LIO:TSX-V

LION ONE METALS LIMITED

Management's Discussion and Analysis

For the Nine Months Ended March 31, 2011

As at May 26, 2011

(Dollar amounts expressed in Canadian dollars)

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Introduction

Basis of Discussion and Analysis

Management's Discussion and Analysis ("MD&A") discusses the significant factors affecting the results of operations and financial position of Lion One Metals Limited (formerly X-Tal Minerals Corp.) (the "Company" or "Lion One Metals") for the nine months ended March 31, 2011 and includes material information up to May 26, 2011. Financial data provided has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar references, unless otherwise stated, are in Canadian dollars.

This MD&A should be read in conjunction with the Company's unaudited financial statements for the nine month period ended March 31, 2011.

Non-GAAP Measures

The Company uses non-GAAP measures which do not have any standardized meaning prescribed by GAAP. These non-GAAP definitions are used in this MD&A because management believes that they provide useful information regarding the Company's business. Readers are cautioned that the definitions are not recognized measures under Canadian GAAP, do not have standardized meaning prescribed by GAAP and should not be construed as indicators of performance, liquidity or cash flows. The Company's method of calculating these measures may differ from the method used by other entities and accordingly the Company's measures may not be comparable to similar titled measures used by other entities or in other jurisdictions

Forward-Looking Statements

This MD&A contains forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management's current expectations, estimates, projections, beliefs and assumptions that were made using information currently available to management. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "expect," "plan," "anticipate," "believe," "intend," "estimate," "predict," "forecast," "outlook," "potential," "continue," "should," "likely," or the negative of these terms or other comparable terminology. Although management believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; availability of equity and debt financing; financial market volatility; the impact of newly adopted accounting principles on the Company's accounting policies; and other risks and factors described from time to time in the documents filed by the Company with the security regulars in Canada. The Company undertakes no obligation to publicly revise or update any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained herein is made as of the date hereof and is expressly qualified in its entirety by the cautionary statements in this MD&A.

Objectives and Financial Highlights

Overview of the Business

The Company is a publicly traded company, incorporated under the laws of British Columbia. Companies listed on the TSX Venture Exchange (TSX-V or the "Exchange") are required by Exchange policy to meet "Tier Maintenance Requirements" ("TMR"), which, in the case of a mining issuer such as Lion One Metals (formerly X-Tal), include carrying out certain prescribed minimum levels of activity, including the expenditure of prescribed amounts on mineral properties. In recent years the Company has not retained a mineral property nor carried out such minimum expenditures. Accordingly, on June 6, 2006, the TSX Venture Exchange advised X-Tal that it had 90 days, until September 6, 2006, to demonstrate to the Exchange a plan to meet TMR. Failing this, the Company's listing would be transferred to NEX, a separate listing and trading board of the TSX Venture Exchange. On September 11, 2006, the Company's listing was transferred to NEX.

In the previous interim period, on November 1, 2010 the Company executed a definitive agreement to affect a reverse take-over with American Eagle Resources Inc. ("AME"). The definitive agreement formalized the terms of the non-binding letter of intent the Company entered into with American Eagle Resources Inc. ("AME") to acquire all the outstanding shares of AME. Pursuant to the terms of the definitive agreement, all of the common shares of AME become exchangeable for common shares of the Company on a basis of one (1) common share of AME for one (1) common share of X-Tal. AME and X-Tal had 21,108,543 and 6,300,001 common shares outstanding, respectively at the time of entering into the transaction. The transaction constituted a reverse takeover for accounting purposes with AME being the acquirer. The Company also completed a name change to Lion One Metals Limited. The principal asset of AME was the Tuvatu Gold Deposit located on the Fijian Island of Viti Levu. AME also held mineral properties on Venua Levu, Fiji's second largest island. The Company only received formal written confirmation of title to these tenements on Venua Levu on May 12, 2011, and therefore has only performed limited exploration activities to date. Unanimous shareholder approval supporting the transaction was obtained at the Annual and Special Meeting of Shareholders held December 21, 2010.

During the previous period the Company applied to list the common shares of the combined Company on the TSX-V (Tier 1). Formal approval of the transaction and the listing was received on January 28, 2011.

The new executive officers and directors of the Company are as follows:

Walter Berukoff	Chairman and Chief Executive Officer, and director
Darcy Krohman	Chief Financial Officer and VP Exploration
Hamish Greig	Corporate Secretary
George Young	President and director
Richard Meli	Director
David Duval	Director

In conjunction with the Transaction, the Company closed a concurrent private placement (the "Financing") of $11,500,000 on December 22, 2010. The Company engaged MGI Securities Inc. and PI Financial corp. as agents (the "Agents") in connection with the financing. Part of the financing was concluded on a non-brokered basis. The financing consisted of 10,000,000 subscription receipts ("Subscription Receipts") priced at $1.00 per Subscription Receipt for gross proceeds of $10,000,000 In addition the Agents fully exercised the option granted to the by the Company to sell an additional 1,500,000 Subscription receipts at the same issue price for additional proceeds of $1,500,000. Upon completion of the transaction each subscription receipt was automatically converted into one unit of the Company, each unit consisting of one common share 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 from closing (January 28, 2012). The Subscription Receipts and the underlying common shares and warrants were subject to a four month hold period that expired subsequent to the period end on April 22, 2011. The Company paid cash commissions of 6% of the gross proceeds raised on the brokered portion of the offering, and issued agent's warrants of 6% of the number of shares sold pursuant to the brokered portion of the offering.

