# HI HO SILVER RESOURCES INC.


MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JULY 31, 2018 AND 2017

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# A. INTRODUCTION

The following management discussion and analysis of the operating results and financial position of Hi Ho Silver Resources Inc. (the "Company" or "Hi Ho Silver"), dated for reference November 28, 2018, constitutes management's view of the factors that affected the Company's financial and operating performance for the year ended July 31, 2018. This discussion should be read in conjunction with the audited financial statements and related notes of the Company for the years ended July 31, 2017 and July 31, 2018.

On August 3, 2016, the Company completed a share consolidation on the basis of 25 old shares for 1 new share. This share consolidation has been retroactively presented in this MD&A and all share amounts, including per share amounts, reflect the share consolidation.

All dollar amounts are in Canadian currency unless otherwise specified.

The Company's website can be found at www.hihoresources.com. Additional regulatory filings for the Company can be found on the SEDAR website at www.sedar.com. This Management Discussion and Analysis ("MD&A") is prepared in conformity with National Instrument 51-102 F1 and was approved by the Board of Directors on November 28, 2018.

# B. FORWARD-LOOKING STATEMENTS

*Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", "forecast", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect the Company's current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments except as required by applicable Canadian Securities law.*

# C. STRUCTURE AND BUSINESS DESCRIPTION

Hi Ho Silver Resources Inc. (the "Company") was incorporated under the Canada Business Corporations Act on April 7, 2005. All of the Company's efforts are currently devoted to developing exploration properties in Canada. There has been no determination whether the Company's interests in exploration properties contain mineral reserves which are economically recoverable.

The Company's head office and its registered records offices are located at 999 Canada Place, Suite 404, Vancouver, BC V6C 3E2. The Company is a reporting issuer in British Columbia, Alberta and Ontario and trades on the CNSX Exchange under the symbol "HHS". The Company is also listed on the Frankfurt Stock Exchange under the symbol "H9T".

## D. OPERATING ACTIVITIES

The net loss for the year ended July 31, 2018 was $1,002,944 compared to the net loss for the year ended July 31, 2017 of $1,175,664.

## E. CORPORATE DEVELOPMENTS

The following were corporate developments for the year ended July 31, 2018

Management continued its focus on improving the financial position of the Company and made significant progress towards the objective of reducing its financial obligations.

i. As at August 1, 2017, the Company issued 2,500,000 common shares to settle its preferred share obligation related to $289,000 in subscriptions received previously.

ii. On October 30, 2017, the Company issued 1,918,110 common shares at a value of $76,724 to settle debt in the amount of $277,752 for outstanding accounts payable and accrued liabilities and loans payable, which resulted in a gain of $201,028.

iii. On October 30, 2017, 3,000,000 stock options were granted to directors, officers, and consultants of the Company.

iv. On March 28, 2018, 500,000 stock options were granted to an officer of the Company.

v. The Company issued 5,475,000 common shares pursuant to the exercise of stock option for gross proceeds of $324,000.

vi. During the year ended July 31, 2018, the Company issued 1,270,000 units to directors, officers and a technical advisor in exchange for consulting services. Each unit consists of one common share and one transferable common share purchase warrant exercisable at a price of $0.30 per share for a period of two years. The shares issued were fair valued at $71,250 and the warrants granted were fair valued at $55,750.

In accordance with the terms of the consulting and service agreements, the Company is also committed to issuing 490,000 common shares and common share purchase warrants for services provided during the year ended July 31, 2018. The Company has recorded $49,000 in shares issuable in relation to these common shares and common share purchase warrants.

vii. During the year ended July 31, 2018, 224,000 (July 31, 2017 – 44,000) stock options were forfeited or expired.

viii. The Company closed a number of private placements and issued 10,680,000 units at $0.10 per unit for gross proceeds of $1,068,000. Each unit consists of one common share and one share purchase warrants exercisable at $0.30 per share for a period of one year. A far value of $257,100 was allocated to the share purchase warrants.

ix. During the year ended July 31, 2018, 14,687,266 warrants expired unexercised.

In addition, the Company embarked on an acquisition of an illite clay property. On October 25, 2017, the Company acquired 145.46 hectares in one claim unit located in central British Columbia containing significant quantities of illite clay outcropping at the service level.

On March 7, 2018, the Company expanded the illite clay property further by purchasing a 100% interest in an additional 290.95 hectares of Mineral Tenures from Turnagain Resources and John Bakus. Consideration for the enhanced land position included a cash payment of $13,500 and 750,000 common shares if the company. Both the cash payment and share issuance were settled during the period. The common shares were valued at $48,750, being the fair value of the common shares at the time of issuance. The agreement also includes the right of first option on any further clay properties acquired by either party in the Mining District within 2 km of the current property. On March 15, 2018, a ten-year agreement, with option to extend for an additional ten years, was reached with NHP Industries Inc. to market the illite clay on an exclusive worldwide basis. Pricing for the sale of illite is to be between $3.88 and $4.00 per kilo, FOB Burnaby, British Colombia, with minimum initial order of 10,000 kilos. Consideration for this agreement is to be $1,000,000 to be paid to the Company in cash equal to a 1/3 portion of the Representative's profits derived from the Marketing, Distribution and Sales of Canadian Kootenay Clay and Product lines calculated and paid semi-annually based on financial statement. Semi-annual payments will continue as long as this Agreement and subsequent agreements remain in effect or until the Company receives $1,000,000 in total payments. If on the earlier of (i) the date of termination of this Agreement or (ii) the date that is IO years from the date of this Agreement, the Representative has not paid the entire amount of $1,000,000 to the Company, the unpaid balance shall immediately become due and payable. As an adjunct to the marketing agreement, a financing of $1,000,000 for ten million units of Hi Ho Silver Resources Inc., consisting of one share priced at $0.10, and a purchase warrant priced at $0.30 which can be exercised optionally at a share price of $0.30 per share within a period of one year (12 months), has been agreed upon, and is a condition precedent for the sales agreement. The financing was initially to be completed by March 31, 2018 and both parties are working towards closing said financing. Due to inclement winter weather, the Company granted an extension until the removal of the clay commenced. A substantial shipment of clay was removed to the Company's storage facility near Vancouver, but no sales have been made of the product to date. The agreement awaits completion.

