LionOre Mining International Limited C

ANNUAL REPORT 2004

LIONORE
LionOre Mining International Limited

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Notice of Meeting

The Annual General Meeting of the Shareholders of LionOre Mining International Ltd will be held on May 13, 2005 at 11:00am, in Salon I, Second Floor, 20 Toronto Street, Toronto, Ontario, Canada.

CORPORATE DIRECTORY

Directors and Officers:

Donald C. Bailey	Chairman of the Board
Gilbert E. Playford [1,2]	Vice Chairman
Colin H. Steyn	President, Chief Executive Officer and Director
Ted Mayers	Chief Financial Officer, Corporate Secretary and Director
Oyvind Hushovd [2,3]	Director
Joshua Pitt [3]	Director
Louis-M. Riopel [1]	Director
Alan G. Thompson [1,2,3]	Director
Mark J. Ashley	Managing Director, Australian Operations
Marie Inkster	Vice President, Controller

[1] Audit Committee member
[2] Compensation Committee member
[3] Nominating Committee member

Auditors:

Deloitte & Touche LLP

Transfer Agents:

CIBC Mellon Trust Company
320 Bay Street, Toronto, Ontario, Canada M5H 4A6
Telephone: 1 416 643 5500 or 1 800 387 0825

Capita Registrars
The Registry
34 Beckenham Road, Beckenham
Kent, BR3 4TU, United Kingdom
Telephone: 44 870 162 3100

Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth, Western Australia 6000, Australia
Telephone: 61 8 9323 2000

Stock Symbol:

LIM (Toronto Stock Exchange)
Cusip: 535 913 107
LOR (London Stock Exchange)
LIM (Australian Stock Exchange)
LIONORE (Botswana Stock Exchange)

Mineral Resource/Reserve Statements:

All estimates of Mineral Reserves and Resources contained or referred to in this report have been calculated in accordance with the Australian JORC Code, and would not differ materially if calculated in accordance with the CIM Standards adopted by the Canadian Securities Administrators under National Instrument 43-101. There is no guarantee that those parts of the Mineral Resources contained within this report that are categorized as Mineral Resources will ultimately convert to Mineral Reserves.

LionOre Offices:

LionOre Mining International Ltd
20 Toronto Street, 12th Floor, Toronto, Ontario, Canada M5C 2B8
Telephone: 1 416 777 1985 Facsimile: 1 416 777 1320
E-mail: info@lionore.com Website:www.lionore.com

LionOre UK Limited
81A Walton Street, south Kensington
London, SW3 2HP, United Kingdom
Telephone: 44 20 7590 8888 Facsimile: 44 20 7590 8899
E-mail: info@lionore.uk.com

LionOre Australia Pty Ltd
Level 2, 10 Ord Street, West Perth
Western Australia 6005, Australia
Telephone: 61 8 9481 5656 Facsimile: 61 8 9481 5823
E-mail: admin@lionore.com.au

Tati Nickel Mining Company (Pty) Ltd
PO Box 1272, Francistown, Botswana
Telephone: 267 2410 701 Facsimile: 267 2416 215
E-mail: tatinickel@tatinickel.co.bw

Western Minerals Technology Pty Ltd
Unit 1, 45 Edwards Street, Osborne Park
Western Australia 6017, Australia
Telephone: 61 8 9444 2611 Facsimile: 61 8 9444 2715
E-mail: info@wmt.com.au Website: www.wmt.com.au

Throughout the text of this report:

Currency

- Except where otherwise stated, all $ amounts are US dollars.

Company references

- LionOre or the Company means LionOre Mining International Ltd. and, if the context requires, means a wholly-owned subsidiary of LionOre Mining International Ltd.
- Tati Nickel means Tati Nickel Mining Company (Pty) Limited, an 85% owned subsidiary of LionOre.
- LionOre Australia means LionOre Australia Pty Ltd, a wholly owned subsidiary of LionOre.
- LionOre Nickel means LionOre Australia (Nickel) Ltd, a wholly owned subsidiary of LionOre Australia.
- MPI means MPI Mines Ltd, a wholly owned subsidiary of LionOre Australia.
- MPI Nickel means MPI Nickel Pty Ltd, an 80% owned subsidiary of MPI.
- WMT means Western Minerals Technology Pty Ltd, an 80% owned subsidiary of LionOre Australia.
- LionOre Wildara means LionOre Australia (Wildara) NL, a wholly owned subsidiary of LionOre Australia.
- Dalrymple means Dalrymple Resources NL, a wholly owned subsidiary of LionOre Australia.
- OMG means OMG Kokkola Chemicals Holdings BV, a subsidiary of the US based OM Group.

HIGHLIGHTS

Financial/Corporate:

- Attributable production of 17,435 tonnes of payable nickel and 156,916 ounces of gold.
- Operating earnings of $126.5 million achieved for 2004 (2003: $100.4 million), generating an after-tax profit of $78.2 million (2003: $57.4 million).
- Total cash and cash equivalents, including restricted cash, increased to $262.5 million (2003: $45.2 million) with an increase in long-term debt to $163.3 million (2003: $77.0 million).
- Takeover of ASX listed MPI Mines Ltd successfully achieved in December 2004.
- $144 million raised by issue of convertible notes in Quarter 3, 2004.
- Market capitalization in excess of $1 billion at year end.

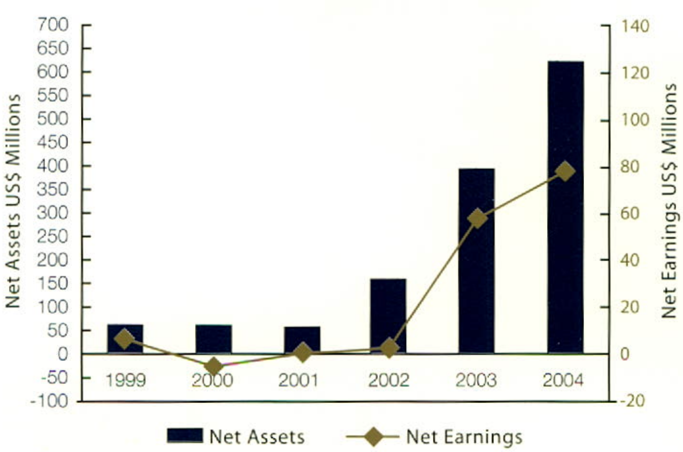
Botswana:

- Attributable production of 9,729 tonnes of payable nickel at a cash cost of $2.60 per pound of nickel produced.
- Activox® Hydrometallurgical Demonstration Plant modules reassembled at Tati Nickel in Botswana and successfully commissioned in September 2004.
- Received the "Red Ribbon Award" from the Botswana Coalition on AIDS, recognizing Tati's HIV/AIDS intervention strategy and business best case practice for 2004.

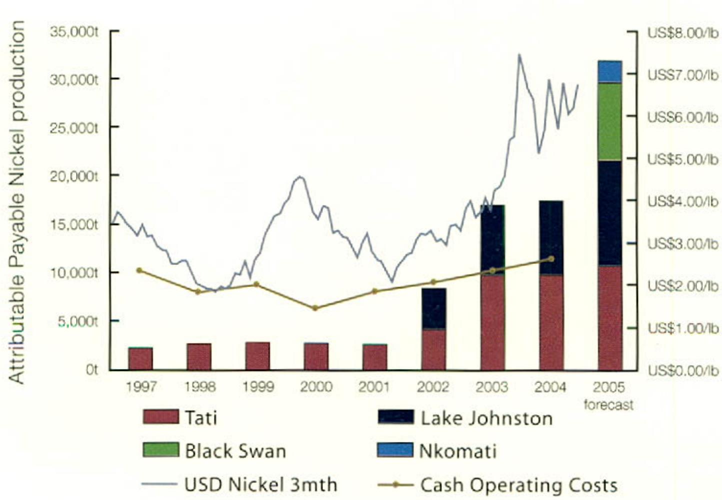
Australia:

- Emily Ann nickel mine produced 7,706 tonnes of payable nickel at a cash cost of $2.58/lb.
- Thunderbox gold mine achieved production of 156,916 ounces at a cash cost of $265/oz.
- Development of Maggie Hays nickel sulfide project continued with initial mining of ore in Quarter 3, 2004.
- Upgrade of Lake Johnston Operations to 500,000 tonnes per annum of ore processing capacity completed in December 2004.
- The LionOre group was recognized for the quality of engineering in the Hydrometallurgical Demonstration Plant receiving the 'overall winner of 2004' Engineering Excellence Award in Western Australia.
- Acquisition of Bulong Nickel Processing Plant (renamed Avalon), an important step in advancing LionOre's Activox® strategy in Australia.

Asset/Earnings Growth



Nickel Production (Attributable)



HIGHLIGHTS

Nickel Resources

NICKEL RESOURCE SUMMARY - 100% basis

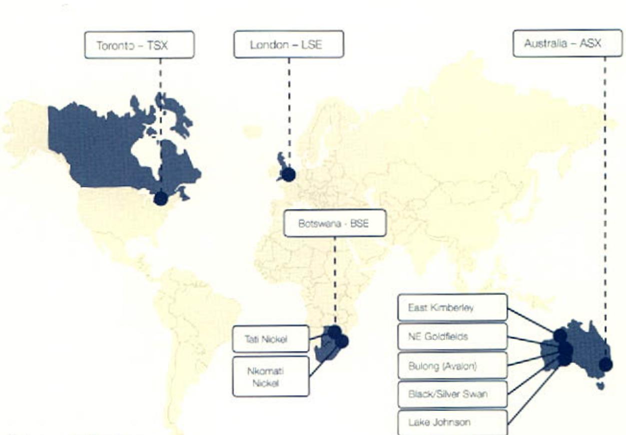
		Measured			Indicated			Total			Inferred	
	Equity	Tonnes (000's)	Ni grade	Metal (t)	Tonnes (000's)	Ni grade	Metal (t)	Tonnes (000's)	Ni grade	Metal (t)	Tonnes (000's)	Ni grade
Phoenix (pg 13)	85%	–	–	–	52,100	0.49%	256,400	52,100	0.49%	256,400	7,900	0.58%
Emily Ann (pg 20)	100%	605	4.03%	24,382	114	3.17%	3,613	719	3.89%	27,995	382	4.11%
Maggie Hays (pg 22)	100%	–	–	–	10,646	1.48%	158,000	10,646	1.48%	158,000	1,020	1.23%
Waterloo (pg 30)	100%	–	–	–	299	3.47%	10,366	299	3.47%	10,366	354	2.20%
Black Swan (pg 34)	80%	562	1.75%	9,817	7,550	0.90%	68,298	8,112	0.96%	78,114	649	2.56%
Honeymoon Well (pg 39)	80%	–	–	–	131,500	0.80%	1,000,000	131,500	0.80%	1,000,000	3,700	0.80%
Jericho (pg 39)	40%	–	–	–	–	–	–	–	–	–	34,500	0.60%
Nkomati (pg 42)	50%	–	–	–	139,000	0.49%	680,000	139,000	0.49%	680,000	–	–
TOTAL (100% basis)	**–**	**1167**	**2.93%**	**34,199**	**341,209**	**0.64%**	**2,176,677**	**342,376**	**0.65%**	**2,210,875**	**48,505**	**0.69%**
TOTAL Attributable	–	1,055	3.06%	32,235	236,084	0.67%	1,584,557	237,139	0.68%	1,616,792	25,750	0.76%

LIONORE AT A GLANCE

LionOre At A Glance:

LionOre is one of the western world's top ten nickel producers, listed on the Toronto, Australian, London and Botswana stock exchanges. The Company's nickel operations span Australia, Botswana and south Africa. LionOre's nickel production is supported by significant by-products credits in the form of copper, cobalt, platinum group metals and gold. In 2004, the Company produced 17,435 tonnes of payable nickel and has indicated and measured nickel resources of 1.6 million tonnes of nickel attributable to LionOre. LionOre also has gold operations in Australia, which produced 156,916 ounces of gold in 2004.

Our Operations:



Our Vision:

To deliver superior returns to shareholders through a focussed nickel production growth profile at competitive costs of production.

Our Objective:

To produce in excess of 50,000 tonnes of nickel per annum by the end of 2007.

Our Strategy:

Is based on four complimentary growth platforms which strategically positions LionOre to offer superior growth in nickel production.

- Organic: Expand production at current operations through a combination of brownfields exploration and development.
- Exploration: Identify and develop exploration projects with the potential to become low cost operations in the future.
- Hydrometallurgy: Leverage off the success of the commercialization of LionOre's proprietary Activox® process for recovering nickel from sulfides.
- Corporate Activity: Pursue strategic opportunities to acquire value-add nickel deposits, either through acquisition or joint venture.

Our Values:

Our employees are our most important asset. LionOre is committed to providing a safe and healthy working environment to enable each individual to perform effectively and maximize their potential.

We respect **the communities** in which we operate and recognise that forging strong and long term relationships are essential to the viability of LionOre.

We are strongly committed to minimizing the impact of our operations on **the environment**. World class environmental standards are fully integrated in all aspects of our operations.

We aim to deliver **shareholder** value through strong financial discipline, consistent returns and superior growth.

Our management team is highly experienced with proven capabilities in exploration, mining, operational management and mining finance. Our management structure is sufficiently flexible to facilitate cross-fertilization across different geographical regions and disciplines, and enable us to assemble the appropriate team for any given project or initiative.

Three-Year Strategic Targets:

Botswana

- Increase production at Tati Nickel to up to 19,000 tonnes of nickel metal per annum, through either conventional growth and smelting or using the Activox® process.

Australia

- Substantially complete a feasibility study on the Honeymoon Well deposit during 2005 with a view to producing 35,000-40,000 tonnes of nickel metal per annum by the end of 2008.
- Complete a feasibility study during 2005 in respect of converting Bulong into a nickel sulfide hydrometallulrgical facility (Avalon), targeting a production rate of between 20,000 to 40,000 tonnes of nickel metal per annum utilizing the Activox® process.
- Complete a feasibility study during 2005 in respect of the Maggie Hays disseminated sulfide deposit main zone targeting a production rate of 1 million tonnes per annum.
- Expand the Lake Johnston Operations processing plant to at least 1 million tonnes per annum during 2006 to accommodate new LionOre production resulting from Maggie Hays or regional exploration success, and to accommodate ore from third party nickel operations in the region.
- Complete a feasibility study in respect of expanding the Black Swan processing facility to between 1 and 2 million tonnes per annum to accommodate an optimized mining rate at the Black Swan open-pit.
- Initiate development of an exploration decline at the Waterloo/Amorac nickel sulfide deposit to produce economic nickel and to explore at depth.

South Africa

- Complete a feasibility study during 2005 in respect of the Nkomati disseminated nickel sulfide deposit with a view to utilizing the Activox® technology producing approximately 17,000 tonnes of nickel metal per annum.

PRESIDENT'S LETTER

LionOre Mining International Limited

20 Toronto Street, 12th Floor,
Toronto, Ontario,
Canada M5C 2B8

Telephone: 1 416 777 1985
Facsimile: 1 416 777 1320
E-mail: info@lionore.com

Website:www.lionore.com
TSX/ASX Symbol: LIM
LSE Symbol: LOR

Dear Shareholder

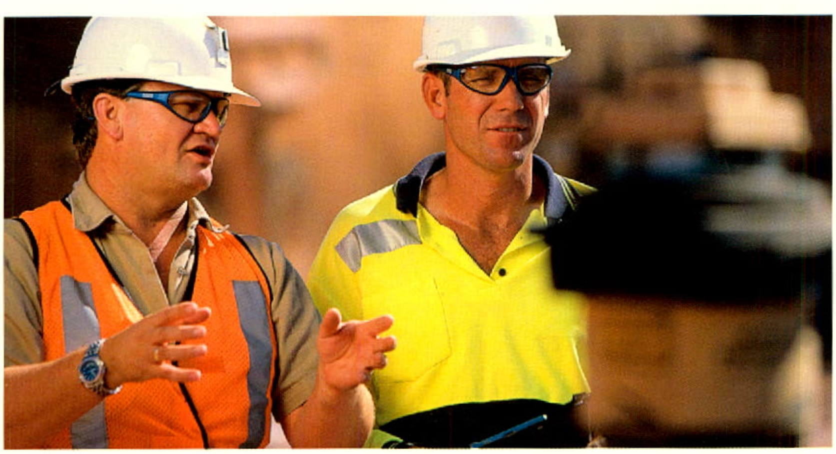
The 2004 year marks a defining milestone in LionOre's history as the Company transforms into a significant global nickel player with over 30,000 tonnes of attributable nickel production forecast for 2005 and strong prospects for long term production growth, cementing our position as one of the western world's top ten nickel producers.

Three years ago, we outlined a four pronged growth strategy; mining, exploration, corporate activity and hydrometallurgy, to target 30,000 tonnes of nickel production, which we have achieved ahead of schedule. We have delivered consistently on each element of this strategy and are now targeting 50,000 tonnes of attributable nickel production by the end of 2007.

Pivotal to our future growth potential was the acquisition of MPI Mines Ltd in December 2004 and the recent 50% joint venture at the Nkomati Nickel Mine in south Africa. The Honeymoon Well deposit in Western Australia (80% owned by MPI Mines Ltd) is one of the world's largest undeveloped nickel sulfide deposits, with an Indicated Mineral Resource of 131.5 million tonnes at 0.8% nickel for approximately 1 million tonnes of contained nickel. The Nkomati lower grade disseminated deposit has a total Indicated Mineral Resource of 139 million tonnes at a grade of 0.49% nickel for approximately 680,000 tonnes of contained nickel, 50% of which is attributable LionOre. These two transactions provide an immediate 60% accretive increase in short term nickel production and secures the Company's long term prospects, with a substantial 200% increase in nickel resource from 550,000 to 1.6 million tonnes of contained nickel attributable to LionOre.

Key to supporting the production growth profile is the successful commercialization our proprietary hydrometallurgy processing technology, Activox®. The 2004 year saw the successful commissioning of an Activox® Hydrometallurgical Demonstration Plant at the Phoenix Nickel Mine. This facility performed above management's expectations achieving nickel and copper extractions above target, and more importantly high quality cathodes, with grades above 99.9% and 99.99% for nickel and copper respectively. The plant will be fully operational during 2005, focusing on stable continuous operations, further enhancement of the metallurgical performance, testing materials of construction and the ongoing training of personnel. We will be seeking to further progress the full commercialization of Activox® in the near term with the view to a decision on construction of a Activox® plant at one of our mining locations, including the significant Avalon facilities in Western Australia, acquired during the year.

Reviewing our operational and financial performance, I am pleased to report consolidated attributable nickel production of 17,435 tonnes at an average cash cost of $2.59/lb. Strong net earnings of $78.2 million (equal to 40 cents per share, an increase of 18% from 2003) on net mineral sales revenues of $338.2 million. Cash flows from mining operations more than doubled to $162 million.



Randell Ford and Chris Pyke at Black Swan

Exploration is the final cornerstone of our growth strategy and key to underpinning the organic growth from our current mining operations. Work is continuing in respect of the Waterloo nickel deposit in Western Australia, with a decision expected in early 2005 on developing an exploration decline that will also yield profitable production tonnage. We have signed an exploration agreement to explore a highly prospective ground along strike from LionOre's recently acquired interest in the Black Swan nickel operations, which has not been effectively explored for nickel due to its long term ownership by gold companies. In Botswana, Tati Nickel continues its brown-fields drilling programme, designed to further delineate the resource and exploration will resume at the Selkirk underground mine with a view to securing additional nickel units from this resource.

The nickel price remained very strong during 2004 and is expected to continue into 2005, on the back of strong demand for stainless steel, particularly in China. I believe the near term outlook for nickel on the supply side will continue to remain critical and, as such, LionOre will seek to aggressively deliver production into this potential supply deficit.

In conclusion, 2004 has successfully established the foundation to propel LionOre further up the ranks of global nickel producers, with a target nickel production of around 80,000 tonnes by 2008 and beyond. I would like to convey my personal thanks to the employees of LionOre for their hard work and enthusiasm in implementing the Company's objectives. With our strong and highly experienced management team, an excellent portfolio of assets with a diversified geographic profile and longevity of growth, I believe we will continue to deliver shareholder value through superior growth and strong financial discipline.

Colin Steyn
President and Chief Executive Officer

Rudy Frischmuth at Black Swan

PROFILE OF DIRECTORS

Donald C. Bailey – Chairman

Mr Bailey was appointed Vice Chairman of the Company in November 1999 and Chairman in May 2001 with responsibility for business development, having served as President and Chief Executive Officer from June 1998 until November 1999. He has been Chief Executive Officer of Management Mining Services International since 1993 and prior to that was Deputy Mining Director with RTZ plc responsible for operations in Europe, Africa and south America. Mr Bailey has been a Director of the Company since 1997.

Gilbert E. Playford – Non-Executive Vice Chairman

Prior to June 1998 Mr Playford was President and Chief Executive Officer of the Company. He held a number of executive positions with Union Carbide Corporation from 1972 until his resignation as Chief Financial Officer in February 1996. Mr Playford has been a Director of the Company since 1996 and holds an MBA from York University, Ontario.

Colin H. Steyn – President and Chief Executive Officer of the Company

Prior to joining LionOre, Mr Steyn was Executive Director in charge of metallurgical operations for Rio Tinto in Zimbabwe and a Director of Centrachrome, a metals marking organization. Mr Steyn was appointed a Director of the Company in 1998, and President and Chief Executive Officer in November 1999. He holds an MBA from Cranfield University, UK.

Ted Mayers – Chief Financial officer and Corporate Secretary of the Company

From 1994 until September 1996, Mr Mayers was Vice-President, Controller of Diversey Corporation. Prior to 1994, he was Vice President, Treasurer of Diversey Corporation. Mr Mayers has been a Director of the Company since 1997, is a qualified Chartered Accountant in Canada and holds an MBA from the University of Western Ontario.

Louis-M. Riopel

Mr Riopel was Senior Vice President of a La Société Général de Financement de Quebec prior to 1998 and is a Director of a number of public and private Canadian corporations. Mr Riopel has been a Director of the Company since 1996.

Alan G. Thompson

Mr Thompson is the former Chairman of the Company, past President and Chairman of the Investment Dealers Association of Canada and a former Chief Executive Officer of a major Canadian investment firm. He has served on the Board of Directors of a number of public companies and has been a Director of the Company since 1974.

Oyvind Hushovd

Mr Hushovd is an experienced mining executive, having spent 28 years with Falconbridge Limited, where held the office of President and Cnief Executive Officer from 1996 to 2002. Mr Hushovd is currently Chairman and Chief Executive officer of Gabriel Resources Ltd. He joined LionOre as a Director in early 2003.

Joshua Pitt

Mr Pitt is a geologist with substantial exploration experience who has, for more than 25 years, been a director of a number of exploration and mining companies in Australia. He also serves on the Boards of Hampton Hill Mining NL, Traka Resources Ltd and Red Metal Ltd. Mr Pitt was appointed to the Board in November 2003. He was previously a Director of Dalrymple Resources NL.

Avalon Plant

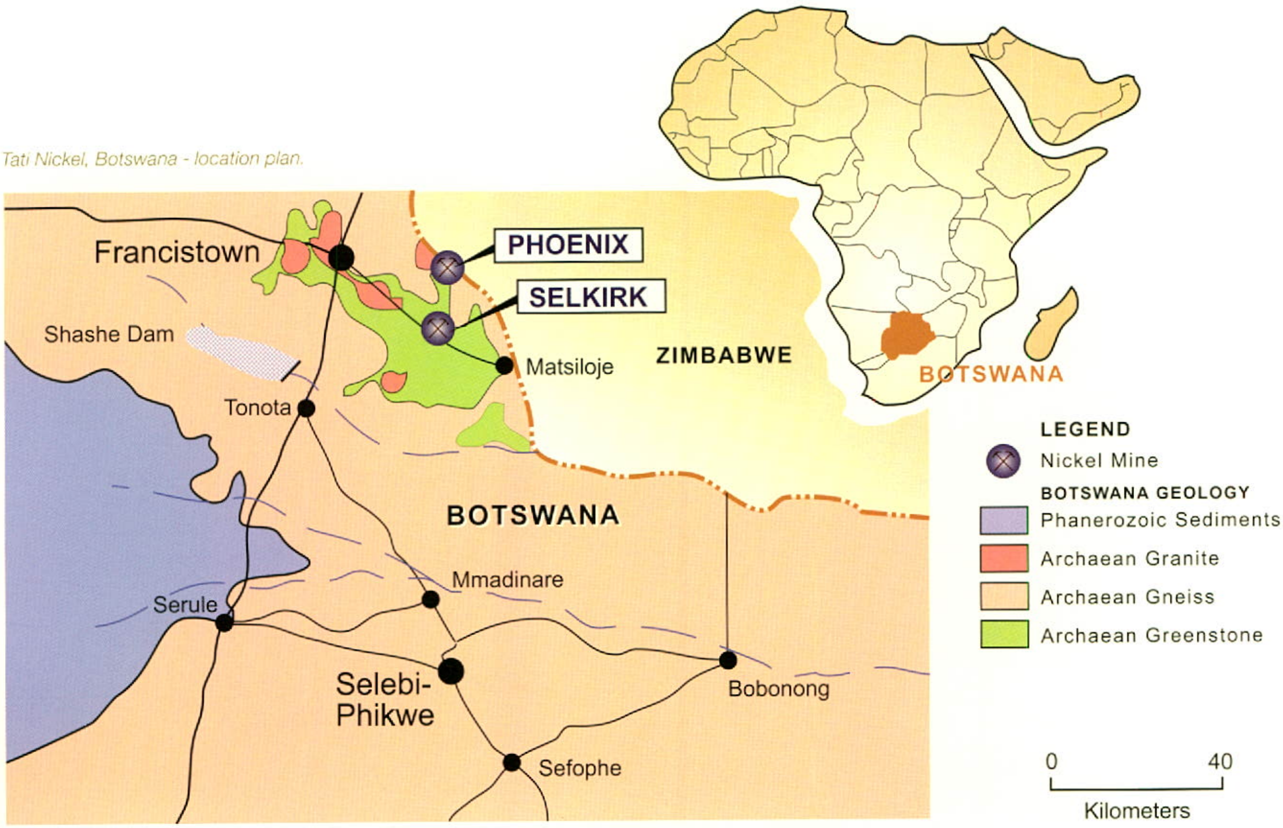
REVIEW OF OPERATIONS –

Tati Nickel, Botswana

REVIEW OF OPERATIONS - TATI NICKEL, BOTSWANA

Tati Nickel Mining Company (Pty) Limited - (LionOre 85%)

Tati Nickel, Botswana - location plan.



Overview

Tati Nickel (LionOre 85% and the Botswana Government 15%), owns the Phoenix nickel operation and also the Selkirk underground nickel mine which has been on care and maintenance since late 2002.

All nickel concentrate is sold to Centametall AG (Centametall) under a marketing agreement. Centametall has a custom smelting contract with BCL Limited (BCL), an integrated nickel and copper mining, concentrating and smelting operation located some 200 kilometers, by road, from Tati. Centametall also holds custom refining contracts with Rio Tinto's Zimbabwe Empress Nickel Refinery and Falconbridge in Norway to toll convert the BCL matte into refined nickel and copper. The high quality nickel and copper produced from the refiners is sold in the international markets by Centametall.

Mining Operations

During 2004 a total of 12.8 million tonnes was mined from the Phoenix open-pit. In 2004, payable nickel sold totalled 11,446 tonnes. Payable copper sold during 2004 totalled 8,566 tonnes (5.23% higher than 2003). At year-end, the length and width of the pit measured 910 meters and 710 meters respectively while the depth increased by 20 meters to 160 meters. At year-end, Tati Nickel's net cash reserves stood at $47.7 million.

The nickel metal production shortfall resulted from a number of mining fleet issues, which have been resolved, compounded by scheduling issues during the last quarter where as a result of a major rainfall event, 157 mm over a 36-hour period during early December, scheduled high-grade ore could not be mined. This had an adverse impact on the blend of ore delivered to the concentrator and contributed significantly to the shortfall in metal production in the last quarter.

Processing

Tati Nickel is projected to increase its ore treated to approximately 3.5 million tonnes in 2005. The grade of ore treated is expected to increase to around 0.60% from 0.53% in 2004, while the recovery rate is expected to be consistent with 2004 recoveries. Payable nickel production is expected to be in the range of 13,000 tonnes despite problems caused by excessive rainfall levels in early 2005.

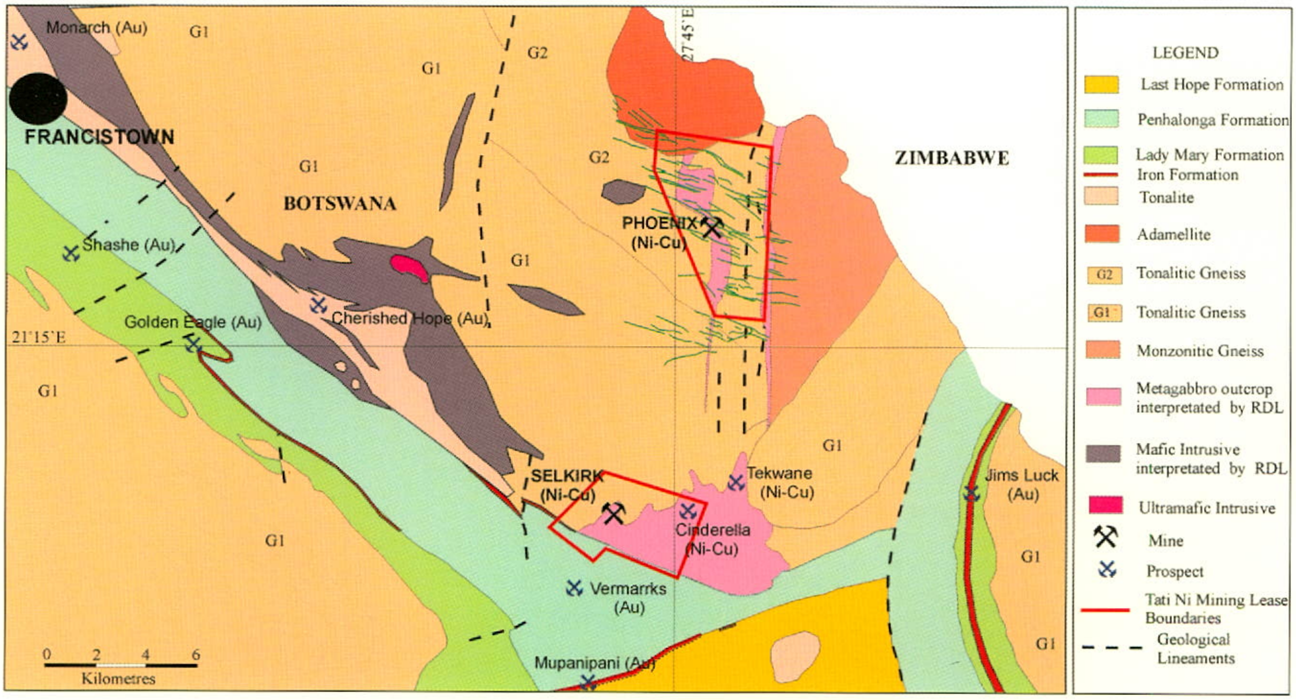
Geology

The Phoenix mineralization is a co-magmatic sulfide deposit hosted by a meta-gabbroic intrusion. Mineralization is comprised a series of stacked sub-parallel, sub-horizontal, discontinuous massive sulfide lenses, in association with meta-gabbro hosted disseminated sulfides. Mineralogically, the sulfide ore comprises on average 70% pyrrhotite, 20% pentlandite, and 10% chalcopyrite. The tenor of the massive sulfides can be as high as 8% nickel. The mineralization hosts significant Platinum Group Metals (PGM), particularly palladium.

Operating History

Since mining commenced at Phoenix in 1995, approximately 80,000 tonnes of nickel in concentrate has been produced. The Phoenix Expansion Project, involving the construction of a conventional nickel sulfide flotation concentrator, was completed in 2002 and increased the capacity of payable metal production from just over 6,000 to over 13,000 tonnes of nickel and from just over 2000 to around 9,000 tonnes of copper per annum.