During the previous period the Company received the technical report titled "Technical Report and Resource Estimate on the Tuvatu Gold Property, Viti Levu, Fiji" dated October 1, 2010 by P&E Mining Consultants Inc. The Executive Summary of the Report states:

> *...The main asset of AER is the Tuvatu mine tenements located on the island of Viti Levu, Fiji. The Tuvatu tenements are held by AER through its 100% owned Fijian subsidiary, Lion One Resources Inc. ("Lion One"), which owns the Tuvatu Gold Mining Company ("TGM"). TGM was a subsidiary of Emperor. Lion One holds 3 Special Prospecting Licences (SPL) located near Nadi, Fiji.*
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> *At the request of Mr. Walter Berukoff, Chairman of X-Tal, P&E Mining Consulting Inc. (P&E) was commissioned to prepare an Independent Technical Report on the Tuvatu Gold Project compliant with standards of NI 43-101F1. Tuvatu encompasses the concessions SPL 1283, SPL 1296 and SPLA 1465 which are located 24 kilometres northeast of the town of Nadi, in the western part of Viti Levu, Fiji. The*

tenements total an area of 105.65 square kilometres. The tenements are located in the upper reaches of the Sabeto Valley within a NNE trending zone of shoshonitic volcanic rocks and minor associated intrusions defined by a series of gravity lows and mineralization occurrences. The Tuvatu Mine is situated approximately 1 kilometre southwest of the historic Kingston copper-gold mine. The area contains steep, rugged country accessed via the Sabeto Road. In wet weather, four wheel drive vehicles are required to access the tenements. Creeks and adjacent areas are generally thickly vegetated while the spurs and ridges are dominated by open grasslands with deep soils.

The local geology is dominated by a sequence of volcaniclastic units intruded by a monzonite intrusive stock. Gold mineralization in the Tuvatu area is dominantly hosted in monzonite units but also occurs in the volcanic units. The mineralization is structurally-controlled and is considered to have a close association with the emplacement of the monzonite intrusive body. It occurs as sets and networks of narrow veins and cracks, with individual veins generally ranging from 1 to 200 mm wide. Zones of veining which comprise the lodes may be up to 5 m wide. A number of different lode structures were identified in the resource area including eleven lodes in the Upper Ridges area, two lodes in the Murau area, three lodes in the West area, two lodes in the Tuvatu area and the flatmakes in the SKL area. In addition a number of the other lodes have been identified in the local are but remain untested.Historical activities began with prospecting during the early part of the last century, followed by some pitting and limited underground work from 1945 to 1952. Modern exploration began with Aquitane Fiji exploring the area from 1977 to 1979. In 1987, Geopacific Ltd. ("Geopacific") pegged out SPL1283 and SPL1296 in the area and investigated a soil anomaly previously identified by Aquitane Fiji. Geopacific discovered the outcrop of what is now called the Tuvatu Mine in the vicinity of this anomaly.

Emperor Mines Limited ("Emperor") entered into an option agreement with Geopacific in December 1995 and subsequently exercised its option to purchase 100 % of SPL1283 and SPL1296 in June 1997. Emperor then incorporated TGM to operate the property.

From 1995 to 2001, TGM conducted several phases of exploration including significant underground development and exploration and completed an in-house mining study (scoping study). Overall, TGM completed 51,484 m of diamond core and 9,265 m of reverse circulation surface drilling, as well as 13,407 m of underground drilling. A total of 1,341 m of decline, strike and rise development were also completed in the mine area including a 600 m long access decline from the valley floor that intersects the Upper Ridges lodes 240 m below surface.

Work on the project by TGM was suspended in late 2000 as part of a general cost-cutting exercise related to low gold prices and subsequent work was limited to regional exploration. Emperor, including the TGM subsidiary, was sold to Westech Gold Pty Ltd. ("Westech") on March 27, 2007 which transferred the assets to Lion One.

During 2008, Lion One conducted exploration on a number of highly prospective mineralized zones which had been discovered in 2002-2003 and re-established in 2008.Work included mapping and geochemical sampling and the drilling of two diamond drill holes. A number of new mineralized structures were also discovered. A total of 826 samples were collected for geochemical analysis. The two surface diamond drill holes were drilled to test the Nubunidike / Hornet Creek / 290 Vein system with inconclusive results.

The Tuvatu Project was visited by Mr. F. H. Brown M.Sc. (Eng.), CPG, Pr.Sci.Nat. of P&E in July 2010, Mr. Brown selected drill core from a constrained sample database for data verification purposes.

The P&E 2010 Resource Estimate has an effective date of August 1, 2010.

Gold assay and data entry were checked and the use of the historic data was validated. A NI 43-101 compliant resource estimate using these data and a 2.0 g/t Au cut-off established Indicated and Inferred Resources as follows:

Mineral Resource estimate at a 2.0 g/t Au cutoff[1,2] as of August 1, 2010

	Indicated			Inferred		
	Tonnes x 1000	Grade g/t	Au ozs x 1000	Tonnes x 1000	Grade g/t	Au ozs x 1000
Sulphides	760	7.05	172	2,502	5.78	465
Oxides	0	0	0	116	4.15	15
TOTAL	760	7.05	172	2,618	5.71	480

(1) Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability. The estimate of Mineral Resources may be materially affected by environmental, permitting, legal, title, taxation, socio-political, marketing, or other relevant issues.

(2) The quantity and grade of reported inferred resources in this estimation are conceptual in nature. There is no guarantee that all or any part of the Mineral Resource will be converted into Mineral Reserve.

P&E have not established a mineral reserve estimate for the Tuvatu deposit. The mineral reserve estimate used by Emperor for their in-house 2000 feasibility study is historical in nature and should not be relied upon. P&E have not verified or approved the reserve estimate. It should be further noted that the historical resource estimate used by Emperor as the basis of the pre-feasibility study has been superseded by the NI 43-101 compliant resource estimate that is the subject of this report. A revision of the historic Emperor in-house feasibility study based on the current P&E 2010 mineral resource estimate is recommended.

Recommendations have been made to both increase the confidence levels (and hence resource categories) and for the targeting of areas of possible extension of the mineralized system beyond the current resources. The prospects that surround the Tuvatu deposit contain numerous mineralized veins and are considered especially permissive for potentially hosting epithermal style mineralization. Further detailed exploration is warranted and strongly recommended. Further recommendations include:

- *The resource models suggest that gold mineralization occurs as plunging structures in the plane of the lodes; therefore these structures are likely relatively continuous and should support selective mining. P&E recommends that a program of confirmation drilling be conducted to verify the location and extent (especially at depth) of these structures.*
- *Additional underground drilling should be initiated once the existing decline is re-commissioned, in order to upgrade large sections of Inferred resources to the Indicated level of confidence.*

- *P&E noted high levels of silver in core sections selected as confirmatory check samples, and recommends that a larger number of core samples be assayed to confirm the silver content.*

