

Condensed Consolidated Interim Financial Statements

**Lion One Metals Limited**

(A Development Stage Company)

For the three months ended September 30, 2011

(Unaudited)

(Expressed in Canadian Dollars)

# LION ONE METALS LIMITED

(A Development Stage Company)

Condensed Consolidated Interim of Financial Position

(Unaudited)

	September 30, 2011	June 30, 2011	July 1, 2010
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (note 4(c))	\$ 19,495,436	\$ 20,829,922	\$ 140,571
HST and VAT recoverable	462,221	349,362	31,634
Due from related parties (note 8)	-	112,528	-
Other receivables	136,513	97,626	-
Prepaid expenses	33,250	13,612	5,533
Deposits (notes 6(a) and 14)	61,434	58,426	19,313
	<u>20,188,854</u>	<u>21,461,476</u>	<u>197,051</u>
Restricted cash	75,000	75,000	-
Due from related parties (note 8)	26,032	23,193	11,018
Plant, property and equipment (note 7)	252,251	137,653	33,749
Exploration and evaluation assets (note 6(b))	7,254,591	6,550,447	4,861,935
	<u>\$ 27,796,728</u>	<u>\$ 28,247,769</u>	<u>\$ 5,103,753</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities (note 8)	\$ 97,719	\$ 209,646	\$ 82,578
Due to related parties (note 8)	24,126	-	279,307
	<u>121,845</u>	<u>209,646</u>	<u>361,885</u>
Shareholders' equity:			
Share capital (note 9)	49,503,359	48,993,466	5,202,469
Warrants (note 10)	1,560,359	1,613,399	-
Contributed surplus	16,185,664	15,927,009	15,333,076
Deficit	(39,574,499)	(38,495,751)	(15,793,677)
	<u>27,674,883</u>	<u>28,038,123</u>	<u>4,741,868</u>
Nature of business and future operations (note 1)			
Commitments (notes 6(a) and 14)			
Subsequent events (note 16)			
	<u>\$ 27,796,728</u>	<u>\$ 28,247,769</u>	<u>\$ 5,103,753</u>

See accompanying notes to condensed consolidated interim financial statements.

APPROVED BY THE BOARD OF DIRECTORS ON DECEMBER 16, 2011:


 \_\_\_\_\_ Director
 
 \_\_\_\_\_ Director

Director

# LION ONE METALS LIMITED

(A Development Stage Company)

Condensed Consolidated Interim Statement of Operations and Comprehensive Loss  
(Unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Consulting fees (note 8(e))	\$ 48,650	\$ 22,991
Foreign exchange (gain) loss	86,961	(3,254)
Licenses, dues and other fees	6,630	1,566
Investor relations (notes 8(c) and(e))	126,742	-
Management fees (note 8(c))	343,787	44,595
Office and miscellaneous	24,591	15,216
Professional fees	14,783	14,500
Rent (note 8(c))	43,697	-
Shareholder communications and regulatory filings	8,377	-
Stock based compensation (note 11)	423,799	73,591
Travel	14,781	4,317
Operating loss	1,142,798	173,522
<b>OTHER INCOME</b>		
Interest income	(64,050)	-
Net loss and other comprehensive loss for the year	1,078,748	173,522
Basic and diluted loss per share amounts (note 9(e))	\$ 0.02	\$ 0.01
Weighted average common shares outstanding	48,365,966	21,108,543

See accompanying notes to condensed consolidated interim financial statements.

# LION ONE METALS LIMITED

(A Development Stage Company)

## Condensed Consolidated Interim Statement of Cash Flows (Unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010
Cash provided by (used in):		
Operations:		
Net loss for the period	\$ (1,078,748)	\$ (173,522)
Items not involving cash:		
Stock-based compensation expense	423,799	73,591
Foreign exchange (gain) loss		
Changes in non-cash operating working capital:		
Taxes receivable	(112,859)	(14,682)
Prepaid expenses	(19,638)	4,982
Other receivables	(38,887)	-
Deposits	(3,008)	(4,376)
Accounts payable and accrued liabilities	(111,927)	(31,412)
	<u>(941,268)</u>	<u>(145,419)</u>
Financing:		
Due to related parties	24,126	249,465
Share issuance costs	(226)	-
Issuance of shares on exercise of agent's warrants	204,000	-
Issuance of shares on exercise of options	14,350	-
Due from related party	109,689	(3,818)
	<u>351,939</u>	<u>245,647</u>
Investments:		
Purchase of equipment	(124,325)	(1,786)
Exploration expenditures	(620,832)	(123,282)
	<u>(745,157)</u>	<u>(125,068)</u>
Increase (decrease) in cash and cash equivalents	(1,334,486)	(24,840)
Cash and cash equivalents, beginning of period	20,829,922	140,571
Cash and cash equivalents, end of period	<u>\$ 19,495,436</u>	<u>\$ 115,731</u>
Supplementary cash flow information:		
Non-cash investing, financing and operating activities:		
Amortization expense capitalized to exploration and evaluation assets	\$ 9,727	\$ 2,869
Stock-based compensation capitalized to exploration and evaluation assets	73,585	-
Transfer from contributed surplus to share capital on on exercise of agent's warrants	53,040	-
Transfer from contributed surplus to share capital on on exercise of stock options	5,283	-

See accompanying notes to condensed consolidated interim financial statements.

**LION ONE METALS LIMITED**  
(A Development Stage Company)  
**Condensed Consolidated Interim Statement of Changes in Equity**  
(Unaudited)