Tati Regional Geology



Tati Nickel Production Stats	2004	2003	2002*	2001	2000
Ore treated (tonnes)	3,412,000	3,065,652	1,429,000	1,554,468	1,925,289
Grade (% Ni)	0.53	0.63	0.58	0.75	0.73
Plant recovery (%)	87%	85%	76%	74%	72%
Total payable nickel sold (tonnes)	11,446	11,509	7,503	6,305	6,483
Payable By Product					
Copper (tonnes)	8,566	8,141	4,550	2,157	2,354
Platinum (ounces)	6,701	5,396	2,793	1,170	1,401
Palladium (ounces)	39,018	33,039	18,383	11,400	10,839
Cobalt (tonnes)	86	71	36	26	38
Gold (ounces)	1,228	950	670	142	252
Silver (ounces)	10,192	6,549	5,129	-	1,356
Cash cost per pound of Ni produced	$ 2.60	$ 2.37	$2.35	$1.83	$1.44

*Concentrate production on site commenced mid 2002

Activox® Hydrometallurgical Demonstration Plant

During 2004, a fully integrated Activox® Hydrometallurgical Demonstration Plant was commissioned and successfully operated at Tati during a year. Further details provided on page 46.

Exploration

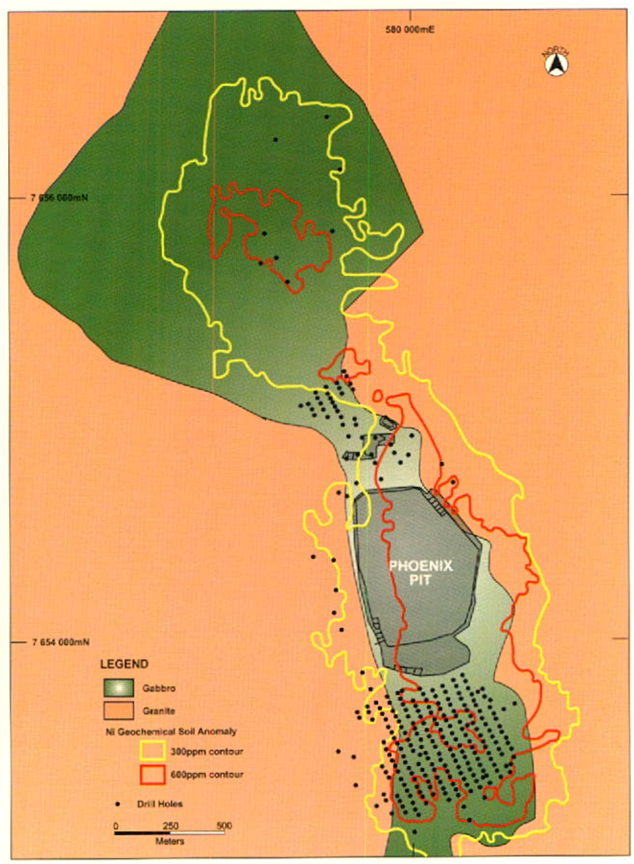
During 2004, a $3.5 million diamond drilling program focused on exploring for southern strike extensions of mineralization in the Phoenix pit. An additional $1 million deep diamond drilling program, designed to explore beneath the planned final Phoenix open-pit, commenced in October 2004.

Extensions of mineralization immediately south of the Phoenix open-pit, comprises disseminated sulfides similar to that which occurs within the open-pit but with reduced associated massive sulfide veining. Drilling less than 400 meters from the planned final pit limit, delineated increased concentrations of shallow sulfide mineralization comprising disseminated sulfides grading into thicker pods of basal semi-massive to massive sulfide. Immediately north of the Phoenix pit drilling delineated an irregular high-grade zone of NNW-SSE trending remobilised mineralization associated with late dolerite dykes Exploration beneath the Phoenix open-pit is being carried out on 100 meter spaced drill traverses to delineate the depth extent of the mineralization.

Photos: Activox® Hydrometallurgical Demonstration Plant at Tati, Botswana

The Selkirk Underground Nickel Mine

Since mining was completed in 2002 the Selkirk mine has remained on care and maintenance with no significant exploration work undertaken during 2004. The results of the 2003 scout drilling program indicated the presence of variable disseminated and massive sulfide mineralization in the Selkirk meta-gabbro highlighting ongoing potential for shallow disseminated mineralization less than 250 meters in depth below the surface. It is planned to resume exploration in the first quarter of 2005 following geological modelling and evaluation of the available drillhole and geophysical information to determine the appropriate exploration strategy and evaluate the broader potential.



Map showing the Phoenix anomaly, the pit and exploration drilling grids.

Mineral Resources/Reserves

The Mineral Resources presented below were estimated by MinRed, as at 31 December 2004. The recent exploration campaign has lead to an improved understanding of the nature of variations of the mineralization along its strike extent. As a result of the new drilling, it is the opinion of the Competent Person that, some panels on the edge of the deposit did not have sufficient confidence in their continuity to warrant classification as Indicated Mineral Resources and were as a consequence transferred to the Inferred Mineral Resource category. These panels were reclassified as Inferred due to lack of supporting information.

The 2004 Mineral Resource, which was estimated using DATAMINE block modeling techniques within probabilistic defined mineralized envelopes, in accordance with the south African SAMREC and Australian JORC Codes, is summarized in the following table:

2004 Mineral Resource (including Mineral Reserves), Phoenix (with depletion by production as at December 31, 2004)

	Total Indicated Mineral Resource					Inferred Mineral Resource		
		Grade		Contained Metal			Grade	
	Mt	Ni%	Cu%	Ni (t)	Cu (t)	Mt	Ni%	Cu%
Phoenix[1]	38.5	0.60	0.30	230,000	116.500	7.9	0.51	0.27
Phoenix Low-Grade[2]	13.6	0.19	0.25	26,400	34,200	1.1	0.19	0.22
Total 2004 Mineral Resource	**52.1**	**0.49**	**0.29**	**256,400**	**150,700**	**9.0**	**0.47**	**0.26**
Total 2003 Mineral Resource[3]	*54.0*	*0.58*	*0.35*	*314,000*	*190,300*	*0*	*0.00*	*0.00*

[1]The Phoenix Mineral Resource above is at a 0.25% Ni cut-off grade within defined mineralized domains.
[2]The Phoenix Low-Grade Mineral Resource above are resources between 0.15% to 0.25% Ni within defined mineralized domains within the planned life of mine open-pit.
[3]The 2003 Phoenix Mineral Resource above is at a 0.25% Ni cut-off grade within defined mineralized domains.
The contained Mineral Resource metal tonnes stated above are considered insitu. Neither mining dilution nor beneficiation recovery factors have been applied. The Indicated Mineral Resources are inclusive of those modified to produce the Mineral Reserves.

The 15.5 million tonnes negative variance between the 2004 and 2003 Indicated Mineral Resource represents a 4.4 million tonnes million tonnes net reduction of the total Mineral Resource, which has occurred as a result of drilling and reinterpretations during 2004. The remaining 11.1 million tonnes million tonnes variance is due to the reclassification of 7.9 million tonnes of Indicated Mineral Resource to an Inferred category and mining of 3.2 million tonnes at a grade of 0.58% nickel during 2004.

The Phoenix Mineral Resources which are considered to be available for optimization of the ultimate pit are reported at a nickel cut-off of 0.25%. A study is currently being undertaking to determine the viability of the low-grade production from the Phoenix open-pit. These additional low-grade mineral resources, reported between 0.15% to 0.25% nickel, are located within the current planned life of mine open-pit. Mining practices which adopt appropriate stockpile management strategies are being considered for the purpose of establishing low-grade stockpiles for future treatment upon completion of mining of the current Mineral Reserve. In addition, LionOre is assessing the viability of several low-grade reject stockpiles, produced via historical concentrating operations involving a dry magnetic concentrator (Phoenix) and hand-ore-sorting (Selkirk). The mine life would be increased if such historical low-grade stockpiles proved to be economic.

The latest PGM results are currently being compiled in order to undertake an evaluation of associated PGM resources in the Phoenix deposit. This work is scheduled to be undertaken by the middle of this year and could lead to a re-evaluation of the total remaining resource on a polymetallic basis.

The Mineral Reserve, which was estimated using DATAMINE and Whittle 4X software (based on relevant diluted mining nickel cut-off grades) in accordance with the south African SAMREC and Australian JORC Code, is summarized in the following table:

2004 Mineral Reserves, Phoenix (with depletion by production as at December 31, 2004)

	Total Probable Mineral Reserve				
		Grade		Contained Metal	
	Mt	Ni%	Cu%	Ni (t)	Cu (t)
Phoenix	27.4	0.60	0.32	164,300	87,600
Total 2003 Mineral Reserve	*37.6*	*0.55*	*0.34*	*206,564*	*127,683*

A nickel price of $3.50/lb, copper price of $0.80/lb and an exchange rate of $/Pula of 0.162 have been assumed in estimating the Mineral Reserve. The cut-off grade for the Mineral Reserve was 0.25% nickel.
The above Mineral Resources were estimated by and verified by Christina Dohm and Geoff Gushée (both full time employees of MinRED, Exploration Division, a division of the Anglo American Group). The Mineral Reserve was estimated by Pierre Fourie (a full-time employee of Lower Quartile Solutions) and verified by Thuso Dikgaka (a full-time employee of Tati Nickel). The Mineral Reserve is based on the March 2005 Whittle 4X optimization. Ms Dohm and Messrs Gushée, Fourie and Dikgaka have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2004 Edition of the JORC "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects). Ms Dohm and Messrs Gushée and Dikgaka consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

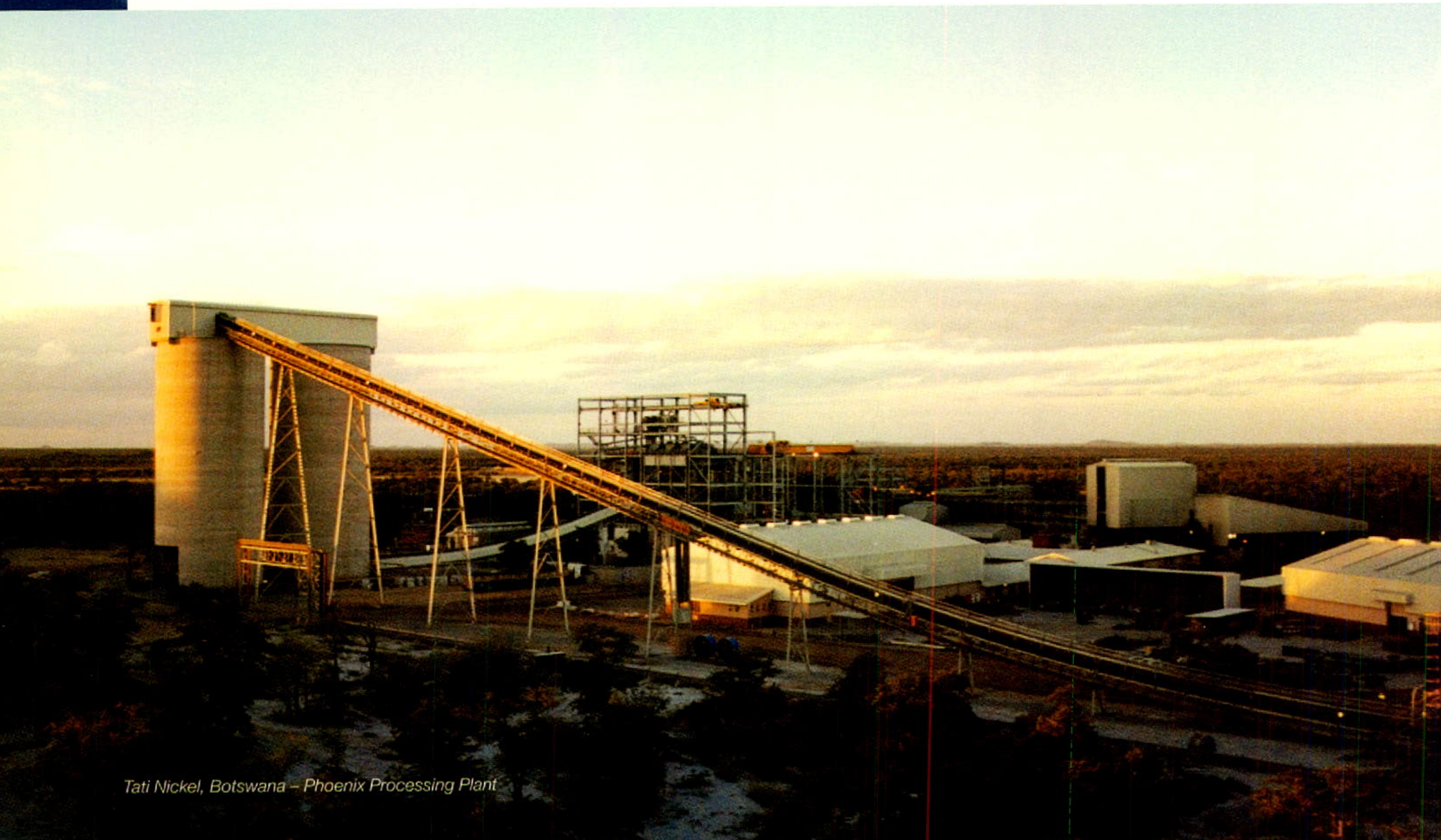
REVIEW OF OPERATIONS - TATI NICKEL, BOTSWANA

Mineral Resources/Reserves (continued)

A 10.2 million tonnes negative variance between the 2004 and 2003 Probable Mineral Reserve represents a 7.0 million tonnes net reduction of the total Mineral Reserve. A 3.4 million tonnes reduction has occurred as a result of an improved drill definition of the host rock contact with the surrounding unmineralized country rock and increased costs in US dollars due to devaluation of the Pula. The remaining 6.8 million tonnes variance is due to the reclassification of a portion of the Indicated Mineral Resource to Inferred and mining depletion of 3.2 million tonnes at a grade of 0.58% nickel during 2004. In addition to the Mineral Reserve there is 1.6 million tonnes of fully diluted Inferred Mineral Resources at 0.50% nickel within the designed life of mine open-pit.

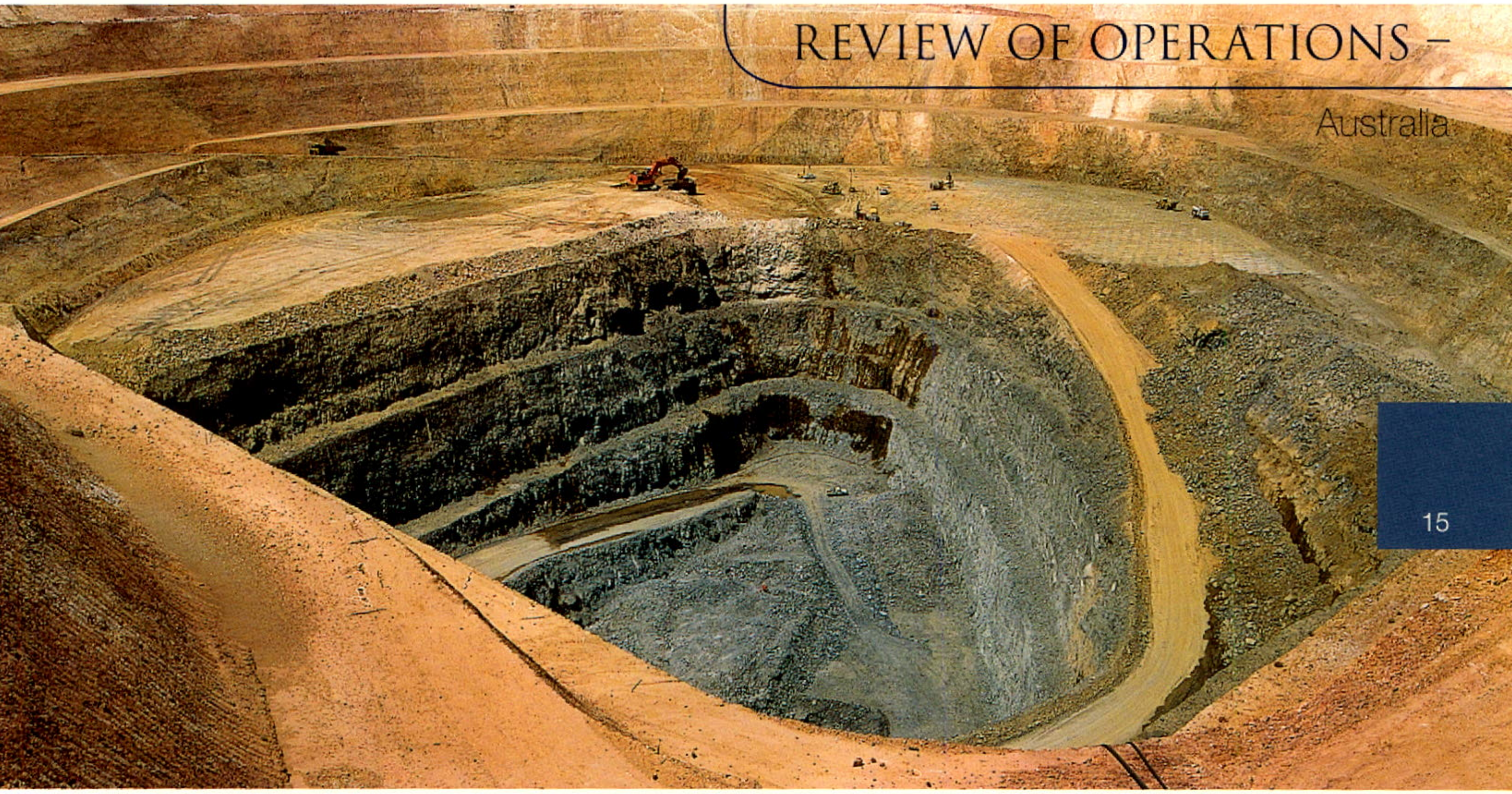
Analysis of the latest reserve estimate has indicated that there is a real potential to reduce the nickel cut-off grade at Phoenix which will favorably increase the volume of the economic reserve. In addition there are further opportunities to increase mine life with the planned evaluation and modeling of the latest PGM database and through incorporating additional near north exploration information. A new resource evaluation and an alternative pit optimization, incorporating the above, to compare with the current model economics is scheduled for completion by mid year.

Once this exercise is complete a further economic evaluation will be undertaken to incorporate the current Activox® hydrometallurgical operating and capital parameters and the effects of these on the optimal pit design.



Tati Nickel, Botswana – Phoenix Processing Plant

REVIEW OF OPERATIONS – Australia



REVIEW OF OPERATIONS - AUSTRALIA

Overview

The Company's interests in Australia are held through its wholly owned subsidiary LionOre Australia, and include:

- 100% of both the high grade Emily Ann nickel mine (which commenced production in November 2001) and the Maggie Hays nickel sulfide deposit (located 3 kilometers to the south) in the Lake Johnston greenstone belt of Western Australia (see page 18).
- 100% of the Thunderbox gold operation and associated tenements located in the Northeastern Goldfields region of Western Australia (see page 26).
- 100% of the high grade Waterloo nickel sulfide deposit, located 5 kilometers north of the Thunderbox gold operation (see page 29).
- An extensive and highly prospective nickel and gold exploration portfolio located within Western Australia, including a strategic interest in Thunderlarra Exploration and a major exploration joint venture with Thundelarra on the 2,800 square kilometers East Kimberley nickel project (see page 44) and an agreement with Jackson Gold to earn a 60% interest in the nickel rights of 700 square kilometers of ground along strike from the Black Swan and Silver Swan nickel mines.
- An 80% interest in the Activox® process, a medium pressure, medium temperature downstream proprietary hydrometallurgical metals processing technology (see page 46).
- In December 2004, LionOre concluded a friendly acquisition of MPI, a company previously quoted on the ASX (see page 32). MPI's assets include:

  80% of the Black Swan nickel project near Kalgoorlie which comprises the underground Silver Swan nickel mine and the open-cut Black Swan nickel mine; and

  80% of the Honeymoon Well nickel project in the Northeastern Goldfields (at a pre-feasibility study stage).

Location of LionOre Projects, Australia


REVIEW OF OPERATIONS –
Lake Johnston, Australia

REVIEW OF OPERATIONS - LAKE JOHNSTON, AUSTRALIA

Overview

The Lake Johnston Operations are located some 540 kilometers east of Perth, Western Australia. The regional tenement package held by LionOre covers in excess of 700 square kilometers in the immediate Lake Johnston region (100% owned) and a further 1,000 square kilometers in the nearby southern Cross region (100% owned, nickel rights only).

LionOre Nickel commenced operations in the Lake Johnston region with the development of the Emily Ann nickel sulfide deposit during 2001. The Lake Johnston operation continued its strong performance of recent years. The processing plant treated 331,842 tonnes of ore during 2004.

Lake Johnston Operations were expanded with the commencement of development of the Maggie Hays nickel sulfide deposit in 2003 and an upgrade of the Emily Ann processing plant to 500,000tpa was completed during December 2004.

The Lake Johnston Operations operate with a fly in/fly out workforce who commute from the Western Australian capital city of Perth. On site infrastructure includes an accommodation village with the current capacity for 220 personnel, an administration complex and modern communications systems.

Off-take Arrangements

LionOre Nickel has a life of mine (Emily Ann) off-take agreement for the sale of concentrate to Inco Limited. Concentrate is trucked from the Lake Johnston Operations to Esperance in Western Australia (approximately 350 kilometers by road) for shipment to Inco in Canada.

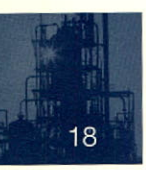
Processing

Ore processing at Lake Johnston Operations involves a conventional nickel sulfide flotation plant to upgrade the ore to between 14% - 15% nickel in the final concentrate product.

Total ore processed during 2004 was 331,842 tonnes at an average grade of 2.90% nickel to produce 56,672 tonnes of concentrate for 7,706 tonnes of payable nickel.

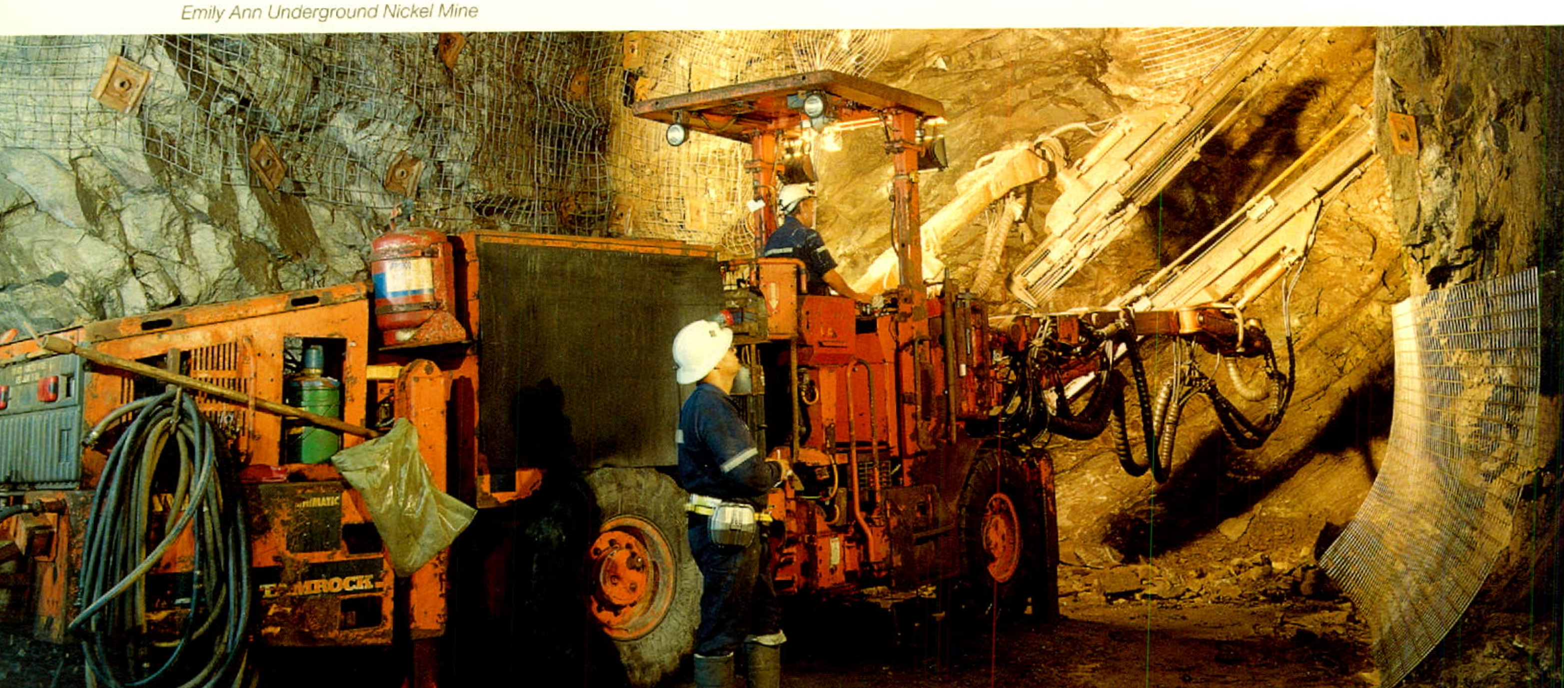
The processing plant performed well throughout 2004 with the throughput rate being steadily increased from 275,000tpa at the start of the year to a rate of 375,000tpa prior to the plant upgrade being completed in early December.

It is expected that production for 2005 will increase to around 11,000 tonnes of payable nickel.



Lake Johnston Production Stats	**2004**	**2003**	**2002**	**2001**
Ore treated (tonnes)	331,842	283,201	220,996	10,664
Grade (% Ni)	2.90	3.11	3.14	1.56
Plant recovery (%)	85.5	87.1	83.1	69.4
Produced payable Ni (tonnes)	7,706	7,145	5,301	107
Payable Ni (tonnes) sold	7,834	7,195	5,278	–
Payable By Product				
Copper (tonnes)	387	366	263	–
Cobalt (tonnes)	80	73	56	–
Cash cost per pound of payable Ni produced	$2.58	$2.23	$1.96	–

Emily Ann Underground Nickel Mine



Emily Ann Nickel Mine

Mining Operations

The Emily Ann orebody is accessed by a decline ramp system from the base of a box-cut located 800 meters east of the orebody.

During the course of the 2004 year the main decline advanced a total of 371 meters (from the 1069mRL to the 1019mRL) which allowed access to the ore body at the 1050 and 1025 stoping horizons (in addition to the 1215, 1185, 1160, 1135, 1100 and 1075 stoping horizons accessed in previous years). The surface RL is approximately 1355mRL.

The primary ventilation system was extended from the 1085mRL to the 1035mRL during the course of 2004 with 44 meters of vertical development completed. Total lateral development completed during 2004 was 1,525 meters (including the main decline) comprising stope accesses, strike driving and ancillary development.

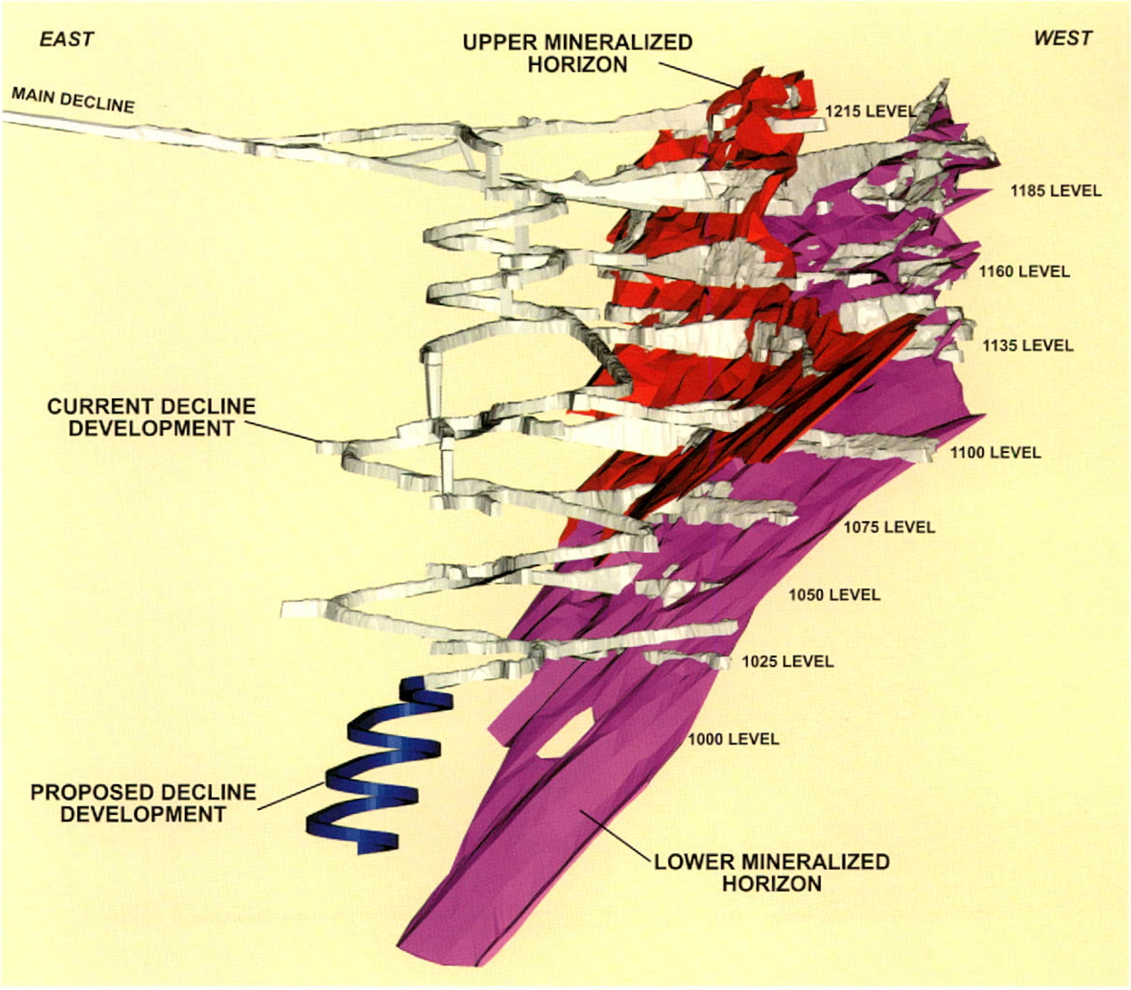
Mining operations during 2005 will see the completion of the main decline to the 1,000mRL and accessing of the ore body at that level, (being the limit of the current Mineral Reserve). Additional drilling data has increased confidence in the reserve model and further drilling during 2004 targeted depth extensions to the mineralization which is likely to deepen the mine beyond that previously contemplated.

Geology

The Emily Ann deposit comprises of a series of northerly striking mineralized units of which the main units are broadly divided into two mineralized zones - known as the upper and lower mineralized horizons (UMH and LMH respectively).

The UMH is fault associated, disseminated and stringer sulfide ore occurring within a lenticular ultramafic host, dipping steeply to the east and striking grid north. The LMH, strikes grid north west, and dips shallowly to moderately to the northeast and comprises of massive sulfide ore predominantly within the felsic host rocks with minor ultramafic zones. The convergence of the two horizons resembles a recumbent fold that plunges shallowly to the northeast.

Emily Ann Nickel Mine 3-D view to mine layout



REVIEW OF OPERATIONS - LAKE JOHNSTON, AUSTRALIA

Mineral Resource/Reserves

Reconciliation of production to date against the 1998 Mineral Reserve (prior to mining) estimated for completed mined areas (as at December 31, 2004) shows a significant positive reconciliation of 29% for the tonnes of ore mined above the 1998 Mineral Reserve and a small negative reconciliation in the head grade of 6% lower than the Mineral Reserve head grade resulting in a positive reconciliation of 22% in nickel metal production in comparison with the Mineral Reserve.

Re-estimation of the Emily Ann Mineral Resource and Mineral Reserve was undertaken during the second half of 2004 utilizing significantly more data points from underground diamond drilling together with mapping from underground development in comparison with the 2003 Mineral Resource and Reserve estimates.

The 2004 resource demonstrates a mining adjusted reduction of the global Mineral Resource by 7,000 tonnes of nickel metal in comparison to the 2003 Mineral Resource. This negative variance has resulted from the re-interpretation of the mineralized horizons based on abundant additional drilling and substantially increased mine development exposure, and a review of the historical drilling data. The high degree of ore body exposure via abundant development combined with now widespread drilling data determine that similar depletive metal trends are not expected to be highlighted in future resource estimations. Despite this reduction in Mineral Resource the 2004 Mineral Reserve nickel metal demonstrates only a small negative reconciliation of 1.8% lower than the 2003 Mineral Reserve.