- *The geometry of mineralization will require grade control spacing of at least 10 m intercepts within the plane of the lodes in order to facilitate selective mining. There is little current evidence that significant mineralization occurs outside of the quartz veins, though this should be demonstrated conclusively by confirmatory drilling.*
- *The Nubunidike, Ura Creek, Korobebe, and Sawasawa EastProspects have been investigated by recent exploration activity but remain underexplored. Systematic follow-up exporation activity is recommended*
- *P&E is of the opinion that recent and historical exploration has demonstrated that the mineralized system within SPL1283 and SPL1296 is an extension of the main Tuvatu epithermal system and as such is prospective for the discovery of additional gold lodes of a similar nature to that at the current Tuvatu Mine development. It is recommended that an aggressive exploration be undertaken.*

Based on the conclusions reached by P&E a multi-phased, results driven work program is recommended to move the project forward to possible production. The Phase 1 work program will commence in early 2011 and together with the Phase II program will possibly be extend over three calendar years and involve the following work items

Phase I Program

The Phase I exploration program will involve initiation of de-watering activities for the Tuvatu decline in advance of a detailed Scoping Study. The Scoping Study will consist of a resource drilling program, environmental and social baseline studies, initial mine design and mine development studies, a trial stoping program, a geotechnical engineering program, preliminary mine facility and infrastructure layout designs, initial metallurgical and processing test work, tailings storage facility engineering, materials handling assessment, power and utilities study, equipment selection and approvals and license procurement activities.

If results of the scoping study warrant, underground pre-development work, of the Tuvatu resource area will be initiated: Work will consist of underground rehabilitation activities including scaling and rock bolting, mapping of underground workings, resource drilling, additional underground development, trial stoping, and geotechnical assessment.

If results of the scoping study are positive it is recommended that consideration be given to conducting a full feasibility study.

A proposed budget of US$ 5,145,000 is required to complete this Phase I work program as continuing results dictate.

Phase II Program

This phase of work will consist of surface exploration activities covering the entire concession area. In detail this will include reconnaissance mapping, prospecting, sampling, heavy mineral geochemical surveying, high energy stream sediment survey and geophysical surveying and modelling. As results warrant, the exploration work will be extended to the remaining Tuvatu concessions where reconnaissance *mapping, prospecting, sampling, heavy mineral geochemical surveying, high energy stream sediment survey and geophysical surveying and modelling. This will be followed by a continuing program of*

advanced surface exploration work covering the entire concession area. Surface diamond drilling, trenching and sampling, reconnaissance mapping, prospecting, heavy mineral geochemical surveying, high energy stream sediment survey and geophysical surveying and modelling will be conducted

A proposed budget of US$ 1,165,000 is estimated as needed to complete this Phase II work program.

Summary of Exploration & Development Activities & Results

The Tuvatu property lies within a north-west trending belt that hosts a number of alkaline volcanic centers. These include the Vatukoula Gold Mine located approximately 50 km's north east of Tuvatu. Low sulphidation, epithermal gold veins at Tuvatu occur along the margins of the eroded Navilawa volcanic center in a multi-phase geologic environment that also hosts porphyry copper-gold and VMS style mineralization. The Fijian Islands themselves are situated along the margins of the SW Pacific Rim regional tectonic plate, the host of a number of world class epithermal gold-silver and porphyry copper-gold deposits that include Lihir, Porgera, Misima, Ok Tedi and Bougainville.

Lion One Metals Limited commenced a first phase exploration program on the Tuvatu Gold Project during the recently completed interim period. This ongoing program consists of an extensive trenching and surface mapping program of the mineralized zones identified on surface from the portal of the Tuvatu Gold Deposit decline, south for a distance of approximately 700 m. The decline had been completed by Emperor Mines in 2000. To date in excess of 1,200 m's of trenching has been completed in the immediate area of the Tuvatu Resource Area. With limited surface exposure, trenching has been found to be a very efficient and cost effective method of exploration.

While previous operators have focused on the exploitation of the high grade, narrow vein mineral resource with a tenure of in excess of 8 g/t Au, Lion One has initiated a program to assess the lower grade, bulk tonnage potential on parts of the property that may be amenable to open pit extraction. This exploration strategy was formulated in part from observations at the Vatakula/Emperor Gold Mine (7 million + oz of Au produced to date plus 4.3 million oz Au resource and 680,000 oz Au reserves) where mineral reserves with an average grade below 1 g/t Au are currently being exploited. Tuvatu shares many similarities with Vatakula including high grade tenure, mineralogy, deposition history and deposit model (i.e. low sulphidation epithermal deposit associated with alkali porphyry intrusive rocks) etc. With this information and a positive price environment, Company geologists have began to focus their attention on broad zones of mineralization with grades ranging from 0.4 g/t to in excess of 100 g/t Au. Historical work at Tuvatu includes over 80,000 meters of surface and underground drilling, metallurgical testing, resource and reserve estimation, completion of a feasibility study (by Emperor and Bateman Engineering) and construction of 1.6 km's of underground workings that include a 700+ m decline and development crosscuts. While JORC compliant mineral reserves had been previously delineated and disclosed by Emperor Mines, current mineral resources estimated in accordance with CIM definitions include indicated resources of 172,000 ounces (760,000 tonnes grading 7.05 g/t Au) and inferred resources of 480,000 ounces (2.618 million tonnes grading 5.71 g/t Au) at 2.0 g/t Au cut off.

While the nuggety nature of the gold mineralization necessitated a 40 g/t Au grade cap for resource estimation purposes, numerous intercepts exceed this cap (i.e. up to 1,620 g/t Au across 0.5 m). This characteristic leads management to believe the contained gold content could prove significantly greater than that reflected in the current estimate

Current Exploration Focus:

Building on the success of the initial trenching results the Company decided to extend the program. Excavation of a 400 m wide trench 1,200 m's south of the portal, exposed the nine north-south trending lodes (i.e. UR1W through UR8 Lodes) included in the current resource base. This 250 m wide zone of alteration and mineralization hosts nine veins (UR1W through UR8). Company geologists are focused on confirming the width, strike and tenure of the high grade core and the lower grade bulk tonnage potential of the entire 250 m wide zone. Exposure of these structures are helping to confirm management's theory that the predominant north-south trending zones are radiating from an intrusive, monzonite stock that outcrops several km's south of the Tuvatu Resource Area. As expected, vein density has increased and is expected to become more concentrated as exploration proceeds to the south, closer to the inferred source of the mineralizing fluids. Technical staff are targeting the convergence of the radiating structures south of this bench as a zone of favourable structural preparation and the concentration of gold mineralization.