During the period, Michael Paul resigned as a director, Milan Gubash has resigned as President of the Company, although he will continue as a director. Gary Jorgensen has replaced Mr. Gubash as President of the Company and Steve Jorgenson has been appointed as Vice President of the Company.

## Fairview South Okanagan Property

On August 24, 2012, the Company entered into an option agreement with William McKinney, Turnagain Resources Inc. and Knight-Castle Mercantile Inc. to acquire a 100% interest in a series of claims, collectively referred to as the Fairview South Okanagan Property, located in British Columbia. The initial Property holding comprised 15 mineral claims covering approximately 762 hectares located 6.4 kilometres west of the town of Oliver BC, in the Okanagan mining division. On November 28, 2013, the Company acquired four additional tenures contiguous to the property that now form part of the Fairview South Okanagan Property. Additional four claims were acquired in the current fiscal year.

Historical production from three parallel quartz vein systems on the property totaled 512,000 tonnes grading 3.99 grams per tonne gold and 49.1 grams/tonne silver (Barker and Trenaman, 1987). Initial production

was started in the 1890s with the majority of production undertaken by Cominco (now Teck Resources Limited) between 1946 and 1961. The material was utilized as flux by Cominco in the Trail smelter.

Sufficient material remained within the mines at the time of shutdown in 1961 to encourage Cominco to subsequently evaluate a plan of operations at a projected gold price of $400. That program, as summarized in a 1980 report, was based upon a historical resource and envisioned a production scenario of 255,000 tonnes per year or 700 tonnes per day for a period of 10 years. This plan was not implemented, and subsequent exploration and evaluation work was conducted by Oliver Gold, but operations were not continued, and the property has remained dormant. These historical resources do not meet the criteria for an NI 43-101-compliant resource of any category as defined in "CIM Definition Standards on Mineral Resources and Mineral Reserves," dated Nov. 27, 2010, and as such should not be relied upon. An updated current resource has been calculated for the property as discussed below.

Compilation of all data in a modern computerized format in order to create a 3-D model has been done, with the ultimate objective to guide the location of the bulk sampling and drilling work. The intent is to obtain a bulk sample and directly ship the material to a nearby mill for custom milling. Depending on the results obtained in the bulk samples, it is anticipated that additional preparations will be made for the eventual continued shipment of material from the underground target zones. This will allow a sequential evaluation of a number of the higher-grade zones suggested by historical drilling and mining data, to eventually develop a mining plan as exploration advances and as funding is obtained.

The Company retained Apex Geoscience Ltd. to prepare a National Instrument 43-101 report on the Fairview gold property, near Oliver, in the Okanagan Valley of Southern British Columbia, Canada. Kristopher Raffle, BSc, PGeo, Senior Geologist, and Michael Dufresne, MSc, PGeol, President of Apex, co-ordinated compilation of historic exploration data and completion of the report.

The report is based on a voluminous historic exploration dataset, including work conducted by Highland Valley Resources Ltd. and Oliver Gold Corp. during the period 1985 to 1994, which included drilling of approximately 5,000 metres of core, 400 metres of underground drifting and extensive rock geochemical sampling. That work post-dated exploration and development by Cominco Ltd. (now Teck Resources Ltd.) that consisted of drilling of numerous core holes, many hundreds of metres of underground drifts, and extensive stopping of production materials. The majority of surface plans, geologic logs and assay results from drilling, plus underground plans and sections, are available for compilation. This data has been digitized, compiled and used to create a modern 3-D geologic and mineralization model for the property, which will guide future exploration.

On August 21, 2013, this National Instrument 43-101 Technical Report was filed on SEDAR. The mineral resource estimate comprises an inferred mineral resource of 334,000 tonnes averaging 2.9 g/t Au and 17.9 g/t Ag, based on a cut-off grade of 1.0 g/t Au. This includes a higher-grade core zone of 51,000 tonnes grading 11 g/t gold and 38g/t silver.

On February 24, 2015, the Company entered into an agreement with Turnagain Resources Inc. and 0998601 B.C Ltd. to acquire a 100% interest in an additional ten mineral claims comprising 760.1 hectares. As consideration, the Company issued 3,000,000 common shares valued at $30,000, representing the fair value of the shares at the time of issuance.

On August 6, 2015, the Company entered into a purchase agreement with Turnagain Resources Ltd and 0998601 BC Ltd (the "Sellers") to acquire 100% undivided interest in one mineral title comprising 21.12 hectares located in British Columbia. As consideration, the Company has issued 60,000 of its common shares valued at $6,000, representing the fair value of the shares at the time of issuance.

The Company purchased additional claims to expand the Fairview property and to consolidate the land holdings for purposes of assessment work distribution.

The property has had a small amount of surface work conducted during the year to facilitate the combination of properties with additional properties being acquired in order to expedite filings of assessment work.

**Illite Clay- Kootenay Clay**

On October 25, 2017, the Company acquired 145.46 hectares in one claim unit located in central British Columbia containing significant quantities of illite clay outcropping at the service level.

In February 2018 an additional 4 claims comprising 290.95 hectares was acquired from the same vendors for an increased total of 436.41 hectares. Consideration for this purchase was $13,500 and 750,000 shares of Hi Ho Silver Resources Inc.

Additional land totaling 436.76 hectares was staked by Company personnel on June 18, 2018, bringing the current land position to a total of 873.52 hectares.

Exploration potential for the property is believed to be substantial. A site visit to the property was undertaken by Company representatives on June 17,2018, and materials for testing have been removed and stored for additional test work.

A consultant is being retained for preparation of a National Instrument 43-101 Report on the property, including an evaluation of the Rare Earth Element potential for the property.

An agreement for exclusive worldwide distribution rights for the clay was reached with NHP Industries of Burnaby, B.C. on March 18, 2018. This agreement has not been fulfilled despite extensions from March 31, 2018, for the proposed ancillary $1 million dollar funding for the Company, a pre-requisite for completion of the agreement, and such funding has not been received.