The 2004 Mineral Resource, which was estimated using SURPAC block modeling techniques within geologically defined mineralized envelopes, in accordance with the Australian JORC Code, is summarized in the following table:

2004 Mineral Resource (including Mineral Reserves), Emily Ann (with depletion by production as at December 31, 2004).

	Measured Mineral Resource		Indicated Mineral Resource		Total Mineral Resource			Inferred Mineral Resource	
	Tonnes (000's)	Grade Ni %	Tonnes (000's)	Grade Ni %	Tonnes (000's)	Grade Ni %	Contained Metal (t)	Tonnes (000's)	Grade Ni %
UMH	264	2.88	30	1.70	294	2.76	8,100	1	3.98
LMH	341	4.93	84	3.69	425	4.68	19,900	46	3.20
Sub-Total	**605**	**4.03**	**114**	**3.17**	**719**	**3.89**	**28,000**	**47**	**3.17**
north of Toolangi Fault	–	–	–	–	–	–	–	335	4.24
Total 2004 Mineral Resource	**605**	**4.03**	**114**	**3.17**	**719**	**3.89**	**28,000**	**382**	**4.11**
Total 2003 Mineral Resource	*697*	*3.83*	*492*	*3.76*	*1,189*	*3.80*	*45,000*	*408*	*3.93*

The Emily Ann Mineral Resource has been estimated at a 0% Ni cut-off grade within defined mineralized domains. The Measured and Indicated Mineral Resources are inclusive of those modified to produce the Ore Reserves.

The Mineral Reserve, which was estimated using DATAMINE software (based on relevant diluted mining nickel cut-off grades) in accordance with the Australian JORC Code, is summarized in the following table:

2004 Mineral Reserves, Emily Ann (with depletion by production as at December 31, 2004)

	Proven Mineral Reserve			Probable Mineral Reserve			Total Mineral Reserves		
	Tonnes (000's)	Grade Ni %	Contained Metal (t)	Tonnes (000's)	Grade Ni %	Contained Metal (t)	Tonnes (000's)	Grade Ni %	Contained Metal (t)
UMH	110	2.52	2,800	–	–	–	110	2.52	2,800
LMH	400	3.13	12,600	40	3.05	1,300	440	3.12	13,900
Total 2004 Mineral Reserves (@ 1.67 % cut-off)	**510**	**3.00**	**15,400**	**40**	**3.05**	**1,300**	**550**	**3.00**	**16,700**
Total 2003 Mineral Reserves (@ 1.80% cut-off)	*518*	*3.09*	*15,900*	*334*	*3.31*	*11,040*	*852*	*3.17*	*27,030*

A nickel price of $3.50/lb and an exchange rate of $/A$ of 0.65 have been assumed in estimating the Mineral Reserve. Cut-off grades were estimated according to differing underground stoping techniques from which the average mine cut-off grade of 1.67% nickel was derived.

The above Mineral Resource was estimated by Will Dix, Don Barrett and Roger Mason and verified by Peter Buck (all full-time employees of the LionOre group). The Mineral Reserve was estimated by Craig Dawson and verified by Glenn Jardine (both full-time employees of the LionOre group). Messrs Dix, Barrett, Mason, Buck, Dawson and Jardine have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2004 Edition of the JORC "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects) Messrs Dix, Barrett, Mason, Buck, Dawson and Jardine consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Maggie Hays Nickel Mine

Mining Operations

Development of the Maggie Hays nickel mine (located approximately 3 kilometers south of the Emily Ann nickel mine) commenced in January 2003 following the successful completion of a feasibility study which was predicated on exploitation of the Main Zone LMS (LMS) Mineral Reserve as incremental production to the existing Emily Ann nickel mine.

Underground development commenced in April 2003 following the completion of a 35m deep box-cut. During the course of 2004, the main decline advanced a total of 512 meters with development having reached the 1147mRL (203m below surface) by year's end. Water inflows during 2004 and 2005 have been controlled by the use of underground, fixed and surface bore hole pumps. For the first 2 months of 2005, the decline development advanced 512 meters compared to 342 meters for all of 2004.

Geology

The Maggie Hays nickel deposit is partly associated within a more regionally extensive body of ultramafic rocks as well as felsic volcanic rocks. The overall deposit is approximately 1.4 kilometers in length and has a down dip extent of 400 meters on the basis of current drilling.

The deposit contains several distinct mineralized domains:

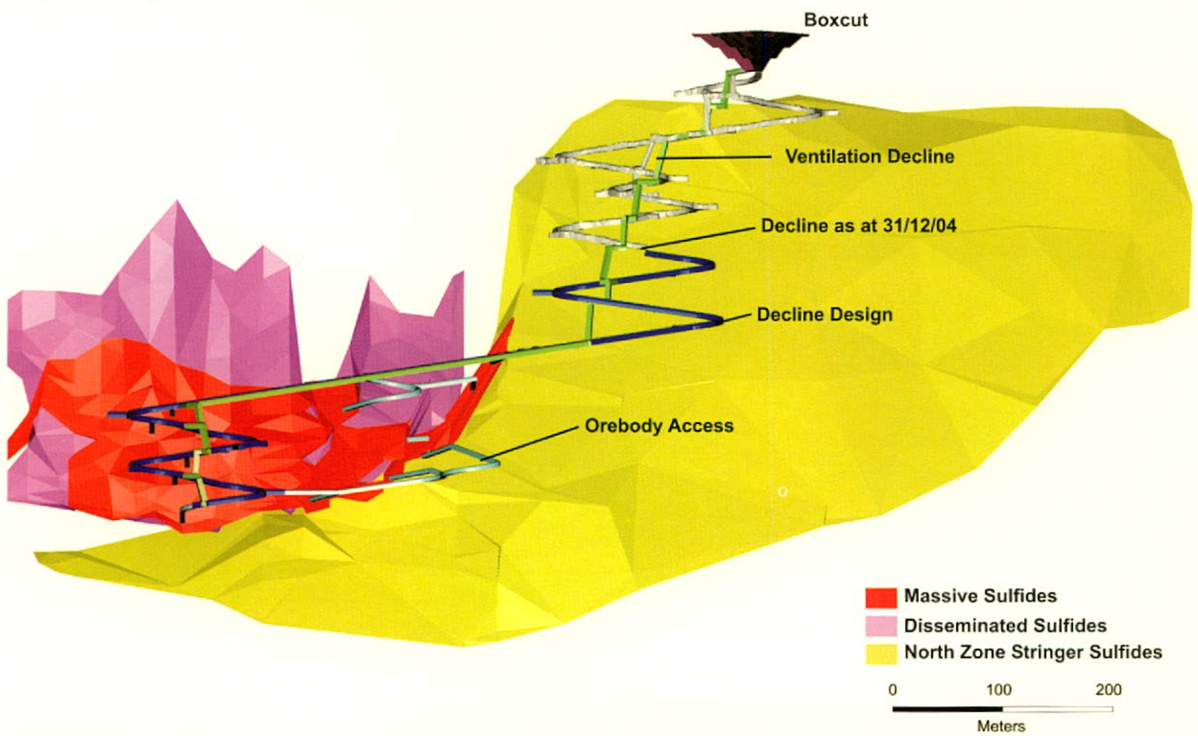
- Main Zone LMS, which was the focus of the 2002 Feasibility study and basis for development;
- Main Zone, disseminated sulfide;
- Maggie Hays north Zone, massive and stringer sulfides; and
- Maggie Hays south, disseminated sulfides.

The Main Zone occurs at the base of the ultramafic and comprises disseminated mineralization up to 40 meters in thickness and is stratigraphically underlain by the subordinate massive sulfide zone LMS which averages 3 meters in thickness, hosted by an ultramafic unit.

The Maggie Hays north Zone comprises a broad tabular zone of complex stringer and massive sulfides which are hosted by felsic volcanics immediately north and along strike of the Main Zone and LMS mineralization. The Maggie Hays north Zone mineralization is typically between 3 and 9 meters thick and is controlled by a shear which dips 60 degrees to the east and terminates the northern continuation of the ultramafic and its associated mineralization.

In addition to these mineralized zones, localized structurally controlled massive/stringer mineralization, termed the Upper Massive Sulfide Zone (UMS), occurs close to the northern pinch-out of the ultramafic, up-plunge of the Main Zone mineralization.

Maggie Hays deposit showing proposed mine development



REVIEW OF OPERATIONS - LAKE JOHNSTON, AUSTRALIA

Mineral Resource/Reserves

The Maggie Hays Mineral Resource involves two separate estimations: The Main Zone, Maggie Hays north Zone and Maggie Hays south Mineral Resources were estimated in 1998; whilst the Main Zone Massive Sulfide Mineral Resource, which was estimated in 2002, remains the basis for the 2004 Mineral Reserve and current mine plan. The massive sulfide zones were the focus of the 2002 estimation, which was incomplete for the disseminated mineralization and did not include Maggie Hays north or Maggie Hays south. As part of the ongoing feasibility study investigating the overall potential of Maggie Hays a new Mineral Resource estimate is being undertaken.

The 2004 Mineral Resource, which was estimated using DATAMINE block modeling techniques within geologically defined mineralized envelopes for massive sulfides or a 0.7% nickel cut-off grade in the case of the disseminated mineralization, and reported in accordance with the Australian JORC Code, is summarized in the following table:

2004 Mineral Resource (including Mineral Reserves), Maggie Hays (as at December 31, 2004).

Zone	Indicated Mineral Resource			Inferred Mineral Resource	
	Tonnes (000's)	Grade Ni %	Contained Metal (t)	Tonnes (000's)	Grade Ni %
Maggie Hays north[1]	2,305	2.03	47,000	193	1.96
Main Zone Disseminated[1]	6,929	1.20	83,000	-	-
Main Zone Massive Sulfide[2]	440	4.30	19,000	50	3.70
Maggie Hays south[1]	972	0.93	9,000	777	0.89
Total 2004 Mineral Resource	**10,646**	**1.50**	**158,000**	**1,020**	**1.23**
Total 2003 Mineral Resource	*10,839*	*1.50*	*163,000*	*970*	*1.10*

The Maggie Hays Mineral Resource has been estimated at a 0.7% Nickel cut-off grade for the disseminated or within defined mineralized domains in the case of the massive sulfide zones and Maggie Hays north. The Indicated Mineral Resources are inclusive of those modified to produce the Mineral Reserves.

The Mineral Reserve, which was estimated using DATAMINE software (based on relevant diluted mining nickel cut-off grades) in accordance with the Australian JORC Code, is summarized in the following table:

Mineral Reserve, Main Massive Sulfide Zone, Maggie Hays (as estimated at December 31, 2004).

Zone	Category	Tonnes (000's)	Grade Ni %	Contained Metal (t)
Lower Massive Sulfide	Probable	475	3.55	16,900
Total 2003 Mineral Reserves (@ 2.06% nickel cut-off)	*Probable*	*475*	*3.55*	*16,900*

A nickel price of A$5.45/lb has been assumed in estimating the Mineral Reserve. The cut-off grade for the Mineral Reserve was 2.06% nickel.

1 Mineral Resources estimated in 1998 by the late Ray Dudley (a former employee of DevMin Consultants Pty Ltd) and verified by Peter Buck (a full-time employee of the LionOre group).

2 Mineral Resources estimated in 2002 by John McDonald (a full-time employee of the independent consultants McDonald Spiejers) and verified by Roger Mason (a full-time employee of the LionOre Group).

Mining criteria, a detailed mine design for the life of mine, production rates, dilution rates, mining grades, metallurgical recoveries, capital and operating costs and a financial model were developed by LionOre in-house and with the use of specialist external consultants where required. This allowed the estimation of the 2002 Mineral Reserve verified by Glenn Jardine (a full time employee of the LionOre group). Messrs Dudley, Buck, McDonald, Mason and Jardine have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2004 Edition of the JORC "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects). Messrs Dudley, Buck, McDonald, Mason and Jardine consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

The opportunity exists to improve the financial outcome of the Maggie Hays project through the possible exploitation of the:

- Upper Massive Sulfide mineralization (UMS);
- north Zone;
- Main Zone Disseminated Sulfides; and
- Additional LMS mineralization.

A Mineral Resource Definition drilling program aimed at increasing confidence in the UMS continued during 2004 as underground development progressed. Mine development of the UMS was undertaken on the 1195 mRL level to better delineate the internal physical and grade variability characteristics of the mineralization prior to development of successive levels of the UMS.

Further infill drilling is planned for early 2005 prior to a decision to mine being made in the first quarter of 2005.

A feasibility study investigating production opportunities for the Main Zone was commenced during mid 2004. This study involved the drilling from surface of an additional 8 geological holes and two metallurgical test work holes. This feasibility study is expected to be completed by the end of the first quarter of 2005 and is likely to require a further upgrade of the processing facility at Lake Johnston.

District Exploration - Lake Johnston and Forrestania

Introduction

LionOre's nickel sulfide exploration on the Lake Johnston and Forrestania projects continued to be funded 100% by Inco Limited to a level of A$4 million during 2004. The total commitment is A$10 million over 3 years in return for the concentrate off-take rights. LionOre also sole funded nickel and gold exploration programs on several additional prospects in the Lake Johnston region.

Lake Johnston Exploration

Exploration in the vicinity of the Emily Ann nickel mine led to the definition of additional narrow mineralized nickel sulfide zones at the Emily Ann north and Raggedy Ann prospects, with the former currently being assessed for development from the nearby Emily Ann decline.

At Taylor Rock, some 50 kilometers east of the Emily Ann mine, reconnaissance drilling has identified deeply weathered ultramafic rocks containing nickel, copper and PGM anomalism, and the penultimate RAB hole also intersected gold mineralization. Drilling was also undertaken at the Maggie Hays Hill and Hardcore gold prospects.

Forrestania Nickel Exploration

LionOre has a 100% interest in the nickel rights over approximately 1,000 square kilometers of tenements in the Forrestania greenstone belt, immediately adjacent to ground containing a number of former nickel mines operated by Outokumpu Oy, and the recent new discoveries of Flying Fox T1-T5 made by Western Areas NL. Nickel exploration has commenced for the first time in two decades. Exploration by LionOre comprised reconnaissance TEM surveys and preliminary drilling follow up of nickel targets.

Deep diamond drilling, testing for the southern extensions to Western Areas' Flying Fox deposits, intersected several mineralized zones. Although these were sub-grade, they have confirmed the presence of mineralized ultramafic and further follow up is being undertaken.

Western Areas Agreement

LionOre entered into a project development funding and off-take agreement (Funding Agreement) with Western Areas in 2004. Western Areas is developing the Flying Fox deposit in the Forrestania region. The Funding Agreement requires:

- LionOre to provide Western Areas with up to A$20 million in project funding, and
- Western Areas to deliver up to 75,000 tonnes of contained nickel in ore and/or concentrates obtained from the Western Areas' Forrestania tenements and provides LionOre with a right of first refusal over nickel production in excess of 75,000 tonnes.

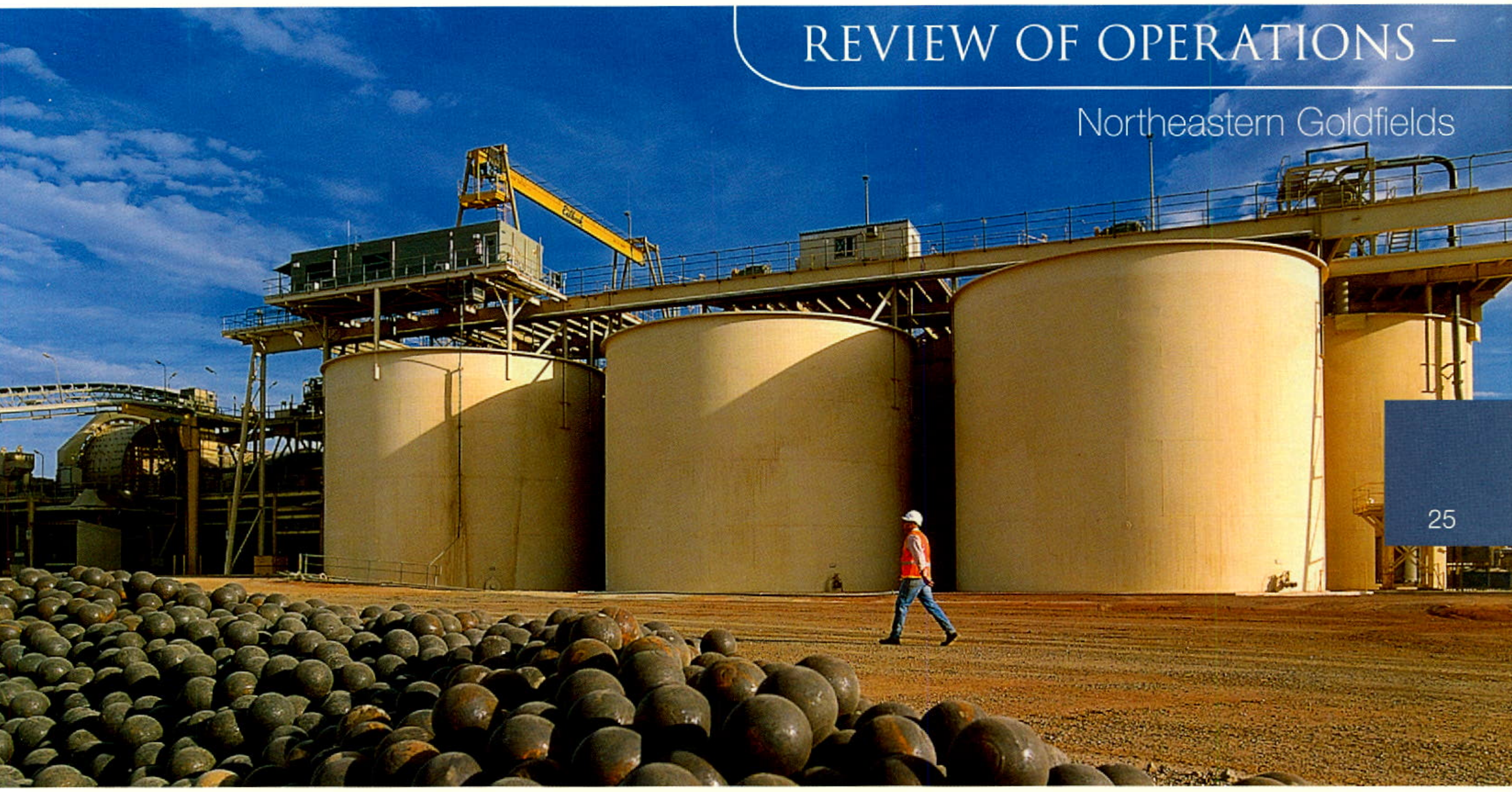
Production from the Flying Fox deposit is expected to commence in the middle of 2006, and would coincide with the proposed processing plant upgrade for Lake Johnston Operations.

Process Plant at Lake Johnston

Ore heading at Emily Ann showing massive sulfides

REVIEW OF OPERATIONS –

Northeastern Goldfields



REVIEW OF OPERATIONS – NORTHEASTERN GOLDFIELDS, AUSTRALIA

Overview

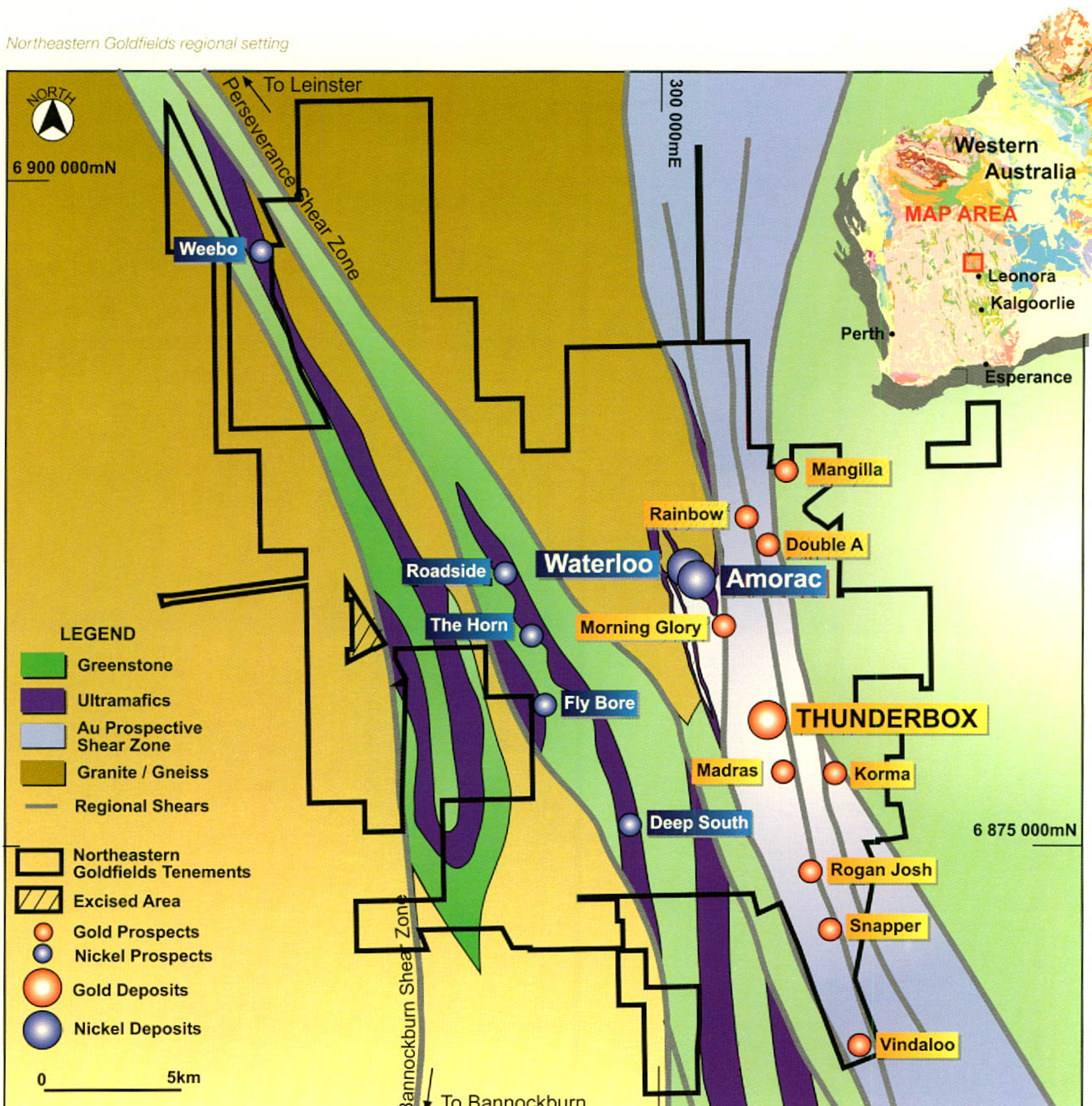
The Northeastern Goldfields operations comprises the Thunderbox gold mine and the Waterloo and Amorac nickel sulfide deposits. The Thunderbox gold mine was commissioned in 2002 and has now completed its second full year of operations. The Thunderbox gold mine is located some 45 kilometers south of the town of Leinster, immediately adjacent to the sealed Leinster – Leonora Highway.

Thunderbox Gold Mine

The Thunderbox gold mine comprises a conventional open-pit mine that feeds a 2.5 million tonnes per annum processing facility. The processing facility incorporates single stage crusher, a SAG mill and a ball mill followed by conventional CIL leaching and elution circuits.

The mine operates on a fly in/fly out basis from Perth with a fully serviced village providing the onsite accommodation. The village was expanded during 2004 to keep pace with the Company's activities and now has a capacity of 240 personnel.

Northeastern Goldfields regional setting



Mining Operations

The open-pit mining activities are carried out under contract with Roche/Carey. The contract fleet was expanded in 2004 with an additional 120 tonne class excavator along with five 100 tonne dump trucks. The second fleet was utilized over a nine month period to assist in laying back the pit walls. These additional material movements were required to meet the latest geotechnical designs for the pit.

Just under 8 million bcm's of material was moved for the year producing 2.4 million tonnes of ore at an average grade of 2.24 grams per tonne. At year end the pit was 940 meters long, 600 meters wide and 140 meters deep. The final pit is currently designed to be 1.2 kilometers long, 600 meters wide and 250 meters in depth.

Significant areas of the constructed waste dumps were shaped to final design geometry with ripping and seeding efforts also occurring.

Processing

During 2004 were 2.4 million toones of ore was milled at an average grade of 2.21g/t with metallurgical recoveries at 93.4% which resulted in gold production of 156,916 ounces for the year at a cash cost of A$265 per ounce of gold produced.

It is expected that production for 2005 will be approximately 155,000 ounces.

The total ore mined, average recoveries and head grade in 2004 were expected to decrease from 2003 as a result of mining occurring in the harder, primary layer of the Thunderbox orebody. Mid-year maintenance performed on the mills, including the replacement of ball mill liners for the first time since the ball mill in late 2003, contributed to improvements seen in production in the latter half of the year.

Further consideration was given to the use of LPG gas for power generation during 2004. An application for a pipeline licence was granted in November 2004. Construction contracts have been negotiated as have operating and maintenance agreements. It is expected that the pipeline and generating systems will be commissioned during the second quarter of 2005 and will result in lower power generation costs.

Geology

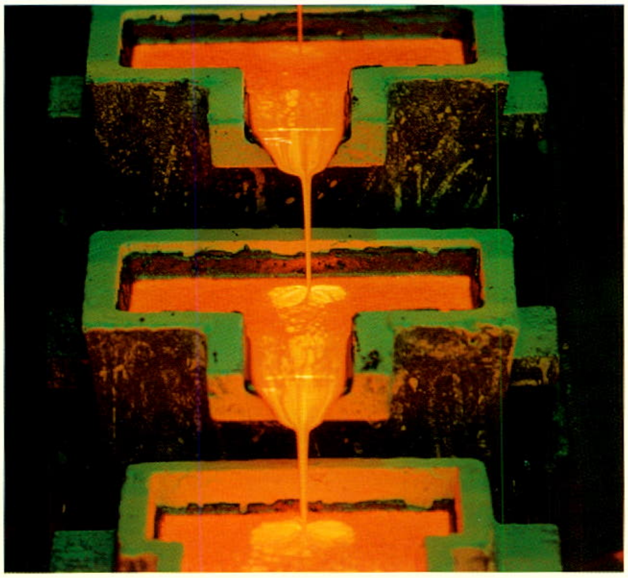
As mining progressed into the primary gold mineralization mapping and grade control continued to confirm the robust nature of the Thunderbox ore body, with Zone C continuing to exhibit maximum true widths of approximately 80 meters and a continuous strike extent of 400 meters. The Zone B hangingwall mineralization provided some additional, locally high-grade, production. In addition supergene mineralization hosted by the northeast striking fault separating Zones A and C also provided for some unexpected production.

Thunderbox Production Stats	**2004**	**2003**	**2002***
Ore treated (tonnes)	2,363,933	2,515,587	242,117
Grade (g/t)	2.21	2.70	2.38
Plant recovery (%)	93.4	96.6	95.9
Gold produced (ounces)	156,916	212,459	17,790
Cash cost per ounce of gold produced	$265	$138	$95

** Mine commenced commercial production in November 2002*

Claire McCamish and Stephen Jeffers at Thunderbox

Gold pour at Thunderbox Gold Mine.



REVIEW OF OPERATIONS – NORTHEASTERN GOLDFIELDS, AUSTRALIA

Mineral Resource/Reserve

The 2004 Thunderbox Mineral Resource, which was estimated using SURPAC block modeling techniques, based on a 1.0g/t gold cut-off grade within a geologically defined mineralization envelope and in accordance with the Australian JORC Code, is summarized in the following table:

Mineral Resource (including Mineral Reserves), Thunderbox gold deposit (depleted by production as at December 31, 2004).

	Oxide			Primary			Total Mineral Resources		
	Tonnes (000's)	Au (g/t)	Contained Gold (oz)	Tonnes (000's)	Au (g/t)	Contained Gold (oz)	Tonnes (000's)	Au (g/t)	Contained Gold (oz)
Measured	780	2.2	56,000	13,370	2.3	987,000	14,150	2.3	1,031,000
Indicated	420	1.9	25,000	7,130	1.9	434,000	7,550	1.9	457,000
Total	**1,200**	**2.1**	**81,000**	**20,500**	**2.2**	**1,421,000**	**21,700**	**2.2**	**1,488,000**
Inferred	30	2.1	2,000	3,760	1.8	217,000	3,790	1.8	221,000
Total 2003 Measured and Indicated Mineral Resources									
	1,320	*2.1*	*88,000*	*21,300*	*2.2*	*1,509,000*	*22,620*	*2.2*	*1,597,000*

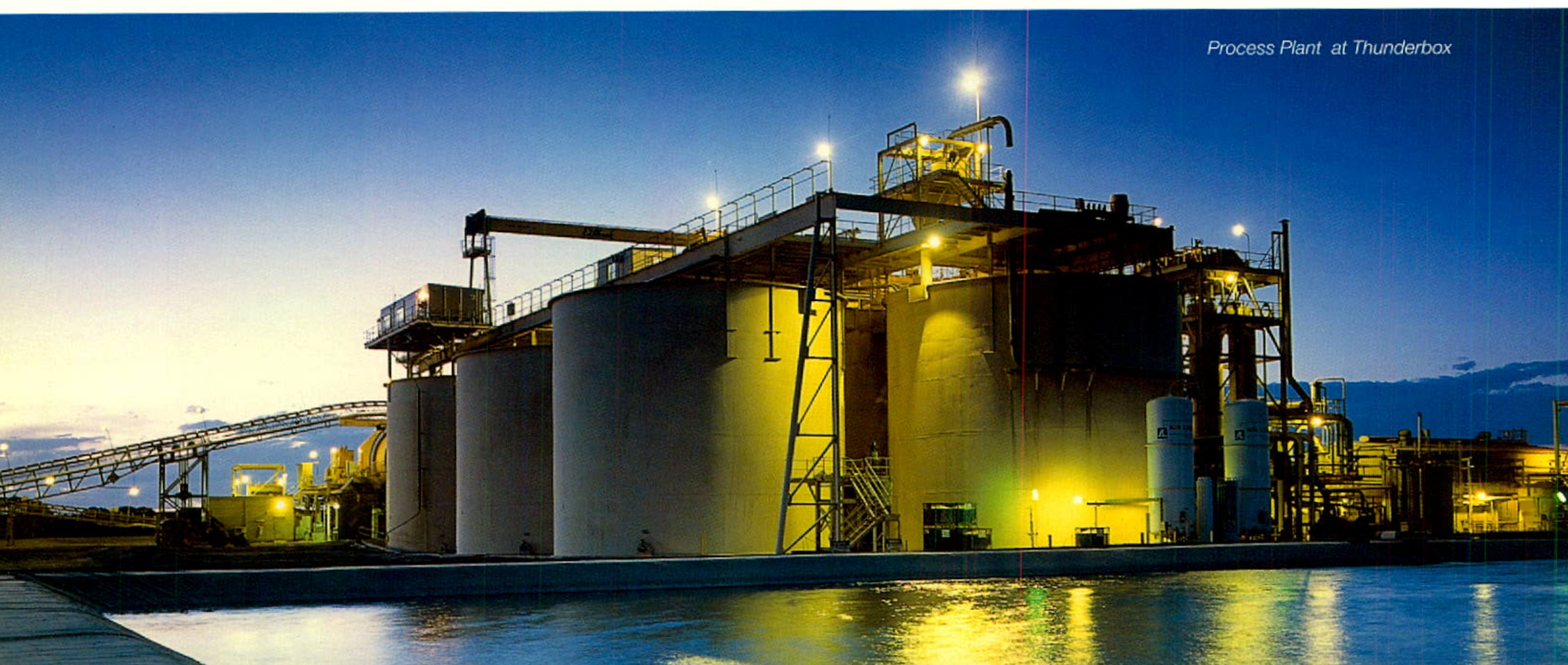
The Thunderbox Mineral Resource has been reported at a 1.0g/t gold cut-off grade from within defined mineralized domains. The Measured and Indicated Mineral Resources are inclusive of those modified to produce the Mineral Reserves.