Trenching Program:

In January, Company geologists embarked on a test program to determine whether broad zones of lower grade, near surface gold mineralization exist in the hanging and foot walls of the many high grade Au veins either exposed on surface or in drill holes completed to date on the property. If confirmed in the initial "test zones" it was management's intention to expand this program to other areas of the property. The success of this program led to the extension of this program.

First Phase Trenching Results:

Trench TR11-01 : Excavated across a section of the Core Shed Fault. The balance of the samples consist of single chips taken across a number of cm-scale vein structures of varying orientation hosted in intensely clay-weathered monzonite. Bench BE11-06 was also excavated over the Core Shed Fault, west of TR11-01. Sampling there will provide additional verification of the grade tenor of the Core Shed structure.

Trench TR11-02: Excavated on higher ground immediately north of the Core Shed Fault. This excavation contained several examples of northeast, northwest, and east-west steeply and shallowly-dipping alteration zones and quartz-clay-sulphide (+/- magnetite and biotite)-bearing veinlets in monzonite. A 2.0 m wide structure strikes northeastward and dips steeply eastward. It consists of a strongly altered, clay-weathered, rusty alteration zone cored and bounded by cm-scale quartz-sulphide-bearing veinlets. This structure is considered part of the Murau Lode system as. Another 0.5 m width is of similar composition strikes north-northwest, dips steeply southwest. These two structures are projected to intersect each other just to the east of the existing trench wall.

Bench BE11-01: Consists of two separate but proximal excavations in an old drill road bank south of the Core Shed Fault. BE11-01N was excavated in highly to pervasively clay-weathered intrusive rock. Weathering makes it difficult to confirm rock composition however the original rock is believed to be brecciated monzonite or volcanic. Massive monzonite is located in the eastern part. Fine, randomly distributed, rusty iron oxide and biotite-bearing veinlets are present in places but are more notable in the eastern section of the excavation. A 2.0 m wide, intensely clay-altered zone strikes northwest and dips steeply south. BE11-01S contains clay weathered, weakly-altered monzonite. A well defined 0.2 to 0.7 m wide structure was exposed consisting of strong clay and limonite-weathered, former feldspar alteration cored and bounded by quartz-sulphide-bearing veinlets. Two samples TS00871 and TS00873

contain 4.62 and 0.56 g/t Au respectively. This zone is believed to be an extension of the Murau Lodes. Its location north of the Core Shed Fault implies that the Murau Lodes like the Upper Ridges Lodes extend through this older structure.

Bench BE11-02: Two sections of excavated-cleaned road cut. The first or western portion (BE11-02W) strikes east-northeast. The eastern part (BE1102E) strikes north-northwest. The excavation was designed to expose the Tuvatu/H and UR Lodes north of the Core Shed Fault. 158 samples were taken on BE11-02. Samples consist of continuous sub horizontal 1 m wide, semi-contiguous single or composite chip samples. Rusty-coloured, pervasively clay-weathered breccia and moderately to intensely hydrothermally altered monzonite. Northwest-striking centimetre-scale veinlets and larger poddy patches of biotite-quartz-feldspar with sulphide are present. Locally, relict textures suggest that the intrusive may have been brecciated. Near the eastern end of the Bench veining is more prevalent in what was strongly altered monzonite. Vein structures vary from mm-scale to several centimeters thick and tend to intersect with minimal or no offset. Significant Au results were obtained in samples taken between 23 and 28 m adjacent to the faulted intrusive. Samples TS00885, TS00886, TS00887, TS00888 and TS00889 represent a 4.8 m wide section that contains between 1.28 and 21.80 g/t Au. The weighted average grade is 8.7 g/t Au in this interval. This high grade interval appears to be the surface expression of the north-west striking Tuvatu Lode. Similar styles of mineralization have been exposed on benches down slope to the north - sample results for these occurrences are pending.

With the exception of a 10 m section in its northern portion of the excavation, the vein density in BE11-02E very high with veins ranging from mm-scale to 0.5 m in width. Vein orientation is variable with numerous north-west, north, and east-west trending structures. Both steep and shallow-dipping veins are well represented. Shearing and attendant offsets were present on some structures. Vein mineralogy varies with narrower magnetite-biotite and thicker quartz, feldspar, sulphide structures. The host rock is moderately altered monzonite intrusive. The intensity of the hydrothermal alteration increases near vein envelopes. Pervasive clay-weathering obscures rock textures in the northern portion of the bench.

Samples were taken of individual and groups of veins and interstitial altered wall rock. Two high-grade Au results were obtained. The first high grade result, a quartz sulphide vein grades 23.90 g/t Au across 0.4 m. It is interpreted as the northerly extension of the UR2 Lode. The second result grades 76.0 g/t Au across a relatively flat vein 15 cm wide (TS00397). Two other samples of altered vein material hosted in monzonite contain above 1 g/t Au (TS00406 and TS00411). Several other samples from this zone grade between 0.2 and 0.8 g/t Au. Analysis of the complete assay results from this zone will determine whether the eastern and western sections of the excavation contains material of sufficiently consistent grade to be amenable to surface mining methods.

Second Phase Trenching Results:

Bench BE 5W: The analytical results from 187 rock samples were recently received from ALS Laboratory Services. Of the 187 samples, 15 graded between 0.4 g/t Au and 1.0 g/t Au and 22 graded over 1.0 g/t

Au. A total of 79 samples were taken from the 135 m long, Bench 5 West, where a broad zone of alteration and mineralization up to 60 m's wide was exposed. This structural corridor consists of highly altered and weathered veins and veinlets within an altered, quartz monzonite host. Mineralization predominately consists of black, crystalline quartz, calcite, chlorite, pyrite, and chalcopyrite. Intervals grading 1.50 g/t Au across 20 m's, 1.19 g/t Au across 11m's, 0.66 g/t Au across 7.5 m's and 0.68 g/t Au across 3.80 m's were exposed. Individual samples graded up to 24.3 g/t Au across 0.33 m's. This zone is located 100 m's south west of the decline portal, parallel to the URW1 load. Management is pleased

with the results as they demonstrate the existence of a lower grade, oxide envelope surrounding a high grade core at surface. Precious metal grades are expected to increase below this leached zone. Company geologists will be in a better position to confirm their preliminary observations once the core re-logging and re-sampling program has been initiated. While the incorporation of this lower grade material will decrease the average grade of the deposit, the total mineral resource is expected to increase materially. In addition, incorporation of these resources will also help establish the open pit viability of the project.