The Representative of NHP Industries, or its associate partners, is also committed to invest an additional $1,000,000 (one million Canadian dollars) in Hi Ho Silver Resources Inc. by way of a private placement subscription originally scheduled to be completed by March 31, 2018. Due to inclement winter weather, the Company granted an extension until the removal of the clay commences, which the Company anticipated being sometime in May, but which commenced on June 18, 2018. A substantial quantity of clay was transported to the Company's storage facility near Vancouver, however no sales of the product have been completed.

The original agreement remains unfulfilled and the $1,000,000 proposed financing has not been received. The Agreement remains in abeyance.

As a result of a Strategic Investor (1166847 BC Ltd.) committing to invest $1,000,000 CDN in the company's Private Placement at a price of $0.10 per unit, as a pre-requisite to the exclusive world-wide distribution

rights agreement for the Illite clay, Hi Ho has agreed to allow 1166847 BC Ltd. first Option to Joint Venture two properties which Hi Ho owns and manages. These properties are 1) Bralorne Gold Property (near Lillooet BC) and 2) NIK Cobalt/Nickel Property located in north central BC. To date the above described financing has not been completed.

Both First Options were for a limited period of 90 days, and both option periods have expired.

There are no established reserves or resources on the Kootenay Clay property, and the Company will require exploration and development work to establish any resource or reserve. There can be no assurance that any resource can be established, or if established that such will be economically recoverable.

A National Instrument 43-101 Report on the property is in preparation with Apex Geoscience, and completion is awaited.

There has been no Preliminary Economic Assessment or Feasibility Study conducted on the property. Any proposed production from the property will be conducted without the benefit of such study and consequently may present a higher risk to the investor.

During the last quarter of the year, the Company announced its first 10,000 kg sample order with NHP Industries Inc. which holds the exclusive distribution rights to a claim containing "Canadian Kootenay Clay™" of the highest quality from the illite clay. A substantial quantity of material was removed from the property and transported to the Company storage facility near Vancouver, but to date no sales have been completed.

The Company has discovered a major extension to the property and has filed an additional Tenure to extend it. The new clay deposits were discovered, staked and filed by the Company's experienced exploration team. This new discovery comprises 436.76 Hectares which doubles in size the original property held by the Company. Preliminary testing, extraction of the product has begun at the claim site in preparation of fulfilling the worldwide distribution contract signed earlier this year with NHP Industries Inc.

**NIK Cobalt and Nickel Property.**

On January 24, 2018, a block of 67 claims covering 1066 hectares was acquired from Christopher Delorme. The property is located in the Omineca Mining District of British Columbia, Canada. Consideration for the option to purchase 100% interest in the property subject to a retained 2% net smelter return is $20,000, payable on completion of a final agreement, and payment of 500,000 shares of Hi Ho Silver Resources. Subsequent payments are $20,000 and 500,000 shares at the end of year 1, and $30,000 and 500,000 shares at the end of year two, and $30,000 cash, and 500,000 shares at the end of year three.

The property is prospective for cobalt and nickel mineralization as indicated from anomalous surface geochemical samples for both elements. The property is also prospective for copper, gold, and silver mineralization as indicated in 18 historical diamond drill holes completed by BP Minerals in 1973 on the southern portion of the claims. Several of these holes contain significant intersections of copper mineralization over significant core lengths of in excess of 240 feet (70m). This historical data is available from British Columbia Minerals Branch assessment filings.

This property is an exploration property, and no mineral resources or reserves have been established by a Qualified Person for the property. Exploration work is anticipated for the upcoming 2018 field season, beginning with compilation of the voluminous data available in historical files on the property.

The property was expanded on February 16, 2018 by staking of 888 hectares of additional claims to cover airborne magnetic and electromagnetic surveys of the property, which surveys are available from the British Columbia Minerals Branch files. The property now comprises 2647.24 hectares.

An exploration program based on searching for cobalt and nickel mineralization underlying the surface geochemically anomalous zones was planned but was not undertaken during the 2018 summer season. Compilation of all geophysical, geochemical and diamond drill information from historical materials filed with the British Columbia Division of Geology was initiated in order to enable design of an exploration program.

As a component of the March 18, 2018 agreement on the Kootenay Clay property as described above, a Strategic Investor (1166847 BC Ltd.) has committed to invest $1,000,000 CDN in the Company's Private Placement at a price of $0.10 per unit. As a result, Hi Ho has agreed to allow 1166847 BC Ltd. first Option to Joint Venture two properties which Hi Ho owns and manages. These properties are 1) Bralorne Gold Property (near Lillooet BC) and 2) NIK Cobalt/Nickel Property located in north central BC. To date the financing described above has not been completed to perfect the Illite Clay agreement or this First Option to Joint Venture.

The option period under the above understanding has expired. Further the Nik property has subsequently been returned to the original property Vendors. The Company no longer holds any interest in the Nik Property.

**San Bernardino Claims**

On May 27, 2014, the Company acquired a 100% interest in 9 placer claims located in San Bernardino County, California from Clearbrook Water Company Ltd. and 0998601 BC Ltd. In consideration for the claims, the Company issued 5,000,000 common shares and a further 1,000,000 common shares as a finder's fee. The common shares were valued at $60,000, being the fair value of the common shares at the time of issuance.

The property covers a broad carbonate rubble terrain, with associated gold and silver mineralization. The claims have been subject to historical prospecting and removal of minor silver and gold since early settlement of California. The property is easily accessible from county roads and trails. The company is continuing to assess the potential for concentration of the gold contained in the limestone breccia matrix material. A centrifugal system, possibly a Knelson concentrator will be used to test some of the matrix material as soon as possible.

Exploration potential for the property is believed to be substantial. A site visit to the property has been completed by a Company representative and Qualified Person. There are no established reserves or resources on the property, and the Company will require exploration and development work to establish any resource or reserve. There can be no assurance that any resource can be established, or if established that such will be economically recoverable.

The Company planned to perform further exploration and metallurgical testing on this property but no work was carried out.