The Mineral Reserve, which was estimated using SURPAC and Whittle 4X software (based on relevant diluted mining gold cut-off grades) in accordance with the Australian JORC Code, is summarized in the following table:

Mineral Reserves, Thunderbox gold deposit (depleted by production as at December 31, 2004)

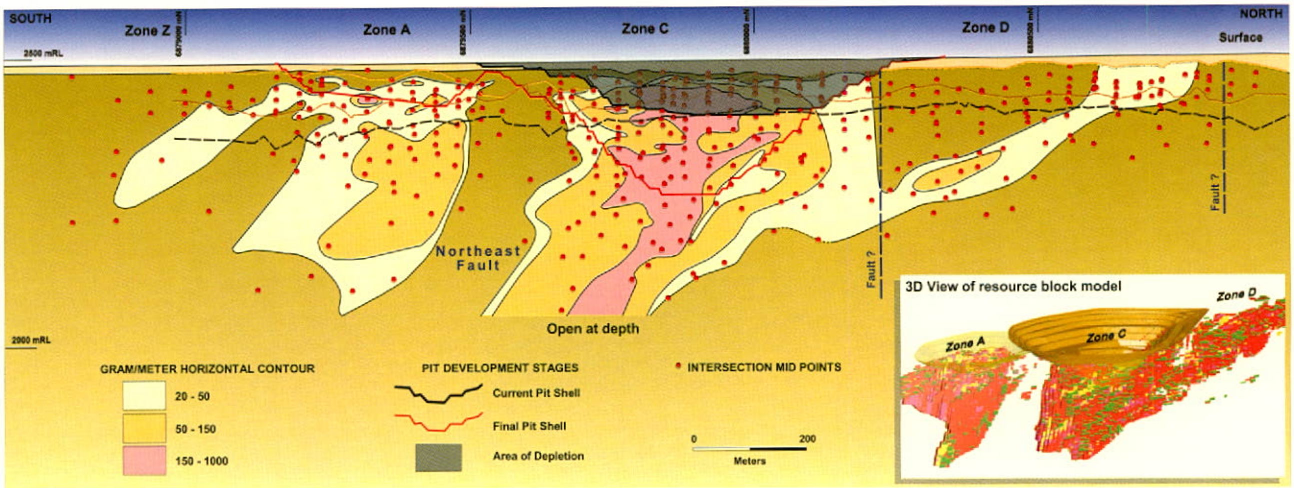
	Oxide			Primary			Total Mineral Reserves		
	Tonnes (000's)	Au (g/t)	Contained Gold (oz)	Tonnes (000's)	Au (g/t)	Contained Gold (oz)	Tonnes (000's)	Au (g/t)	Contained Gold (oz)
Proven	860	1.7	46,000	4,490	2.4	345,000	5,350	2.3	393,000
Probable	310	0.9	9,000	40	0.9	1,200	350	0.9	10,200
Total	**1,170**	**1.5**	**55,000**	**4,530**	**2.4**	**346,700**	**5,700**	**2.2**	**403,200**
Total 2003	*970*	*1.8*	*56,000*	*6,920*	*2.4*	*528,000*	*7,890*	*2.4*	*584,000*

The 2004 Mineral Reserve for the Thunderbox gold deposit is based on cut-off grades of between 0.4 g/t to 0.7 g/t gold for oxide ore and 1.1 g/t gold for primary ore. A gold price of $396/oz and an exchange rate of $/A$ of 0.72 have been assumed in estimating the Mineral Reserve.
The above Mineral Resource was estimated by Andy Thompson and Mike Dunbar and verified by Roger Mason and Peter Buck (all full-time employees of the LionOre group). The Mineral Reserve was estimated and verified by Blair Duncan (a full-time employees of the LionOre group). Messrs Thompson, Dunbar, Mason, Duncan and Buck have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2004 Edition of the JORC "Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves" and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects). Messrs Thompson, Dunbar, Mason, Buck and Duncan consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.



Process Plant at Thunderbox

Thunderbox Longitudinal section



Gold Exploration

Gold exploration during 2004 focused on regional near surface oxide targets and deeper, primary gold targets at Thunderbox as part of an underground feasibility study being undertaken on Zones A, C and D.

Thunderbox Near Mine

A small number of extensional holes were drilled down plunge of Zone A to confirm the depth extensions beyond previous drilling. Infill drilling of the Zone D deposit was also undertaken to increase confidence in the internal continuity of the mineralization. This work confirmed previous interpretations of shape and continuity, reaffirming that the zone is a gently south plunging lens up to 20 meters in true thickness. Additional narrow zones of gold mineralization were also identified in a position termed Zone Z, located some 200 meters south of Zone A.

District Gold Exploration

Gold exploration continued along the prospective Thunderbox corridor with the aim of defining deeper targets using a 3D gravity inversion model to define the depth extensions of the Thunderbox shear zone. Several diamond holes drilled to test this model successfully intersected the shear zone, but did not intersect mineralization.

Infill drilling was also undertaken to better define some of the modest oxide resources within a 12 kilometer distance of the processing plant, to verify their viability as future incremental ore sources. The viability of these resources is currently under review.

Waterloo Nickel Project

Overview

The Waterloo nickel deposit, discovered and delineated in 2002, is situated only five kilometers northwest of the Thunderbox gold mine on a granted mining lease, within one kilometer of the sealed Leinster – Leonora Highway. The Waterloo mineralization remains open down-plunge, and structural models for the Waterloo-Amorac region highlight significant potential for further discoveries in the area.

Geology

The Waterloo deposit lies on the eastern limb of a tightly folded ultramafic unit in a synclinal structure on the western side of the southern end of the Yandal greenstone belt. The nickel sulfide mineralization is associated with the basal contact of a serpentinized ultramafic unit, with the footwall region dominated by metasedimentary rocks. The host ultramafic appears to have been truncated at depth by a large flat-dipping shear zone.

The deposit has been outlined over a strike length of almost 900 meters and the dip extent ranges from 50 to 70 meters. The basal ultramafic contact generally dips moderately toward the west, steepening with depth and locally dragged back into a flat east dip along the top of the underlying shear zone.

REVIEW OF OPERATIONS –
NORTHEASTERN GOLDFIELDS, AUSTRALIA

There are four main styles of mineralization at Waterloo: massive, matrix, disseminated, and remobilized stringer and breccia sulfide mineralization. The disseminated mineralization lies stratigraphically above the matrix zone, while the majority of high-grade mineralization appears to be localized in the vicinity of the fold structure, which plunges shallowly to the south. The tenor of the sulfide typically ranges between 7 to 10% nickel and contains significant levels of copper and PGM's.

Mineral Resource/Reserve

The Waterloo Mineral Resource, which was estimated in April 2004 using DATAMINE block modeling techniques within geologically defined envelopes, and reported in accordance with the Australian JORC Code, is summarized in the following table:

2004 Mineral Resource, Waterloo (as at December 31, 2004)

	Indicated Mineral Resource					Inferred Mineral Resource			
	Tonnes (000's)	Grade Ni %	Grade Cu %	Grade (PGM g/t)	Contained Ni Metal (t)	Tonnes (000's)	Grade Ni %	Grade Cu %	Grade (PGM g/t)
Matrix and Massive	125	6.4	0.45	1.93	8,034	57	6.6	0.38	1.56
Disseminated	174	1.3	0.12	0.56	2,332	297	1.4	0.10	0.46
Total 2004 Mineral Resource	**299**	**3.5**	**0.26**	**1.13**	**10,366**	**354**	**2.2**	**0.14**	**0.63**

The Waterloo Mineral Resource has been estimated within defined mineralized domains and reported at a 1.0% Niickel cut-off grade.

The above Mineral Resource was estimated by John McDonald (a full-time employee of the independent consultants McDonald Spiejers) and verified by Roger Mason (a full-time employee of the LionOre Group). Messrs McDonald and Mason have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2004 Edition of the JORC "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects). Messrs McDonald and Mason consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

The Waterloo Mineral Reserve estimate is being prepared as part of the ongoing project development study.

Project Development/Mine Exploration

During 2004 the Company commenced evaluation into developing an exploration decline to further examine the nature of this high tenor nickel mineralization. Further dedicated geotechnical drilling and metallurgical test-work was conducted during 2004. Detailed design work on an exploration decline and associated development was completed during the year. In view of the complexity of the deposit this initial phase of underground exploration development, designed to clarify the characteristics of the deposit and determine the most appropriate mining strategy, is considered to be prudent. In addition, the exploration decline will provide an excellent platform for lower cost, more effective resource delineation and exploration via underground diamond drilling and geophysical techniques. The study was based solely on the Waterloo deposit and does not include the nearby Amorac nickel deposit, which could potentially be accessed by the future development of Waterloo. This study is currently under review.

This exploration decline design work was central to the preparation of a Notice of Intent and Project Management Plan both of which were submitted to the Department of Industry and Resources. The State Mining Engineer has approved the Notice of Intent and the District Inspector of Mines has approved the Project Management Plan. A decision to proceed is expected to be made during the first half of 2005.

District Nickel Exploration

During 2004, nickel exploration focused on identifying new targets in the district with the aim of defining additional resources to the Waterloo and Amorac deposits. Systematic TEM undertaken throughout the project area identified numerous conductors in the Yillaree, Fly Bore, Marsh and Roadside areas. Initial drill testing of these areas identified narrow mineralization in the Marsh area and broad, low-grade disseminated nickel sulfide mineralization at a new prospect termed The Horn, located on the Roadside ultramafic unit. The extent of this mineralization has not yet been determined by drilling. Approximately one kilometer to the southeast of The Horn, the first drillhole in an aeromagnetic target also intersected disseminated sulfides in a high MgO serpentinized ultramafic. During 2005, the regional nickel program will continue to explore known prospects, and ongoing systematic TEM surveys will be used to generate additional targets.


CAUTION
RADIATION

REVIEW OF OPERATIONS - MPI ACQUISITION

Overview

In December 2004, LionOre acquired MPI by way of a takeover offer. The consideration for the MPI acquisition was A$129.5 million cash and the issue of 21.7 million LionOre shares.

The MPI acquisition represents a significant growth step for LionOre in the Australian nickel industry. MPI's key nickel assets in Western Australia include 80% of both the Black Swan nickel project near Kalgoorlie (in production) and the Honeymoon Well nickel project in the Northeastern Goldfields (at a pre-feasibility study stage), both held through 80% owned MPI Nickel. The co-owner (20%) of these assets is OMG which purchases the nickel concentrates produced by the Black Swan nickel operation. At February 7, 2005 when MPI became a wholly owned subsidiary of LionOre, it had a net cash position of over A$50 million (on a consolidated basis).

The Black Swan nickel project comprises the underground Silver Swan nickel mine and the recently developed open-cut Black Swan nickel mine, with forecast nickel production for 2005 of around 10,000 tonnes.

The Honeymoon Well nickel project is one of the world's largest undeveloped nickel sulfide deposits, which has a nickel endowment of approximately one million tonnes and the potential to produce 30,000 to 40,000 tonnes of nickel per annum. The deposit is located 40 kilometers north of WMC Resources' (WMC) Mt Keith nickel operations, and some 170 kilometers north of LionOre's Northeastern Goldfields operations, which comprise the Thunderbox gold mine and Waterloo and Amorac nickel sulfide deposits.

Through MPI Nickel, LionOre intends to accelerate feasibility studies into the development of Honeymoon Well and in particular to assess commercialization of Honeymoon Well using hydrometallurgical processing technology. LionOre believes that commercialization of Honeymoon Well could provide a long term foundation to position LionOre as one of the leading participants in the Australian nickel industry.

Black Swan, Australia

Overview

With the acquisition of MPI by LionOre, the Black Swan nickel project has recently become a LionOre managed operation.

The Black Swan nickel mine is located 53 kilometers northeast of the city of Kalgoorlie-Boulder, which is 600 kilometers East of Perth, Western Australia. Silver Swan, a small high-grade underground mine, is operated by a highly skilled workforce. In May 2004 ore production from open-pit mining commenced on the Black Swan disseminated nickel sulfide project to provide additional mill feed for the under utilized Black Swan concentrator.

All employees and contractors at the Black Swan nickel mine are residentially based in Kalgoorlie Boulder and the mine plays an active part in the local community.

Processing

Ore processing at Black Swan nickel project involves a conventional nickel sulfide flotation plant to upgrade the ore to a final concentrate product grading 18 – 20% nickel. A total of 296,846 tonnes of ore was processed in 2004 at an average grade of 3.7% nickel. Of this material 183,229 tonnes at 5.5% nickel was from underground massive sulfide and 113,617 tonnes at 0.82% nickel from open-pit disseminated ore.

The processing plant performed well in 2004 with a focus placed on the batch commissioning of the disseminated open-pit material in the later part of the year. This commissioning is still occurring and the optimization of the treatment of this material will occur in 2005.

Operating Costs

2004 cash operating costs at the Black Swan nickel mine operations averaged $3.54 per pound of payable nickel (2003- $3.87). These costs during the year were influenced by the high nickel prices and variable mining costs associated with bench stopes in the underground operation.

Feasibility studies are nearing completion into the viability of upgrading the Black Swan plant from its present throughput of 600,000 tonnes per annum to between 1 and 2 million tonnes per annum to enable the Black Swan disseminated open-pit to be mined at an optimum rate.

Off-take Agreements

MPI Nickel has an off-take agreement for the nickel produced with OMG. Concentrate produced at the mine is transported by road to Kalgoorlie-Boulder and then by rail to the southern coastal port of Esperance. The concentrate is then shipped on a regular basis to OMG in Finland.

Mining

Underground ore production was 180,356 tonnes at 5.5% nickel and open-pit which commenced in February 2004 was 160,062 tonnes at 0.81% nickel.

The underground Silver Swan nickel mine has a typical Yilgarn Craton stress gradient and the stress observations seen at the mine are similar to several mining operations in that region. Two large fault slip seismic events occurred in November 2004. A new ground support regime and re-modeling of production stoping sequences has been undertaken. The results of this work have been incorporated into the 2005 Budget and Life of Mine plan.

Geology

Within the Black Swan area the regional felsic Gindalbie formation contains ultramafic units which host numerous massive and disseminated nickel sulfide deposits. The principal host, the Black Swan Komatiite complex is a 3.5 kilometers long and 0.6 kilometers thick sequence of Archaean olivine cumulate and spinifex textured flows. Mineralization types comprise high grade massive pentlandite-pyrrhotite sulfide lenses or broad bands of disseminated pyrite-millerite sulfides. The Silver Swan orebodies either lie on or are adjacent to the steeply east dipping ultramafic footwall contact. The massive sulfide lenses are short in strike-length (in the order of 30 to 80 meters) but substantially longer down plunge (very steep to the east). The tenor of the massive sulfides is between 10% to 15% nickel, and very consistent. Ore widths are variable, up to 10 meters or greater. The various lenses which make up the Silver Swan deposit massive sulfide shoots are being exploited from the Silver Swan Decline, whilst the Black Swan Disseminated (BSD) deposit is currently being mined by open-pit.

Underground surveying at the Black Swan Nickel Mine.

REVIEW OF OPERATIONS - MPI ACQUISITION

Mineral Resource/Reserve

The 2004 Mineral Resources, which were estimated using MineSight block modeling techniques within geologically defined mineralized envelopes, in accordance with the Australian JORC Code, are summarized in the following table:

2004 Mineral Resources (including Mineral Reserves), Black Swan Nickel Operation (with depletion by production as at December 31, 2004) - 100% basis.

	Measured Mineral Resource			Indicated Mineral Resource			Total Mineral Resource			Inferred Mineral Resource	
	Tonnes (000's)	Grade Ni %	Contained Ni (t)	Tonnes (000's)	Grade Ni %	Contained N i(t)	Tonnes (000's)	Grade Ni %	Contained Metal (t)	Tonnes (000's)	Grade Ni %
Silver Swan Underground	59	10.5	6,195	125	8.9	11,125	184	9.5	17,320	119	10.4
Black Swan Open-pit	503	0.72	3,622	7,425	0.77	57,173	7,928	0.77	60,794	530	0.8
Total 2004 Mineral Resources	**562**	**1.75**	**9,817**	**7,550**	**0.90**	**68,298**	**8,112**	**0.97**	**78,114**	**649**	**2.56**

The Silver Swan Underground Mineral Resources have been estimated within defined mineralized domains independent of cut-off grade. The Black Swan Disseminated Open-pit Mineral Resources have been estimated at a 0.45% total nickel cut-off grade. The Measured and Indicated Mineral Resources for both deposits are inclusive of those modified to produce the Mineral Reserves.

LionOre owns 80% of MPI Nickel which in turn owns 100% of the Black Swan open-pit and Silver Swan underground mines.

The Mineral Reserves, which were estimated using SURPAC software for the Silver Swan underground and SURPAC and Whittle 4X software for the Black Swan Disseminated open-pit (based on relevant diluted mining nickel cut-off grades) in accordance with the Australian JORC Code, are summarized in the following table:

2004 Mineral Reserves Black Swan Nickel Operation (with depletion by production as at December 31, 2004) - 100% basis.

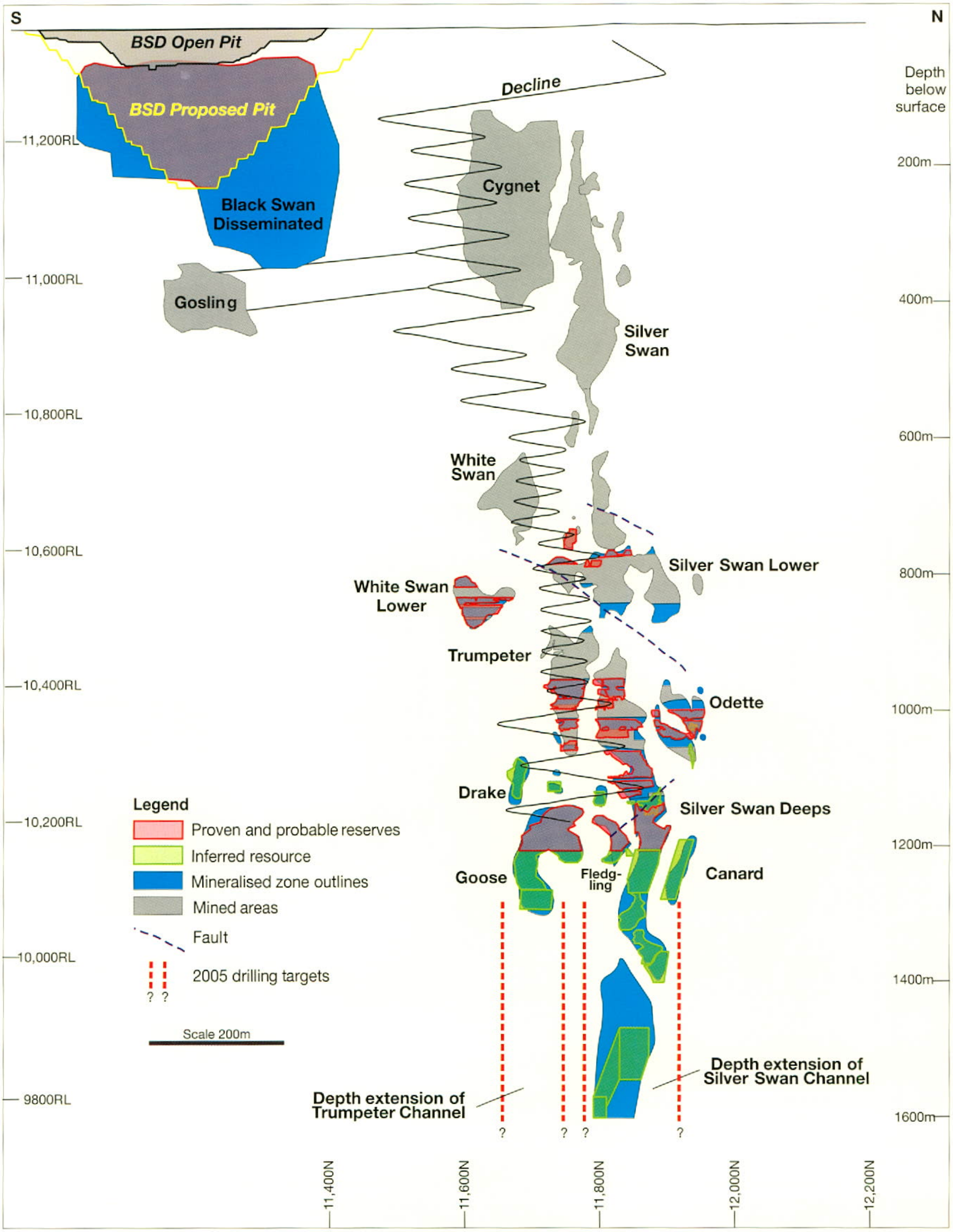
	Proven Mineral Reserve			Probable Mineral Reserve			Total Mineral Reserve		
	Tonnes (000's)	Grade Ni %	Contained Metal (t)	Tonnes (000's)	Grade Ni %	Contained Metal (t)	Tonnes (000's)	Grade Ni %	Contained Metal (t)
Silver Swan Underground	89	6.3	5,600	164	5.08	8,400	253	5.51	14,000
Black Swan Open-pit	503	0.72	3,600	3,525	0.76	26,800	4,028	0.76	30,400
Total 2004 Mineral Reserves	**592**	**1.55**	**9,200**	**3,689**	**0.95**	**35,200**	**4,261**	**1.04**	**44,400**

A nickel price of $3.20 and an exchange rate of $/A$ of 0.68 have been assumed in estimating the Mineral Reserve. Cut-off grades adopted in 2003 and 2004 were 2.5% nickel and 0.45% nickel for the underground and open-pit, respectively.

The above Mineral Resources were estimated by Mike Stewart and verified by John Rowe (both full-time employees of the LionOre group) The Mineral Reserves were estimated by Mike Stewart and Dan Lougher and verified by Tony James (all full-time employees of the LionOre group). Messrs Rowe, Stewart, Lougher and James have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2004 Edition of the JORC "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects). Messrs Stewart, Rowe, Lougher and James consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

LionOre owns 80% of MPI Nickel which in turn owns 100% of the Black Swan open-pit and Silver Swan underground mines.

Map Showing Silver Swan Long Projection



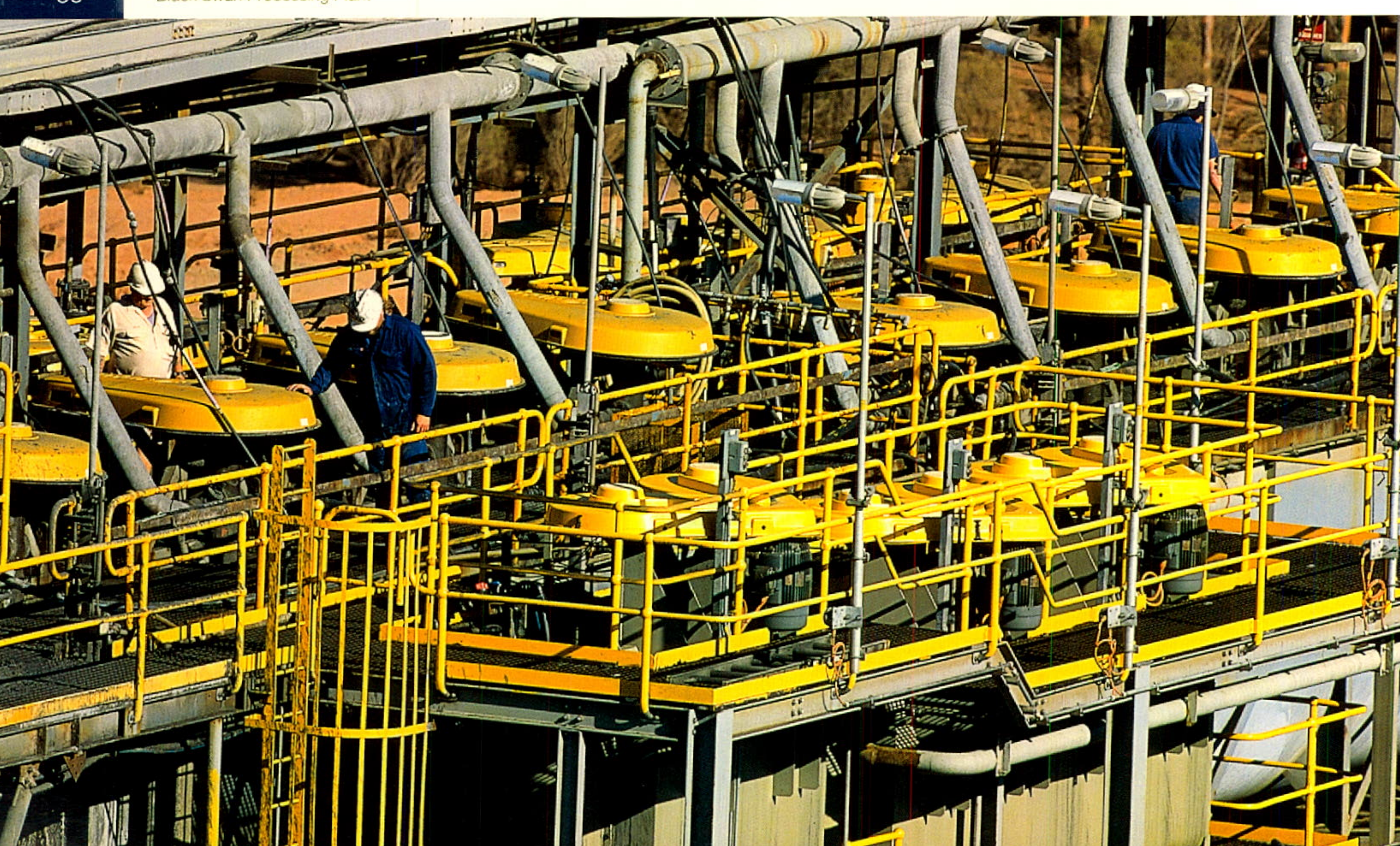
REVIEW OF OPERATIONS - MPI ACQUISITION

Near Mine Exploration

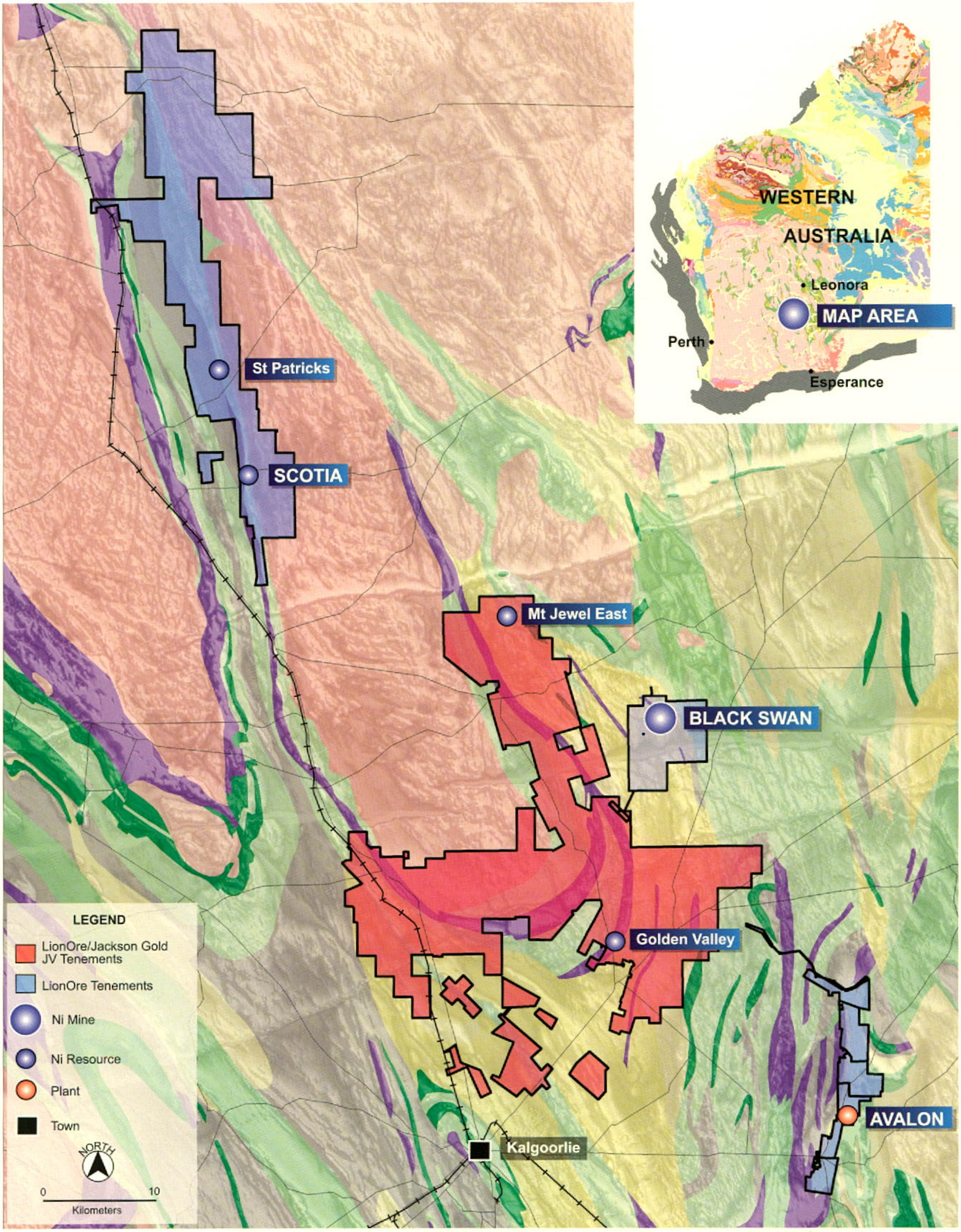
5,141 meters of resource definition diamond drilling was conducted during 2004, dominantly below the existing reserve from 10,160mRL to the 10,000mRL, and down plunge of the known ore shoots. Results from this region indicated that the Silver Swan massive sulfide mineralization and nickel tenor continues but at diminished widths. However, exploration drilling below 10,000mRL indicates larger widths up to 15 meters downhole. A program of deep directional drilling commenced in September to further delineate known mineralization to the 9,800mRL (1,500 meters below surface) in the main Silver Swan lens, and to explore for nearby extensions. This program will continue through 2005.

In addition to its activities around existing operations, LionOre is actively pursuing new opportunities through regional exploration programs in highly prospective areas of the Eastern Goldfields of Western Australia. These key projects include the Scotia-Goongarie Project and Kalgoorlie Nickel Project and are discussed on page 44.

Black Swan Processing Plant



Eastern Goldfields Exploration Projects



REVIEW OF OPERATIONS - MPI ACQUISITION

Honeymoon Well Project and Albion Downs JV

The Honeymoon Well Nickel Project (HMW Project) tenement covers a 17 kilometer northwest trending segment of the highly-endowed Agnew-Wiluna greenstone belt, and is located immediately to the north of the Mt Keith nickel mine. Previous exploration for Mt Keith style disseminated nickel sulfide mineralization had defined substantial mineralization at the Hannibals, Corella, Harrier and Wedgetail deposits on the Honeymoon Well tenements (100% MPI Nickel), and at Jericho (Albion Downs JV: 50% MPI Nickel, 50% WMC). The Albion Downs JV (ADJV) abuts the southern boundary of the HMW Project and extends the coverage of the Agnew-Wiluna greenstone belt by a further 23 kilometers south.

Geology

The HMW Project and ADJV occupy a 40 kilometer strike length within the northern half of the Northeastern goldfields Agnew-Wiluna greenstone belt approximately 40 kilometers north of Mt Keith in Western Australia. The ultramafic rocks, which form a north-south trending corridor 1 to 3 kilometers in width, vary in composition from adcumulates, mesocumulates to orthocumulates which have demonstrated substantial nickel endowment; primarily in the form of large tonnage low-grade disseminated nickel sulfide deposits, but also small tonnage high-grade massive sulfide nickel deposits.

The greenstone has been metamorphosed to greenschist facies metamorphic mineral assemblages which are dominated by serpentine or, less commonly, talc-carbonate. Faulting and shearing of the greenstone, including the nickel deposits, has produced elongate tectonic slices at a variety of scales. Significant gold mineralization (and arsenic), associated with these structures, has been discovered in the HMW Project area hosted mainly by the felsic and mafic rocks surrounding the ultramafic.

At Honeymoon Well the greenstone basement is covered by between 15 to 35 meters of younger transported sediments. In addition, deep lateritic weathering of the basement rocks persists to depths of between 60 to 100 meters below the surface. The clay and iron-oxide weathered ultramafic rocks host significant laterite nickel resources.

The HMW contains 131 million tonnes of disseminated nickel sulfides at a grade of 0.8% nickel containing approximately one million tonnes of nickel metal.

An additional 205,000 tonnes of nickel metal (of which MPI Nickel holds 50%) resides in Inferred Mineral Resources at the Jericho deposit on the ADJV 20 kilometers north of WMC's Mt Keith nickel mine.

Honeymoon Well Project Feasibility Study

MPI Nickel commenced a feasibility study in 2005 to consider the exploitation of the significant HMW Project resource. A project operating at around 8 million tonnes per annum producing between 35,000 to 40,000 tonnes per annum of nickel in concentrate is envisaged.

As part of the HMW Project feasibility study, an extensive drilling program in the first half of the year will further delineate the resource and increase the confidence in the resource categories, provide geotechnical data and samples for metallurgical test work. This program will deliver in excess of 31,000 meters of drilling. A 40 hole hydrology program will further define mine dewatering and mine water supply requirements.