The test program will continue to evaluate other zones with high grade gold on surface as it is evident that this envelope of mineralization is not unique to this exposure.

Core Re-logging & Re-sampling Program:

Recently contracted consultants will help manage the core re-logging and re-sampling program with the principal objective of identifying mineralized intervals that were ignored by previous operators. As 3 g/t Au was the historical cut-off grade, Company geologists believe the economic significance of many altered and mineralized zones within the hanging and foot walls have been overlooked. Over 60,000 m's of the 86,000 m's of drilling in over 550 holes completed on the property remain on site. Considering the significant proportion of free gold and the favorable flotation characteristics, LIO technical staff are of the opinion that 0.4 g/t Au is a reasonable cut-off grade to consider in assessing the economic viability of near surface mineralization. Historical sampling of the core appear to have focused on sections with distinct quartz veining, often leaving significant intervals in the hanging and foot walls that host either weaker veining or alteration, un-split and un-sampled. Re-evaluation of this core has the potential to significantly increase future mineral resource estimates and alter grade and pit shells and mining plans.

Dewatering Program:

Subsequent to the period end, on May 6, the Company received formal approval from the Mineral Resources Department to dewater the Tuvatu Adit for the purpose of continuing work as proposed in the work program. Approval was preceded by the application for permits pursuant to the Mining Act and Environmental Management Act and the submission of the report: "Tuvatu Adit Dewatering Plan" drafted by the Company's independent, consulting mining engineer firm, Namawan Investments Limited, of Suva, Fiji. As previously disclosed, the high grade lodes that comprise the existing Tuvatu Gold Deposit are currently accessed from 1.4 km's of underground working consisting of a development tunnel and a series of cross cuts completed by Emperor Mines. The decline had been completed with the objective of test mining the historic mineral reserves and resources reported in a Feasibility Study completed by Emperor and Bateman Engineering in 2000. Dewatering of the decline will require the pumping of approximately 14 million litres of water from the tunnel into a three stage sediment settling pond. Decanted water will be discharged in compliance with the ANZEC Guidelines for Fresh and Marine Water Quality or recycled for drilling and/or camp use. This program is expected to be completed over a three month period as a slow decrease in hydraulic pressure will be required to limit or prevent failures in areas with difficult ground conditions. Capital and operating costs to complete the dewatering program are estimated at C$600,000 and C$9,000 per month, respectively.

Strategic Priorities

The Company is focused on the following strategic priorities:

- Exploration and development of the Tuvatu Gold Deposit including expansion of the existing mineral resource both along strike and down dip;
- Exploration of the other mineral properties acquired through the business combination with AME;
- Acquiring, financing and exploring other mineral properties, with the objective of attaining mining production; and
- Prudent capital management including sourcing future financing for exploring and developing mining properties.

Key Performance Drivers

Management considers the expansion of the existing mineral resource at the Tuvatu Gold Deposit, both along strike and down dip, and the ultimate development of the gold deposit to be its principle objective. The receipt of encouraging results from exploration programs conducted on its other, earlier stage mineral properties in the Fijian Islands is also considered a key performance driver. Sourcing and acquisition of other suitable mineral properties and the arrangement of related financing are also primary drivers to the Company's future success.

Financial Statement Analysis

Net Loss

The Company's net loss for the nine months ended March 31, 2011 was $1,215,852 ($0.05 per diluted share), compared with $377,672 ($0.02 per diluted share) for the year ended June 30, 2010. There was significant change, period over period, in the financial results of the Company. A summary of the results follow:

		Three Months Ended March 31, 2011		Nine Months Ended March 31, 2011		Year ended June 30, 2010 (audited) (Note 14)
GENERAL AND ADMINISTRATIVE EXPENSES						
Consulting fees	$	153,320	$	190,877	$	21,967
Foreign exchange (gain) loss		(14,739)		10,312		(75,997)
Licenses, dues and other fees		2,835		3,472		319
Management fees		182,262		182,262		
Office and miscellaneous		25,869		48,986		31,906
Professional fees		57,572		77,726		61,106
Rent		29,131		29,131		1,632
Salaries and benefits		-		71,018		56,885
Stock based compensation (note 10)		348,448		521,246		252,969
Travel		107,929		112,504		26,885
Operating Loss		892,627		1,247,534		377,672
OTHER INCOME						
Interest income		(31,682)		(31,682)		
Net loss and other comprehensive loss for the year		860,945		1,215,852		377,672
Basic and diluted loss per share amounts (note 9(b))	$	0.03	$	0.05	$	0.02
Weighted average common shares outstanding		33,233,159		25,105,669		21,108,543

See accompanying notes to consolidated financial statements.

Quarterly results

Fiscal quarter ended	Total interest income	Loss from continuing operations – total	Loss from continuing operations – per share [1]	Net loss - total	Net loss - per share [1]
March 31, 2011	31,682	860,945	0.03	860.945	0.03
December 31, 2010	Nil	149,967	0.01	149,967	0.01
September 30, 2010	Nil	204,941	0.01	204,941	0.01

Note 1: Basic and diluted – share dilution is not recognized as it would be anti-dilutive

Note 2: Prior to September 30, 2010, quarterly results were not required to be prepared for the Company as it was not a reporting issuer. As discussed in the notes to the financial statements, it is impracticable to prepare prior quarterly results.

The Company's expenditures have increased materially in the last quarter as exploration and development (E&D) activities in Fiji have expanded. As E&D has increased in Fiji, head office expenditures in Vancouver have also increased as financing, investor relations, travel and administrative activities and functions have likewise also had to be expanded. Stock based compensation (a non-cash item) for the nine month period ended March 31, 2011 is significantly higher than that recorded for the year ended June 30, 2010 due to the October 25, 2010 stock option grant and the compensation related to the trust shares being recognized. Interest of $31,682 was recorded for the period and reflects accrued amounts on deposit from the December, 2010 private placement.

