased from \$182,825 for the nine months ended December 31, 2007 to \$251,746 for the nine months ended December 31, 2008. This is related to the timing of vesting of option grants.

Amortization expense has increased in the current period as a result of owning more rapidly-depreciating field equipment than in the previous period.

Offsetting these increases, Professional fees have decreased in part due to not requiring the services of a recruiting agency in the current period while having acquired in-house expertise in order to replace more expensive consultants used in the previous period. Further, savings have been had on Travel, meals and entertainment costs, as well as on Office and miscellaneous costs as a result of more efficient spending.

Interest income has increased relative to the prior period due to the higher cash balances held in the nine months ended December 31, 2008.

The foreign exchange loss has increased due to the volatility experienced in the currency markets, primarily the strengthening of the US dollar while the Company held a significant amount of drilling-related US-denominated payables.

### *Liquidity, capital resources and cash flow analysis*

The Company's primary sources of funding have been from the issuance of common shares and warrants with additional funds coming from joint venture agreements. As a result of the current economic climate, exploration activity has been greatly reduced in order to preserve capital. The Company has sufficient cash reserves for the next two years, to December 31, 2010... Management is optimistic that additional funding can be realised if the current strength in the gold price and the apparent institutional appetite for equity financings continues. Additional financing would allow the Company to resume its drilling activities on the SMP Gold Project.

The decrease in cash and short-term deposits reflects a decrease in liquidity. The Company's short-term deposits are comprised of cashable term deposit investments issued by a highly recognized banking institution in Canada. The initial term of these instruments is one year. Upon the request of the Company the investments may be partially or fully redeemed before the maturity date without penalty.

A private placement was completed in June 2008, from which the Company raised \$5,100,000 by issuing 6,000,000 common shares and 3,000,000 share purchase warrants. Share issuance costs totalling \$345,000 were paid in cash in connection with the private placement. Proceeds from the financing were invested in short-term deposits.

### *Financial Instruments*

The Company's financial instruments consist of cash and cash equivalents, short-term deposits, marketable securities, receivables, security deposits, accounts payable and accrued liabilities and amounts due to/from related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. Interest risk and credit risk are managed for short-term deposits by maintaining them in redeemable GIC's issued by a major Canadian financial institution. The Company has commenced managing its currency risk by periodically adjusting the principal foreign currency cash balances to approximately match budgeted foreign currency spending. This exposes the company to gains and losses as a result of fluctuations in foreign exchange markets, but ensures the Company's purchasing power in foreign currencies will remain stable. Interest on short-term deposits is classified as interest income on the Consolidated Statements of Loss and 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. Further discussion of these risks is made available in Note 5 of the unaudited interim consolidated financial statements for the nine month period ended December 31, 2008.

The Company believes it currently has sufficient cash resources to carry out its planned exploration programs and meet its contractual obligations for fiscal 2008, and beyond.

## **RISK FACTORS**

### *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 body of commercial ore. Whether an ore body will be commercially viable depends on a number of factors 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. A discussion of risk factors particular to financial instruments is presented in Note 5.b of the unaudited interim consolidated financial statements for the period ended December 31, 2008.

### *Commodity Prices*

The mineral industry varies with the price of metals. The price of gold and other commodities has fluctuated widely in recent years and is 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.

### *Financial instrument risk*

As a result of its use of financial instruments, the Company is subject to credit risk, interest rate risk, currency risk and other price risk. These risks are discussed comprehensively in Note 5b of the unaudited interim consolidated financial statements for the nine months ended December 31, 2008.

## **CHANGES IN ACCOUNTING POLICIES**

### **Changes in accounting standards**

On April 1, 2008, the Company adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants: Handbook Section 1400, *General Standards of Financial Statement Presentation*; Handbook Section 1535, *Capital disclosures*; Handbook Section 3031, *Inventories*; and Handbook Sections 3862 and 3863, *Financial Instruments, Disclosure and Presentation*. These standards have been applied prospectively; accordingly, comparative amounts for prior periods have not been restated.

### **Changes in Accounting Standards Not Yet Adopted**

Section 3064 – *Goodwill and Intangible Assets* is a new section that will be effective for annual or interim periods beginning on or after April 1, 2009. In addition, The CICA has adopted International Financial Reporting Standards for implementation on January 1, 2011.

Further details on these new standards are provided in our unaudited interim consolidated financial statements.

## **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.

### **Related Party Transactions**

During the nine months ended December 31, 2008, the Company received legal services in the amount of \$60,000 (December 31, 2007 - \$36,000) from a law firm, in which the Corporate Secretary of the Company is a partner.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties. These transactions were in the normal course of operations and were measured at the exchange value, which is the amount of consideration established and agreed to by the related parties.

## **APPROVAL**

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)