All data from the drilling programs will be used for optimization and mine design work. An extensive metallurgical test work programs has been designed to define design parameters for concentrator engineering design. Environmental permitting will be run in parallel with the feasibility study. The target is to bring all studies to a conclusion in a feasibility document in the first quarter of 2006.

Mineral Resource/Reserves

The 2004 Mineral Resources, which were estimated using DATAMINE block modeling techniques within geologically defined mineralized envelopes, in accordance with the Australian JORC Code, are summarized in the following table:

2004 Mineral Resources, Honeymoon Well and Jericho (effective December 31, 2004)

	Indicated Mineral Resource			Inferred Mineral Resource		
	Tonnes (000's)	Grade Ni %	Contained Metal (,000 t)	Tonnes (000's)	Grade Ni %	Contained Metal (,000t)
Honeymoon Well[1]	131,500	0.8	1,000	3,700	0.8	30
Jericho[2]				34,500	0.6	205
Total 2004 Mineral Resources	**131,500**	**0.8**	**1,000**	**38,200**	**0.6**	**235**

The Honeymoon Well Mineral Resources have been estimated within defined mineralized domains at cut-off grades between 0.30% to 0.40% nickel. The Jericho Mineral Resource has been estimated within defined mineralized domains at a 0.40% nickel cut-off grade.

The Honeymoon Well Mineral Resources were estimated by CRA geologists during 1996 and verified by Ian Glacken (a full-time employee of Snowden Mining Industry Consultants). The Jericho Mineral Resource was estimated by Ben Palich and verified by Brett Gossage (both full-time employees of RSG Global consultants) on behalf of WMC.

Messrs Glacken, Palich and Gossage have sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which they are undertaking to each qualify as a Competent Person as defined in the 2004 Edition of the JORC "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and a Qualified Person as defined in the Canadian National Instrument 43-101 (Standards of Disclosure for Mineral Projects). Messrs Glacken, Palich and Gossage consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

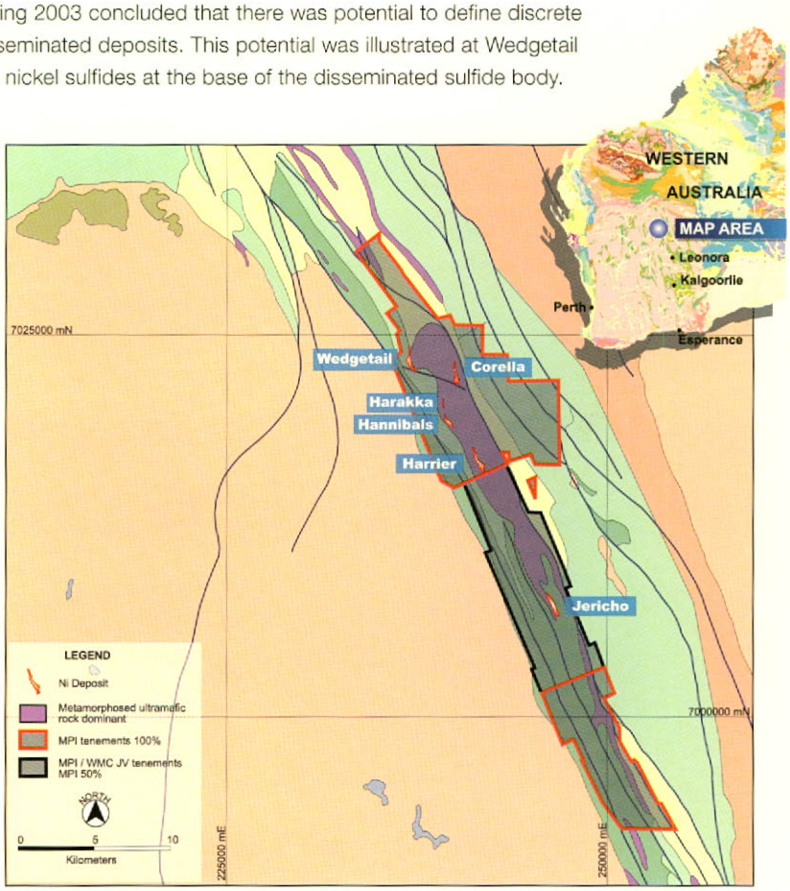
1 LionOre owns 80% of MPI Nickel which in turn owns 100% of the Honeymoon Well Resources.

2 MPI Nickel has a 50% interest in the Jericho deposit located within the ADJV with WMC (50%).

Exploration

A review of the extensive HMW Project database during 2003 concluded that there was potential to define discrete massive sulfide resources within the much larger disseminated deposits. This potential was illustrated at Wedgetail where previous drilling had located zones of massive nickel sulfides at the base of the disseminated sulfide body.

During 2005 the exploration emphasis will be on delineation of additional open-pittable, disseminated nickel sulfide resources and further investigating the potential for higher-grade massive sulfide dominated mineralization at depth beneath envisaged open-pit limits (e.g. at Wedgetail) and in new positions remote from the known nickel deposits.



Honeymoon Well Project – Location and Geology

Thunderbox open-pit

REVIEW OF OPERATIONS –

Nkomati Nickel Mine Acquisition

REVIEW OF OPERATIONS - NKOMATI NICKEL MINE ACQUISITION

Overview

In January 2005, LionOre acquired a 50% joint venture interest in the Nkomati Nickel Mine in south Africa, located approximately 300 kilometers east of Johannesburg in the Mpumalanga Province. The mine, one of the lowest cash-cost nickel mines in the world, consists of two deposits, a massive sulfide body (MSB) which is currently being mined by underground mining methods, and a lower grade, but significantly larger, disseminated ore-body, which offers new production potential.

The MSB currently produces 4,500 to 5,000 tonnes of nickel annually, with significant by-products including copper (2,800 tonnes), palladium (22,000 ounces) and platinum (7,000 ounces). For the quarter ended December 2004, the mine operated at an average cash cost of $1.02/lb net of by-product credits. The MSB operation is expected to continue at current production levels until the third quarter of 2007.

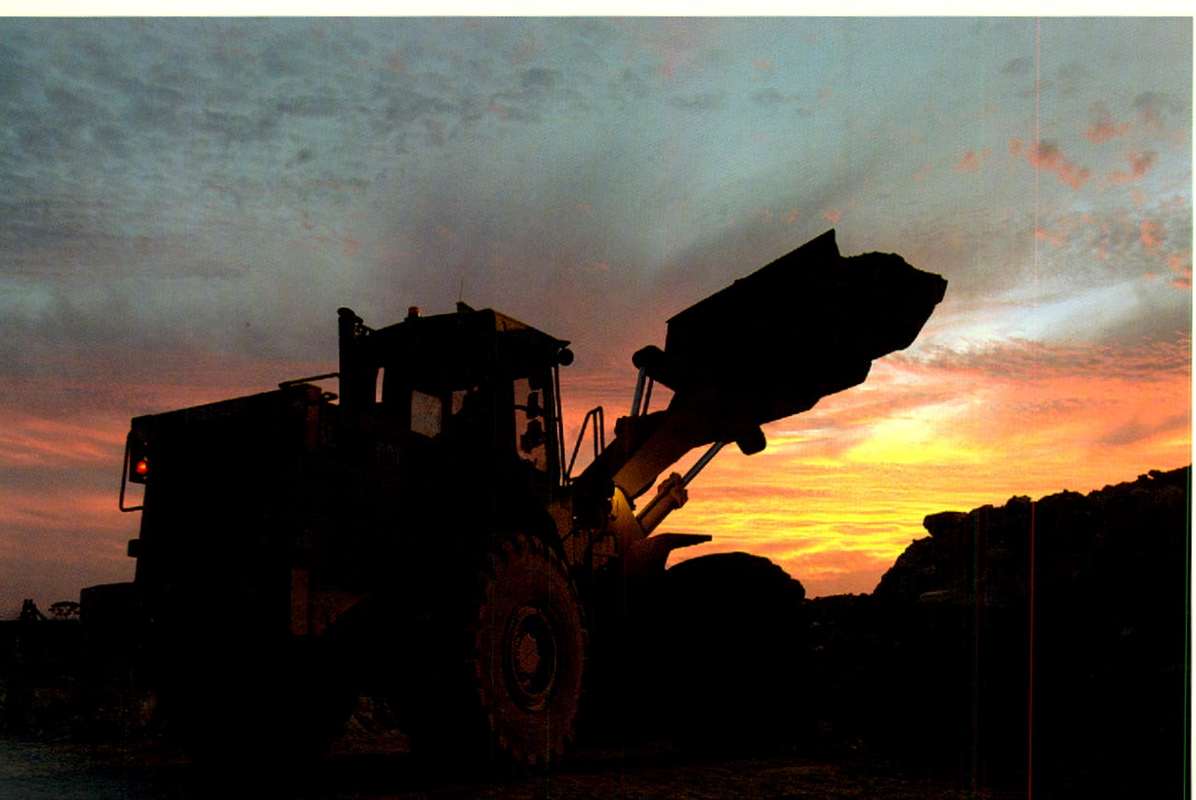
The lower grade disseminated orebody is very similar in geology to the Phoenix Nickel Mine in Botswana, with a similar production mix. The orebody has a total estimated Indicated Resource of 139 million tonnes at a grade of 0.49% and a cut-off of 0.30%, containing 680,000 tonnes of nickel.

It is envisaged that subsequent development of this deposit could produce 16,500 tonnes of nickel per annum, in addition to 7,900 tonnes of copper, 55,000 ounces of palladium and 19,500 ounces of platinum (50% attributable LionOre), with an estimated 16 year mine life. The joint venture partners intend to carry out a feasibility study to assess pit optimization, concentrator design, use of proprietary Activox® technology, the PGM recovery processes and project economics during 2005.

The acquisition consideration is $48.5 million. $28.5 million cash will be paid to African Rainbow Minerals (ARM) in consideration for an undivided 50% share in the current MSB operation and the lower-grade expansion orebody. If both parties agree to proceed with the expansion project, LionOre will pay an additional $20 million in cash to ARM. ARM is required to reinvest this sum as a portion of its capital commitment to the expansion project.

Under the new south African "Mineral and Petroleum Resources Development Act" mining operations are required to include the participation of a Black Economic Empowerment (BEE) partner. ARM, qualifies as such a company in terms of this transaction.

The information that relates to the Nkomati Mine resource, as at December 1, 2004, is based on information compiled by A.N. Clay, M.Sc. (Geol.), M.Sc. (Min. Eng.), Dip. Bus. M. FAusIMM, MSAIMM, FGSSA, MAIMA, Pr. Sci. Nat., of Venmyn Rand (Pty) Ltd., who has sufficient experience, which is relevant to the style of mineralization and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competant Person as defned in the 2004 Edition of the JORC "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" and a Qualified Person under National Instrument 43-101– Standards of Disclosure for Mineral Projects. Mr. Clay is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Clay consents to the inclusion report of the matters based on thier information in the form and context in which it appears.



REVIEW OF OPERATIONS –

Regional Exploration, Australia

REVIEW OF OPERATIONS - REGIONAL EXPLORATION, AUSTRALIA

East Kimberley Joint Venture (LionOre Earn-In – 60%)

The East Kimberley JV was initiated in late in 2003, when LionOre entered into a strategic agreement with Thundelarra Exploration Ltd, a mineral exploration company listed on the Australian Stock Exchange. Under the agreement LionOre is entitled to fund a minimum of A$5 million of exploration on certain of Thundelarra's tenement holding, a total of 2,800 square kilometers, to earn a 60% interest in those tenements in the East Kimberley region of Western Australia. This project is strategically situated between the town of Halls Creek and the Argyle diamond mine, straddling the sealed Highway One and having access to the deep water port of Wyndham.

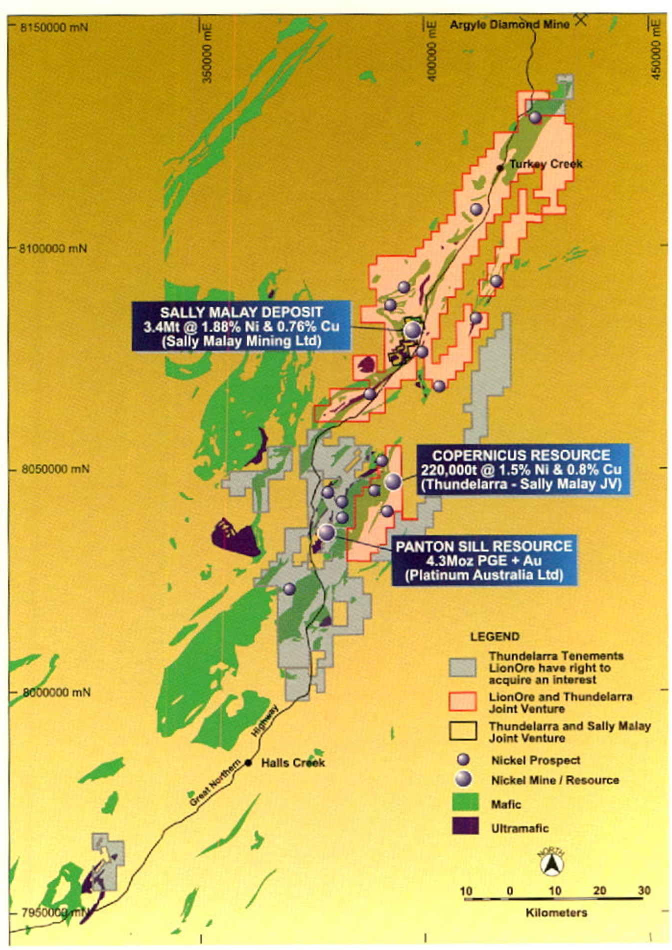
The tenements surround the Sally Malay nickel mine, and the four million ounce Panton Sill PGM resource, and are considered highly prospective for layered mafic and ultramafic intrusion-associated nickel-copper-PGM deposits, similar to Voisey's Bay. Numerous known nickel-copper-PGM occurrences testify to the prospectivity of the belt, including the Copernicus resource currently being delineated by Sally Malay Mining Ltd.

Scotia-Goongarrie Project (LionOre – 100%)

The Scotia-Goongarrie project covers 45 strike kilometers of the nickel prospective Scotia ultramafic belt, and the parallel gold prospective Bardoc Tectonic Zone, commencing some 40 kilometers north of Kalgoorlie. The district is highly endowed with known nickel and gold deposits, including the former Scotia nickel mine, and Placer Dome's multi million ounce Paddington and Aphrodite gold deposits. Limited drilling at the St Patrick's nickel prospect during 2004 extended the known nickel sulfide mineralization on the southern edge of Lake Goongarrie, attesting to the potential for additional discoveries beneath the unexplored salt lake.

Kalgoorlie Nickel Project (LionOre Earn In – 60%)

LionOre and Jackson Gold Pty Ltd (Jackson) agreed to an earn-in and joint venture agreement to explore and develop Jackson's nickel rights areas which extend over 700 square kilometers in the Kalgoorlie region. LionOre has an entitlement to earn a 60% interest in Jackson's nickel rights in the region.



East Kimberley Joint Venture project location and geology

REVIEW OF OPERATIONS –

Activox® Hydrometallurgical Technology

REVIEW OF OPERATIONS - ACTIVOX® HYDROMETALLURGICAL TECHNOLOGY

History

Western Minerals Technology Pty Ltd (WMT) was formed in 1998 as a special purpose company specializing in hydrometallurgy with its primary focus being the commercialization of its proprietary Activox® leaching technology.

LionOre holds 80% of the shares in WMT with the remaining 20% held by Aqueous Metallurgy Pty Ltd, a company controlled by Gary Johnson, the General Manager of WMT. LionOre has an option to acquire Aqueous's 20% share of WMT.

Commercialization of Activox® is key to underpinning the company's production growth and long term prospects and a major step forward was achieved in 2004, with the successfully commissioning of an Activox® Hydrometallurgical Demonstration Plant (HDP) at the Phoenix nickel mine. This plant, which has a scale-up ratio of less than 200 to 1 to a commercial plant with a capacity of 20,000 tonnes of nickel metal a year, was designed to vigorously test the technology at an in-situ operation in a remote area and reduce the risks of a scale-up by confirming the capital and operating costs, the selection of materials and the training of local personnel. A decision on constructing a full size plant at Tati Nickel is anticipated during 2005.

Activox® Hydrometallurgical Demonstration Plant - Tati (Botswana)

Project approval was given in early 2003 to construct a fully integrated Activox® Hydrometallurgical Demonstration Plant (HDP) at the Phoenix site in Botswana. WMT carried out both the design and construction of a skid-mounted plant in Western Australia. An innovative modular design was used to allow shipment to site in sea containers between January and May 2004, with subsequent reassembly at the Phoenix site.

The objectives of the project were to:

- Reduce the risks of scale-up to a full scale plant;
- Confirm the selection of construction materials;
- Confirm capital and operating costs;
- Training of local personnel; and
- Demonstrate the successful operation of Activox® in a remote area.

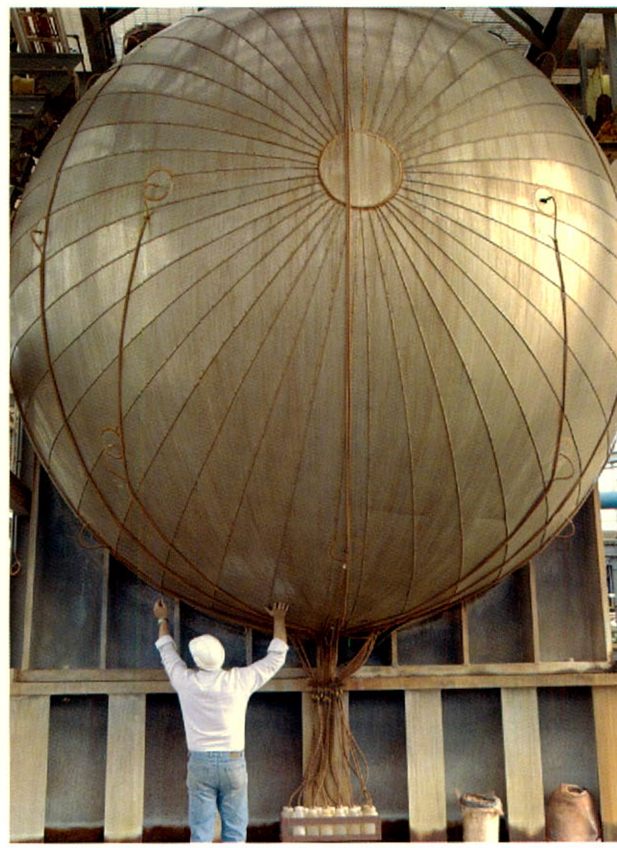
Construction of the $11.5 million HDP was completed on schedule and within budget, with all circuits fully commissioned by early September. Copper cathodes were produced in July, with production of nickel cathode following in August. This represents the first nickel and copper metals ever produced in Botswana.

WMT was awarded both the prize for the best small company project as well as the overall winner for all projects at the Western Australian 2004 Engineering Excellence Awards in recognition of the Company's achievement in designing and constructing the Activox® plant at Tati Nickel.

Avalon Project

In April 2004 LionOre purchased the previously mothballed Bulong Nickel Processing Plant (renamed Avalon) near Kalgoorlie in Western Australia. In early 2004 LionOre initiated technical and financial studies to convert this plant to utilize the Activox® technology to produce nickel metal.

These studies are ongoing, and it is expected that a decision to develop Avalon to a 20,000 to 40,000 tonnes of nickel metal per annum Activox® plant will be made during 2005.



Autoclave – Avalon.

Activox® HDP at Tati Nickel.

REVIEW OF OPERATIONS – Health, Safety, Environment and Community Relations

REVIEW OF OPERATIONS – HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY RELATIONS

LionOre's commitment to health, safety, environment and community relations continued in 2004 with a number of new initiatives introduced across the group.

Health and Safety

Behavioural based safety training was implemented at all LionOre's Australian operations.

During 2004 Tati Nickel Mining Company reached the milestone of one million fatality free shifts on January 5, 2004. Tati was placed fifth in the Botswana Intermine Safety Competition and sixth in the Botswana Intermine Severity Rate Competition for the year 2004. The mine also completed its first grading audit and was awarded Three Platinum Stars by the National Occupational Safety Association certification body under its five star integrated Safety, Health and Environment management system.

Environment

Following the company's success in 2003 as the recipient of the Western Australian Environment Award for Corporate/Business Leading by Example, LionOre Australia was a finalist in the National Banksia Awards under the category "Sustainable Development Leadership in the Minerals Industry". LionOre also won the Australian Mining Prospector magazine award under the category "Excellence in Environmental Management".

LionOre considers the relationship between its activities and the environment at all stages of its operations and the company acknowledges that the long term viability of its business depends on continuous improvement of its environmental management programs. To this end during the year LionOre Australia entered into arrangements with Curtin University of Technology to undertake research programs at LionOre's mine sites and exploration areas.

Community Relations

Throughout the year LionOre continued to further its relationships with the local communities in which it operates. Indigenous Cultural Awareness programs were conducted at all Australian sites. LionOre continued its support for the "Ruggies Recycling" program which donates part proceeds to the Princess Margaret Hospital for Children.

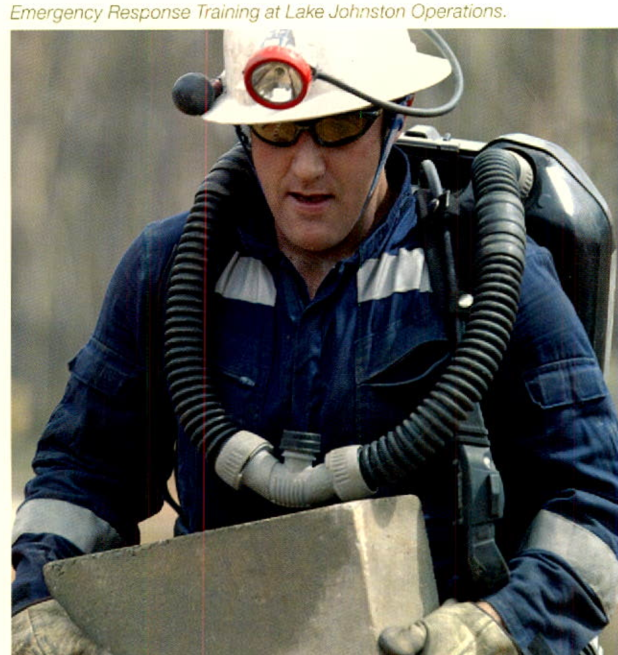
2004 saw the second year of LionOre's graduate program. There are six graduates, being two environmentalists, one mining engineer, one geologist and two metallurgists. For one year each graduate rotates around all of LionOre's operations.

HIV/AIDS Intervention

In 2004 Tati Nickel was awarded top honours at the annual 2004 Red Ribbon Awards. The award conferred by the Botswana Business Coalition on Aids was presented to Tati Nickel 'in recognition of HIV/AIDS as a Business issue and special recognition for a comprehensive HIV/AIDS Intervention Strategy and Business case best practice for 2004'.

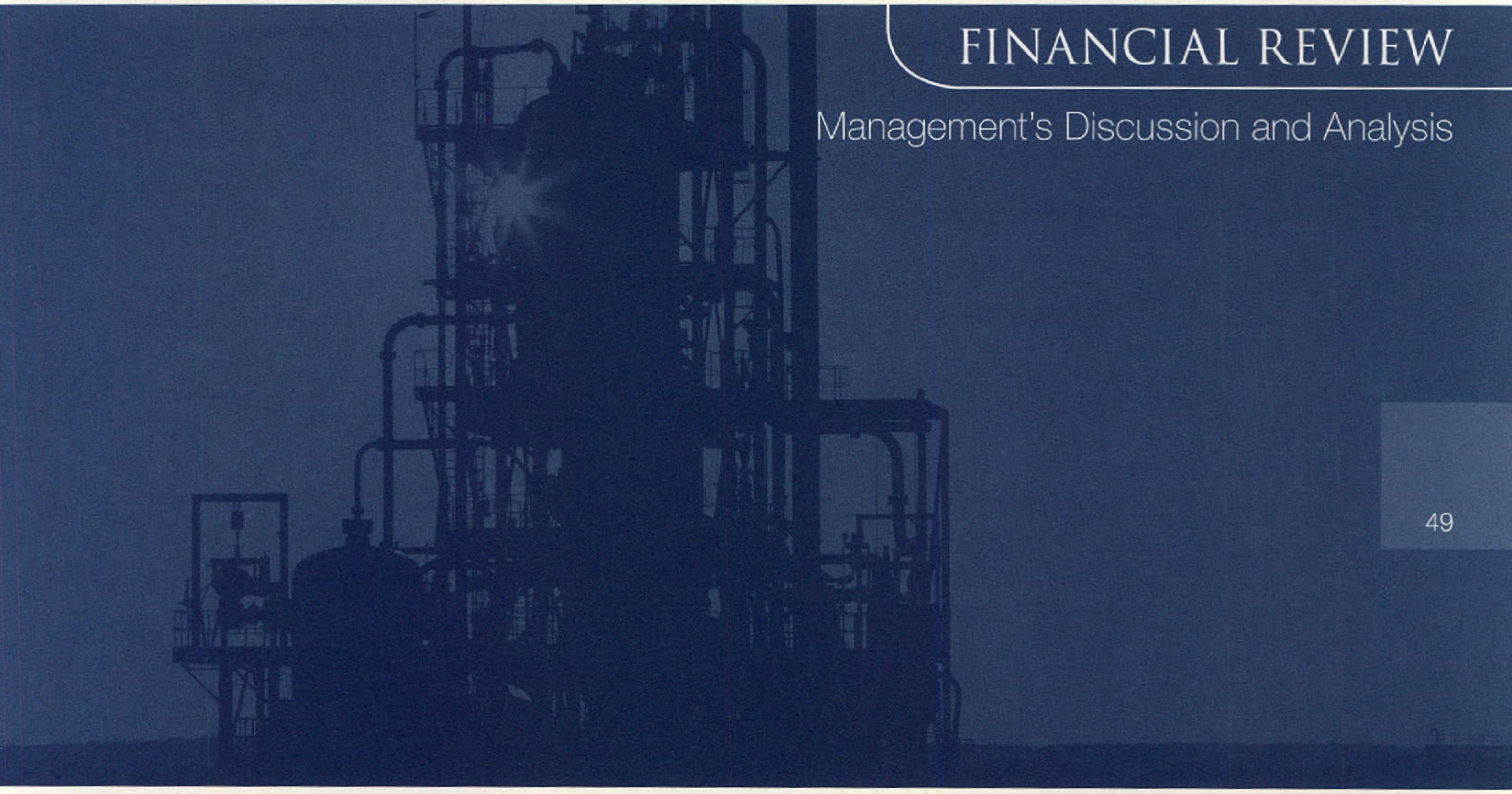
Recycling station at Thunderbox Accommodation Village.

Emergency Response Training at Lake Johnston Operations.



FINANCIAL REVIEW

Management's Discussion and Analysis



FINANCIAL REVIEW

Management's Discussion and Analysis

This document has been prepared as of March 15, 2005 and should be read in conjunction with the Company's financial statements for the year ended December 31, 2004, which are prepared in accordance with Canadian generally accepted accounting principles. The Company's reporting currency is United States dollars.

Forward-Looking Statements

Certain statements contained herein are forward-looking and are based on the opinions and estimates of management, or on opinions and estimates provided to and accepted by management. These opinions and estimates include, but are not limited to, commodity prices, changes in government legislation and regulations, geological estimates, competitive factors, costs of production, foreign exchange rates, and litigation.

Forward-looking statements are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those expressed or implied. Readers are therefore cautioned not to place reliance on any forward-looking statement.

Introduction

LionOre is an international nickel and gold producer headquartered in Toronto, Canada. The Company's producing mining properties are located in Western Australia and southern Africa.

The Company owns 80% of the Activox® process, a proprietary technology for processing metal concentrates. The technology has been proven on a demonstration basis under continuous operating conditions at the Phoenix mine site in Botswana in 2004. Activox® is expected to be used commercially by the Company by 2007 or 2008.

LionOre – A Growth Company

Originally founded as an iron ore company, LionOre was transformed in 1996 into a gold and nickel mining company by a group of individuals with extensive experience in base metal exploration, development and mining, and in particular, nickel mining and marketing. The Company's expertise in managing mining operations, metallurgy and corporate finance has resulted in significant growth since its inception.

LionOre's successful growth is the result of an integrated program of acquisitions, exploration success and operational efficiency resulting in organic growth. LionOre has set out the following principles that will continue to guide the Company's growth and strategic direction in the future.

- To enter into joint ventures with strategic partners to acquire equity interests in exploration, mining and downstream operations,
- To identify, invest in and develop exploration projects that have the potential to become low cost mining operations,
- To identify, acquire and develop mining operations that can be turned into low cost producers by the management and operating resources of LionOre, and
- To develop LionOre's Activox® technology with a view to commercialization in the medium term.

In 2002, a number of three-year strategic targets were set out to complement the long-term goals. They were as follows:

1) To be recognised as a profitable and growing international mining company with significant producing and exploration properties in Australia, Botswana and other selected mining regions of the world,
2) To double attributable nickel production to not less than 30,000 tonnes per year,
3) To build on the existing asset base at Thunderbox to provide a sustainable production level in excess of 200,000 ounces of gold per annum,
4) To expand existing operations in Western Australia and Africa and to establish important and strategic production bases in highly prospective regions of the world,
5) To successfully commercialize the Activox® technology, and
6) To retain, enhance and utilize the LionOre corporate and financial management capacity to rapidly pursue and capitalize on appropriate opportunities in the international mineral business.

FINANCIAL REVIEW

Management's Discussion and Analysis

LionOre – A Growth Company (continued)

The following significant developments since 2002 summarize the steps taken in reaching these goals.

2002

- February – The Emily Ann nickel mine, which produced 7,706 tonnes of payable nickel in 2004, reached full scale production only eight months after the commencement of development of the mine. The pre-production capital expenses were $27.0 million. The Emily Ann deposit was discovered by LionOre.
- May – The Company raised C$100.0 million to fund the acquisition of 43.35% of Tati Nickel, thereby increasing the Company's ownership of Tati to 85% effective September 2002.
- May – LionOre obtained an option to acquire 69% of the Maggie Hays nickel sulfide deposit, which, when exercised in 2003, brought the Company's ownership to 100% and allowed LionOre to control the development of the deposit.
- September – LionOre completed the acquisition of an additional 43.35% of Tati Nickel and began to consolidate the results of Tati. At the time of the acquisition Tati was in the final stages of a capital expansion that doubled the design capacity of the mine from 6,500 tonnes to 12,500 tonnes of payable nickel per annum.
- November – The Thunderbox gold mine poured its first gold, less than 10 months after the initial development commenced. The mine produced 156,916 oz of gold in 2004. Pre-production capital investment was $33.0 million.
- December – The Company completed the buy-out of the minority interest in its 80%-owned Australian publicly listed subsidiary, LionOre Australia (Nickel) Limited, and privatized the subsidiary.

2003

- January – The development of Maggie Hays was approved, and the option to acquire the remaining 69% of the deposit to bring LionOre's share of the project to 100% was exercised.
- March – LionOre approved the construction and operation of an Activox® demonstration plant to operate at the Phoenix mine site in Botswana.
- May – The capital expansion at Tati Nickel was contractually commissioned with final costs of $64.0 million, being below the original budget of $66.3 million. The expansion was funded predominantly from internally generated cash flows.
- October – LionOre completed a merger with Dalrymple Resources NL ("Dalrymple"). Dalrymple was LionOre's 40% partner in the Wildara joint venture which held, among other assets, the Thunderbox gold mine. The transaction resulted in LionOre issuing approximately 25 million shares to Dalrymple shareholders.
- November – LionOre and Thundelarra Exploration Ltd., a publicly listed Australian company, reached an agreement whereby LionOre will earn a 60% interest in a minimum of Thundelarra's 2,800sq km of tenements in the East Kimberley region of Western Australia by funding A$5 million ($3.8 million) of exploration over a four year period.