Share Capital

At March 31, 2011, the Company had 39,128,127 common shares issued and outstanding. The Company issued $11,500,000 in Subscription Receipts on December 22, 2010. 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 from closing of the transaction and listing of the Company's commons shares on the Exchange (January 28, 2012).

Subsequent to the period end on April 14, 2011, the Company completed a private placement of 8,180,906 Units at $1.55 for gross proceeds of $12,680,404. On April 26, 2011, the Company issued an additional 1,025,123 Units at $1.55 for gross proceeds of $1,588,941. 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 per common share until April 14, 2012 and April 26, 2012 respectively. The Company has paid the agent a cash commission of between 1% and 6% of the gross proceeds of the offering. In addition, the agents received agent's options to purchase common shares equal to 6% of the aggregate number of common shares sold under the private placement at the price of $2.25 per share until April 14, 2012 and April 26, 2012 respectively.

The following table summarizes information about the options outstanding at March 31, 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	290,000	0.35	290,000	February 9, 2014
March 1, 2009	410,000	0.35	410,000	March 1, 2012
March 1, 2010	680,000	0.35	226,644	March 1, 2013
October 25, 2010	820,000	1.00	-	October 25, 2015
	2,400,000		1,126,644	

Liquidity

The Company had cash and cash equivalents totalling $9,380,626 at March 31, 2011 as compared to $140,571 at June 31, 2010. The working capital deficit of $153,816 at June 30, 2010 became a surplus of $9,169,292 as at March 31, 2011. Funds used for operating activities during the nine month period ended March 31, 2011 and the year ended June 30, 2010 were $1,024,939 and $260,658 respectively. The increase is primary attributable to increases in consulting and management fees, salaries and benefits, and travel related to the acquisition of AME and the management of a company engaged in mineral exploration.

The financial statements for the period ended March 31, 2011, have been prepared on the basis of accounting principles applicable to a going concern. This assumes that the Company will operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. 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 search and acquire and meet exploration commitments on the properties and upon future profitable operations or proceeds from the disposition of the properties.

The Company's principal liquidity needs for the next twelve months are to:

- fund the exploration and development program of the Tuvatu Gold Deposit and the other mineral properties acquired by the reverse take over and;
- fund future acquisitions, if any;
- fund recurring (including general and administrative) costs.

Capital Resources

The Company will have to rely upon equity financings to satisfy its capital requirements after the proposed acquisition. There can be no assurance the Company will be able to obtain the financing required in the future on acceptable terms.

December 22, 2010 Financing

Principal uses of funds:

	Estimated Amount	Amount Spent to March 31/2011
Funds raised plus cash on hand	11,517,503	
Costs of the RTO	167,040	167,040
Cash costs of the offering	977,262	620,715
Phase I of the exploration and development program	5,295,000	444,789
Phase II of the exploration and development program	1,200,000	
De-watering capital and operating costs for the next 12 months	708,000	
General and administrative costs for next 12 months	2,250,000	512,497
Payment of related party debt, and other working capital balances		391,836
Unallocated working capital to fund on going operations	920,201	
Cash and cash equivalents as at March 31, 2011		9,380,626.00

April 14 and April 26, 2011 Financings

The total funds raised from the April 14 and April 26, 2011 financings were $14,269,345. The cash costs of the offering were $856,160 leaving $13,413,185 to fund on-going operations.

Capital requirements:

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 the following minimum amounts on exploration activities.

	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	$ 10,690	$ 4,200,000	$ 2,244,900
SPL 1465	1-Jul-10	30-Jun-13	10,000	$ 5,345	1,800,000	$ 962,100
SPL 1467	19-Apr-11	18-Apr-12	11,000	$ 5,880	110,000	$ 58,795
SPL 1468	19-Apr-11	18-Apr-12	4,000	$ 2,138	40,000	$ 21,380
As at March 31, 2011			$ 45,000	$ 24,053	$ 6,150,000	$ 3,287,175

Annual expenditure commitment for SPL 1283/1296 and SPL 1465 are Fijian $ 700,000 and Fijian $600,000 respectively.

Results of Operations – Nine months ended March 31, 2011, compared with year ended June 30, 2010.

During the nine months ended March 31, 2011, the Company reported a net loss of $1,215,852 ($0.05 per share) compared to a net loss of $377,672 ($0.02 per share) for the year ended June 30, 2010.

The significant items for the nine month period ended March 31, 2011, compared to the year ended June 30, 2010, were:

a. Professional fees of $77,726 (2010: $61,106) relate to the preparation of the Company's November 26, 2010 information circular including audit and legal fees.

b. Consulting fees $190,877 (2010: $21,877) relate to fees of $92,500 in payment of a director's salary and $80,000 paid to the same director for a bonus on the completion of the RTO. Other incidental consulting fees were incurred for information technology, legal and other purposes.

c. Salaries and benefits of $71,018 (2009: $56,885) due to the hiring of a new CFO, Vice President Exploration and Controller. After the Corporate Service Agreement was signed with Cabrera Capital

Corp. (see transaction with related parties below) in January 2011 all salaries and benefits are included in management fees.

d. Travel of $112,504 (2010: $26,885) incurred in conjunction with various investor relations activities, the financing and the reverse take-over transaction.

Off-balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Transactions with Related Parties

On January 1, 2011, the Company signed a 5 year Management and Corporate Services Agreement (CSA) with Cabrera Capital Corp.(Cabrera), a company having a number of directors and or 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. In January 2011 prior to completion of the transaction, X-Tal incurred costs of $ 78,071 and rent of $16,314 pursuant to the CSA. After completion of the transaction, the Company incurred costs of $182,262 and paid rent in the amount of $29,131 to Cabrera. To December 31, 2010, AME incurred costs amounting to $118,650 (2010 - $74,306) for the same services provided by Cabrera. 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 period.

Included with amounts due to related parties are advances due to companies under common control of $360,905 (June 30, 2010 – $268,289). These amounts are non-interest bearing, unsecured and are repayable on demand.