	Number of Shares	Amount	Warrants	Net Investment by Parent	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
Balances, July 1, 2010	21,108,543	\$ 5,202,469		\$ -	\$ 15,333,076	\$ (15,793,677)	\$ -	\$ 4,741,868
Stock based compensation - stock options (note 11)					55,716			55,716
Stock based compensation - escrowed shares (note 11)		17,875						17,875
Net loss for the period						(173,522)		(173,522)
<b>Balances, September 30, 2010</b>	<b>21,108,543</b>	<b>5,220,344</b>		<b>-</b>	<b>15,388,792</b>	<b>(15,967,199)</b>	<b>-</b>	<b>4,641,937</b>
Balances, July 1, 2011	21,108,543	5,202,469		-	15,333,076	(15,793,677)	-	4,741,868
To eliminate shares of AME in reverse take-over	-21,108,543							
Assumption of net deficit of X-Tal (note 2)	6,300,001	20,369,744			678,839			20,369,744
Stock based compensation - stock options (note 11)								678,839
Stock based compensation - escrowed shares (note 11)		71,500						71,500
Stock based compensation - trust shares (note 9(b))		620,000						620,000
Shares issued to AME shareholders on amalgamation	21,108,543							
Capitalization of mineral property expenditures incurred by X-Tal in reverse take-over (note 2)						183,665		183,665
Issuance of shares in private placement, net of expenses (notes 9(c) and (d))	20,706,029	22,726,578		1,449,384				24,175,962
Issuance of agent's options (notes 9(c) and (d))		-164,647		164,647				
Issuance of shares on option exercise (note 11)	219,583	164,760			-84,906			79,854
Issuance of shares on warrant exercise (note 10)	2,430	3,062		-632				2,430
Net loss for the year						(22,885,739)		(22,885,739)
Balances, June 30, 2011	48,336,586	\$ 48,993,466	\$ 1,613,399	\$ -	\$ 15,927,009	\$ (38,495,751)	\$ -	\$ 28,038,123
Stock based compensation - stock options (note 11)					263,938			263,938
Stock based compensation - escrowed shares (note 11)		14,896						14,896
Stock based compensation - trust shares (note 9(b))		218,550						218,550
Share issuance costs		(226)			(5,283)			(226)
Issuance of shares on option exercise (note 11)	41,000	19,633		(53,040)				14,350
Issuance of shares on warrant exercise (note 10)	204,000	257,040						204,000
Net loss for the period						(1,078,748)		(1,078,748)
<b>Balances, September 30, 2011</b>	<b>48,581,586</b>	<b>\$ 49,503,359</b>	<b>\$ 1,560,359</b>	<b>\$ -</b>	<b>\$ 16,185,664</b>	<b>\$ (39,574,499)</b>	<b>\$ -</b>	<b>\$ 27,674,883</b>

See accompanying notes to condensed consolidated interim financial statements

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## 1. Nature of business and future operations

Lion One Metals Limited (Lion One or the Company) was created on January 28, 2011 by the reverse takeover (RTO) of X-Tal Minerals Corp. (X-Tal) by American Eagle Resources Inc. (AME). X-Tal had no assets other than cash and taxes recoverable and had no commercial operations.

Immediately prior to the RTO, X-Tal changed its fiscal year-end to June 30 from August 31, to be coterminous with AME's fiscal year end. X-Tal changed its name to Lion One Metals Limited.

AME had no substantive operations until September 18, 2008 when it entered into an agreement to purchase 100% of the outstanding shares of Limes International Inc., a British Virgin Islands company that indirectly owns the Tuvatu mineral property on the Fijian Island of Viti Levu (see note 3). AME through an indirect subsidiary has been issued five (5) Special Prospecting Licenses allowing it to explore the Tuvatu property and requiring minimum expenditures during the term of the licenses (see note 6(a)). The Company is currently exploring the Tuvatu property. To September 30, 2011, the Company has not generated revenue from its exploration activities.

The ability of the Company to realize its assets and meet its financial obligations and commitments is dependent upon the existence of economically recoverable reserves, maintaining interest in its properties, obtaining the necessary financing to continue exploration and to acquire and meet exploration commitments on the properties and upon future profitable operations or proceeds from the disposition of the properties.

The Company's head office and registered and records office is 311 West 1<sup>st</sup> Street, North Vancouver BC, Canada.

## 2. Reverse Takeover Accounting

On November 1, 2010, AME entered into a merger agreement (Agreement) with X-Tal Minerals Corp. (TSX Venture: XMT.H). The parties agreed to an arrangement by which X-Tal would acquire all of the outstanding shares of AME. Pursuant to the terms of the Agreement, all of the common shares of AME were exchanged for common shares of the X-Tal on a basis of one (1) common share of AME for one (1) common share of X-Tal. 21,108,543 common shares of the Company were issued to AME shareholders. The transaction was completed on January 28, 2011.

Pursuant to the reverse takeover ("RTO") transaction, the consolidated financial statements for the year ended June 30, 2011 reflect the consolidated assets, liabilities, and results of operations of AME prior to the RTO. The consolidated assets, liabilities and results of operations of X-Tal and AME are included subsequent to the RTO. The consolidated financial statements are issued under the legal parent (Lion One), but are deemed to be a continuation of the legal subsidiary (AME). Net loss per share has been adjusted for in all periods.

AME acquired current assets of \$11,795,973 including cash of \$11,517,503 and assumed liabilities of \$11,820,819 from X-Tal. Costs associated with the RTO totaled \$167,040. These costs were paid by X-Tal and are included in the pre-amalgamation deficit balance.

The transaction was accounted for in accordance with IFRS 2 *Share-Based Payments*, which requires the Company to fair value the equity instruments given up in the merger in order to value the unidentified assets

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## 2. Reverse Takeover Accounting (continued)

received as part of the merger. The Company's private placement financing (see note 9(c)) was concurrent to the merger. Therefore, the Black Scholes model was used to value the warrant component with the residual value attributed to the common share component fair value.

The fair value of the warrants was determined using the Black Scholes model based on the following parameters: risk-free interest rate – 1.64%; no expected dividends; expected life – one year; expected stock price volatility – 65%. The fair value of each warrant was \$0.07 (\$0.035 for each half-warrant).

The 21,108,543 shares given to X-Tal were valued at \$0.965 per share for a total estimated fair value of \$20,369,744. This value plus the net liability assumed of \$24,846 total \$20,394,590, which is recorded as a listing fee expense on merger.

As X-Tal did not have title to the Tuvatu property all expenses it incurred related to the Tuvatu property prior to the RTO pursuant to the August 24, 2010 non-binding letter of intent with AME were expensed. As part of the RTO adjustment, these expenses amounting to \$183,664 were reclassified to exploration and evaluation assets.

## 3. Significant accounting policies

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). These are the Company's first International Financial Reporting Standards (IFRS) condensed consolidated interim financial statements and IFRS 1, *First Time Adoption of IFRS* has been applied, as they are part of the period covered by the Company's first IFRS financial statements for the year ending June 30, 2012. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The Company's condensed consolidated interim financial statements were prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) until June 30, 2011. Canadian GAAP differs from IFRS in some areas and accordingly, the significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are set out below and have been consistently applied to all periods presented except in instances where IFRS 1 either requires or permits an exemption. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported statements of loss, comprehensive loss, financial position, and cash flows of the Company is provided in note 15. This note includes information on the provisions of IFRS 1 and the exemptions that the Company elected to apply, reconciliations of equity, net loss and comprehensive loss for comparative periods and equity at the date of transition, July 1, 2010.

### (a) Basis of presentation

These condensed consolidated interim financial statements include the accounts of Lion One, AME and AME's wholly owned subsidiary Laimes International Inc. and its subsidiaries Auksas Inc. and Lion One Limited. All intercompany balances and transactions are eliminated on consolidation.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

### (b) Measurement uncertainty

The preparation of condensed consolidated interim financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the recognition of revenue and expenses during the reporting periods. Actual amounts may differ from these estimates. With respect to these condensed consolidated interim financial statements, significant areas requiring the use of management estimates relate to the measurement of future cash flows and their impact on the underlying value of mineral properties and deferred expenditure costs, stock-based compensation, and warrants.