In order to reduce Company commitments, the Company no longer holds any interest in the San Bernardino claims.

**Bralorne Project, British Columbia**

The Company retains its core block of property in this area. Assessment work was conducted on some claims and filed for purposes of holding the claims. Some peripheral claims were abandoned as not pertinent to the exploration targets.

The Company announced the addition of two mineral claims totalling 122.8 hectares which extend the current Bralorne property to the southeast and cover the Red Hawk gold showing.

The property was acquired from Turnagain Resources through the exchange of Title Nos 1056162 and 1047702 held by Turnagain, for two mineral claims Title Nos 1054291 and 1054289 designated as Hi Ho's Trout Lake property.

The exchange of 100% interest in the respective properties allows Hi Ho to concentrate its exploration efforts on the keynote Bralorne gold prospect. It extends the property to the southeast covering the Red Hawk gold showing.

The Red Hawk prospect lies on the south side of Cadawallader Creek to the southwest of the Bralorne-Pioneer MIne workings and consists of a series of quartz veins trending northwest, and steeply dipping . The veins have historical sampling returning grades from trace to 0.34 grams/tonne gold (Minfile 092JNE012), and have been developed by 5 short exploratory tunnels, several open cuts and pits, and a shaft. Exploration proceeded from 1931 and resumed in 1987 and 1988.

Exploration potential for the property is believed to be substantial. A site visit to the property has been completed by a Company representative and Qualified Person. Assessment work was conducted on the property by Company personnel during the quarter sufficient to hold certain tenures that required assessment work.

There are no established reserves or resources on the property, and the Company will require exploration and development work to establish any resource or reserve. There can be no assurance that any resource can be established, or if established that such will be economically recoverable.

As discussed above under Illite Clay section, a Strategic Investor (1166847 BC Ltd.) has committed to invest $1,000,000 CDN in the company's Private Placement at a price of $0.10 per unit. As a result, Hi Ho has agreed to allow 1166847 BC Ltd. first Option to Joint Venture two properties which Hi Ho owns and manages. These properties are 1) Bralorne Gold Property (near Lillooet BC) and 2) NIK Cobalt/Nickel Property located in north central BC.

The above discussed financing has not been completed as of this date to perfect the Illite Clay agreement or this first Option to Joint Venture.

The option period was for a period of 90 days, which time has expired, and the first Option to Joint Venture expired.

**Norbeau Gold**

The Company announced on March 1, 2017 that it had acquired the right to acquire 100% interest in the Norbeau Gold Property, Chibougamau region, northwestern Quebec, Canada.

The option to acquire a 100% interest in the property includes payment requirements of $25,000 (paid) and a series of six payments of $12,500 due at the end of each quarter from July 31, 2017 to October 31, 2018. The Company has paid the first $12,500 quarterly amount. Additional payments are required of $40,000 on July 31, 2019 and $80,000 on July 31, 2020. A 2% net smelter royalty is retained by the Vendor, subject to purchase at any time of 1% for $1 million. The option includes exploration expenditure requirements on the property of $200,000 by July 31, 2018 and $1 million on or before July 31, 2020. On June 12, 2017, the Company issued 500,000 shares valued at $37,500 in accordance with this agreement and a further 500,000 shares are required to be issued on the second and third anniversary dates of the agreement.

The option to acquire a 100% interest in the property includes payment of $12,500 on the effective date and $12,500 to be paid one month after the effective date. An additional $12,500 is due at the end of every quarter until October 31, 2018. A payment of $40,000 on July 31, 2019 and $80,000 on July 31. An additional $50,000 is payable on the first anniversary, and an additional $60,000 to be paid on each of the second and third anniversary dates. Payment of 500,000 shares is due 15 days from the effective date, and 500,000 shares on each of the first, second, and third anniversary dates. A 2% net smelter royalty is retained by the Vendor, subject to purchase at any time of 1% for $1 million. The option includes expenditures on the property of $200,000 by July 31, 2018 and $1 million on or before July 31, 2020. On June 12, 2017, the Company issued 500,000 shares to the Optionors in accordance with this agreement.

The mine has a history of gold production as well as substantial potential material yet to be mined from several undeveloped levels. From 1965 to 1969 the Norbeau mine produced 419,029 tonnes grading 13.77 g/t (0.38 oz/t) from eight levels spaced 150 feet apart yielding a total of 5,101 kilograms of gold and 632 kilograms of silver. The mine shaft was sunk to just below the undeveloped 9th and 10th levels. The host rocks are a gabbro sill and diorite, with five orogenic auriferous quartz veins associated with shear zones and fault structures discovered and mined.

Exploration potential for the property is believed to be substantial. A site visit to the property has been completed by a Company representative and Qualified Person. There are no established reserves or resources on the property, and the Company will require exploration and development work to establish any resource or reserve. There can be no assurance that any resource can be established, or if established that such will be economically recoverable.

On July 20, 2017, the Company entered into an Earn in Agreement with ITOCO Mining Corp (“ITOCO”) whereby ITOCO shall acquire the Norbeau Earn in Agreement from Hi Ho and Hi Ho shall retain a net profit 5% interest in the Norbeau Property, see Note 5 of the July 31, 2017 audited financial statements.

The Company announced on March 1, 2017 that it had acquired the right to acquire 100% interest in the Norbeau Gold Property, Chibougamau region, northwestern Quebec, Canada.

The option to acquire a 100% interest in the property includes payment of $12,500 on the effective date and $12,500 to be paid one month after the effective date. An additional $12,500 is due at the end of every quarter until October 31, 2018. A payment of $40,000 on July 31, 2019 and $80,000 on July 31. An additional $50,000 is payable on the first anniversary, and an additional $60,000 to be paid on each of the

second and third anniversary dates. Payment of 500,000 shares is due 15 days from the effective date, and 500,000 shares on each of the first, second, and third anniversary dates. A 2% net smelter royalty is retained by the Vendor, subject to purchase at any time of 1% for $1 million. The option includes expenditures on the property of $200,000 by July 31, 2018 and $1 million on or before July 31, 2020.