2004

- April – LionOre acquired the Bulong Nickel Project Plant assets for A$15.0 million ($10.5 million), with a contingent payment of A$7.0 million ($4.9 million) required if the plant is re-commissioned in situ. The project, when originally commissioned in 1998, had a capital cost in excess of A$300 million.
- June – LionOre announces a nickel off-take and funding agreement with Western Areas NL, owner of the Forrestania nickel project. Under the agreement LionOre will purchase ore and/or concentrates and provide funding of up to A$20.0 million ($15.6 million). The Forrestania nickel project is located 80 kms west of LionOre's Avalon (formerly Bulong) facility in Kalgoorlie.
- July – LionOre closed an offering of convertible notes for gross proceeds of $140.0 million. An option for $4.0 million in additional notes under the same issue was exercised in August, bringing total gross proceeds of the 3.8% convertible note issue to $144 million.
- September – The Activox® Hydrometallurgical Demonstration Plant was successfully commissioned at the Phoenix mine at Tati Nickel in Botswana. The project yielded very positive operating results in 2004 and a decision was taken to operate the plant throughout 2005.
- October – LionOre announced a takeover offer for MPI Mines Ltd ("MPI"), a publicly listed Australian nickel miner. The offer comprised A$1.00 and 0.1675 LionOre Shares for every MPI share and resulted in LionOre issuing 21.7 million shares with a value of $105.6 million and paying A$129.5 million ($98.0 million).
- December – LionOre's takeover offer for MPI closed, with over 94% of MPI shareholders accepting the offer and LionOre proceeded to compulsorily acquire the remaining shares. MPI brings to LionOre increased nickel production from its 80% owned Black Swan nickel operations and a resource base that includes 80% of the world class Honeymoon Well deposit, which has an indicated resource of approximately 1 million tonnes of contained nickel.

LionOre – A Growth Company (continued)

2005

- February - LionOre acquired 50% of the Nkomati Nickel Mine in South Africa for an initial consideration of $28.5 million with a contingent payment of $20.0 million under certain conditions, further increasing the Company's production profile and resource base.

The Company measures its performance against the three-year strategic targets as follows:

1) *To be recognised as a profitable and growing international mining company with significant producing and exploration properties in Australia, Botswana and other selected mining regions of the world.*

   The Company has achieved its first target of being recognised as a profitable and growing international mining company with significant producing and exploration properties in Australia, Botswana, and other mining regions of the world. With a significant nickel operation in Botswana, and significant nickel and gold mining operations in Australia, the Company has become a mid-tier producer in a relatively short period of time. The Company also has significantly increased its resource base with deposits that will ensure the Company's long term success.

   The Company has expanded operations in Australia and, on February 2, 2005, announced the acquisition of a 50% stake in the Nkomati Nickel Mine in South Africa. This venture provides further geographic diversification for LionOre in one of the world's most important mining regions.

2) *To double attributable nickel production to not less than 30,000 tonnes per year.*

   The Company has reached its target of a production base of 30,000 attributable tonnes of payable nickel per year. With the upgrade of the Lake Johnston processing plant and development of the Maggie Hays mine, the Lake Johnston operations are expected to produce 11,000 tonnes of payable nickel in 2005. The Black Swan operations, acquired as part of the MPI takeover will contribute a further 8,000 tonnes (10,000 tonnes of total production, 80% of which is attributable to LionOre). This brings the Australian attributable production to 19,000 tonnes of payable nickel.

   In Botswana, Tati Nickel is expected to produce 13,000 tonnes of payable nickel, 85% of which, or 11,050 tonnes is attributable to LionOre. The acquisition of 50% of the South African Nkomati Nickel Mine in early 2005 adds an additional 2,300 attributable tonnes of payable nickel.

   These developments bring the Company's estimated production in 2005 to 32,350 tonnes of payable nickel.

   LionOre's production profile growth is illustrated as follows:

Production from all mines at 100%

(tonnes of payable Ni)	2001	2002	2003	2004	Estimate 2005
Lake Johnston	-	5,301	7,145	7,706	*11,000*
Tati	6,305	7,477	11,509	11,446	*13,000*
Nkomati	-	-	-	-	*4,600*
Black Swan	-	-	-	-	*10,000*
	6,305	12,778	18,654	19,152	*38,600*

LionOre's attributable production

(tonnes of payable Ni)	% ownership	2001	2002	2003	2004	Estimate 2005
Lake Johnston*	100%	-	4,241	7,145	7,706	*11,000*
Tati**	85%	2,626	4,119	9,783	9,729	*11,050*
Nkomati	50%	-	-	-	-	*2,300*
Black Swan	80%	-	-	-	-	*8,000*
		2,626	8,360	16,928	17,435	*32,350*

** During 2002, ownership was 80%*

*** Prior to September 2002, ownership wasw 41.65%*

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LionOre – A Growth Company (continued)

The Company has additional projects that are expected to contribute to future production.

i) In light of the successful demonstration phase of the Activox® hydrometallurgical process in Botswana, the Company will update its feasibility study relating to the economic benefit of building a full scale Activox® plant at Tati Nickel. A full scale Activox® plant at Tati could produce 18,000 – 19,000 tonnes of payable nickel per year, an increase of 6,000 tonnes over present production, with LionOre's attributable share being 85%, or 15,300 – 16,150 tonnes.

ii) The Honeymoon Well nickel deposit is one of the world's largest undeveloped nickel sulfide deposits, with a nickel resource of more than 1 million tonnes and the potential to produce 35,000 to 40,000 tonnes of nickel per annum (LionOre's 80% share representing 28,000 – 32,000 tonnes per annum). LionOre is undertaking feasibility studies into the development of Honeymoon Well and, in particular, will assess commercialisation of Honeymoon Well using hydrometallurgical processing technologies.

iii) The Nkomati lower grade disseminated sulfide orebody offers significant expansion potential. The orebody has a total estimated indicated mineral resource of 139 million tonnes of ore at 0.49% nickel, at a cut-off of 0.30%, containing 680,000 tonnes of nickel (50% attributable LionOre). The Company, with its partner in the Nkomati Mine, African Rainbow Minerals (ARM), plans to complete an expansion feasibility study to assess pit optimization, concentrator design, smelting and refining options including the use of proprietary Activox® technology, the PGM recovery process and project economics.

It is envisaged that the expansion operation would produce an average 16,500 tonnes per annum of nickel, as well as 7,900 tonnes of copper, 55,000 ounces of palladium and 19,500 ounces of platinum (50% attributable LionOre), with an estimated 16 year mine life.

iv) The Company is currently conducting a feasibility study to determine the alternatives for future development of the Waterloo and Amorac nickel deposits in Western Australia.

v) The Company has a number of prospective exploration properties and is investing in a number of initiatives for exploration in 2005.

3) *To build on the existing asset base at Thunderbox to provide a sustainable production level in excess of 200,000 ounces of gold per annum.*

Thunderbox produced 156,916 ounces of gold in 2004. While the outlook for 2005 is for production of 155,000 ounces of gold at Thunderbox, the Company has identified the following additional ways to increase production that will be aggressively pursued in 2005:

i) The current pit at Thunderbox, which is scheduled to be mined to a depth of 240 metres, has been drilled to around 400 metres and remains open at depth. The Company is conducting a study to determine the viability of extracting ore from beneath the current pit design depth.

ii) The Company will continue to explore targets close to the Thunderbox gold mine.

4) *To expand existing operations in Western Australia and Africa and to establish important and strategic production bases in highly prospective regions of the world.*

The fourth strategic target of expanding operations in Western Australia and Africa and establishing important and strategic production bases in highly prospective regions has to a large extent already been accomplished. Operations have been expanding and evolving in Australia on a continuous basis, with major developments periodically, such as the acquisition of MPI in 2004 and in the previous year, the acquisition of Dalrymple. LionOre has also increased its interests in various regions through joint venture agreements on exploration that allows the Company to gain exposure to highly prospective areas such as the East Kimberley region. LionOre's February 2, 2005 announcement of the acquisition of 50% of the Nkomati Mine gives the Company a broader southern African presence to build on its successful operations in Botswana.

5) *To successfully commercialize the Activox® technology.*

The Activox® Phase I Plant at Tati Nickel in 2004 has proven the process under operating in situ conditions. LionOre has identified a number of projects where the process could be employed on a commercial scale including Tati Nickel, Honeymoon Well and other opportunities in Australia, and the Nkomati operation in South Africa.

LionOre – A Growth Company (continued)

6) *To retain, enhance and utilize the LionOre corporate and financial management capacity to rapidly pursue and capitalize on appropriate opportunities in the international mineral business.*

This target addresses the ability and capacity of LionOre to achieve its long term goals and strategic targets. The Company has a strong team of capable mining executives with proven abilities to explore, discover, develop, finance, and operate mines in Australia, Africa and elsewhere. There is sufficient depth of management in place to engage in growth-oriented corporate activity. LionOre's offer for MPI, when it closed, had the acceptance of over 94% of MPI's shareholders. We believe that this reflects the confidence of MPI's shareholders in LionOre Australia's management's ability to add value to MPI's operations.

Recognition of this management ability in Africa is evidenced by the partnership announced between LionOre and Africa Rainbow Minerals in the Nkomati Nickel Mine. LionOre's expertise in the nickel industry and in particular with mining large, open-pit disseminated nickel sulfide orebodies, made the Company a logical partner with which to plan the mine's potential expansion.

The Company has the proven ability to identify and evaluate attractive investment opportunities, raise the required capital and consummate transactions, as well as the management expertise to implement the projects. LionOre expects the acquisitions and internal accomplishments made in 2004 and early 2005 to provide even greater opportunities for growth in the future.

The Company, having largely attained the three year strategic targets that were set in 2002 and coming to the end of the target period, has established the following new objectives to guide the Company's progress over the next three years:

Botswana

- Increase production at Tati Nickel by up to 19,000 tonnes of nickel a year, through either conventional growth and smelting or the use of the Activox® process.
- Conduct brownfield exploration at the Phoenix mine area and the Selkirk disseminated sulfide deposit.

Australia

- Complete the feasibility study on the Avalon hydrometallurgical facility (formerly the Bulong Nickel Project Plant assets), with an initial target of producing a minimum of 20,000 tonnes per annum.
- Delineate the Maggie Hays disseminated sulfide potential to process conventionally or through the Activox® process.
- Increase production at the Lake Johnston operating facility through new production from Maggie Hays or regional exploration success, and third party processing from other nickel operations in the region.
- Conduct a feasibility study on the Honeymoon Well deposit with a view to producing 35,000-40,000 tonnes per year.
- Develop an exploration decline at the Waterloo nickel sulfide deposit to produce nickel and to explore at depth.
- Conduct active exploration programs at:
  a) Lake Johnston
  b) Northeastern Goldfields
  c) East Kimberly region of Northwestern Australia
  d) Lake Goongarrie/Scotia
  e) New prospects, including the Jackson Gold tenements (for nickel)

South Africa

- Complete a detailed feasibility study on the Nkomati disseminated nickel sulfide orebody with the objective of constructing an Activox® hydrometallurgical plant producing approximately 16,500 tonnes of nickel per year.

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Management's Discussion and Analysis

Operating Results

LionOre earned net income of $78.2 million on net mineral sales of $338.2 million for the year ended December 31, 2004, compared to net income of $57.4 million on net mineral sales of $247.8 million in the prior year. Operating earnings for the year ended December 31, 2004, were $126.5 million, compared to $100.4 million for the year ended December 31, 2003.

The higher sales and profits in 2004 were driven by strong nickel prices, which averaged $6.28/lb for the year, as compared to $4.37/lb in 2003. While sales increased by 36%, net income and operating earnings grew by 32% and 26% respectively. The continued weakness of the US dollar increased costs because the operating costs of the Company are incurred largely in Australian dollars and Botswana pula, and these currencies continued to be strong relative to the US dollar.

Gross nickel sales, at $277.9 million amounted to 69.6% of the total mineral sales for 2004 (2003 - $211.4 million, 72.2%). Gold sales of $63.8 million were 16.0% of mineral sales (2003 - $51.9 million, 17.7%), copper sales of $28.9 million were 7.2% (2003 - $16.0 million, 5.51%) and other metals sales of $28.9 million were 7.2% (2003 - $13.6 million, 4.7%).

The Company receives final price determination on its sales of nickel and copper based on prices prevailing up to between four and six months subsequent to the actual shipment. For certain precious metals produced at Tati, the final price determination can take up to nine months. Consequently, the final price for sales which have been made during the latter months of the year is not known with certainty at the end of the year. When final settlement is made, a positive or negative adjustment is recorded in income to reflect the difference in the price recorded and the price actually realised. The total amount of metal sales receivables is evaluated at the end of each reporting period to ensure that the prices of metals in receivables are not in excess of the current prevailing market prices.

Operational Review – Australia

Australia Nickel earned $28.3 million from $86.1 million of net mineral sales for the year ended December 31, 2004 (2003 - $22.3 million from $70.8 million in net sales). Australia Gold earned $2.2 million from $63.3 million of net gold sales (2003 - $13.3 million from $51.4 million in net sales). The increase in the profitability of the nickel business in Australia and the decrease in the profitability of the gold operations were both anticipated and were a result of the production and mining profiles of those business changing during the course of the year. This is discussed below.

On October 17, 2004 LionOre announced a A$285.0 million takeover offer for Australian Stock Exchange listed mining company MPI. The offer comprised A$1.00 cash and 0.1675 LionOre shares for every MPI share. The offer was unanimously recommended by the Board of MPI in the absence of a superior offer emerging. The offer closed on Dec 22, 2004 with greater than 94% acceptances. The Company immediately moved to acquire the remaining shares through compulsory acquisition and as of February 7, 2005 MPI became a wholly-owned subsidiary of LionOre.

As a condition of the offer, MPI was required to spin off its gold assets through a capital reduction and in specie distribution to MPI shareholders prior to the completion of the takeover.

MPI's key nickel assets in Western Australia include 80% ownership of:

- the Black Swan Nickel Operations near Kalgoorlie, which comprise the Silver Swan underground nickel mine and the recently developed Black Swan open-pit nickel mine with forecast nickel production of approximately 10,000 tonnes for the calendar year 2005; and
- the Honeymoon Well Nickel Project in the Northeastern Goldfields (at a pre-feasibility study stage) with an estimated nickel resource of approximately 1 million tonnes and the potential to produce 30,000 to 40,000 tonnes of nickel per annum. The deposit is located some 170 kilometers north of LionOre's Northeastern Goldfields operations.

OMG Kokkola Chemicals Holdings BV, a subsidiary of USA-based OM Group Inc., that purchases the nickel concentrates produced by the Black Swan nickel operation, holds a 20% minority interest in a subsidiary of MPI that holds MPI's nickel assets.

AUSTRALIA NICKEL – LAKE JOHNSTON OPERATIONS

The Lake Johnston Operations are located 540 kilometres east of Perth in the Lake Johnston greenstone belt of Western Australia and host the Emily Ann and Maggie Hays underground nickel mines. The Maggie Hays mine is located just 3 kilometers south of the processing plant at Emily Ann and will enter commercial production in mid-2005. The project utilizes an on-site conventional nickel sulfide concentrate plant having a nominal annual throughput of 500,000 tonnes of ore per year. The operations are expected to produce approximately 11,000 tonnes of payable nickel in 2005.

The Lake Johnston operations produced 56,672 tonnes of concentrate during 2004 (2003: 52,175 tonnes) to yield 7,706 tonnes of payable nickel (2003: 7,145 tonnes). A summary of the production from the Lake Johnston Operations is as follows:

Production – 2004	Total 2004	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Ore mined (tonnes)	**333,527**	95,324	85,612	74,963	77,628
Grade (% Ni)	**2.95**	2.83	3.10	2.70	3.19
Ore treated (tonnes)	**331,842**	84,151	85,471	84,273	77,947
Grade (% Ni)	**2.90**	2.83	2.95	2.66	3.19
Plant recovery (%)	**85.5**	79.9	88.9	87.6	85.6
Recovered nickel (tonnes)	**8,287**	1,904	2,289	1,966	2,128
Concentrate produced (tonnes)	**56,672**	13,510	15,680	13,386	14,096
Produced payable Ni (tonnes)	**7,706**	1,771	2,128	1,828	1,979
Concentrate sold (dry tonnes)	**57,405**	15,339	15,031	16,620	10,415
Payable Ni (tonnes) sold	**7,834**	2,060	2,031	2,290	1,453
Cash cost per pound of payable Ni produced	**$ 2.58**	$ 2.95	$ 2.59	$ 2.44	$ 2.37

Production – 2003	Total 2003	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Ore mined (tonnes)	**291,995**	81,548	72,984	74,182	63,281
Grade (% Ni)	**3.06**	3.11	2.62	3.61	3.06
Ore treated (tonnes)	**283,201**	72,590	77,427	70,354	62,830
Grade (% Ni)	**3.11**	3.19	2.63	3.64	3.04
Plant recovery (%)	**87.1**	87.3	84.8	88.6	87.4
Recovered nickel (tonnes)	**7,682**	2,019	1,725	2,271	1,667
Concentrate produced (tonnes)	**52,175**	13,779	11,781	15,402	11,213
Produced payable Ni (tonnes)	**7,145**	1,878	1,604	2,112	1,551
Concentrate sold (dry tonnes)	**53,120**	28,251	–	17,926	6,943
Payable Ni (tonnes) sold	**7,195**	3,796	–	2,450	949
Cash cost per pound of payable Ni produced	**$ 2.23**	$ 2.60	$ $2.51	$ 1.80	$ 2.12

Mining and processing

Total tonnes mined in 2004 were 333,527 tonnes at 2.95% nickel. For the year the actual plant throughput was 331,842 tonnes, meaning that the plant performed above rated plant capacity for the entire year of operation. Plant metallurgical recovery was 85.5% for the year.

In December 2004, the upgrade of the treatment plant at Lake Johnston was completed. The upgrade includes the commissioning of a 1,250 Kwt Ball Mill (rated at 500,000 tpa). A potential milling capacity in excess of 750,000 tpa now exists (including the current mill) which provides an expansion path in the event that additional reserves/mining capacity can be secured.

The upgrade, which was originally planned for July, was delayed by the tight construction contract market in Western Australia due to the increased activity in the resource sector.

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AUSTRALIA NICKEL – LAKE JOHNSTON OPERATIONS (continued)

Mineral Sales and Operating Costs

Gross nickel sales for the Lake Johnston Operations for 2004 were determined as follows:

($000s except where noted)	**Total**	**Q4**	**Q3**	**Q2**	**Q1**
Nickel sold (tonnes) – 2004	**7,834**	**2,060**	**2,031**	**2,290**	**1,453**
Revenue recognised [1]	**$ 101,596**	$ 27,499	$ 27,311	$ 27,915	$ 18,871
Sales adjustment [2]	**4,761**	3,629	209	(3,791)	4,714
Nickel hedging (decrement) [3]	**(10,599)**	–	–	(5,231)	(5,368)
Other adjustments [4]	**3,083**	1,310	(49)	443	1,379
Total Lake Johnston – 2004	**$ 98,841**	**$ 32,438**	**$ 27,471**	**$ 19,336**	**$ 19,596**

Nickel sales for the Lake Johnston Operations for 2003 were determined as follows:

($000s except where noted)	**Total**	**Q4**	**Q3**	**Q2**	**Q1**
Nickel sold (tonnes) – 2003	**7,195**	**3,796**	**–**	**2,450**	**949**
Revenue recognised [1]	**$ 87,639**	$ 59,147	$ –	$ 20,324	$ 8,168
Sales adjustment [2]	**2,362**	–	28	447	1,887
Nickel hedging (decrement) [3]	**(6,347)**	(5,054)	(38)	(372)	(883)
Other adjustments [4]	**1,190**	1,281	602	(486)	(207)
Total Lake Johnston – 2003	**$ 84,844**	**$ 55,374**	**$ 592**	**$ 19,913**	**$ 8,965**

1. *Recognised at the price on shipment date.*
2. *For past quarters' sales that were recognised in income at a lower (higher) price than the final settlement price.*
3. *As LionOre delivers into hedges and the price was lower than the prevailing price of nickel during the quarter, a hedging decrement is recorded. At December 31, 2004, the Company has no remaining nickel hedges.*
4. *When final settlement takes place the amount of payable nickel may be slightly different from the amount that was expected at the time of shipment.*

Sales of Emily Ann concentrate production are recorded when Inco takes physical delivery on board its ship at the Western Australian port of Esperance. Production is stockpiled until the periodic shipments occur, which can lead to an uneven pattern of revenues being recognised. Although revenue for the concentrate remains unrecorded until Inco physically takes delivery, cash payments are received from Inco on a regular basis for most of the estimated nickel in the concentrate that Emily Ann produces.

As at December 31, 2004, the Company had no outstanding nickel hedging contracts. During the first six months of the year the Company's nickel hedging program resulted in a reduction to nickel revenues of $10.6 million. This had an after-tax effect on the net income for the year of $7.4 million or $0.04 per share. The total negative adjustment to net income in the previous year was $4.4 million, or $0.02 per share. The termination of the Company's nickel hedging program positions the Company to take advantage of stronger nickel prices in future periods on 100% of nickel production.

Gross nickel sales growth to $98.8 million in 2004, from $84.8 million in 2003 was driven by the continued strong nickel price and by the increase in sales.

The cash cost of production at the Lake Johnston operations in Australia was $2.58 for the year ended December 31, 2004 (2003: $2.23). The cash cost was affected by price participation with the refiners which increases with increasing nickel prices, lower head-grades as well as the increase in the value of the Australian dollar in relation to the U.S. dollar. The costs are incurred in Australian dollars. The average exchange rate in 2003 was A$1.00:US$0.6546 while the average in 2004 was A$1.00:US$0.7368, an appreciation of 13%. Expenses in Australian dollars will be 13% higher than in the previous year when stated in US dollars.

Depreciation and amortization of $17.3 million (2003: $14.3 million) is attributable to Lake Johnston operations for the year. This charge reflects the depreciation and amortization of the Company's producing mining assets in the region, based on a units of production calculation. Maggie Hays assets are not yet being depreciated as the mine was not commissioned during the year. The assets will begin to be depreciated following the commissioning in mid 2005.

AUSTRALIA NICKEL – LAKE JOHNSTON OPERATIONS (continued)

Maggie Hays nickel deposit

At December 31, 2004, the decline had advanced 755m. The decline encountered two water bearing structures during 2004 which required de-watering plans to be brought forward and delayed the commissioning date of Maggie Hays. While the de-watering was carried out equipment was relocated to Emily Ann. This allowed Emily Ann to be developed to support the upgraded plant capacity at Lake Johnston until Maggie Hays is fully commissioned. LionOre continued the development of the Maggie Hays nickel deposit.

Access to the Upper Massive Sulfide (UMS) zone was gained in mid-2004, with first ore mined from the UMS in early August. The total spent to date on the project is A$41.0 million. An additional A$9.7 million is expected to be spent in 2005 prior to commissioning.

AUSTRALIA GOLD – THUNDERBOX (100% after October 30, 2003)

The Thunderbox gold mine is located in the Northeastern Goldfields of Western Australia. It consists of an open pit mine that utilizes an on-site treatment facility incorporating single stage crushing, a SAG mill and a ball mill followed by conventional CIL leaching and elution circuits. The treatment facility has a throughput in excess of 2.3 million tonnes per annum.

The Thunderbox gold mine produced 156,916 ounces of gold during 2004.

Production summary

Production – 2004	Total 2004	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Ore mined (tonnes)	**2,417,439**	626,157	640,718	501,417	649,147
Grade (g/t)	**2.24**	2.30	2.19	2.29	2.19
Ore treated (tonnes)	**2,363,933**	589,198	588,840	578,552	607,343
Grade (g/t)	**2.21**	2.44	2.30	2.00	2.11
Plant recovery (%)	**93.4**	92.2	92.0	94.3	95.2
Gold produced (ounces)	**156,916**	42,636	40,052	35,035	39,193
Gold poured (ounces)	**157,487**	45,059	38,383	35,820	38,225
Cash cost per ounce of gold produced	**$ 265**	$ 301	$ 244	$ 257	$ 248

Production – 2003	Total 2003	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Ore mined (tonnes)	**2,546,923**	564,798	636,281	709,646	636,198
Grade (g/t)	**2.70**	2.20	2.50	2.89	3.14
Ore treated (tonnes)	**2,515,587**	563,069	619,808	712,462	620,248
Grade (g/t)	**2.70**	2.22	2.37	2.96	3.18
Plant recovery (%)	**96.6**	95.3	96.7	97.2	96.8
Gold produced (ounces)	**212,459**	39,498	45,699	65,845	61,417
Gold poured (ounces)	**212,904**	38,811	46,204	64,984	62,905
Cash cost per ounce of gold produced	**$ 138**	$ 213	$ 154	$ 110	$ 108

Ore processing

The ore mined, average recoveries and head grade in 2004 were expected to decrease from 2003 as the result of mining occurring in the harder, primary layer of the Thunderbox orebody. Mid-year maintenance performed on the mills, including the replacement of ball mill liners for the first time since the ball mill was started in late 2003, contributed to improvements seen in production in the latter half of the year.

The variance in grades of ore mined from quarter to quarter is a result of fluctuations in grade that will occur as the different zones of the deposit are mined, given that grades are not uniform throughout the deposit. For example, when mining the northern end of the pit where the orebody narrows the grades are lower. Site management will use a combination of grade control procedures and mining methods to reduce grade dilution when this area of the orebody is mined on subsequent levels.

Production for 2005 is expected to be approximately 155,000 ounces of gold.

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AUSTRALIA GOLD – THUNDERBOX (100% after October 30, 2003) (continued)

Mineral sales and operating costs

Gold sales for 2004 were determined as follows:

($000s except where noted)	Total 2004	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Gold sold (oz)	152,975	44,789	36,320	33,611	38,255
Revenue recognised	$ 63,201	$ 19,538	$ 14,652	$ 13,136	$ 15,875
Gold hedging increment (2)	115	(1017)	91	529	512
Total Thunderbox – 2004	**$ 63,316**	**$ 18,521**	**$ 14,743**	**$ 13,665**	**$ 16,387**

Gold sales for 2003 were determined as follows:

($000s except where noted)	Total 2003	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Gold sold (oz) (1)	139,052	34,597	27,722	39,006	37,727
Revenue recognised	$ 50,385	$ 13,736	$ 10,177	$ 13,296	$ 13,176
Gold hedging increment (2)	1,141	100	412	596	33
Total Thunderbox – 2003	**$ 51,526**	**$ 13,836**	**$ 10,589**	**$ 13,892**	**$ 13,209**

(1) *Gold sold figure is LionOre's percent share of sales from the mine. From November 2002 to October 2003 LionOre's share was 60%. Beginning in November 2003 LionOre's share was 100%.*

(2) *LionOre has 226,380 ounces of gold hedged from production at its Thunderbox gold mine as required under financing arrangements. LionOre delivered 75,810 ounces of gold into hedge contracts during 2004 (2003 – 73,325 ounces). At December 31, 2004, the Company's hedged price of gold per ounce was A$568 ($443). In 2004, LionOre prospectively adopted CICA guideline AcG13 "Hedging Relationships" which changed the way the company accounts for its gold hedges. See discussion under Changes in Accounting Policies item (d).*

The cash cost per ounce at Thunderbox was $265 per ounce for the year ended December 31, 2004, while the cash cost for the year ended December 31, 2003, was $138 per ounce. The increased cost is the result of the planned processing of lower grade and harder ores from lower levels of the mine in 2004 as well as the effect of the strong Australian dollar.

Higher costs in 2004, after factoring in the effect of foreign exchange, were the result of substantially higher international diesel prices prevailing. Thunderbox currently generates its power requirements from diesel generators. In order to reduce the Company's dependence on diesel fuel, a natural gas pipeline is currently being constructed which will allow for a significant reduction in power costs beginning mid-year in 2005. The capital cost of the gas pipeline is estimated at A$2.8 million ($2.2 million), with A$1.2 million ($0.9 million) spent in 2004.

Depreciation and amortization of $23.1 million for the year ended December 31, 2004, is attributable to Thunderbox operations (2003: $12.3 million). This charge reflects the depreciation and amortization of the Company's producing mining assets at Thunderbox, based on a units of production calculation. The charge is significantly increased after October 2003 due to the increase in the book value of the mineral property resulting from the cost of the acquisition of Dalrymple's 40% interest being recorded. Of the total purchase price of $101.0 million for the Dalrymple acquisition, $30.7 million was ascribed to the current reserves of the Thunderbox mine.

Operational Review – Africa Nickel

This segment, formerly referred to as Botswana, has been expanded to allow for the expansion of the Company's nickel operations in southern Africa, including the acquisition of a 50% share of the Nkomati Nickel Mine in South Africa.

TATI NICKEL – PHOENIX (85%)

Tati Nickel operates the Phoenix open pit nickel mine located 35 kilometres east of Francistown in Northeastern Botswana. The project utilizes a newly commissioned on-site conventional nickel sulfide concentrate plant having a projected annual throughput of 3.6 million tonnes of ore producing 12,500 tonnes of payable nickel per year. A Phase I Activox® plant is operating on site at Tati Nickel.

Tati Nickel's earnings before non-controlling interest were $68.4 million for the year ended December 31, 2004. This compares to earnings of $34.6 million for the year ended December 31, 2003.

Tati Nickel's sales were comparable to the prior year, with 11,446 tonnes of payable nickel sold. Tati was able to maintain production and sales at the prior year's levels despite the challenges posed by a two-month scheduled smelter shut-down and the negative effects of high seasonal rainfalls on production plans.

TATI NICKEL – PHOENIX (85%) (continued)

A summary of Tati Nickel's mine production is as follows:

Production – 2004 (100% basis)	Total 2004	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Ore mined (tonnes)	**3,189,451**	748,305	790,131	826,178	824,837
Grade (% Ni)	**0.58**	0.48	0.60	0.56	0.66
Ore treated (tonnes)	**3,412,000**	866,000	812,000	855,000	879,000
Grade (% Ni)	**0.53**	0.40	0.64	0.51	0.56
Plant recovery (%)	**87.3**	79.5	85.4	87.9	88.9
Recovered nickel (tonnes)	**15,375**	2,754	4,431	3,848	4,342
Concentrate produced (tonnes)	**252,926**	44,930	66,237	66,464	75,295
Concentrate sold (tonnes)	**252,038**	79,803	41,416	55,524	75,295
Payable nickel produced (tonnes)	**11,446**	2,332	3,125	2,918	3,071
Total payable nickel sold (tonnes)	**11,446**	3,899	2,092	2,384	3,071
Cash cost per pound of Ni produced	**$ 2.60**	$ 2.93	$ 2.72	$ 2.34	$ 2.36
Copper (tonnes)	**8,566**	3,045	1,404	2,130	1,987
Platinum (ounces)	**6,701**	2,317	1,089	1,652	1,643
Palladium (ounces)	**39,018**	14,331	7,141	8,619	8,927

Production – 2003 (100% basis)	Total 2003	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Ore mined (tonnes)	**2,934,963**	788,088	771,624	756,825	618,426
Grade (% Ni)	**0.60**	0.59	0.62	0.59	0.59
Ore treated (tonnes)	**3,065,652**	878,000	778,000	811,000	598,652
Grade (% Ni)	**0.63**	0.58	0.61	0.65	0.68
Plant recovery (%)	**85%**	89%	88%	81%	80%
Recovered nickel (tonnes)	**16,303**	4,589	4,178	4,280	3,256
Concentrate produced (tonnes)	**280,434**	80,020	75,929	73,558	50,927
Concentrate sold (tonnes)	**278,746**	83,507	84,938	78,810	31,491
Payable nickel produced (tonnes)	**11,509**	3,370	3,313	3,307	1,519
Total payable nickel sold (tonnes)	**11,509**	3,360	3,320	3,252	1,577
Cash cost per pound of Ni produced	**$ 2.37**	$ 2.52	$ 2.22	$ 2.24	$ 2.67
Copper (tonnes)	**8,141**	2,195	2,293	2,482	1,171
Platinum (ounces)	**5,396**	1,738	1,385	1,607	666
Palladium (ounces)	**33,039**	10,466	8,628	9,872	4,073

Ore processing

Mining operations at Tati during the fourth quarter of 2004 were adversely affected by abnormally heavy rainfall in the first half of December. 157mm of rainfall was recorded in a 36-hour period – nearly 30% of the annual average, and a level of rainfall not seen in 65 years. The heavy rainfall created potentially hazardous operating conditions in the Phoenix open pit, forcing short-term adjustments to the mine plan.

The immediate impact was to temporarily render inaccessible the high-grade ore zones in the bottom of the pit and compromise the effective utilization of two large shovels. As a result, the operational team decided to temporarily suspend the shovels and utilize the opportunity to accelerate planned mid-life rehabilitation work on them.

The mine plan was adjusted to focus on dewatering the pit, with mining and ore extraction switched to higher cuts in the pit in lower grade zones above the water level, utilizing smaller scale equipment. Payable nickel production and sales in 2004 were below expectations, both at 11,446 tonnes. LionOre had previously targeted production of 13,000 tonnes and sales of 12,300 tonnes.