Other judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements, are:

#### *Determining Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company and its subsidiaries has been determined to be the Canadian dollar.

#### *Recoverability of Mineral Properties and Deferred Exploration Costs*

The Company's accounting policy for exploration, evaluation and development expenditure results in certain items of expenditure being capitalized, or where costs are known to be recoverable by future exploitation of the property, or from the sale of gold or other minerals that may be derived from the property. This policy requires management to make certain estimates and assumptions as to future events and circumstances such as whether a market exists for gold, or other minerals that may be derived from the property, and whether mineral resources or mineral reserves can be estimated based on current or projected future prices that may exceed the current or projected future costs of extracting the underlying resources. Any such estimates and assumptions may change as new information becomes available.

#### *Deferred Income Tax Valuation Allowance*

The Company has certain deferred income tax assets arising as a result of non-capital income tax losses carried forward. The Company does not recognize deferred income taxes because the criteria for their recognition have not been met. This requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the estimated likelihood and timing of reversal of temporary differences, and the likelihood of reaching commercial production in the future.



# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

## 3. Significant accounting policies (continued)

### (c) Cash and cash equivalents

Cash and cash equivalents include:

	Sept. 30, 2011	June 30, 2011	July 1, 2010
Deposits in the bank	\$ 18,671,122	\$ 20,829,922	\$ 140,571
GICs	824,314		-
	\$ 19,495,436	\$ 20,829,922	\$ 140,571

Guaranteed investment certificates (GICs) are fully redeemable after 89 days and earn non-compounding interest at rates between 1.2% and 1.35%. The GIC's are held for the purpose of meeting near term cash commitments.

### (d) Restricted cash

The restricted cash balance is comprised of one GIC that matures on March 12, 2012 and earns non-compounding interest at 1.2%. The GIC is held as security for the Company's corporate credit cards.

### (e) Property, plant and equipment

Capital assets are recorded at cost and are amortized on a straight line basis over their estimated useful lives. The amortization periods range as follows:

Furniture and office equipment	12% - 40%
Motor vehicles	18%
Plant and machinery	6% - 24%

Amortization of property, plant and equipment related to exploration and development activities is capitalized in mineral properties and deferred exploration costs and will be recognized in the consolidated statement of operations through amortization of mining properties when they are put into production. For those which are not related to exploration and development activities, amortization expense is recognized in the consolidated statement of operations.

### (f) Exploration and evaluation assets

The amounts recorded as exploration and evaluation assets represent exploration, development and associated costs incurred to date and are not intended to reflect present or future values. These costs are deferred until the discovery of economically exploitable reserves and the start-up of the production phase of the property or until the property is abandoned. Mineral properties are abandoned when management allows property interests to lapse, terms of underlying property contracts or agreements are terminated or not complied with or when management determines that properties are not economically viable. Costs accumulated related to projects that are abandoned are written-off in the year in which a decision to discontinue the project is made. Proceeds received on sale or option of the Company's properties are

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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### 3. Significant accounting policies (continued)

recorded as a reduction of the mineral property cost. The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

The Company is in the exploration stage and, hence, commercial production has not yet commenced. Commercial production occurs when an asset or property is substantially complete, is fully permitted and ready for its intended use.

On a quarterly basis, senior management reviews the carrying values of exploration and evaluation assets with a view to assessing whether there has been any impairment in value. In the event that it is determined there is impairment in the carrying value of any property, the carrying value will be written down to fair value or written off, as appropriate. There was no impairment write-down required for the period ended September 30, 2011.

#### *Realization of assets*

The investment in and expenditures on the mineral property comprise a significant portion of the Company's assets. Realization of the Company's investment in this asset is dependent upon the establishment of legal ownership, the attainment of successful production from the property or from the proceeds of its disposal.

#### (f) Exploration and evaluation assets (continued)

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is developed can be substantial, few properties that are explored are ultimately developed into producing mines.

#### *Title to mineral property interests*

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects. Title to mineral properties could be adversely impacted by current political conditions in Fiji.

#### *Environmental*

Environmental legislation is becoming increasingly stringent and costs and expenses or regulatory compliance is increasing. The impact of new and future environment legislation on the Company's operations may cause additional expenses and restrictions.

If the restriction adversely affects the scope of exploration and development on the mineral property, the potential for production on the property may be diminished or negated.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current properties that may result in a liability to the Company.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## 3. Significant accounting policies (continued)

### (g) Foreign currency translation

The functional currency of the Company and its subsidiaries is the Canadian dollar. Accordingly, foreign currency transactions and balances are translated into Canadian dollars as follows:

- monetary items are translated at the exchange rate prevailing at the balance sheet date;
- non-monetary items are translated at historical exchange rates;
- revenue and expense items are translated at the average rate of exchange for the year in which they were incurred; and
- exchange gains and losses arising from translation are included in the determination of net loss for the year in which they were incurred.

### (h) Loss per share

Loss per share has been calculated based on the weighted average number of shares outstanding. The treasury stock method is used for the calculation of diluted earnings per share for outstanding dilutive securities including warrants and options. The treasury stock method assumes that, for purposes of determining the weighted average number of common shares outstanding for the calculation of diluted per share amounts, the proceeds to be received on the exercise of the dilutive securities are applied to

### (h) Loss per share (continued)

repurchase common shares at the average market price for the period. The Company uses the "if converted" method to calculate the dilutive effect of convertible securities. Under this method, the weighted average common shares outstanding is adjusted for the number of shares that would have been issued had the convertible securities been converted and loss available to common shareholders is adjusted for the interest expense incurred.

### (i) Stock-based compensation

The Company measures stock-based compensation related to stock options granted using a fair value based method such as the Black-Scholes option pricing model. The Company recognizes the compensation expense over the vesting period of the options, with a corresponding credit to contributed surplus. Under certain circumstances the fair value of stock options granted to non-employees may be re-measured on each balance sheet date. Any consideration paid by the option holder to purchase shares is credited to capital stock.

### (j) Financial instruments

The Company classifies all financial instruments into one of the five following categories: fair-value-through-profit-and-loss ("held-for-trading" category), "held-to-maturity", "available-for-sale", "loans and receivables" or "other financial liabilities". Held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Held-for-trading instruments are measured at fair value with changes in fair value recognized in the statement of operations. Available-for-sale instruments are measured at fair value with changes in fair value excluded from earnings and reported as other comprehensive income until the financial asset is derecognized or impaired, at which time the gain or loss

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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### 3. Significant accounting policies (continued)

previously recognized in accumulated other comprehensive income is recognized in net earnings for the period. The Company has classified its financial instruments as follows:

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Cash and deposits	Held-for-trading
Taxes, other receivables, and due from related parties	Loans and receivables
Accounts payable and accrued liabilities, due to related parties	Other financial liabilities

The Company accounts for purchases and sales of financial assets at the trade date. Transaction costs for financial assets and liabilities classified or designated as held-for-trading and those classified as not held-for-trading are recognized immediately in net loss.