The mine has a history of gold production as well as substantial potential material yet to be mined from several undeveloped levels. From 1965 to 1969 the Norbeau mine produced 419,029 tonnes grading 13.77 g/t (0.38 oz/t) from eight levels spaced 150 feet apart yielding a total of 5,101 kilograms of gold and 632 kilograms of silver. The mine shaft was sunk to just below the undeveloped 9th and 10th levels. The host rocks are a gabbro sill and diorite, with five orogenic auriferous quartz veins associated with shear zones and fault structures discovered and mined.

The Company defaulted on its Agreement to acquire the Norbeau property and relinquished all interest under the March 1, 2017 agreement.

Subsequently the Company entered into two agreements covering properties in the Norbeau , Quebec, area. One of these covering the Norbeau mine properties and adjacent properties is with Fayz and Ramy Yacoub, dated Sept. 20, 2018. The other dated October 28, 2018, is with Beaurox Mines Limited, covering properties adjacent the holdings obtained covering the Norbeau Mine.

The option for 100% interest on the Norbeau property with Fayz and Ramy Yacoub requires payments of $25,000 on effective date of Sept. 20, 2018, $25,000 before Jan. 2019, an additional $50,000 on first anniversary, $60,000 second anniversary, and $60,000 third anniversay. It also requires 750,000 shares 15 days after effective date, 750,000 shares on first anniversay and 1,000,000 on each of second and third anniversary dates. Additionally, 1,000,000 shares will be issued subject to calculated proven economic reserve solely on the property. Work commitments are $300,000 before first anniversay, additional $1,500,000 before second anniversarym, and additional $2,000,000 before the third anniversay. A 2% NSR royalty is reserved to vendors, of which the Company has the right to purchase 1% for $1,000,000.

The Beaurox Mines Limited agreement for 100% interest, signed October 28,2018, with Beaurox Mined Limited, covers 28 unpatented mining claims in McKenzie Township, Quebec. The agreement calls for payment of $50,000 on signing, additional $70,000 in year one, additional $70,000 in year two, and additional $60,000 in year 3. Payment of 750,000 shares is due within 30 days of effective date.additional 750,000 shares before first anniversary, an additional 1,000,000 shares before second anniversary, and an additional 1,000,000 shares before the third anniversary. An additional 1,000,000 shares is to be issued upon reaching a drill indicated economic reserve or upon sale of the project. Expenditures on the property must be $300,000 by the first anniversary date, additional $1,500,000 by the second anniversary, and an additional $2,000,000 before the third anniversary date. There is a 2.5 % NRS due vendor of which one half may be purchased for $3,000,000.

Annual Advanced Royalty Payments must be made payable as one kilogram of fine gold no less than 99.9% annually commencing on the 3rd anniversary of the agreement and continuing until commencement of commercial production. This payment in gold may be substituted by payment in free and tradeable shares as shares for debt at a 25% discount to market.

**Canadian & Augustus Quebec Property**

On September 30, 2016, the Company entered into an option agreement with Fayz Yacoub and Ramy Yacoub ("Optionors") to acquire an undivided 100% interest in 16 mineral title claims located in Northwestern Quebec. As consideration, the Company is required to issue to the Optionors a total of 2,000,000 common shares in instalments over five years, make cash payments to the Optionors totaling $200,000 in instalments over three years and incur exploration expenditures on the Property totaling $1,500,000 over three years. Furthermore, the Company is to issue to the Optionors an additional 1,000,000 shares subject to calculated proven economic reserves. For the six months ended January 31, 2017, the Company paid $20,000 cash to the Optionors and issued 500,000 shares to the Optionors in accordance with this agreement. As of July 31, 2017, we were not in compliance with the schedule of payment terms and the $68,150 carrying value of the property was written-off because the option agreement was not in good standing. The option agreement was terminated, and the property was returned to the vendor.

The following tables summarize costs of expenditures on exploration and evaluation assets for the year ended July 31, 2018 and for the year ended July 31, 2017:

| **Acquisition Costs** | Fairview South Okanagan | San Bernardino | Trout lake, Bonanza & Bralorme | Canadian & Augustus | Norbeau Gold | Illite Clay | Omineca | Total |
|---|---|---|---|---|---|---|---|---|
| July 31, 2016 | $ 196,526 | $ 60,000 | $ 20,000 | $ - | $ - | $ - | $ - | $ 276,526 |
| Additions | - | - | - | 57,500 | 72,500 | - | - | 130,000 |
| Impairment | - | - | - | (57,500) | (72,499) | - | - | (129,999) |
| July 31, 2017 | $ 196,526 | $ 60,000 | $ 20,000 | $ - | $ 1 | $ - | $ - | $ 276,527 |
| Additions | - | - | - | - | - | 62,250 | 64,500 | 126,750 |
| Sale | - | - | - | - | - | - | (64,500) | (124,500) |
| Impairment | - | (60,000) | - | - | - | - | - | - |
| July 31, 2018 | $ 196,526 | $ - | $ 20,000 | $ - | $ 1 | $ 62,250 | $ - | $ 278,777 |
| **Deferred Exploration Costs** | Fairview South Okanagan | San Bernardino | Trout lake | Canadian & Augustus | Norbeau Gold | Illite Clay | Omineca | Total |
| July 31, 2016 | $ 338,405 | $ 8,562 | $ 5,707 | $ - | $ - | $ - | $ - | $ 352,674 |
| Additions | 2,700 | 2,700 | 7,960 | 10,650 | - | - | - | 24,010 |
| Impairment | - | - | - | (10,650) | - | - | - | (10,650) |
| July 31, 2017 | $ 341,105 | $ 11,262 | $ 13,667 | $ - | $ - | $ - | $ - | $ 366,034 |
| Additions | 605 | 128 | - | - | - | 34,681 | - | 35,414 |
| Impairment | - | (11,390) | - | - | - | - | - | (11,390) |
| July 31, 2018 | $ 341,710 | $ - | $ 13,667 | $ - | $ - | $ 34,681 | $ - | $ 390,058 |
| July 31, 2017 | $ 537,631 | $ 71,262 | $ 33,667 | $ - | $ 1 | $ - | $ - | $ 642,561 |
| July 31, 2018 | $ 538,236 | $ - | $ 33,667 | $ - | $ 1 | $ 96,931 | $ - | $ 688,835 |

# F. RESULTS OF OPERATIONS

Operational results reflect overhead costs incurred for exploration and evaluation assets acquisitions and associated exploration expenses as well as other regulatory expenses incurred by the Company and to maintain the administrative infrastructure required to operate locally and report to the Vancouver Head Office.