Significant progress was made in January and early February in dewatering the pit, and access to the higher grade pit floor was achieved in mid-February.

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Management's Discussion and Analysis

TATI NICKEL – PHOENIX (85%) (continued)

The period from December to March is typically the rainy season in southern Africa, and although the mine is equipped to dewater normal amounts of rainfall, unusually large amounts of rainfall in short periods can overwhelm the systems currently in place.

Processing through the plant was maintained at as close to normal levels as practical from the upper level design cut-backs throughout this period, notwithstanding the shortfall in high-grade ore due to the revised mine plan. The plant continued to perform well on the low-grade material, however production in the first quarter of 2005 will be negatively affected.

As scheduled, by mid-February the pit has been de-watered and access to lower levels has been achieved. The mine plan will be readjusted to focus on the higher grade areas of the pit over the remainder of 2005, resulting in the recovery of most, if not all, of the lost 2005 production.

Tati Nickel is projected to increase its ore treated to approximately 3.5 million tonnes in 2005. The grade of ore treated is expected to increase to around 0.60% from 0.53% in 2004, while the recovery rate is expected to be consistent with 2004 recoveries. Payable nickel production is expected to be in the range of 13,000 tonnes despite problems caused by excessive rainfall levels in early 2005.

Mineral sales and operating costs

Tati's gross nickel sales were determined as follows:

($000s except where noted)	Total 2004	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Nickel sold (tonnes)	**11,446**	3,899	2,092	2,384	3,071
Revenue recognised (1)	**$ 155,717**	$ 54,978	$ 27,871	$ 29,197	$ 43,671
Sales adjustment (2)	**23,333**	5,241	3,521	(1,918)	16,489
Total nickel sales – 2004	**$ 179,050**	**$ 60,219**	**$ 31,392**	**$ 27,279**	**$ 60,160**

($000s except where noted)	Total 2003	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Nickel sold (tonnes)	**11,509**	3,360	3,320	3,252	1,577
Revenue recognised (1)	**$ 113,092**	$ 41,564	$ 31,018	$ 27,299	$ 13,211
Sales adjustment (2)	**13,420**	5,966	2,773	1,936	2,745
Total nickel sales – 2003	**$ 126,512**	**$ 47,530**	**$ 33,791**	**$ 29,235**	**$ 15,956**

(1) Recognised at the price on shipment date.

(2) For past quarters' sales that were recognised in income at a lower price than the final settlement price.

The Company's revenue recognition policy is to record revenue based on metal prices at the date of shipment. These amounts are adjusted to actual prices at the time of final settlement. The final settlement price is arrived at between four and nine months respectively for nickel and precious metals after the month of delivery of concentrate to coincide with the smelting and refining processes producing final saleable metals.

Nickel sales in the first quarter of 2003 were adversely impacted by the shutdown of the BCL smelter, where Tati Nickel sends its concentrate for treatment. The smelter was shut down for a six-week period from February 3 to March 18, 2003, during which time BCL declared force majeure and ceased accepting production from Tati. Tati Nickel took this opportunity to effect certain improvements and repairs over a two week period during the shutdown. The production from Tati that was stockpiled during the period of the smelter shutdown was treated throughout the remainder of the year. By the end of the year all the stockpiled amounts had been delivered to BCL or an alternative facility for treatment.

Tati Nickel's earnings were affected during 2004 by the cessation of shipments to the third party smelter, BCL Limited after BCL initiated its planned shut-down for a furnace rebuild. The smelter was shut down from June 12 to August 13. After these repairs it is anticipated that the BCL smelter will not require further major repairs for another 7 to 8 year campaign.

During the period of shutdown, Tati continued to produce concentrates and recommenced shipments to the smelter upon its re-opening. An agreement reached for use of alternative treatment facilities was arranged by Centametall allowing treatment of all stockpiled concentrate by the end of the year.

TATI NICKEL – PHOENIX (85%) (continued)

Tati Nickel's cash costs for the year ended December 31, 2004 were $2.60 per pound. This compares to $2.37 in the prior year. Because of the BCL shut-down and the use of alternate treatment facilities, additional transportation costs for production added $0.17/lb to the annual cost per pound. The Company also incurred costs related to additional handling and other inventory costs that are not normally incurred when production is shipped rather than inventoried. Because the transportation costs were higher, a higher grade concentrate was required to justify the additional costs and ensure commercial viability of the arrangements. To create a higher grade concentrate, recoveries were reduced, resulting in less recovered nickel. In addition, lower grades lead to lower nickel production in the fourth quarter contributing to higher cash costs per pound. (See discussion under Summary of Quarterly Results and Selected Annual Information).

By-product sales were aided by continuing strong demand for metals. At Tati, copper sales were $27.6 million, PGM's were $16.4 million, while other minerals contributed $7.2 million.

Depreciation and amortization of $15.7 million for the year ended December 31, 2004 is attributable to Tati operations. This charge reflects the depreciation and amortization of the Company's producing mining assets at the Phoenix mine, based on a units of production calculation. In the prior year the charge was $10.3 million. During the year an analysis was undertaken of the Company's mining assets and, as a result, the depreciation on certain of those assets was accelerated, leading to higher depreciation in the current year.

Cash costs per pound of nickel produced and per ounce of gold produced

LionOre provides cash cost information as it is a key performance indicator required by users of the Company's financial information in order to assess the Company's profit potential and performance relative to its peers. The cash cost figure represents the total of all cash costs directly attributable to the related mining operations after the deduction of credits in respect of by-product sales. Cash cost is not a GAAP measure and although it is calculated according to accepted industry practice, the Company's cash costs disclosed may not be directly comparable to other nickel producers. By-product credits, in particular copper and platinum group metals (PGM's), are an important factor in determining the cash costs. The cost per pound experienced by the Company will be positively affected by rising prices for copper and platinum group metals and adversely affected when prices for these metals are falling.

Cash costs can be reconciled to the Company's operating costs as follows:

Cash cost per pound of nickel x pounds sold:		
Tati nickel (2.60 x 25,234,000)	$	65.6 million
Lake Johnston (2.58 x 17,271,000)		44.6 million
Cash cost per ounce of gold x ounces sold:		
Thunderbox (265 x 152,975)		40.5 million
Total cash costs		150.7 million
Adjusted by:		
By-product revenues		57.8 million
Other		(4.5) million
Total operating and third party treatment and refining	$	204.0 million
Represented by:		
Third party treatment and refining costs		61.3 million
Operating costs		142.7 million
Total operating and third party treatment and refining	$	204.0 million

Review of Administrative and Other Expenses

Contract revenues and costs

Contract revenues recorded in Australia relate to fees from third parties for hydrometallurgical test work. Costs associated with these contract revenues are located in contract and other expenses.

General and administrative

General and administrative expenses for the year ended December 31, 2004, were $10.3 million, compared to $9.1 million for the prior year. The Company anticipated that its corporate initiatives, such as business development activity would be greater in 2004, thereby increasing general and administrative expenses on an annual basis. It is anticipated that the general and administrative expense will further increase in 2005 due to the growth in the Company's operations and corporate activities.

FINANCIAL REVIEW

Management's Discussion and Analysis

Review of Administrative and Other Expenses (continued)

Foreign exchange

The Company recorded a foreign exchange loss of $8.1 million for the year ended December 31, 2004. This compares with a foreign exchange loss for the previous year of $7.5 million. The Company holds cash and receivables in US dollars in both Australia and Botswana and therefore will experience losses as the Botswana pula (BP) and Australian dollar (A$) appreciate against the U.S. dollar. The majority of this loss occurred in the fourth quarter resulting from the appreciation of the Botswana pula. The pula finished the year at BP 1.00 : US$0.2336, with the last week of 2004 being the strongest week for the pula, reaching historical highs against the US dollar.

The pula has since retreated somewhat in February 2005, averaging US$0.2232, and if it remains at these levels there will be a wresulting foreign exchange gain on the collection of US denominated receivables realised in 2005 from receivables outstanding at December 31, 2004.

LionOre had one foreign exchange forward contract outstanding as at December 31, 2003. This contract expired in May 2004 and no further forward contracts were entered into during the year for foreign exchange. There were no foreign exchange contracts outstanding as at December 31, 2004. LionOre does not currently intend to enter into any foreign exchange forward contracts in 2005.

Gain on marketable securities

The Company recorded a gain on marketable securities during 2003 resulting primarily from the sale of shares held in Jubilee Mines NL. A total of 3.9 million shares of Jubilee Mines NL were divested at an average share price of $1.11 per share for total proceeds of $4.3 million. The shares were recorded at a book value of $0.39 per share ($1.5 million) which resulted in a gain of approximately $0.72 per share or $2.8 million. The Company is fully divested of its holdings in Jubilee Mines NL. There was no similar gain recorded in 2004.

Interest and investment income

Included in interest and investment income is the impact of the movement in the loss position of the Company's gold hedging program. As a result of adopting the CICA guideline AcG13 "Hedging Relationships", the Company must record the change in the mark-to-market position of the Company's hedge book from period to period, as well as the realised gains and losses experienced during the period. The realised gains and losses resulting from the hedging program were previously recognised as a component of revenue. The effect of hedging recognised in interest and investment income in 2004 amounts to $3.7 million.

There are no amounts recorded in interest and investment income in the previous year related to the hedging program. The standard was applied prospectively, and as such the previous year's results were not restated.

The remainder of the interest and investment income of $3.5 million for the year ending December 31, 2004 (2003: $1.5 million) consists of interest earned on cash balances held in the Company.

Interest expense

Nearly half ($4.0 million) of the total $8.3 million of interest expense for the year ending December 31, 2004, resulted from the new issue, in July of 2004, of convertible notes with a face value of $144.0 million. The coupon rate of interest is 3.8%. The portion of the $144.0 million proceeds that was attributed to the convertible features and classified as equity reduces the value of the liability for accounting purposes at the time of issue to $118.3 million. The $118.3 million will be accreted over the life of the notes (7 years) up to the face value of $144.0 million, with the accretion serving to increase the interest expense. The effective rate of interest over the life of the instrument is approximately 7%, with 3.8% paid as cash interest and the other 3.2% reflected by accretion of the liability. The present value of the notes, after accretion for 2004 is $119.5 million.

The remaining interest resulted from project loans in Botswana ($2.42 million) and Australia ($1.1 million), the Corporate debentures that were retired in June 2004 ($0.5 million) and from the Tati purchase loan ($0.5 million).

In 2003, interest expense of $7.7 million was attributable to the following:

- project loans in Australia ($2.4 million) and Botswana ($3.4 million)
- the Tati purchase loan ($0.4 million)
- the Corporate debentures ($1.4 million) now retired.

Other income

The Company, as part of its risk management strategy, maintains business interruption insurance to protect the Company from lost income in the event of unusual occurrences leading to the suspension of normal operating activities. On February 3, 2003 the BCL smelter to which Tati sends its concentrate for processing was shut down following the discovery of a structural failure in the furnace's uptake shaft. The smelter was closed from February 3, 2003 to March 18, 2003, during which time shipments of concentrate were suspended and normal mining operations at Tati were disrupted.

FINANCIAL REVIEW

Management's Discussion and Analysis

Review of Administrative and Other Expenses (continued)

Tati notified its insurers and made a claim under its business interruption insurance to cover business losses resulting from the BCL outage. During 2004, Tati Nickel received the proceeds from that insurance claim in the amount of $1.9 million. The proceeds from the insurance claim have been recorded as other income in the current year.

Current and future income taxes

The Company recorded current income tax expense of $29.9 million and a deferred income tax expense of $0.1 million, for a combined tax expense of $30.0 million. This compares to $26.8 million of future income taxes recorded in the same period of the prior year. A portion of the Company's tax losses have been utilized in Australia to reduce cash taxes otherwise payable. At Tati, cash taxes are being paid in the current year, whereas there were no cash taxes paid in the previous year. The statutory tax rate in Botswana is 25% and that in Australia is 30%.

Australia underwent significant tax reform in 2003. Part of this reform involves the consolidation of group companies into one tax entity. For LionOre's Australian companies, an election was made, effective January 1, 2003, to enter the consolidation regime. By electing to enter the tax consolidation regimes the Company records pre-consolidation tax losses on the basis of each individual company's market value to the group and determines the rate at which tax losses will be available against future group tax income on this basis. As a result of the tax consolidation an additional tax asset was recorded in the amount of $2.5 million by a credit to deferred income tax expense in the current year.

Under the consolidation regime, Australian tax loss carry forwards in the amount of A$60.5 million are available to offset Australian taxes otherwise payable in the current and future periods.

Non-controlling interest

All of LionOre's subsidiaries are wholly-owned with the exception of the following:

- Tati Nickel Mining company: 85%-owned;
- Western Minerals Technology: 80%-owned; and
- MPI Nickel (a subsidiary of 100%-owned MPI Mines Ltd): 80%-owned

The non-controlling interest in 2004 of $11.0 million (2003 - $5.4 million) reflects the 15% interest in Tati Nickel held by the Government of the Republic of Botswana (GRB).

There is no minority interest recorded for the 20% of Western Minerals Technology (WMT) that is held by Aqueous Metallurgy, as that company is currently in a net loss position. The losses, which are not material, are fully recorded by LionOre.

There is no minority interest in income attributable to MPI Nickel, which is 20%-owned by OMG, in 2004. Beginning in 2005, LionOre expects to consolidate the net earnings from MPI Nickel operations and will record the non-controlling interest in those earnings through a charge to LionOre's statement of earnings.

Financial Condition, Cash Reserves and Liquidity

The Company continued to strengthen its financial position during the year. LionOre's changes in financial position are described in detail below.

Cash and cash equivalents

Cash and cash equivalents of $255.0 million include $164.3 million held by LionOre Australia (including MPI), $48.1 million held by Tati Nickel and $42.6 million held at the corporate level. Overall, cash and cash equivalents increased by $219.7 million during the year. Cash from operations was used primarily to repay debt and invest in capital assets.

The Company generated $161.7 million from operations in 2004 compared to $70.2 million in 2003, a 135% increase. Cash flows were also generated from the issue of $144.0 million of convertible notes (see discussion under "Long-term debt").

Non-recurring items included in operating cash flows in the current year included the proceeds from the business interruption insurance claim from Tati Nickel of $1.9 million.

Other cash flows from operations in 2003 include the settlement of a disputed stamp duty. The sale of Bounty Gold Mine to Viceroy Resource Corporation in 1999 attracted an assessment of A$5.3 million ($2.9 million) of Australian stamp duty including interest. The State Revenue Department of Western Australia required the Company to pay this amount in full in advance of a court ruling on the matter. This assessment was paid in full and was recorded as a deposit in other current assets. The Company settled the matter with the State Revenue Department of Western Australia by accepting a refund in the amount of A$3.0 from the A$5.3 million paid. The remaining A$2.3 million ($1.3 million) was written off in 2002. The actual cash refund was received by the Company in 2003.

FINANCIAL REVIEW

Management's Discussion and Analysis

Financial Condition, Cash Reserves and Liquidity (continued)

Cash was also higher at the end of the year because the assets of MPI were consolidated, adding $38.2 million of cash that existed in that company at December 31, 2004.

It should be noted that, immediately subsequent to year end, $98.0 million of cash was placed in a restricted account with a major Australian bank. This is discussed under restricted cash.

Restricted cash

In Botswana, $7.5 million of cash has been placed in a reserve account in relation to loans provided to Tati Nickel by Rand Merchant Bank. The $7.5 million was deposited as security at the outset of the Tati expansion loan in 2002 and will be used to fund the last four principal repayments on the debt in 2007 and 2008.

During the year, restriction was lifted on $2.4 million of cash. The amount was restricted in relation to the financing of the development of the Emily Ann Mine and the restrictions were removed when the financing was repaid earlier in the year.

Subsequent to year end an amount of $98.0 million was placed in a restricted account at an Australian bank to secure an advance of up to A$130.0 million on a temporary line of credit. The Company is currently in negotiations with a number of Australian financial institutions to replace the temporary facility with a permanent facility that will be secured by the Company's operating assets, at which time the cash will be released. The Australian dollar advance was used to pay the cash portion of the consideration due to MPI shareholders.

Accounts receivable

The Company's receivables amounted to $78.5 million at December 31, 2004, decreasing from the December 31, 2003, balance of $96.5 million.

Including MPI receivables of $2.5 million, the receivables in LionOre Australia were $20.8 million. As discussed above, a large shipment late in the previous year resulted in a high receivables balance of $40.6 million at the end of 2003.

Tati Nickel's receivables at $56.5 million were comparable to the balance of $55.8 million in 2003.

Inventories

Inventories have grown significantly to $29.4 million in 2004 from $11.6 million in 2003. MPI inventory acquired adds $9.5 million to the balance. At the end of 2003, LionOre Australia had a large shipment of concentrate, leaving very little on hand, whereas in 2004 the timing of shipments was such that there was a greater amount on hand at the end of the year.

Property, plant and equipment

The net book value of property, plant and equipment increased $113.4 million from $299.6 million at December 31, 2003, to $413.0 million at December 31, 2004. $83.9 million of this increase in property, plant and equipment is attributable to the MPI acquisition, with operations at Black Swan accounting for the majority of this amount. MPI's plant and equipment amounted to $2.3 million, while $81.6 million was attributable to the mineral property.

The Company made investments in existing property, plant and equipment during 2004 amounting to $54.8 million. In Australia, this includes $6.1 million to upgrade the Lake Johnston processing facility, and $10.1 million for existing mining development.

Also in Australia, the Company purchased the Bulong nickel project plant assets. An initial payment of A$15.0 million ($10.7 million) was made to purchase the assets, with another A$7.0 million ($5.5 million) due if the plant is recommissioned. An amount of $4.5 million spent on the feasibility study for the plant was also capitalized.

At Tati Nickel, an amount of $7.7 million was capitalized ($5.9 million in 2003) during the year for expenditures made on the construction of the demonstration plant and related development of Activox®. A total of $24.6 million of capitalized costs incurred for the construction of the Activox® plant and the related Activox® design and engineering costs is included in the balance of property, plant and equipment at December 31, 2004.

In addition to these activities, there is an increase in the balance for mineral properties, plant and equipment due to the appreciation of the Australian dollar and Botswana pula in relation to the U.S. dollar. The assets are denominated in these domestic currencies and therefore when stated in U.S. dollars will be greater than they would have been in the previous year.

A feasibility study to establish a full scale Activox® plant at the Phoenix mine site was initiated in 2003, and is currently being updated with information obtained from running the Activox® Phase I Plant of feed from the Phoenix Concentrator during the latter part of 2004 and early 2005. Metal extractions have been better than anticipated and no process or operational surprises have been encountered.

FINANCIAL REVIEW

Management's Discussion and Analysis

Financial Condition, Cash Reserves and Liquidity (continued)

Depreciation and amortization

Depreciation and amortization expenses for the year ended December 31, 2004, were $56.5 million, compared to $37.1 million in the previous year.

The current year's expense is attributable to the operating segments as follows:

In millions	Depreciation of plant and equipment	Amortization of mineral property	Total
Australia Nickel	$ 9.3	$ 8.0	$ 17.3
Australia Gold	10.3	12.8	23.1
Botswana	8.1	7.6	15.7
Other	0.4	–	0.4
Total	**$ 28.1**	**$ 28.4**	**$ 56.5**

The value of the mineral property is the capitalized cost of the mineral resources/reserves. These amounts are a combination of capitalized exploration and development costs, amounts paid to acquire and maintain tenements and other costs directly attributable to the mineral property. The depletion, depreciation and amortization of mineral properties, plant and equipment is based on the percentage of extraction of the reserves.

Maggie Hays assets are not yet being depreciated as the operation is still in the development phase.

Depreciation and amortization attributable to Australia's gold operations has increased over the prior year. The charge is significantly higher due to the increase in the book value of the mineral property resulting from the cost of the acquisition of Dalrymple's 40% interest. Of the total purchase price of $101.0 million for the Dalrymple acquisition, $30.7 million was ascribed to the Thunderbox mine and is accordingly being depreciated.

Mineral exploration and development properties

Mineral exploration and development properties increased $292.5 million from $164.0 million at December 31, 2003, to $456.5 million at December 31, 2004. $228.8 million of the increase is due to the acquisition of the exploration properties of MPI, most notably the Honeymoon Well deposit. The amount results from the allocation of the purchase price of MPI Mines Limited to the fair value of net assets acquired.

There were $5.6 million of expenditures related to the Maggie Hays nickel project during the year as the mine's development progressed bringing the total expenditure on the mine's development to $8.1 million. The amount will be transferred to mineral properties and will be amortized once the mine is commissioned.

LionOre capitalized the following amounts in respect of exploration costs during 2004.

Tati Nickel near mine	2.9 million
Waterloo Feasibility study	1.3 million
Thunderbox near mine	1.6 million
East Kimberley Joint Venture	1.2 million
Northeastern Goldfields regional nickel	1.9 million
Other various	2.2 million
Total	**11.1 million**

An adjustment to the carrying values of the assets acquired from Dalrymple was required during the year, as the Company made a final determination of the tax values under Australia's new tax consolidation rules. The effect of the change in the Company's tax bases is discussed under "Future Income Tax Liabilities".

As with the mineral properties, plant and equipment, the appreciation of foreign currencies in relation to the U.S. dollar results in higher balances when the assets are translated to U.S. dollars from their domestic currencies.

Other long-term investments and assets

The Company's other long-term investments and assets included $3.8 million of deferred charges related to the issue of the $144.0 million, 3.8% convertible notes. The deferred charges will be amortized over the life of the notes. In addition, $8.0 million of deferred losses related to the Company's outstanding gold hedges is included in this account. This is the result of a change in the way the Company accounts for its hedging contracts. The losses will be recognised in future periods as the Company delivers into the hedges. This is discussed under *Changes in Accounting Policies*.

FINANCIAL REVIEW

Management's Discussion and Analysis

Financial Condition, Cash Reserves and Liquidity (continued)

Amount due on acquisition of MPI Mines

The consideration due to MPI shareholders consists of amounts due in cash and shares. The cash component due is A$129.5 million ($101.1 million) as at December 31, 2004. The share consideration due is valued at $105.6 million representing 21.7 million LionOre shares. 94.7% of the shares and cash due was distributed to accepting MPI shareholders on January 7, 2005. The remaining amounts were settled on February 7, 2005 when the compulsory acquisition was completed.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities have considerably increased over the course of this year. The increase has been experienced in Australia. Payables at Tati Nickel and at the corporate offices are similar to the previous year. In Australia, payables of MPI amounted to $22.1 million at year end. In addition, the costs of acquisition that were unpaid as at December 31 to approximately $9.1 million were also included in Australia's accrued liabilities. There were high payables at Thunderbox, where capital construction on a gas pipeline is ongoing, as well as at the Lake Johnston operations, where Maggie Hays development continues and where the processing facility upgrade was completed near the end of the year.

Long-term debt

The Company's debt profile changed significantly during the year with the repayment of shorter term project loans and the issue of new longer term convertible debt.

Total long-term debt has increased from $77.0 million at December 31, 2003, to $163.3 million at December 31, 2004. Of the existing debt at December 31, 2003 of $77.0 million, only $36.9 million remained at December 31, 2004. MPI debt assumed amounts to $6.8 million at December 31, with the majority due in the next year.

The Company issued $144.0 million of senior unsecured convertible notes due in July 2011. The net proceeds of the issue of the Convertible Notes were $139.1 million after deduction of the combined management and underwriting commission and the expenses incurred in connection with the issue of the notes. The Convertible Notes are convertible into approximately 23.5 million shares beginning November 30, 2004. The convertible notes trade on the Luxembourg Stock Exchange.

The Convertible Notes carry a coupon of 3.80% per annum with a conversion price of US$6.13, representing a premium of 37% over the weighted average price of LionOre's shares on the Toronto Stock Exchange on June 29, 2004, of C$6.02 and based on a USD/CAD exchange rate of 1.3445.

Of the $144.0 million face value of the debentures, $24.8 million was allocated to the convertible component and $118.3 million was allocated to the liability component as the initial carrying value. The carrying value of the debenture will be accreted over the seven year term of the notes to the face value of $144.0 million. The costs of the issue were allocated to the components in proportion to the attributed values.

The Company's net principal repayments on debt obligations were $42.0 million, funded from the Company's cash flows from operations. In addition to regularly scheduled principal repayments the Company made early repayment on certain loans. In Botswana, the Company repaid the $7.0 million loan related to the construction of the Activox® demonstration plant at Tati Nickel.

Of the $163.3 million of long-term debt at December 31, 2004, $16.0 million is Australian dollar denominated, and $0.8 million is Botswana pula denominated, with the remaining $146.5 million in U.S dollars. $24.8 million of long-term debt is scheduled for repayment in 2005.

Future income tax liabilities

Future income tax liabilities increased from $77.4 million in 2003 to $206.0 million in 2004. The Company assumed a future income tax liability of $82.3 million resulting from the revaluation of the assets acquired in the MPI take-over.

Effective in 2003 the Australian tax regime was significantly revised such that Australian entities could elect to file their Australian tax returns on a consolidated basis. At the date of acquisition of Dalrymple, the Company had determined that it would file its Australian tax returns on a consolidated basis; however, it had not determined the specific impact on the tax basis of the Dalrymple assets. The Company anticipated an increase in the tax basis of assets to an amount approximating fair value subject to numerous restrictions. As a result of this expected increase in tax basis, the Company did not recognize the future tax liability resulting from the revaluation of Dalrymple assets for accounting purposes, pending determination of the tax values under the tax consolidation regime. The Company determined the tax values applicable to its assets under the consolidated tax regime with the assistance of a third party consultant and filed the Company's first consolidated tax return for the December 2003 tax year in late 2004.

FINANCIAL REVIEW

Management's Discussion and Analysis

Financial Condition, Cash Reserves and Liquidity (continued)

The amount of future tax liability relating to the purchase price of Dalrymple assets acquired, in excess of the effect of the increase in tax basis of the assets resulting from the tax consolidation, has been recorded as an adjustment to the fair value of assets acquired at the acquisition date. The effect of this adjustment was to increase in 2004 the fair value of producing mineral properties, plant and equipment and mineral exploration properties acquired by $5.5 million and $23.9 million respectively, and increase future income tax liabilities by $29.4 million.

Non-controlling interest

The non-controlling interest at December 31, 2004 of $38.5 million is comprised of a non-controlling interest in Tati Nickel ($28.5 million) held by the Government of the Republic of Botswana (GRB) and a non-controlling interest in MPI ($9.9 million) held by OMG.

The non-controlling interest of $15.2 million at December 31, 2003, comprised only the GRB's 15% share of Tati Nickel. Tati Nickel's non-controlling interest, which is denominated in Botswana pula and translated to U.S. dollars, increases by the GRB's 15% share of Tati Nickel's income after taxation that is recorded in the statement of operations and decreases when dividends are paid. During 2004 there were two dividends paid by Tati Nickel. The Government of Botswana's share of these dividends amounted to $1.2 million.

Upon acquiring 100% MPI Mines, the Company assumed an 80% interest in MPI Nickel, a subsidiary of MPI Mines. The remaining 20% interest in MPI Nickel is held by OMG Kokkola Chemicals BV, a company that is not part of the LionOre group. LionOre will increase this non-controlling interest by 20% of MPI Nickel's income after taxation that will be recorded in LionOre's statement of operations and will reduce this non-controlling interest upon the payment of dividends.

Aqueous Metallurgy owns a 20% interest in LionOre's 80% subsidiary WMT. There is no minority interest recorded at this time for this interest as the Company is in a net loss position and as such, all losses are absorbed by LionOre.

The non-controlling interests for MPI and WMT are denominated in Australian dollars.

Cumulative translation adjustment

The increase in the CTA of $18.1 million is a result of the translation of the net assets of the Company, which are denominated substantially in Botswana pula and Australian dollars, and which strengthened over the course of the year relative to the U.S. dollar.

The Australian dollar increased in value against the US dollar, moving from A$1.00:US$0.7520 at December 31, 2003 to A$1.00: US$0.7805 at December 31, 2004, a strengthening of 3.8%.

The Botswana pula experienced a similar movement, moving from a rate of BWP1.00:US$0.2256 at December 31, 2003 to BWP1.00: US$0.2336 at December 31, 2004, a strengthening of 3.5%.

In addition, the US dollar equivalent of the change in net assets throughout the year will result in increases and decreases in the translation adjustment depending on the movements of the currencies where the related increases occur and the timing of the changes.

Share capital

The common shares in the amount of 194,077,600 outstanding at December 31, 2003, increased to 195,113,600 at December 31, 2004. There were 1,001,000 shares issued pursuant to the exercise of warrants in June 2004, and 35,000 shares issued upon exercise of options. (See note 15 to the financial statements).

In the previous year there were several large share issues. On March 21, 2003, the Company issued 4,000,000 common shares to Inco at C$5.75 per share for proceeds of C$23.0 million ($15.4 million). The funds were used primarily to repay project debt owed to Inco in relation to the Emily Ann mine.

Pursuant to the merger agreement with Dalrymple Resources, LionOre issued 24,989,396 shares to the former shareholders of Dalrymple in November of 2003. The shares were issued at a rate of 1 LionOre share for every 2.92 Dalrymple shares. The value of the shares issued based on the prevailing share prices at the date of the agreement amounted to $100.8 million. LionOre obtained the 40% interest in the Wildara Joint Venture, which includes the Thunderbox gold mine, that it did not already own, as well as a number of prospective gold and nickel properties.

A total of 1,270,000 stock options issued under the Employee Stock Option Plan were exercised during 2003 at an average exercise price of C$1.24 ($0.89) and 115,500 share purchase warrants were exercised at a price of C$2.00 ($1.48).

Subsequent to year end on January 7, 2005, 20,566,803 shares were issued as consideration for the shares of MPI mines to effect the takeover of that company. This amount of shares was issued for the approximate 94.7% of MPI shares that were tendered under the takeover offer. A further issue of 1,124,492 shares was made on February 7, 2005 in order to compulsorily acquire the remaining MPI shares and obtain 100% of the outstanding shares. The total amount of shares outstanding after the shares were issued were 216,804,895.

FINANCIAL REVIEW

Management's Discussion and Analysis

Financial Condition, Cash Reserves and Liquidity (continued)

Stock Options

In 2004, 1,060,000 stock options with an exercise price of C$7.28 and 40,000 stock options with an exercise price of C$5.78 were issued to certain employees and directors of the Company resulting in a fair value at the date of grant of $1.7 million. Each option was determined to have a value of $1.53 and $1.31 respectively, which was determined using the Black-Scholes valuation model assuming volatility factors of between 39.2% and 42.3%, a risk free interest rate of 2.5% and an expected life of three years. The options are being expensed over their vesting period, which is two years.

As at December 31, 2004 there were 4.6 million options outstanding at a weighted average exercise price of $4.51 each.

Summary of Quarterly Results and Selected Annual Information

Summary of Quarterly Results ($ 000s except per share amounts)

QUARTER ENDED				2004				
(US 000s except per share amounts)		**Dec 31**		**Sept 30**		**June 30**		**Mar 31**
Total gross revenues	$	131,738	$	83,706	$	80,797	$	107,603
Net earnings	$	23,995	$	13,926	$	8,878	$	31,401
Basic earnings per share	$	0.12	$	0.07	$	0.05	$	0.16
Diluted earnings per share	$	0.12	$	0.07	$	0.05	$	0.16

QUARTER ENDED				2003				
(US 000s except per share amounts)		**Dec 31**		**Sept 30**		**June 30**		**Mar 31**
Total gross revenues	$	127,325	$	52,856	$	71,227	$	41,516
Net earnings	$	29,536	$	7,898	$	10,925	$	9,067
Basic earnings per share	$	0.16	$	0.05	$	0.06	$	0.06
Diluted earnings per share	$	0.16	$	0.05	$	0.06	$	0.06

Fourth Quarter Results

For the three months ended December 31, 2004, LionOre earned $24.0 million on gross mineral sales of $129.9 million, compared to net income of $29.5 million on gross mineral sales of $127.3 million in the fourth quarter of the prior year. Operating earnings for the three months ended December 31, 2004, were $38.1 million, compared to $51.0 million for the quarter ended December 31, 2003. The strengthening of the Australian dollar and Bostwana pula at the end of the year resulted in a foreign exchange loss of $8.0 million in the fourth quarter. The Company's metal sales receivables and a portion of cash balances are denominated in US dollars.

Australia Nickel Operations

Net mineral sales from Australia's nickel operations were $28.2 million for the fourth quarter of 2004. In the prior year, fourth quarter net mineral sales of $47.0 million represent two thirds of the net mineral sales for the year of $70.8 million. There were no mineral sales from the Lake Johnston operations in the third quarter of 2003 as a result of a 13 week strike at Inco's Sudbury operations. With the resolution of this strike toward the end of the third quarter, all of the stockpiled production from the third quarter, and most of the fourth quarter production, was sold in late December of 2003. Consequently, sales of 3,796 tonnes of payable nickel made in the fourth quarter of 2003 were significantly greater than sales of 2,060 tonnes made in the fourth quarter of 2004.