The Company does not enter into financial instrument contracts to hedge foreign exchange positions. Disclosures about the inputs to financial instrument fair value measurements are made within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability directly or indirectly;  
and

Level 3 – Inputs that are not based on observable market data.

At September 30, 2011, the Company's financial Instruments which are measured at fair value on a recurring basis are cash. These financial instruments were classified as "Level 1" financial instruments.

#### (k) Asset Retirement Obligation

Mining, development and exploration activities are required to comply with the laws, regulations and legislation of the jurisdiction in which operations are conducted. While specific requirements vary between jurisdictions, their common intent is to protect the environment and minimize the impact of exploitation activities. These laws are also continually changing. The Company expects to make, in the future, expenditures to comply with such laws and regulations but cannot predict the full amount or timing of such

future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction and normal operation of mining property, plant and equipment.

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal or constructive obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The obligation is measured initially at fair value using present value methodology and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing of the underlying future cash flows, including changes in the discount rates used to calculate those future cash flows. Capitalized asset retirement costs will be depreciated on the same basis as the related asset and the discounted accretion of the liability is included in determining the results of operations. The Company has only performed exploratory work on its mineral property and has not incurred significant reclamation obligations. As such, no asset retirement obligation accrual was made in these financial statements.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

## 3. Significant accounting policies (continued)

### (i) Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when tax assets and liabilities are recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Deferred tax assets are recognized only to the extent they are more likely than not to be realized.

## 4. Future accounting changes

In November 2009, the IASB published IFRS 9, *Financial Instruments*, which covers the classification and measurement of financial assets as part of its project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on July 1, 2013. Early adoption is permitted and the standard is required to be applied retrospectively. There is not expected to be a significant impact on the Company upon implementation of the issued standard.

## 5. Exploration and evaluation assets

### (a) Tuvatu property

The Company's indirect subsidiary, Lion One Limited, was granted Special Prospecting Licenses ("SPL") by the Fijian government for carrying out exploration activities on the Tuvatu property. Under the terms of these licenses the Company is required to spend a minimum amount on exploration activities. Management believes that these mining expenditure requirements have been satisfied. The expiry of the licenses and three-year exploration requirements are as follows:

	Issued	Expires	Bond (Fijian dollars)	Bond C\$	Expenditure requirement (Fijian dollars)	Expenditure requirement C\$
SPL 1283 and 1296	1-Jul-10	30-Jun-13	\$ 20,000	\$ 11,332	\$ 4,200,000	\$ 2,379,720
SPL 1465	1-Jul-10	30-Jun-13	10,000	5,666	1,800,000	1,019,880
SPL 1467	1-Jul-11	30-Jun-12	11,000	6,233	110,000	62,326
SPL 1468	1-Jul-11	30-Jun-12	4,000	2,266	40,000	22,664
As at September 30, 2011			\$ 45,000	\$ 25,497	\$ 6,150,000	\$ 3,484,590

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(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

## 5. Exploration and evaluation assets (continued)

The Company has received confirmation of acceptance of the proposed work program from the Fijian Mineral Resource Department. Annual expenditure commitment for SPL 1283/1296 and SPL 1465 are Fijian \$ 700,000 and Fijian \$600,000 respectively. SPL 1467 and SPL 1468 were renewed on May 12, 2011. All licenses are assessed annually by the Fijian government for performance and compliance with work and expenditure commitments. The licenses require the posting of bonds as security against future reclamation obligations. As at September 30, 2011 included in deposits are restricted cash balances of C\$25,497 related to the bonds.

(b) Mineral properties and deferred exploration costs incurred during the period were:

	Cost July 1, 2010	Additions/ (Disposals)	Cost June 30, 2011	Additions/ (Disposals)	Cost Sept. 30, 2011
<b>Tuvatu Property (SPL 1283, 1296, 1465)</b>					
Acquisition costs	3,538,372		\$ 3,538,372		\$ 3,538,372
Amortization	18,117	\$ 15,813	33,930	\$ 8,823	42,753
Camp costs		18,250	18,250	73,617	91,867
Consultants	143,020	601,149	744,169	179,528	923,697
Drilling	113,679	-	113,679	-	113,679
Geochemistry		-	-	55,070	55,070
Local accommodation and housing		12,618	12,618	50,475	63,093
Office and administration	238,411	176,621	415,032	52,840	467,872
Road building and site works	127,327	63,929	191,256	32,354	223,610
Salaries and benefits	428,064	454,889	882,953	181,877	1,064,830
Sample preparations, assaying, analysis	43,575	72,888	116,463	22,850	139,313
Tenement costs	25,882	7,302	33,184	-	33,184
Overseas travel, meals, and accommodation	88,785	155,717	244,502	24,157	268,659
Vehicles	49,324	14,477	63,801	13,619	77,420
Freight	13,849	5,482	19,331	7,804	27,135
	<b>4,828,405</b>	<b>1,599,135</b>	<b>6,427,540</b>	<b>703,014</b>	<b>7,130,554</b>
<b>Vanua Levu (SPL 1467, 1468)</b>					
Amortization	83	1,267	1,350	880	2,230
Camp costs	-	1,508	1,508	-	1,508
Consultants	-	12,040	12,040	-	12,040
Office and administration	7,183	18,964	26,147	-	26,147
Road building and site works	2,315	3,046	5,361	-	5,361
Salaries and benefits	14,909	21,288	36,197	250	36,447
Sample preparations, assaying, analysis	4,163	9,149	13,312	-	13,312
Tenement costs	-	8,601	8,601	-	8,601
Overseas travel, meals, and accommodation	4,654	3,267	7,921	-	7,921
Vehicles	223	7,752	7,975	-	7,975
Freight	-	2,495	2,495	-	2,495
	<b>33,530</b>	<b>89,377</b>	<b>122,907</b>	<b>1,130</b>	<b>124,037</b>
<b>Total</b>	<b>\$ 4,861,935</b>	<b>\$ 1,688,512</b>	<b>\$ 6,550,447</b>	<b>\$ 704,144</b>	<b>\$ 7,254,591</b>