General and administrative costs can be expected to fluctuate relationally with acquisitions, exploration and operations.

## (1) REVENUES

The company is currently engaged in mineral property acquisition and exploration and does not have revenues from its operations.

## (2) EXPENSES

| | July 31, 2018 $ | April 30, 2018 $ | January 31, 2018 $ | October 31, 2017 $ |
|---|---|---|---|---|
| Revenue | - | - | - | - |
| Loss for the period before undernoted items | 450,859 | 191,160 | 138,302 | 255,730 |
| Impairment of investment | - | - | - | - |
| Gain (loss) on settlement of liabilities | (201,028) | - | - | (240,028) |
| Impairment of exploration and evaluation assets | 135,980 | - | - | - |
| Allowance for doubtful receivables | 32,031 | | | |
| Net Loss for the period | 417,842 | 191,160 | 138,302 | 15,702 |
| Net Loss per common share | (0.03) | 0.00 | 0.00 | 0.00 |
| Weighted average number of common shares outstanding | 35,751,420 | 46,251,222 | 36,530,304 | 31,553,043 |

| | July 31, 2017 $ | April 30, 2017 $ | January 31, 2017 $ | October 31, 2016 $ |
|---|---|---|---|---|
| Revenue | - | - | - | - |
| Loss for the period before undernoted items | 579,155 | 117,408 | 105,318 | 178,077 |
| Impairment of investment | - | - | - | - |
| Gain (loss) on settlement of liabilities | 2,057 | - | - | - |
| Write down of exploration and evaluation assets | 140,649 | 53,000 | - | - |
| Net Loss for the period | 721,861 | 170,408 | 105,318 | 178,077 |
| Net Loss per common share | 0.07 | 0.01 | 0.01 | 0.02 |
| Weighted average number of common shares outstanding | 22,066,910 | 18,939,375 | 17,500,483 | 8,023,857 |

For the year ended July 31, 2018, total operating expenses were $1,036,051 (July 31, 2017 - $979,958). The $56,093 overall increase was attributable to an increase on compensation of $126,695 to directors and management of the company including issuance of stock options to certain directors and an increase on office, administration expenses incurred of $40,886. The increase is set off by a decrease on advertising and promotion expense in the current year of $32,602, furthermore there was a decrease on rent expense that amounts to $22,752 and a decrease on audit, accounting and legal expenses of $59,837.

# G. OTHER DISCLOSURES

## (1) LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2018, the Company had cash on hand of $490,655 compared to $11,748 as at July 31, 2017. The working capital deficit at July 31, 2018 was $286,059 compared to $1,409,669 as at July 31, 2017.

The Company continues to seek additional equity funds from private placements and work to come to agreement with debt holders to settle debt with the intention to have a positive working capital position and create the operating funds necessary to evaluate and develop its assets.

Operating cash outflows for the year end period was $731,146 comparatively to $512,616 in the prior year. Cash inflows generated through financing activities was $1,320,791.

Included in trade payables and accrued liabilities there is a debt for the amount of $340,358 payable to previous officers of the Company. These amounts could become in dispute because Management intends to seek out legal opinion should the former officers try to seek compensation.

## (2) TREASURY

As at July 31, 2018, the Company had 54,792,804 common shares outstanding. From August 1, 2017 to July 31, 2018 the Company issued 22,293,100 common shares. As at November 28, 2018, common shares outstanding were 58,272,804.

On August 31, 2018 the Company has closed a tranche of its non-brokered private placement for gross proceeds of $22,000 through the sale of 220,000 units at a price of $0.10 per Financing Unit. Each Financing Unit consists of one common share and one transferable common share purchase warrant exercisable for an additional share at an exercise price of $0.10 for one year following closing.

The Company intends to continue to raise up to an additional $1,500,000 under the private placement of Financing Units.

The Company also announced that it has issued 760,000 units at a price of $0.10 per Consulting Unit to certain directors, officers and service providers of the Company as payment for services rendered pursuant to their consulting agreements. Each Consulting Unit is comprised of one common share and one transferable common share purchase warrant to purchase one additional share at an exercise price of $0.10 per share for a period of two years from the date of issuance.

On November 1, 2018 the Company has granted an aggregate of 5,200,000 stock options to certain directors and consultants of the Company. The options are exercisable at $0.06 per share for five years from the date of grant and vest immediately.

## (3) STOCK OPTIONS

As at July 31, 2018 the following stock options were outstanding and exercisable:

| Grant Date | Number of Options Outstanding and Excercisable | Expiry Date | Exercise Price |
|---|---|---|---|
| October 17, 2013 | **20,000** | October 31, 2018 | $ 1.500 |
| July 28, 2017 | **1,000,000** | July 28, 2022 | $ 0.075 |
| October 30, 2017 | **525,000** | October 31, 2022 | $ 0.040 |
| March 28, 2018 | **500,000** | March 19, 2023 | $ 0.050 |
| July 31, 2018 | **2,045,000** | | |

On October 31, 2017, to further incentivize management, the Company issued 3,000,000 stock options at an exercise price of $0.05 with a term of five years from the date of issuance.

On March 28, 2018, the Company issued 500,000 stock options at an exercise price of $0.05 with a term of five years from the date of issuance.

The Company issued 5,475,000 common shares pursuant to the exercise of stock options. On exercise of the stock options, $323,753 was reallocated from equity reserves to common shares.