Pursuant to the definitive merger agreement, a director was to be paid a $80,000 bonus on completion of the RTO. The bonus was paid in full during the period. The bonus was recorded as consulting costs. Included in accounts payable and accrued liabilities are amounts due to a director of the Company of $19,220 (June 30, 2010 – $20,248). These amounts are non-interest bearing, are payable on demand and are settled on a current basis in the normal accounting cycle. During the nine months ended March 31, 2011, consulting fees of $107,500 were paid to a director of the Company. Of this amount $24,375 was capitalized to mineral properties and deferred exploration costs.

Subsequent to period end, a director and officer was paid a $62,500 bonus. Also subsequent to year end a second bonus of $62,500 was paid to an officer of the Company. The bonuses were paid for services relating to the April, 2011 financing.

The transactions with related parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the parties.

Risks and Uncertainties

Country Risk

The Company's financial position and its future development projects may be affected by political or economic instability. These risks may include exposure to fluctuations in currency exchange rates and high rates of inflation.

Operations of future exploration properties may be affected by varying degrees by such factors as government regulations with respect to price controls, income taxes, expropriation of property, environment legislation, land use, water use and land claims. The effect of these factors will depend on the location of the mineral properties and cannot be accurately predicted.

Critical Accounting Policies and Estimates

Changes in Accounting Policies

On May 1, 2008, the Company adopted EIC-172, "Income Statement Presentation of a Tax Loss Carry Forward". On September 1, 2008, the Company adopted three new presentation and disclosure standards that were issued by the CICA, Handbook Section 1535, "Capital Disclosures", Handbook Section 3862, "Financial Instruments – Disclosures", Handbook Section 3863, "Financial Instruments – Presentation" and Handbook Section 1400, "General Standards of financial statements". On January 1, 2009, the Company adopted EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". On March 27, 2009, the Company adopted EIC-174, "Mining Exploration Costs".

Income Statement Presentation of a Tax Loss Carry Forward

Effective May 1, 2008, the Company adopted EIC-172, "Income Statement Presentation of a Tax Loss Carryforward Recognized Following an Unrealized Gain in Other Comprehensive Income". This abstract provides guidance on whether the tax benefit from the recognition of previously unrecognized tax loss carryforwards consequent to the recording of unrealized gains in other comprehensive income, such as unrealized gains on available-for-sale financial assets, should be recognized in net income or in other comprehensive income. The abstract should be applied retrospectively, with restatement of prior periods from January 1, 2007, the date of adoption of CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". The adoption of this standard had no impact on the financial statements.

Capital disclosures and financial instruments

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate (i) an entity's objectives, policies and processes for managing capital;

(ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has provided the required disclosures in the notes to the financial statements.

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation", revising and enhancing its disclosure requirements. Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has provided the required disclosures in the notes to the financial statements.

Goodwill and Intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for the Company on September 1, 2009, this section provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The Company reviewed this standard and determined it had no impact on the current or prior year financial statements.

General Standards of Financial Statements

Section 1400 requires management to make an assessment of the Company's ability to continue as a going concern, and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future which is at least, but not limited to, twelve months from the balance sheet date. The disclosure required by CICA 1400 is included in Note 1 to the financial statements.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

EIC 173 clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company has evaluated the impact of EIC-173 on adoption and determined that no adjustments were required.

Mining Exploration Costs

EIC-174 clarified that an entity that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. As the Company had not incurred any mining exploration costs prior to March 27, 2009, adoption of this requirement did not change the Company's financial position in prior periods.

Business Combinations

In December 2008, the CICA issued Section 1582, "Business Combinations", which will replace Section 1581, "Business Combinations". This section establishes revised standards for the accounting for a business combination which are aligned with International Financial Reporting Standards ("IFRS") on business combinations. Section 1582 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements". This section, together with Section 1602, replaces the former Section 1600, "Consolidated Financial Statements", and establishes standards for the preparation of consolidated financial statements. The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582, "Business Combinations", and Section 1602, "Non-controlling Interests".

In January 2009, the CICA issued Section 1602, "Non-controlling Interests". This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions on International Financial Reporting Standards IAS 27, "Consolidated and Separate Financial Statements". This Section applies to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582, "Business Combinations" and Section 1601, "Consolidated Financial Statements".

The Company has not yet determined the impact of adopting these standards on the Company's consolidated financial statements.

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP.

Consequently, IFRS will be applicable for interim and annual financial statements relating to the fiscal periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts we report for the year ended June 30, 2011. The Company's IFRS implementation plan addresses project management, accounting policy changes, reporting and disclosure changes, training, communication and business impacts. The following progress has been made in these areas:

Project Management

The Company has developed a timeline for key project milestones and deliverables. A detailed project plan with assigned responsibility is being followed to ensure IFRS readiness for fiscal 2012.

Accounting Policy Changes

The Company is completing its research and documentation of expected differences between its current accounting policies that are in accordance with Canadian GAAP and those to be adopted under IFRS. The Company has begun developing its future accounting policies that will be required under current IFRS standards. The areas with the most potential for future impact on the Company's financial statements are expected to be the recognition, measurement and disclosure of future exploration costs; consolidated financial statements; impairment of long-lived assets; and stock-based compensation.

Changes to IFRS are continually underway and these changes may impact the Company. The Company will assess any change as part of its continuous IFRS implementation plan.

Reporting and Disclosure Changes

The Company is considering the financial statement presentation and disclosure options available to it upon initial changeover to IFRS and is developing ongoing reporting mechanisms to capture future IFRS disclosure information. At the date of transition to IFRS, the Company has the option to adopt certain exemptions from the full retrospective application, presentation and disclosure requirements of certain IFRS.

Training and Communication

The Company's plans are to ensure that its key stakeholders are informed about the anticipated effects of the IFRS transition. IFRS training for relevant finance staff is ongoing, while targeted programs for operational staff are to be developed and deployed.

Business Impact

The Company is considering what effects the IFRS transition will have on its business policies and activities. The following key areas are likely to be affected:

- Internal controls over financial reporting;
- Dual reporting obligation for the year 2011 when statements are required under both Canadian GAAP and IFRS; and
- Budgeting and forecasting for the IFRS transition year of 2011.

The above reflects expectations based on information available at the time of reporting. Changes in circumstances may cause the Company to revise its IFRS project plans and policy choices before the changeover date.