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

## 6. Property, plant, and equipment

	Furniture & Office Equipment	Motor Vehicles	Plant & Machinery	Total
Cost at June 30, 2011	67,586	15,879	90,828	174,293
Additions	16,011	100,543	7,773	124,327
Disposals	(5,666)	-	-	(5,666)
Cost at September 30, 2011	77,931	116,422	98,601	292,954
Accumulated depreciation at June 30, 2011	22,505	477	13,658	36,640
Depreciation	3,360	3,517	2,826	9,703
Disposals	(5,666)	-	-	(5,666)
Accumulated depreciation at September 30, 2011	20,199	3,994	16,484	40,677
Net Book Value, September 30, 2011	57,732	112,428	82,117	252,277
	Furniture & Office Equipment	Motor Vehicles	Plant & Machinery	Total
Cost at July 1, 2010	23,608	-	29,701	53,309
Additions	43,978	15,879	61,127	120,984
Disposals	-	-	-	-
Cost at June 30, 2011	67,586	15,879	90,828	174,293
Accumulated depreciation at July 1, 2010	9,661	-	9,899	19,560
Depreciation	12,844	477	3,759	17,080
Disposals	-	-	-	-
Accumulated depreciation at June 30, 2011	22,505	477	13,658	36,640
Net Book Value, June 30, 2011	45,081	15,402	77,170	137,653

All of the above property, plant and equipment are located in Fiji.

During the three months ended September 30, 2011, amortization of \$9,703 (2010 - \$2,869) was capitalized in mineral properties and deferred exploration costs.

## 7. Related party transactions

- (a) On October 1, 2010, AME entered a royalty agreement with Laimes Global Inc. ("LGI") whereby LGI would continue to provide a letter of support and liquidity as necessary to fund the AME's operations in Fiji until the sooner of June 30, 2011 or the time AME raises \$5,000,000 in capital through a reverse takeover or other financing and AME granted a perpetual production royalty of 0.5% to 1.5% net smelter return on the Fijian properties.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## 7. Related party transactions (continued)

- (b) On January 1, 2011, the Company signed a 5 year Management and Corporate Services Agreement (CSA) with Cabrera Capital Corp. (Cabrera), a company having directors and senior officers in common with the Company. The CSA indicates that Cabrera will provide management, business administration shareholder services, securities administration, and corporate services to the Company and will charge the Company actual out-of-pocket costs. In addition, the CSA indicates that the Company will pay rent of \$15,000 plus HST per month for its premises. Cabrera provided the same services to AME and X-Tal prior to signing the CSA. Management fees of \$343,787 (2010 - \$44,595) and rent of \$43,697 (2010 - \$Nil) were incurred during the period. No profit or loss is realized on these shared costs and the transactions are recorded at the exchange amount, being the amount agreed to by the transacting parties. These costs are included in net loss for the year.
- (c) At September 30, 2011, the Company owes Cabrera \$24,126 in management fees. At June 30, 2011, the Company had a receivable from Cabrera of \$112,528.
- At September 30, 2011, \$26,032 (June 30, 2010 - \$23,193) was due from a company having directors in common with the Company. During the period, the Company paid Fijian \$66,000 to a local Fijian government agency on behalf of this company. The funds were repaid to the Company 8 days later.
- (d) During the period ended September 30, 2011, consulting fees of \$37,500 (2010 - \$15,000) were paid to the President of the Company and \$36,000 (2010 - \$Nil) were paid to the Corporate Secretary and VP Operations. Of these amounts \$18,000 was capitalized to exploration and evaluation assets, \$18,750 was included in investor relations expense, and the remainder is included in consulting fees.

## 8. Share capital

- (a) Authorized
- Unlimited common shares at no par value
- (b) On April 1, 2010 a Trust Agreement between AME, a Trustee, and certain Beneficiaries was executed. Each of the Beneficiaries provides management services to AME either as an employee or independent contractor of AME. AME has issued and allotted 1,000,000 common shares from treasury registered in the name of a Trustee at a deemed price of \$0.40 per Subject Share. Pursuant to the "Going Public Transaction", legal title to the Subject Shares will be transferred to each of the Beneficiaries, and such Subject Shares will vest and be released from the terms of the Trust Agreement. Compensation expense of \$620,000 has been recognized subsequent to completion of the RTO.
- (c) On December 22, 2010, X-Tal completed a private placement of 11,500,000 subscription receipts at \$1.00 per subscription receipt for total proceeds of \$11,500,000. Upon completion of the RTO transaction, each subscription receipt was automatically exercised into one Unit of the Company, each Unit consisting of one common share of the Company and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase one common share of the Company at a price of \$2.00 for 12 months following closing. The Company agreed to pay its agents a 6% cash commission on the brokered portion (4,900,000 subscription receipts) of the private placement and issued 294,000 agent's warrants entitling the agent to purchase one common share of the Company at a price of \$1.00 for 12 months following closing.



# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## 8. Share capital (continued)

The relative fair value of the warrants included in the subscription receipts was determined using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate – 1.64%; no expected dividends; expected life – one year; expected stock price volatility – 65%. The fair value of each warrant was \$0.07 and the total fair value allocated to the 5,750,000 warrants was \$402,500.

The relative fair value of the agent's warrants was determined using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate – 1.64%; no expected dividends; expected life – one year; expected stock price volatility – 65%. The fair value of each warrant was \$0.26 and the total fair value allocated to the agent's warrants was \$76,440

- (d) On April 14 and April 26, 2011, the Company completed a private placement of 8,180,906 and 1,025,123 Units respectively, at \$1.55 per unit for total proceeds of \$14,269,345. Each Unit consists of one common share of the Company and one-half of one share purchase warrant, each whole warrant entitles the holder to purchase one common share of the Company at a price of \$2.25 for 12 months following closing. The Company agreed to pay its agents a 1% cash commission on the funds raised from certain purchasers (3,225,806 Units) and a 6% cash commission on the remainder of the funds raised. The Company also issued 391,071 agent's warrants entitling the agents to purchase one common share of the Company at a price of \$2.25 for 12 months following closing.

The relative fair value of the warrants included in the April 14 and April 26, 2011 Units was determined using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate – 1.77% and 1.70% respectively; no expected dividends; expected life – one year; expected stock price volatility – 75%. The fair value of each April 14, 2011 warrant was \$0.23 and each April 26, 2011 warrant was \$0.19 giving a total fair value allocated to the 4,603,015 warrants was \$1,046,884.

The relative fair value of the April 14 and April 26, 2011 agent's warrants was determined using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate – 1.77% and 1.70% respectively; no expected dividends; expected life – one year; expected stock price volatility – 75%. The fair value of each warrant was \$0.23 and \$0.19 respectively and the total fair value allocated to the agent's warrants was \$88,207.