## (4) WARRANTS OUTSTANDING

A summary of warrant activity for the years ended July 31, 2018 and 2017 is as follows:

| | Number of warrants | | Weighted-average exercise price | Weighted-average outstanding life |
|---|---|---|---|---|
| Outstanding, July 31, 2016 | 918,563 | $ | 2.10 | 0.38 years |
| Issued | 15,147,266 | | 0.26 | 1.00 year |
| Expired | (918,563) | | 2.10 | 1.00 years |
| Outstanding, July 31, 2017 | 15,147,266 | | 0.26 | 0.19 years |
| Issued | 11,950,000 | | 0.30 | 1.11 years |
| Expired | (8,667,266) | | 0.30 | 1.00 year |
| Outstanding, July 31, 2018 | 18,430,000 | $ | 0.27 | 0.76 years |

Each warrant allows the holder to purchase one common share of stock.

## (5) OFF-BALANCE SHEET ARRANGEMENTS

The Company currently does not have any off-balance sheet arrangements.

## (6) CRITICAL ACCOUNTING ESTIMATES

The Company is a venture issuer; therefore, this section is not applicable. For more information on critical accounting estimates refer to Note 4 in the financial statements for the year ended July 31, 2018.

## (7) ADOPTION OF NEW STANDARDS AND INTERPRETATIONS, AND RECENT ACCOUNTING PRONOUNCEMENTS

**New accounting standards adopted effective January 1, 2017**

The following standards were adopted by the Company effective August 1, 2017:

IAS 7 - Statement of Cash Flows: Disclosure Initiative (Amendments to IAS 7). Issued in January 2016 and effective for periods beginning on or after January 1, 2017. Early adoption is permitted. This disclosure is intended to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IAS 12 - Income Taxes: Issued in January 2016 and effective for periods beginning on or after January 1, 2017. Early adoption is permitted and should be disclosed. This standard sets out amendments to the recognition of deferred tax assets for unrealized losses.

**Accounting Standards and Amendments Issued but Not Yet Effective**
A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended July 31, 2018.

The following standards will be adopted by the Company effective August 1, 2018:

IFRS 15 'Revenue from Contracts with Customers': In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

IFRS 9 'Financial Instruments': The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments.

IFRS 2 Share-Based Payments: In June 2016 the Board issued the final amendments to IFRS 2 which amended (a) the effects that vesting conditions have on the measurement of a cash-settled share-based payment; (b) the accounting for modification of the terms of a share-based payment that changes the classification of the transaction from cash-settled to equity settled; and (c) classification of share-based payment transactions with net settlement features.

The above standards and amendments are not expected to have a material effect on the Company's financial statements.

The following standard will be adopted by the Company effective August 1, 2019:

IFRS 16 'Leases': IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. Adoption by the Company will be effective August 1, 2019 and the Company is currently evaluating the impact on its financial statements.

## (8) FINANCIAL INSTRUMENTS

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

*Financial assets at fair value through profit or loss ("FVTPL")*
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

*Held-to-maturity ("HTM")*
These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset

is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

*Loans and receivables*
Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

*Available-for-sale ("AFS")*
Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

*Other financial liabilities*
Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Company has classified its financial instruments as follows:

- Cash and investment in the private company are classified as fair value through profit or loss.
- Loans receivable is classified as loans and receivables.
- Trade payables, due to related parties, loans payable, promissory note payable, obligation for share subscriptions received and provisions are classified as other financial liabilities.

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 - quoted prices in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable marker data (unobservable inputs).

*Comprehensive income or loss*
Comprehensive income or loss is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources, such as any unrealized gains and losses in financial assets classified as available for sale. The Company had no "other comprehensive income or loss" transactions during the years ended July 31, 2018 or 2017.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It is becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*Flow-Through Financing*

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to exploration and evaluation assets.

Resource expenditure deductions for income tax purposes, related to exploration and development activities funded by flow-through share arrangements, are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

The Company records a flow-through share premium liability calculated as the difference between the selling price of the flow-through common share or unit, and the market price of the Company's common shares on the date of issuance. This liability is reversed on a pro-rata basis as the Company spends the flow-through proceeds on eligible exploration costs on its Canadian property interests. The Company then recognizes "other income on settlement of flow-through premium liability" in its statement of loss and comprehensive loss.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the look-back rule, in accordance with the Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

## (9) RELATED PARTY TRANSACTIONS

During the year ended July 31, 2018, 1,270,000 units were issued to officers and management as part of their management service agreements. The fair value assigned to the shares and warrants was $71,250 and $55,750 respectively. Additionally, during the year ended July 31, 2018, the Company advanced $45,000 to an officer to be used for the exercise of stock options. The Company has recorded compensation expense of $45,000 in connection with this advance.

As at July 31, 2018, the Company had a total of $53,700 (July 31, 2017 - $7,000) due to related parties which comprised of accrued consulting fees and $4,203 (July 31, 2017 - $Nil) due to related parties for expenses incurred on behalf of the Company. The balances due to related parties are non-interest bearing, unsecured and payable on demand.

Two officers of the Company entered into a deferred compensation arrangement in the form of loan agreements with the Company under which the Company loaned each of them $112,500 to be used for the exercise of stock options. Each loan will be forgiven if the borrower continues to be an officer of the Company for two years from the date of the loan. No interest is payable under the loan agreements.

One officer resigned on July 9, 2018 and as a result, the Company has recorded a loan receivable of $112,500. Furthermore, as the remaining loan includes characteristics of compensation, the Company has recorded compensation expense of $19,237 which represents deferred compensation over the period of the loan forgiveness. As at July 31, 2018, the Company has recorded a deferred compensation balance of $93,263 as a long-term deferred charge which will be wholly settled beyond 12 months from the date of the statement of financial position.

Key management compensation

The Company considers its directors and officers to be key management personnel and compensation earned by key management for the 2018 and 2017 year-ends is as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Consulting fees, salaries and benefits | $ | 336,208 | $ | 167,887 |
| Deferred compensation | | 19,237 | | - |
| Share based compensation on options issued | | 139,269 | | 358,849 |
| Finders' fees for exploration and evaluation assets | | 13,000 | | - |
| Directors fees | | - | | 8,350 |
| Total | $ | 507,714 | $ | 535,086 |

## (10) ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS

During the year ended July 31, 2018 the Company incurred the following expenses:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Capitalized acquisition costs | $ | 126,750 | $ | 130,000 |
| Capitalized exploration costs | $ | 35,114 | $ | 24,010 |
| Operating expenses | $ | 1,036,051 | $ | 979,958 |

Please refer to Note 10 Exploration and Evaluation Assets in the year end financial statements for the year ended July 31, 2018 for a description of the capitalized acquisition and exploration costs presented on a property-by-property basis.