Use of Estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of the Company's ongoing evaluation of these estimates forms the basis of making judgements about the carrying values of assets and liabilities and that reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions.

Management Reporting

The Company's Board of Directors has approved the information contained in the audited financial statements and this MD&A. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate which complies with the current requirements of Canadian securities legislation.

Disclosure Controls and Procedures ("DC&P") and Internal Controls Over Financial Reporting ("ICFR")

The Company is a venture issuer and, as such, is not required to certify the design and evaluation of the issuer's DC&P and ICFR. While the Company has not completed such an evaluation, management has contracted an independent expert to review its DC&P and ICFR. Management expects this review to be completed during the Q3. The inherent limitations on the ability of the Chief Executive Officer and the Chief Financial Officer to design and implement, on a cost effective basis, DC&P and ICFR for the Company may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filing and other reports provided under securities legislation.

Certain matters regarding the Company's DC&P and ICFR and the limitations for a company of this size are discussed below

DC&P

Our DC&P are the internal systems, controls and procedures we have established to provide reasonable assurance that material information used internally and disclosed externally is reliable and timely. However, a control system, no matter how well conceived or operated, can provide only reasonable and not absolute assurance that the objectives of the control system are met.

The principal forms of information and means of disclosure in the Company, which are governed by its DC&P, continuous disclosure obligations under securities regulations, periodic news releases, the Company's website, and its investor relations materials and presentations. These materials are prepared by management. All materials disclosed are reviewed and approved by a Director. This review and approval process is documented in written or electronic form.

ICFR

Overview

The Company's ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable Canadian GAAP. ICFR should include those policies and procedures that establish the following:

- Maintenance of records in reasonable detail, that accurately and fairly reflect the transactions and dispositions of the Company's assets;
- Reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable Canadian GAAP;
- Receipts and expenditures are only being made in accordance with authorizations of management and the Board of Director;
- Reasonable assurance regarding prevention or timely detection of unauthorized collection, use or disposition of the Company's assets that could have a material effect on the financial statements.

Discussion of Deficiencies and Compensating Factors

The Company is characterized, among other matters, by the Company's small size and number of employees. This is a common situation for companies at this stage of development as a business. The Company finds itself further characterized by a number of factors recognized in accounting literature as typical for many small businesses, which provide inherent limitations to the design of ICFR in such companies. These include:

- Limited staff and segregation of duties;
- Limited use of formal operating, accounting and authorization policies and procedures;
- A concentration of decision-making power and the potential for management override;
- Limitations on board and audit committee oversight.

In general terms, we have attempted to mitigate the risks posed to ICFR by these factors by employing or recognizing the following:

- Employment of experienced financial professionals with extensive accounting and financial reporting expertise;
- Imposition of supervision and review of accounting transactions to an extent considered reasonable within the limitations of staff size;
- Extensive and detailed analytical review of financial statement items, before statements are published, by both supervisory and executive financial personnel;
- Recognition that the same concentration of decision-making power and the associated potential for management override also arise from an intimate day-to-day knowledge of the Company's financial and other transactions and an intimate understanding of predicted financial accounting outcomes;
- Use of third party professional accounting expertise to assist with certain complex accounting standards;
- Notification to the Company's external auditors of the ICFR environment in which we operate to provide them with the opportunity to have the appropriate audit procedures.

The specific deficiencies in ICFR identified are:

Limited Segregation of Duties

Management recognizes that previously a weakness existed in the design of ICFR caused by inadequate segregation of duties between the authorization, recording, review and reconciliation of (a) purchase expenditures and (b) of adjusting journal entries to the general ledger. This weakness has the potential to result in material misstatements in the Company's financial statements, and should also be considered a weakness in its DC&P.

- To help reduce the risks inherent in this weakness, the company has hired a new Chief Financial Officer and Controller who are both Chartered Accountant's. Subsequent to period end a new intermediate accountant who is a Certified General Accountant was hired to perform day-to-day accounting functions. The Company's transactions and journal entries are entered by the accounting staff with detailed review and approval required by either the CFO, Chief Operating Officer or other authorized senior management with oversight from the directors of the company. The Company has also engaged an independent expert in the assessment, testing and implementation of Internal Controls over Financial Reporting to ensure the requirements of National Instrument 52-109 have been complied with. The Company anticipates receiving a report from the independent expert during the fourth quarter of fiscal 2011.

Limited Use of Formal Operating, Accounting and Authorization Policies and Procedures

Management recognizes that previously weakness existed in the design of ICFR caused by the absence of comprehensive written accounting policies and procedures. This weakness has the potential to result in material misstatements in the Company's financial statements, and should be considered a weakness in its DC&P.

- To help reduce the risks inherent in this weakness, the Company's CFO and Controller conduct extensive analytical review of financial statement items. An integral part of the procedure is the detailed review and approval by the Audit Committee. Management is currently formalizing

- accounting policies and procedures. The Company also engaged an independent expert in the assessment, testing and implementation of Internal Controls over Financial Reporting to ensure the requirements of National Instrument 52-109 have been complied with.

Limitations on Board and Audit Committee Oversight

Management previously recognized a weakness in the design of ICFR caused by the absence of a written Code of Conduct. A draft Code of Conduct has been produced and has been circulated for comment to the Board of Directors and senior management for comment. As disclosed above the Company has engaged an independent expert in the assessment, testing and implementation of Internal Controls over Financial Reporting to ensure the requirements of National Instrument 52-109 have been complied with.

The Company has an Audit Committee Charter in place and a Whistler Blower policy.

The Company are in the process of drafting and adopting a Charter for Corporate Governance and Nominating Committee of the Board of Directors.

Relationship to DC&P

Under the above Section "DC&P," management acknowledges its responsibility to establish internal systems, controls and procedures sufficient to provide reasonable assurance that material information used internally and disclosed externally is reliable and timely. This information includes financial disclosure documents, which are themselves subject to ICFR. Certain deficiencies in ICFR suggest a probability of being deficiencies in DC&P and where applicable, this has been noted above in "Specific Deficiencies Identified."

Additional Information and Continuous Disclosure

Additional information on the Company is available through regular filings of press releases and financial statements on SEDAR at www.sedar.com.