- (e) Loss per share

The effect of dilutive securities has not been shown as the effect of all such securities is anti-dilutive.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

## 9. Warrants

The following tables summarize information about the warrants outstanding at September 30, 2011:

	Number of warrants	Weighted average exercise price
Balance, July 1, 2010	-	
Granted	10,353,015	\$ 2.11
Exercised	-	-
Balance, June 30 and September 30, 2011	10,353,015	\$ 2.11

Expiry Date	Exercise Price	Number of warrants outstanding
January 28, 2012	\$ 2.00	5,750,000
April 14, 2012	2.25	4,090,453
April 26, 2012	2.25	512,562
		10,353,015

The following tables summarize information about the agent's warrants outstanding at September 30, 2011:

	Number of agent's warrants	Weighted average exercise price
Balance, July 1, 2010	-	
Granted	685,071	\$ 1.71
Exercised	(2,430)	1.00
Balance, June 30, 2011	682,641	1.72
Exercised	(204,000)	1.00
Balance, September 30, 2011	478,641	\$ 2.02

Expiry Date	Exercise Price	Number of agent's warrants outstanding
January 28, 2012	\$ 1.00	87,570
April 14, 2012	2.25	329,564
April 26, 2012	2.25	61,507
		478,641

# LION ONE METALS LIMITED

(A Development Stage Company)  
 Notes to Condensed Consolidated Interim Financial Statements  
 September 30, 2011  
 (Unaudited)  
 (Expressed in Canadian dollars)

## 10. Stock option plan

Upon completion of the RTO transaction, the Company adopted a New Stock Option Plan (Plan) and all existing X-Tal and AME stock options continued as options under the Plan. The Plan provides for the granting of stock options to purchase a maximum of 10% of total issued common shares to eligible recipients. Generally, the options vest over a period of one to three years and the term of an option may not exceed ten years. The number of shares reserved for grant may be altered by a general meeting of shareholders.

A summary of the activity under the Plan as of September 30, 2011 is as follows:

	Number of shares	Weighted average exercise price
Balance, July 1, 2010	2,085,000	\$ 0.37
Granted	2,505,000	1.27
Exercised	(219,583)	0.36
Forfeited	(218,750)	0.35
Balance, June 30, 2011	4,151,667	0.92
Granted	200,000	1.40
Exercised	(41,000)	0.35
Forfeited	(50,000)	1.40
Balance, September 30, 2011	4,260,667	\$ 0.93

All of the 200,000 options granted in the three months ended September 30, 2011 were granted employees or others providing similar services.

The following table summarizes information about the options outstanding at September 30, 2011:

Date of grant	Number of options outstanding	Exercise price	Number of options exercisable	Expiry date
February 6, 2008	200,000	\$ 0.50	200,000	February 6, 2013
February 9, 2009	249,000	0.35	249,000	February 9, 2014
March 1, 2009	476,667	0.35	476,667	March 1, 2014
March 1, 2010	680,000	0.35	226,644	March 1, 2015
October 25, 2010	820,000	1.00	136,667	October 25, 2015
May 25, 2011	1,635,000	1.40	-	May 25, 2016
July 20, 2011	200,000	1.40	-	July 20, 2016
	4,260,667		1,288,978	

As at September 30, 2011 there are 650,000 non-employee options outstanding of which none exercisable. Non-employee options are revalued each reporting period until the options are fully vested. As at September 30, 2011 the weighted average number of months remaining is 40 months.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## 10. Stock option plan (continued)

During the three months ended September 30, 2011, the Company recognized stock-based compensation of \$497,384 (2010 - \$73,591) related to the options. Of this amount \$73,585 (2010 - \$Nil) was capitalized in exploration and evaluation assets.

Assumptions applied to determine the fair value of options granted on July 20, 2011 were: risk-free interest rate – 2.1%; no expected dividends; expected option life – five years; expected stock price volatility – 76%; expected forfeitures – 9%; weighted average fair value of options granted at market prices - \$0.71.

Assumptions applied to determine the fair value of options granted on May 20, 2011 were: risk-free interest rate – 1.94%; no expected dividends; expected option life – three years; expected stock price volatility – 75%; expected forfeitures – 9%; weighted average fair value of options granted at market prices - \$0.59 for employees and \$0.45 for non-employees.

Assumptions applied to determine the fair value of options granted on October 25, 2010 were: risk-free interest rate – 1.7%; no expected dividends; expected option life – five years; expected stock price volatility – 158%; expected forfeitures – 9%; weighted average fair value of options granted at market prices - \$0.93.

The expected volatility is based on the Company's historical prices. The risk free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche. Expected forfeitures are based on historical forfeitures of the Company's options.

As part of the share purchase transaction dated September 18, 2008 (see note 2) 300,000 shares were issued to directors and employees of the Company. Pursuant to an escrow agreement, the 300,000 shares are released to the directors and employees over a period of three years from the time of issue. In previous periods, three of the employees left the Company resulting in 225,000 shares being returned to treasury. Stock based compensation expense of \$14,896 (2010 - \$17,875) was recognized during the period with respect to the remaining shares.

## 11. Capital management

The Company's capital management policy is to maintain a strong, but flexible capital structure that optimizes the cost of capital, creditor and market confidence while sustaining the future development of the business.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions. The Company's capital structure includes shareholders' equity of \$27,674,883 (June 30, 2011- \$28,083,123). In order to maintain or adjust the capital structure, the Company may from time to time issue shares, seek additional debt financing and adjust its capital spending to manage current and projected debt levels. The Company is not subject to externally imposed capital requirements.

There were no changes to the Company's approach to capital management during the three months ended September 30, 2011.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## 12. Financial instruments

Financial instruments of the Company comprise cash, deposits, other receivables due from related parties, accounts payable and accrued liabilities and due to related parties. The carrying values of these financial instruments other than due from and to related parties do not materially differ from their fair values due to their ability for prompt liquidation or their short terms to maturity. Due to and from related parties are measured at their carrying values as the fair value cannot be measured reliably.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

The Company has exposure to liquidity risk, foreign currency risk, and credit risk and as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks.

Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

### *Liquidity risk*

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking harm to the Company's reputation. All financial liabilities of the Company are due within one year. As at September 30, 2011 there are adequate financial assets on hand to meet current trade liabilities.

### *Foreign currency risk*

Foreign currency exchange risk is the risk that the future cash flows of financial instruments will fluctuate as a result of changes in foreign exchange rates. Historically the Company has raised funds through the sale of its common shares in Canadian dollars however the majority of the Company's expenditures are denominated in either Canadian or Fijian dollars. Therefore, the Company is exposed to fluctuations between the Canadian and Fijian dollar exchange rate. As at September 30, 2011, the Company's net financial assets were C\$285,983 (F\$504,736). A 100 basis points change in the value of the Canadian dollar would result in a foreign exchange gain or loss of approximately \$5,047.

### *Credit risk*

Financial instruments of the Company that are subject to credit risk consist of cash deposited with reputable financial institutions. Management believes the risk of loss is remote.