## (11) RISK FACTORS

**Mining and exploration risks**

Hi Ho Silver Resources Inc. is an exploration stage company and currently has interests in exploration and development properties in British Columbia and California. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in exploration properties contain mineral reserves which are economically recoverable.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

**Going Concern**

The Company has not generated revenue from operations. The Company incurred a net loss of $1,002,944 for the year ended July 31, 2018 and as of that date the Company's accumulated deficit was $19,045,804. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financial resources to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures.

The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These factors comprise a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

**Market Price of Common Shares**

The trading price of the common shares is likely to be significantly affected by short term changes in mineral prices or in its financial condition or results of operations as reflected in its quarterly earnings reports. Other factors unrelated to the Company's performance that may have an effect on the price of the common shares include the following: the extent of analytical coverage available to investors concerning the Company's business; the lessening in trading volume and general market interest in the Company's securities may affect an investor's ability to trade significant numbers of common shares; and the price of the common shares and size of the Company's public float may limit the ability of some institutions to invest in the Company's securities.

As a result of any of these factors, the market price of the common shares at any given point in time may not accurately reflect the Company's long-term value. Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. The Company may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management's attention and resources.

**Dilution to Common Shares**

During the life of the Company's outstanding common share purchase warrants, as well as options and other rights granted or assumed by the Company, if any, the holders are given an opportunity to profit from a rise in the market price of the common shares. The Company's ability to obtain additional financing during the period such rights are outstanding may be adversely affected and the existence of the rights may have an adverse effect on the price of the common shares. The holders of common share purchase warrants, options and other rights of the Company may exercise such securities at a time when the Company would, in all likelihood, be able to obtain any needed capital by a new offering of securities on terms more favorable than those provided by the outstanding rights.

The increase in the number of common shares in the market and the possibility of sales of such shares may have a depressive effect on the price of the common shares. In addition, as a result of such additional common shares, the voting power of the Company's existing shareholders will be diluted.

**Future Sales of Common Shares by Existing Shareholders**

Sales of a large number of common shares in the public markets, or the potential for such sales, could decrease the trading price of the common shares and could impair the Company's ability to raise capital through future sales of common shares.

**Future Profits or Losses and Production Revenues and Expenses**

There can be no assurance that significant losses will not occur in the near future or that the Company will be profitable in the future. The Company's operating expenses and capital expenditures may increase in subsequent years as required consultants, personnel and equipment associated with advancing exploration, development and commercial production of the Company's properties and any other properties that the Company may acquire are added. The amounts and timing of expenditures will depend on the progress of ongoing exploration and development, the results of consultants' analyses and recommendations, the rate at which operating losses are incurred, the execution of any joint venture agreements with strategic partners and the Company's acquisition of additional properties, in addition to other factors, many of which are beyond the Company's control.

The Company expects to incur expenditures and losses unless and until such time as the Company's properties are acquired or achieve a sufficient level of commercial production and revenues to fund continuing operations. The development of the Company's properties will require the commitment of substantial resources to conduct the time-consuming exploration and development of properties. There can be no assurance that the Company will generate any revenues or achieve profitability, nor can there be any assurance that the underlying assumed levels of expenses will prove to be accurate.

**Acquisitions and Integration**

From time to time, the Company examines opportunities to acquire additional mining assets and businesses. Any acquisition that the Company may choose to complete may be of a significant size, may change the scale of the Company's business and operations, and may expose the Company to new geographic, political, operating, financial and geological risks. The Company's success in its acquisition activities depends on its ability to identify suitable acquisition candidates, negotiate acceptable terms for any such acquisition, and integrate the acquired operations successfully with those of the Company. Any acquisitions would be accompanied by risks. For example, there may be a significant change in commodity prices after the Company has committed to complete the transaction and established the purchase price or exchange ratio; a material ore body may prove to be below expectations; the Company may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise, and maintaining uniform standards, policies and controls across the organization; the integration of the acquired business or assets may disrupt the Company's ongoing business and its relationships with employees, customers, suppliers and contractors; and the acquired business or assets may have unknown liabilities which may be significant. If the Company chooses to raise debt capital to finance any such acquisition, the Company's leverage will be increased. If the Company chooses to use equity as consideration for such acquisition, existing shareholders may suffer dilution. Alternatively, the Company may choose to finance any such acquisition with its existing resources. There can be no assurance that the Company would be successful in overcoming these risks or any other problems encountered in connection with such acquisitions.

**Competition**

The Company's business is intensely competitive in all of its phases and the Company will compete with other mining companies for natural resource acquisition opportunities, many of which have greater resources and technical facilities than the Company. Competition in the mining industry is primarily for mineral rich properties which can be developed and can produce economically; the technical expertise to find, develop, and operate such properties; the skilled labor to operate such properties; and the capital for the purpose of funding such properties. Many competitors not only explore for and mine metals, but also

conduct refining and marketing operations on a worldwide basis. Such competition may result in the Company being unable to (i) acquire desired properties, (ii) recruit or retain qualified employees or (iii) raise or generate the capital necessary to fund its operations and develop its properties. The Company's inability to compete with other mining companies for these resources could have a material adverse effect on its operations, financial condition, and trading price of the securities of the Company.

**Loss of Key Employees**

The Company depends on the business and technical expertise of a number of key personnel, including its directors and executive officers and key personnel working fulltime in management and administrative capacities or as consultants.

The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. As the Company’s exploration and development activities expand, it will require additional key personnel. The Company does not maintain life insurance for such personnel. The loss of any key personnel, or the failure to retain such personnel, could have a material adverse effect on the Company’s operations and financial condition.