## 13. Commitments

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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The Company signed the 5 year CSA as disclosed in note 8 which requires \$15,000 base monthly rental payments for its premises. The minimum annual rental payments required under the agreement for the next five years are \$180,000 each year.

On May 31, 2011, the Company entered into an agreement to acquire two parcels of land and other assets including an office building, workshop and construction equipment in Nadi, Fiji. Each parcel is described in Native Lease's No. 27582 and No. 27583. The total purchase price is Fj\$805,000 (approximately C\$480,000).

Fj\$40,250 (approximately \$24,000) was deposited into a trust account upon execution of the acquisition agreement. The remaining funds shall be paid to the Vendor upon registration of title and transfer of the property. The purchase is contingent on Fijian government approval of the transfer. The Company expects the acquisition to close in the second quarter of fiscal 2012.

## 14. Subsequent events

On November 2, 2011, the Company granted 600,000 stock options at grant price of \$1.40 and an expiry date of November 2, 2016.

In October and November 2011, 91,667 stock options with an exercise price of \$0.35 were exercised.

## 15. First-time adoption of International Financial Reporting Standards ("IFRS")

The Company adopted IFRS on July 1, 2011 with a transition date of July 1, 2010. Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied. IFRS provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

### a) *IFRS exemption options*

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

#### *Share-based payments*

IFRS 1 permits the application of IFRS 2 Share Based Payments only to equity instruments granted after November 7, 2002 that had not vested by the date of transition to IFRS. The Company has applied this exemption and will apply IFRS 2 for equity instruments granted after November 7, 2002 that had not vested by July 1, 2010.

Additionally, in accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its GAAP estimates for the same date.

### b) *Reconciliations*

The adoption of IFRS has resulted in changes to the Company's reported financial position and results of operations. The Company's adoption of IFRS did not have an impact on the total operating, investing or financing

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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cash flows. In order to allow the users of the financial statements to better understand these changes, the financial statements previously presented under Canadian GAAP have been reconciled to IFRS. For a description of the changes, see the discussion in Notes to the IFRS Reconciliations below.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

Reconciliation of Statements of Financial Position at July 1, 2010	Canadian GAAP	Effect of IFRS Transition	Note	IFRS
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 140,571			\$ 140,571
HST and VAT recoverable	31,634			31,634
Prepaid expenses	5,533			5,533
Deposits	19,313			19,313
	197,051	-		197,051
Due from related parties	11,018			11,018
Plant, property and equipment	33,749			33,749
Exploration and evaluation assets	6,038,982	(1,177,047)	(ii)	4,861,935
	\$ 6,280,800	\$ (1,177,047)		\$ 5,103,753
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	\$ 82,578			\$ 82,578
Due to related parties	279,307			279,307
	361,885	-		361,885
Deferred income tax liability	964,381	(964,381)	(ii)	-
<b>Shareholders' equity:</b>				
Share capital	5,202,469			5,202,469
Contributed surplus	15,330,912	2,164		15,333,076
Deficit	(15,578,847)	(214,830)	(i), (ii)	(15,793,677)
	4,954,534	(212,666)		4,741,868
	\$ 6,280,800	\$ (1,177,047)		\$ 5,103,753



# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

Reconciliation of Statements of Loss and Comprehensive Loss at September 30, 2010	Canadian GAAP	Effect of IFRS Transition	Note	IFRS
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Consulting fees	\$ 22,991	-		\$ 22,991
Foreign exchange (gain) loss	28,572	(31,826)	(iii)	(3,254)
Licenses, dues and other fees	1,566	-		1,566
Management fees	44,595	-		44,595
Office and miscellaneous	15,216	-		15,216
Professional fees	14,500	-		14,500
Stock based compensation	73,185	406	(i)	73,591
Travel	4,317	-		4,317
Net loss and other comprehensive loss for the year	\$ 204,942	\$ (31,420)		\$ 173,522
Opening deficit	(15,578,847)	(214,830)		(15,793,677)
Closing deficit	\$ 15,783,789	\$ 183,410		\$ 15,967,199
Basic and diluted loss per share amounts	\$ 0.01			\$ 0.01
Weighted average common shares outstanding	21,108,543			21,108,543

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

Reconciliation of Statements of Financial Position at September 30, 2010	Canadian GAAP	Effect of IFRS Transition	Note	IFRS
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 115,731			\$ 115,731
HST and VAT recoverable	46,316			46,316
Prepaid expenses	551			551
Deposits	23,689			23,689
	186,287	-		186,287
Due from related parties	14,836			14,836
Plant, property and equipment	32,666			32,666
Exploration and evaluation assets	6,165,134	(1,177,047)	(ii)	4,988,087
	\$ 6,398,923	\$ (1,177,047)		\$ 5,221,876
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 51,166			\$ 51,166
Due to related parties	528,772			528,772
	579,938	-		579,938
Deferred income tax liability	996,207	(996,207)	(ii), (iii)	-
Shareholders' equity:				
Share capital	5,220,344			5,220,344
Contributed surplus	15,386,222	2,570	(i)	15,388,792
Deficit	(15,783,789)	(183,410)	(i), (iii)	(15,967,199)
	4,822,777	(180,840)		4,641,937
	\$ 6,398,922	\$ (1,177,047)		\$ 5,221,875

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

Reconciliation of Statements of Financial Position at June 30, 2011	Canadian GAAP	Effect of IFRS Transition	Note	IFRS
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 20,829,922			\$ 20,829,922
HST and VAT recoverable	349,362			349,362
Due from related parties	112,528			112,528
Other receivables	97,626			97,626
Prepaid expenses	13,612			13,612
Deposits	58,426			58,426
	21,461,476	-		21,461,476
Restricted cash	75,000.0			75,000
Due from related parties	23,193			23,193
Plant, property and equipment	137,653			137,653
Exploration and evaluation assets	8,365,454	(1,815,007)	(i), (ii), (iii)	6,550,447
	\$ 30,062,776	\$ (1,815,007)		\$ 28,247,769
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 209,646			\$ 209,646
Due to related parties	-			-
	209,646	-		209,646
Deferred income tax liability	1,673,377	(1,673,377)	(ii), (iii)	-
Shareholders' equity:				
Share capital	28,623,722	20,369,744	(iv)	48,993,466
Warrants	1,613,399			1,613,399
Contributed surplus	15,736,743	190,266	(i)	15,927,009
Deficit	(17,794,111)	(20,701,640)	(i), (ii), (iv)	(38,495,751)
	28,179,753	(141,630)		28,038,123
	\$ 30,062,776	\$ (1,815,007)		\$ 28,247,769

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

Reconciliation of Statements of Loss and Comprehensive Loss at September 30, 2010	Canadian GAAP	Effect of IFRS Transition	Note	IFRS
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Consulting fees	\$ 22,991	-		\$ 22,991
Foreign exchange (gain) loss	28,572	(31,826)	(iii)	(3,254)
Licenses, dues and other fees	1,566	-		1,566
Management fees	44,595	-		44,595
Office and miscellaneous	15,216	-		15,216
Professional fees	14,500	-		14,500
Stock based compensation	73,185	406	(i)	73,591
Travel	4,317	-		4,317
Net loss and other comprehensive loss for the year	\$ 204,942	\$ (31,420)		\$ 173,522
Opening deficit	(15,578,847)	(214,830)		(15,793,677)
Closing deficit	\$ 15,783,789	\$ 183,410		\$ 15,967,199
Basic and diluted loss per share amounts	\$ 0.01			\$ 0.01
Weighted average common shares outstanding	21,108,543			21,108,543

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

Reconciliation of Statements of Loss and Comprehensive Loss at June 30, 2011	Canadian GAAP	Effect of IFRS Transition	Note	IFRS
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>				
Consulting fees	\$ 187,462	-		\$ 187,462
Foreign exchange (gain) loss	19,420	(5,996)	(iii)	13,424
Licenses, dues and other fees	8,447	-		8,447
Investor relations	269,857			
Management fees	455,622	-		455,622
Office and miscellaneous	33,975	-		33,975
Professional fees	111,809	-		111,809
Rent	72,829			
Shareholder communications and regulatory filings	35,645			
Stock based compensation	1,053,058	123,062	(i)	1,176,120
Travel	216,661	-		216,661
Operating loss	2,464,785	117,066		2,203,520
<b>OTHER INCOME</b>				
Interest income	(90,702)			(90,702)
Listing fee on amalgamation		20,394,590	(iv)	20,394,590
Net loss and other comprehensive loss for the year	2,374,083	\$ 20,511,656		22,885,739
Opening deficit	(15,578,847)			(15,793,677)
Deficit adjustment on amalgamation	158,819	24,846	(iv)	183,665
Closing deficit	\$ (17,794,111)	\$ (20,486,810)		\$ (38,495,751)
Basic and diluted loss per share amounts	\$ 0.12			\$ 0.10
Weighted average common shares outstanding	21,108,543			21,108,543

## Notes to the IFRS reconciliations:

### i) Share-based payments

Under Canadian GAAP, forfeitures of stock-based awards are recognized as they occur. Under IFRS, a fair value measurement is required for each vesting installment within the option grant. Each installment must be valued separately, based on assumptions determined from historical data, and recognized as compensation expense over each installment's individual tranche vesting period. Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods. As at July 1, 2010, this accounting policy change resulted in an increase in contributed surplus of \$2,164, and a corresponding increase in deficit. As at September 30, 2010, for the three months then ended this accounting policy change resulted in an increase in contributed surplus of \$406, an increase in deficit of \$406, and an increase of \$406 in stock-based compensation expenses. As at June 30, 2011, and for the year then ended, this accounting policy change resulted in an increase in contributed surplus of \$188,102, an increase in deficit of \$123,062, an increase of \$123,062 in stock-based compensation expense and an increase of \$65,040 in the carrying value of exploration and evaluation assets.

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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## *ii) Laimes acquisition*

In September 2008, the Company acquired all the outstanding common share of Laimes. The fair value of the consideration given was allocated amongst the fair value of the assets and liabilities of the acquired entities as of the date of acquisition. This included an allocation for future income tax liability of \$1,177,047 with a corresponding increase in mineral properties. Under Canadian GAAP, the future income tax liability was recognized and measured in accordance with CICA section 3465 Income Taxes. Under IFRS, the deferred tax liability would not be recognized, either on acquisition or subsequently. This change accounting policy resulted in a decrease of \$964,381 in the deferred tax liability, an increase in deficit of \$212,666 and a decrease in exploration and evaluation assets of \$1,177,047.

## *iii) Exploration expenditures – deferred income tax liability*

In fiscal 2011, the Company capitalized certain mineral property exploration costs incurred by the Company on behalf of certain of its foreign subsidiaries. Under Canadian GAAP, a future income tax liability was recognized and measured in accordance with CICA section 3465 Income Taxes, with a corresponding increase to the carrying value of mineral property assets. Under IAS 12 Income Taxes, this deferred tax liability and the related gross-up in the carrying value of exploration and evaluation assets would not be recognized, either on acquisition or subsequently. As at September 30, 2010 and June 30, 2011, this change in accounting policy resulted in a decrease of \$31,286 and \$709,046, respectively, in the carrying value of deferred income tax liability and a corresponding decrease in foreign exchange gain or loss.

## *iv) Exploration expenditures – deferred income tax liability*

On November 1, 2010, AME entered into a merger agreement with X-Tal Minerals Corp.. The parties agreed to an arrangement by which X-Tal would acquire all of the outstanding shares of AME.

Under Canadian GAAP, the substance of the Transaction was a capital transaction and accounted for as a reverse takeover that does not constitute a business combination in accordance with EIC-10 Reverse Takeover Accounting of the CICA Handbook. Accordingly, AME was considered to have acquired the assets and liabilities of X-Tal.

Under Canadian GAAP, the net liability acquired was charged to deficit. X-Tal's retained earnings, share capital and contributed surplus were eliminated upon consolidation. All transaction costs (\$167,040) were paid by X-Tal and included in the pre-amalgamation deficit balance.

IFRS requires the Company to fair value the equity instruments given up in the merger in order to value the unidentified assets received as part of the merger. The difference between the fair value of the equity instruments given up and the net identifiable monetary liability acquired represents the value of the unidentifiable monetary

# LION ONE METALS LIMITED

(A Development Stage Company)

Notes to Condensed Consolidated Interim Financial Statements

September 30, 2011

(Unaudited)

(Expressed in Canadian dollars)

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liability acquired represents the value of the unidentifiable asset, namely, the listing fee. The listing fee does not meet the definition of an asset under IFRS; therefore, the cost is expensed at the date of the merger.

The Company's private placement financing was concurrent to the merger. Therefore, the Black Scholes model was used to value the warrant component with the residual value attributed to the common share component fair value.

The fair value of the warrants was determined using the Black Scholes model based on the following parameters: risk-free interest rate – 1.64%; no expected dividends; expected life – one year; expected stock price volatility – 65%. The fair value of each warrant was \$0.07 (\$0.035 for each half-warrant).

The unit price of \$1, less the value attributed to each half-warrant per the Black Scholes model, \$0.035, leaves \$0.965 attributable to the common share component. The 21,108,543 shares given to X-Tal have been valued at \$0.965 per share for a total estimated fair value of \$20,369,744. This value plus the net liability assumed of \$24,846 total \$20,394,590, which is recorded as a listing fee expense on merger. On transition to IFRS, the Canadian GAAP entry has been reversed and this expense is recorded as of January 28, 2011.