The net earnings from Australia's nickel operations for the three months ended December 31, 2004 were $10.5 million compared to $16.8 million in the same period of the previous year. The cash cost of production at the Lake Johnston operations in Australia was $2.95 per pound for the fourth quarter of 2004 (2003: Q4 - $2.60). The cash cost recorded in the fourth quarter of 2004 increased from the previous year due to lower recoveries and head grades of ore treated in the fourth quarter of the current year. Recovery and grade were affected by crown pillar recoveries from upper levels which resulted in a higher proportion of oxidised ore at lower overall head grades being treated. This cost was also affected by the increase in the value of the Australian dollar in relation to the U.S. dollar.

Australia Gold Operations

Net gold sales were $18.5 million in the fourth quarter, as compared to $13.8 million in the fourth quarter of 2003. The Thunderbox gold mine produced 42,636 ounces of gold during the fourth quarter of 2004 (Q4 2003: – 39,498 ounces).

Net earnings from Australia's gold operations for the three months ended December 31, 2004 were $2.1 million, compared to $2.0 million in the same quarter of the previous year. Thunderbox cash cost per ounce was $301 per ounce for the quarter ended December 31, 2004. The cash costs for the fourth quarter and year ended December 31, 2003, were $213 per ounce. Costs were pushed higher by the effect of the increase in the cost of diesel fuel as discussed under Thunderbox operations.

FINANCIAL REVIEW

Management's Discussion and Analysis

Summary of Quarterly Results and Selected Annual Information (continued)

Africa Nickel Operations

Tati Nickel's earnings before non-controlling interest were $13.8 million for the quarter ended December 31, 2004. This compares to earnings of $15.8 million in the fourth quarter ended December 31, 2003. Tati nickel and copper sales were $70.3 million for the three months ended December 31, 2004 (2003: Q4 – $52.5 million). Sales of all other minerals were $7.7 million for the quarter (2003: Q4 – $3.9 million).

Tati Nickel's cash cost for the quarter ended December 31, 2004, was $2.93 per pound. This compares to $2.52 in the same period of the prior year.

Cash costs were affected by the lower headgrades as a result of the lower levels of the pit being inaccessible during December due to heavy rainfalls as well as the continued appreciation of the pula. In addition, the transportation costs were higher by approximately $0.33/lb due to shipments being made to alternate facilities for smelting to ensure all of the concentrate produced was sent for treatment by the end of the year.

Selected Annual Information

($000s except per share amounts)	**December 31, 2004**	**December 31, 2003**	**December 31, 2002**
Total gross revenues	$ 403,844	$ 292,924	$ 62,838
Net earnings	$ 78,200	$ 57,426	$ 2,676
Basic earnings per share	$ 0.40	$ 0.34	$ 0.02
Fully diluted earnings per share	$ 0.40	$ 0.33	$ 0.02
Total assets	$ 1,273,482	$ 624,229	$ 342,293
Total long term liabilities	$ 434,083	$ 152,152	$ 126,642

The Company has not declared dividends in the past three fiscal years.

The financial measures noted above have been significantly impacted by acquisitions made by the Company as well as by internal growth and development.

The Company became an active producer of nickel when Emily Ann began commercial production in the first quarter of 2002. Later that year, the Company became a gold producer when the Thunderbox gold mine began commercial production in November of 2002. Combined, these Australian mining operations contributed $43.5 million in mineral sales and $6.3 million to net earnings before tax during 2002.

In 2002, the major change on the Company's balance sheet was caused by the acquisition of 43.35% and consequent control of Tati Nickel. Prior to the acquisition, which occurred in September of 2002, the Company owned 41.65% of Tati Nickel and accounted for the investment on an equity basis. From the date of acquisition the Company began consolidating the results of Tati Nickel, which had a pronounced impact on the balance sheet, increasing the net assets at the date of acquisition by $78.0 million. The purchase price of $75.9 million was funded by the issuance of share capital and by a $20.0 million loan. The net assets acquired consisted primarily of mineral properties, and plant and equipment, representing the reserves and recently constructed infrastructure at the Phoenix mine respectively.

For accounting purposes, the Company had to take into consideration that a portion of the future amortization of the fair value of the net assets acquired would not be deductible for tax purposes and therefore was required to establish a future income tax liability to reflect this fact. The resulting future income tax liability of $19.5 million was also applied to increase the carrying value of property, plant and equipment and exploration properties. The amortization of the incremental value related to the tax liability will not have an effect on the statement of earnings, as the amortization will be directly offset by the future income tax credit in income.

The Tati acquisition had an effect in the statement of operations only for the fourth quarter of 2002, during which time the results of operations were consolidated. During this period Tati Nickel contributed $18.5 million in mineral sales and $0.6 million to net earnings.

In December of 2002, LionOre also acquired the minority interest in LionOre Australia (Nickel) Limited, which was the Company's 80% controlled Australian public subsidiary. LionOre paid $14.1 million to complete the transaction and privatized the subsidiary.

In 2003, the events of the previous year were evident in the results, as the Company experienced a full year of production from all of its mining operations for the first time.

On June 3, 2003, the Company announced that it entered into an agreement to merge with Dalrymple Resources NL. Dalrymple was LionOre's partner in the Wildara Joint Venture (Wildara), which holds the Thunderbox gold mine and the nearby Waterloo and Amorac nickel deposits as well as a number of other exploration properties that are prospective for gold and nickel. The ownership structure of Wildara prior to this transaction was LionOre 60% (operator) and Dalrymple (40%). The transaction was completed on October 30, 2003 and resulted in LionOre issuing 24,989,396 new shares to Dalrymple shareholders.

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Management's Discussion and Analysis

Summary of Quarterly Results and Selected Annual Information (continued)

The purchase method of accounting was used to record the transaction, with LionOre as the acquirer. The fair value of the share compensation was $100.8 million and this amount plus minor expenses of acquisition of $0.1 million was applied to the fair values of the net assets acquired. A fair value of $25.2 million was attributed to the Thunderbox gold mine. The largest component of the compensation paid was allocated to the mineral exploration and development properties in the amount of $79.4 million as follows:

Wildara Gold	$48.7 million
Wildara Nickel	$14.1 million
Other	$16.6 million
	$79.4 million

In 2004, the finalization of the Company's tax status under the tax consolidation regime resulted in a further increase in the carrying values of the exploration and development properties of $23.9 million with a corresponding increase in the future income tax liability.

As previously discussed, in December of 2004 LionOre's bid for MPI closed with greater than 94% acceptances. The Company immediately moved to acquire 100% using Australia's compulsory acquisition rules. The payment of the consideration, as discussed above in the section entitled '*Amount due on acquisition of MPI Mines*' resulted in LionOre issuing 21,691,295 new shares to the shareholders of MPI.

The purchase method of accounting was used to record the transaction, with LionOre as the acquirer. The fair value of the share compensation was $105.6 million, while the cash compensation was A$129.5 million ($98.0 million) this amount plus estimated expenses of acquisition of $22.8 million, including stamp duty, purchase of employee options and professional fees related to the transaction, was applied to the fair values of the net assets acquired.

The excess of the purchase price over the carrying value of net assets acquired was $191.9 million. This amount was applied to the fair value of the mineral properties and the exploration and development properties acquired. In addition, an income tax liability amount of $82.3 million was recognised on the acquisition of MPI and was applied to increase the carrying value of property, plant and equipment. It should be noted that this amount, required to be calculated under Canadian generally accepted accounting principles regarding income taxes, will have no effect on cash flows and will likely have no effect on net income. Although the increase in the value of property, plant and equipment will be amortized over the life of MPI's mining properties, and affect pre-tax income, an equal and offsetting amount is expected to be recorded as a tax recovery through the provision for income taxes, producing no effect on net income.

The most significant assets acquired in the transaction were the mineral properties and exploration and development properties, collectively valued at $312.7 million (Note 3(a) in the consolidated financial statements). Specifically, the value was allocated to the mineral reserves at the Black Swan Nickel Operations and to other properties including the mineral resources at the Honeymoon Well nickel sulfide deposit as follows:

Black Swan Nickel Operations (producing mineral properties)	$83.9 million
Honeymoon Well and other (exploration and development properties)	$228.8 million
	$312.7 million

The allocation amongst the mineral resources is currently under review and will be confirmed in early 2005. The current allocation is management's best estimate based on internal valuations using all the information known at the current time.

Changes in Accounting Policies

The Company has had the following changes in accounting polices over the past three fiscal years as a result of changes in the applicable standards issued by the Canadian Institute of Chartered Accountants:

(a) Effective January 1, 2002, the Company implemented the revised CICA standard on foreign currency translation which required that foreign exchange gains and losses on long term monetary items be recorded on the statement of earnings as they occur. Previous to this date, the foreign exchange gains and losses on long term monetary items were deferred and amortized over the life of the related item. The standard was applied retroactively and the financial statements for 2001 were restated. At December 31, 2001, the deficit was increased by $0.7 million, the investment in Tati Nickel decreased by $1.0 million, the future income tax liability decreased by $0.2 million and the cumulative translation adjustment decreased by $0.3 million. For the year ended December 31, 2001, the share of earnings of Tati Nickel decreased by $1.3 million, future income taxes decreased by $0.2 million and foreign exchange loss decreased by $0.4 million, resulting in an increase in the net loss of $0.8 million.

Changes in Accounting Policies (continued)

(b) Effective January 1, 2004 the Company adopted CICA Handbook section 3100 - Asset Retirement Obligations. Under this standard, the Company is required to record a liability for the future estimated costs of satisfying the mine closure obligations at the commencement of, or acquisition of, mining operations. The fair value for the mine closure provision would normally be the present value of the estimate of the future costs (cash flows) associated with mine closure as determined by mine closure plans or other reliable information. The liability for mine closure is recognised as an increase in the carrying amount of the related mineral property. The capital cost will be amortized as the mineral property is depleted and the liability will be accreted over the life of mine to the future value through a charge to income.

The previous method of recording the provision for mine closure was to increase the liability over the life of mine by a charge to income for mine closure provisions. The new policy has been applied to LionOre's financial statements on a retroactive basis. The change in accounting policy as of January 1, 2004, resulted in an increase in property, plant and equipment of $4.5 million, an increase in mine closure provision of $5.1 million, an increase in the retained deficit of $0.5 million and a decrease in the cumulative translation adjustment of $0.2 million.

(c) Effective January 1, 2004 the Company adopted *CICA Handbook section 3870- Stock-based Compensation and Other Stock-based Payments* accounting policy which changes the way the Company accounts for stock based compensation. Previously the Company did not record the fair value of stock options issued to employees in the statement of earnings, but instead provided pro-forma information on the fair value of stock compensation and the effect on the Company's net earnings in the notes to the financial statements. Under the new *CICA Handbook section 3870- Stock-based Compensation and Other Stock-based Payments,* the Company has expensed the fair value of stock options in the financial statements. The policy has been applied retroactively. The change in accounting policy as of January 1, 2004, resulted in the establishment of a stock options account in the shareholders equity section of the balance sheet of $1.0 million and an increase in the retained deficit of the same amount.

(d) Effective January 1, 2004, the Company adopted CICA guideline AcG13 "Hedging Relationships" which establishes new standards for when hedge accounting may be applied. Gains and losses on commodity sales contracts that qualify for hedge accounting treatment under AcG13 are recognised as adjustments to sales. Those contracts that do not meet the criteria are recorded as an asset or liability with changes in the fair value of the contracts in each period recorded in interest and investment income on the statement of earnings. In 2004, the Company determined that the Company's gold hedging contracts would no longer qualify for hedge accounting treatment under the guideline. The Company has applied the standard prospectively and as such, the unrealised loss as at December 31, 2003 was recorded as a liability by the creation of an asset representing the deferred losses. The change in the loss position of the hedging contracts of $2.8 million and the realised hedging gains experienced during 2004 as gold ounces were delivered into hedges of $1.0 million, were recorded in interest and investment income. The unrealised hedging position as at December 31, 2003 that was attributable to hedging contracts expiring during 2004 has been recognised in 2004 as a credit to revenues.

There were no changes in accounting policies outside of those changes mandated by a change in the CICA standard.

In 2005, it is anticipated that there will be no changes to the Company's accounting policies that will require retroactive adjustments to the Company's financial statements in response to new standards being issued by the CICA.

Critical Accounting Estimates

The application of certain accounting policies requires the Company to make estimates based on assumptions that may be uncertain at the time the accounting estimate is made. The Company has determined the following accounting estimates are critical and could have a material affect on the financial statements of the company if there is a change in estimate.

Depreciation and, amortization of property, plant and equipment

Property, plant and equipment comprise the largest component of the Company's assets and as such, the amortization of these assets has a significant effect on the Company's financial statements. Upon commencement of commercial production the Company amortizes the mineral property and mining equipment and other assets over the life of the mine based on the depletion of the mine's proven and probable reserves. In the case of mining equipment or other assets, if the useful life of the asset is shorter than the life of the mine the asset is amortized over its expected useful life.

The proven and probable reserves are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves. The assessment involves the study of geological, geophysical and economic data and the reliance on a number of assumptions. The estimate of the reserve may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

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Critical Accounting Estimates (continued)

A change in the original estimate of reserves would result in a change in the rate of depletion and amortization of the related mining assets or could result in impairment of the mining assets resulting in a write-down of the assets.

The effect of a change in the estimate of reserves would have a relatively greater effect on the amortization of the current mining operations in Australia because of their short mine lives. The short mine life results in a high rate of amortization and depreciation and mining assets may exist at these sites that have a useful life in excess of the life of the related mine. The Phoenix mine in Botswana, which has a longer mine life, would be less affected by a change in the reserve estimate.

Valuation of exploration and development properties

When funds are expended for exploration on the Company's exploration properties the Company makes a determination as to the likelihood that the property explored will result in the eventual discovery of a mineable reserve. Where the determination is made that the potential for a future mineable reserve exists, from which the future cash flows will exceed the amount expended, the company capitalizes the expenditures to the value of the property.

The Company may periodically revise its valuation based on additional exploration results and determine that the fair value of the property on the balance sheet is impaired. When such a change in estimate is made there may be a material effect on the balance sheet and statement of earnings.

The Company, from time to time, acquires exploration and development properties. When a number of properties are acquired in a portfolio, the Company must make a determination of the fair value attributable to each of the properties within the total portfolio. When the Company conducts further exploration on acquired properties it may determine that certain of the properties do not support the fair values applied at the time of acquisition. If such a determination is made, the property is written down, and could have a material effect on the balance sheet and statement of earnings.

In 2004, the Company acquired exploration and development properties in the takeover of MPI and in 2003, the Company acquired exploration and development properties in the transaction with Dalrymple Resources NL (previously discussed in the *"Summary of Quarterly Results and Selected Annual Information"*). The attribution of fair values to the properties acquired are reviewed on a regular basis as the properties are further evaluated and explored and to the extent that future impairment is determined a write down in future periods may be required.

Mine closure provisions

The Company has obligations for site restoration and decommissioning related to its mining properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the laws and regulations of the countries in which the mines operate, the requirements could change resulting from amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

Because the estimate of obligations is based on future expectations, a number of assumptions and judgments are made by management in the determination of closure provisions. The closure provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording mine closure provisions is to establish provisions for future mine closure costs at the commencement of mining operations based on the present value of the future cash flows required to satisfy the obligations.

The amount of the present value of the provision is added to the capital cost of the related mining assets and depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to income.

Income taxes

The determination of the ability of the Company to utilize tax loss carryforwards to offset future income tax payable requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether the Company is "more likely than not" able to benefit from the prior losses. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realised or the timing of utilizing the losses. In the event that it is determined that certain of the losses are not likely to be utilized, a valuation reserve would have to be recorded against the loss carryforwards through a charge to income. Conversely, where amounts that are now considered not likely to be utilized to reduce future tax payable are determined to be likely to be utilized in the future, the valuation allowances against these losses would be removed by recording a future income tax recovery in the statement of operations.

Critical Accounting Estimates (continued)

As at December 31, 2004, the Company has estimated a non-capital loss carry-forward in Canada of approximately $23.6 million, which can be applied to reduce future Canadian income taxes payable and will expire in 2005 to 2011. The tax benefit of these loss carry-forwards has not been recognised in these financial statements. LionOre may not be able to benefit from these loss carryforwards and is uncertain whether they will be recognised in future.

Also at December 31, 2004, the Company has estimated Australian tax loss carry forward in the amount of A$60.5 million ($47.2 million) which is available to offset taxes payable in future periods. The tax benefit of these loss carry forwards are recognised in the financial statements as management has determined that the benefit is more likely than not to be realised.

As a result of changes to the Australian corporate tax regime effective for years ended December 31, 2003, the Company has made an election to adopt a consolidated group tax reporting basis in Australia. The election resulted in a revision to the income tax basis of certain Australian assets and liabilities. The Company determined the most tax efficient basis and timing for such an election and has adjusted the tax assets and liabilities to reflect these revisions. As a result of this election, the tax base for the Australian assets benefited from an up-lift of A$30.7 million ($24.0 million), of which A$22.0 million ($17.2 million) relating to exploration assets was utilized in the December 2003 tax return. The increase in the tax basis of the assets was not as much as was initially anticipated in respect of the assets acquired in the acquisition of Dalrymple, and as such an adjustment has been made to the purchased assets to reflect a future income tax liability of $29.4 million.

Nickel Hedging Program

In Australia, the Company's hedging program as required by financing agreements was concluded during the year in conjunction with the repayment of the related debt facilities.

The hedges resulted in reductions to sales of $10.6 million during the year.

Gold Hedging Program

Gold hedges represent approximately 59% of the current gold reserves, and will be delivered over the period to July 2007.

Gold Delivery Obligations (in ounces)	<1 year	1-3 years	after 3 years	Total
Total	78,439	147,941	–	226,380

The prices set on delivery into these gold contracts are all approximately A$568.0 which is equivalent to US$443.0 as at December 31, 2004. The mark to market position of the hedge book as at December 31, 2004 was a loss of A$6.5 million ($5.1 million).

The impact of the hedging program on the statement of earnings in 2004 is detailed in the discussion of Changes in Accounting Policies, item (d).

Funding requirements

At December 31, 2004, the Company's working capital was $154.8 million. Immediately subsequent to year end, the Company drew down on an Australian dollar denominated short-term loan facility in the amount of A$122.8 million ($95.8 million) to complete the acquisition of MPI. Strong cash flows during the year created a stronger balance sheet that allowed the Company to consider various options for financing the MPI transaction.

The high cost Canadian dollar denominated 12% unsecured debentures were retired during the year and a new series of 3.8% convertible US dollar denominated notes were issued for gross proceeds of $144.0 million (discussed under long-term debt).

Botswana and Australia project financing continued to be repaid, with the balance of project loans remaining at December 31, 2004 totalling just $30.4 million, with $16.6 million of this to be repaid in 2005.

The ability to establish new funding arrangements gives the Company options for financing a number of projects that are under consideration.

The Company has funded the development of the Maggie Hays nickel project, including an upgrade to the Emily Ann processing plant to accommodate the ore from Maggie Hays and the purchase of the Bulong nickel project plant assets with cash generated from other Australian operations.

The $11.5 million Activox® demonstration plant project was funded through a combination of debt and internally generated cash. A U.S. dollar denominated $7.0 million debt facility arranged with Rand Merchant Bank that was drawn on in December 2003 was repaid in the first quarter of 2004.

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Contractual Obligations and Commitments

($000s)	Payments Due by Period <1 year	1-3 years	3-5 years	After 5 years	Total
Long term debt	24,837	12,989	5,876	119,610	163,312
Reclamation and site closure	421	856	5,476	51,948	58,701
Operating leases	918	466	–	–	1,384
Mining operations, supplies inventories and consumables	1,001	419	38	–	1,458
Exploration	5,264	–	–	–	5,264
Power contracts	2,931	–	–	–	2,931
Capital expenditures	50,131	58,539	23,695	8,523	140,888
Total contractual obligations	85,503	73,269	35,085	180,081	373,938

Long-term debt

Except in the case of breach of the terms and conditions of its debt agreements, the Company does not hold any debt subject to accelerated payment clauses.

Reclamation and site closure costs

The amounts included in the table represent our present legal obligations for costs at our existing operating mines in Australia and Botswana. The Company is required to post a performance bond for its estimated Australian reclamation and closure costs.

Power contracts

LionOre has entered into a contract with Kalgoorlie Power Systems to provide power for its Australian operations in the region.

Capital expenditures

Capital expenditures in the table include payments required to maintain title and rights to mine at our mineral properties. In the event that the Company takes the decision to abandon a property or discontinue mining operations, the Company is not legally obligated to make payments relating to those properties. Amounts also include those expenditures required to sustain production at the Company's mines.

The company purchased the Bulong Project Plant assets during the second quarter. The initial amount due of A$15.0 million was settled on the completion date of May 6th, and was funded through internal cash flows. A contingent payment of A$7.0 million is payable if the plant is recommissioned.

Exploration and third party funding

During 2004, the Company entered into a nickel off-take and funding agreement with Australian Stock Exchange-listed nickel company Western Areas NL. Under the agreement LionOre will purchase ore and /or concentrate from Western Areas and may provide a loan of up to A$20.0 million to fund the development of Western Areas' 100%-owned Forrestania Nickel Project, located 80km west of LionOre's Lake Johnston Operations.

The Company has entered into a number of agreements with joint venture partners to fund exploration in order to earn an interest in tenement holdings.

Sensitivity Analysis

Net income and earnings per share (EPS) are affected by certain external factors including fluctuations in metal prices and changes in exchange rates between the Botswana pula, the Australian dollar, and the US dollar.

The following table illustrates the sensitivity of the Company's forecasted 2005 net income to changes in key metal prices and foreign exchange rates:

Sensitivity ($000s)	Change in Sensitivity	Effect on Net Income	Effect on EPS
Price of gold	US $10/ounce	$ 1.2 million	$ 0.01
Price of nickel	US $0.25/pound	$ 13.4 million	$ 0.06
$US:$A exchange rate	10% movement	$ 15.6 million	$ 0.07
$US:Pula exchange rate	10% movement	$ 15.8 million	$ 0.07

** This amount does not include the effect of gold hedges described in this document under "Gold Hedging Program".*

FINANCIAL REVIEW

Management's Discussion and Analysis

Risk Factors

Competition

There is competition within the mining industry for the discovery and acquisition of properties considered to have commercial potential. The Company competes with other mining companies, many of which have greater financial resources than the Company, for the acquisition of mineral claims, leases and other mineral interests as well as for the recruitment and retention of qualified employees and other personnel.

Mineral prices

Nickel and gold prices are two of LionOre's key performance drivers and fluctuations in the prices of these commodities can have a dramatic effect on the results of operations. Prices fluctuate widely and are affected by numerous factors beyond the Company's control. The prices of metals are influenced by supply and demand, exchange rates, inflation rates, changes in global economies, and political, social and other factors. The supply of nickel, gold and other metals consists of a combination of new mine production and existing stocks held by governments, producers and consumers.

If the market prices for nickel, gold or other metals fall below the Company's full production costs and remain at such levels for any sustained period of time, the Company may, depending on hedging practices, experience losses and may determine to discontinue mining operations or development of a project or mining at one or more of its properties. If the price of nickel or gold should drop significantly, the economic prospects of the mines and projects in which the Company has an interest could be significantly reduced or rendered uneconomic.

The nickel market remained strong in 2004, but was marked by short term volatility. After peaking at $8.06/lb in early January of 2004, the nickel price retreated until mid-May, reaching a low of $4.78/lb on May 18th before strengthening in the period form May to December and ending the year at $6.90/lb. The average cash price per pound for 2004 on the London Metals Exchange was $6.28. Nickel market volatility was experienced throughout the year. For example, the nickel price opened the week of October 11th at a price of $7.52/lb and closed on Friday October 15th at $6.20/lb, a change of $1.32/lb, or 18%, during the week.

At the date of this MD&A, the cash price of nickel quoted on the London metals exchange is $7.28/lb. Prices could fall below current levels and short term volatility could cause significant differences in revenues from period to period.

This strength in the market is expected to be sustained, with strong demand continuing to be driven by the growth in stainless steel production in China. There is also expected to be a growth in demand related to applications in the aerospace and oil and gas industries. The forecasted supply shortage for nickel, is expected to be most pronounced in 2005, with few new sources of supply being brought into production and statements from the world's two largest producers of nickel in the world, Inco and Norilsk, in early February that their 2005 production would be reduced from 2004 levels in the range of 10,000-15,000 tonnes each.

In late 2003 and early 2004 when the prices of nickel peaked, some steelmakers began to produce stainless steel using less than 5% nickel, as opposed to the normal composition of 8% nickel, and containing 8%-10% manganese (referred to as 200 series). This caused speculation that the substitution of manganese, caused by the high price of nickel, would result in an easing of demand for nickel and a corresponding fall in the price of nickel. These fears proved to be unfounded, as the 200 series steel proved to be unsatisfactory, with lower corrosion resistance than the normal grades. Some producers have ceased production of the 200 series and there have been calls in China to ban the import of this low grade steel.

The supply shortage is forecasted to abate somewhat in 2007, once Inco's Voisey's Bay and Goro projects are producing. Demand, however, should remain strong and therefore so should nickel prices.

The gold market has also experienced another strong year, with prices averaging over $400. In respect of gold prices, the market forces are much more complex and, as such, the future expectations for gold prices are much more difficult to predict. Unlike the nickel market which is largely driven by supply and demand, gold is affected by the substantial amount of non-producer speculation in the buying and selling of gold. Gold markets are marked by high volatility over short periods.

LionOre has partially hedged against fluctuations in the price of gold in compliance with Thunderbox financing requirements. These hedges are denominated in Australian dollars, as the associated costs to produce gold are incurred in Australian dollars. While the price of gold has risen significantly since LionOre began producing gold, the inverse has been seen in the movement of the US dollar, resulting in a relatively stable price of gold when quoted in Australian dollars. Despite the fact that the hedges were entered into in 2002, the Company has been able to deliver into hedges at above market prices in 2004 because of the strength of the Australian dollar.

LionOre has no plans to hedge additional gold or nickel production in 2005.

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Management's Discussion and Analysis

Risk Factors (continued)

Additional funding requirements

The Company does not have unlimited financial resources and there is no assurance that sufficient additional funding or financing will be available to the Company or its direct and indirect subsidiaries on acceptable terms, or at all, for further exploration or development of its properties or to fulfill its obligations under any applicable agreements. Failure to obtain such additional funding could result in the delay or indefinite postponement of the exploration and development of the Company's properties.

LionOre acknowledges that funding risks exist, but as disclosed in the Funding Requirements section above, the Company is confident that in the current climate of strong commodity prices and strong Company performance and cash flow, funding requirements should not pose a significant hurdle to the Company's growth plans.

Exploration, development and operating risks

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines.

Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in the operation of mines and the conduct of exploration programs.

The Company has relied on and may continue to rely upon consultants and others for exploration and development expertise. Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis.

The economics of developing nickel, gold and other mineral properties are affected by many factors including the cost of operations, variations in the grade of ore mined and metals recovered, fluctuations in metal markets, costs of processing equipment, continuing access to smelter facilities on acceptable terms and other factors such as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. There is no assurance that the Company's mineral exploration, development and acquisition activities will be successful.

Uninsurable risks

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences, and political and social instability. It is not always possible to obtain insurance against all such risks and the Company may decide not to insure against certain risks because of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not maintain insurance against political or environmental risks.

Ore reserve and resource estimates

The Company's reported mineral reserves and resources are only estimates. No assurance can be given that the estimated mineral reserves and resources will be recovered or that they will be recovered at the rates estimated.

Mineral reserve and resource estimates are based on limited sampling, and, consequently, are uncertain because the samples may not be representative. Mineral reserve and resource estimates may require revision (either up or down) based on actual production experience. Market fluctuations in the price of metals, as well as increased production costs or reduced recovery rates, may render certain mineral reserves and resources uneconomic and may ultimately result in a restatement of reserves and/or resources. Moreover, short-term operating factors relating to the mineral reserves and resources, such as the need for sequential development of ore bodies and the processing of new or different ore grades, may adversely affect the Company's profitability in any particular accounting period.

Dependence on smelting facilities

All of the concentrate from Tati Nickel is processed at the BCL smelter which has in the past experienced unscheduled shutdowns of varying duration due to equipment failure. Accordingly, if for any reason the BCL smelter is not available for an extended period, the Company could suffer material interruptions in cash flow in the event that alternative smelting facilities are not readily available. The Company however does maintain business interruption insurance for its operations, and has received an insurance settlement for the shutdown of the BCL smelter during the first quarter of 2003 in the amount of 1.9 million.

Risk Factors (continued)

In June and July of 2004, BCL carried out a sixty-two day smelter shutdown. During this time BCL effected end of campaign capital repairs to the flash furnace (reaction shaft shell, roof, hearth and refractory re bricking) the electric furnace, precipitators and boiler. After the repairs it is anticipated that the smelter will not require further major repairs for another 5-7 year campaign.

Foreign countries and regulatory requirements

The Company's operations in Australia and Botswana are subject to various laws and environmental regulations. The implementation of new or the modification of existing laws and regulations affecting the mining and metals industry could have a material adverse impact on the Company.

Beginning in 2005, the Company may have an interest in properties located in South Africa. Consequently, the Company is subject to certain risks, including currency fluctuations and possible political instability in that country, which may result in the impairment or loss of mineral concessions or other mineral rights, and mineral exploration and mining activities may be affected to varying degrees by political and social instability and government regulations relating to the mining industry. South Africa is bordered by Botswana, Zimbabwe, Namibia and Mozambique; political instability in such neighboring countries could have an impact on political, social and economic conditions in South Africa. Any changes in regulations or shifts in political, social or economic conditions are beyond the control of the Company and may adversely affect its business. Operations may be affected by government restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety. Africa's status as a developing continent may make it more difficult for the Company to obtain any required exploration, development and production financing for its projects.

The properties in which the Company has an interest through its ownership interest in Tati Nickel are located in Botswana. Consequently the Company is subject to certain risks, including, currency fluctuations and possible political instability in that country which may result in the impairment or loss of mineral concessions or other mineral rights, and mineral exploration and mining activities may be affected to varying degrees by political and social instability and government regulations relating to the mining industry. Botswana is bordered by South Africa, Zimbabwe, Zambia, Namibia and Angola; political instability in such neighboring countries could have an impact on political, social and economic conditions in Botswana. Any changes in regulations or shifts in political, social or economic conditions are beyond the control of the Company and may adversely affect its business. Operations may be affected by government restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety. Africa's status as a developing continent may make it more difficult for the Company to obtain any required exploration, development and production financing for its projects.

Botswana is a democratically ruled country with a history of political stability. Elections occur every five years. Since 1966, when Botswana became independent, there have been three changes in the President, which have occurred peacefully, following the democratic principles of Botswana's constitution. Thirteen political parties were registered at the time of the last election in 1998.

In the 2003-2004 World Economic Forum rankings, Botswana is ranked as the number one country in Africa in terms of global competitiveness and good governance. Botswana's position in the global competitiveness rankings places it ahead of much of Europe, Asia and Latin America. The economy is based on free market principles. Botswana's government has historically been fiscally prudent, resulting in its being the most creditworthy economy in Africa, as rated by Standard & Poors and Moodys.

Risks in dealing with HIV/AIDS

The United Nations Program on HIV/AIDS (UNAIDS) states in the *2004 Report on the Global AIDS Epidemic* ("the report") that "Botswana has one of the highest prevalence rates in the world- nearly 40% of the adult population is living with HIV." The report estimates that 37.3% of adults (defined in the report as those between the ages of 15 and 49) in Botswana were infected with HIV. The prevalence figures for the same age demographic in 2001 was 38.0%. Life expectancy has dropped to between 40 and 50 years due to HIV/AIDS. [1]

The report also states that "Botswana was the first country in Southern Africa to actively move towards scaling up antiretroviral treatment. President Festus Mogae's strong political leadership was instrumental in mobilizing domestic and international support for treatment programmes. Since 2000, the Botswana national treatment initiative – now called Masa (or 'new dawn') – has been supported by the African Comprehensive HIV/AIDS Partnership."

"By early 2004 Masa was the largest government HIV treatment programme in Africa, despite Botswana having a small population of 1.7 million and the fact that HIV stigma slowed initial uptake. As of April 2004, more than 24,000 people were enrolled in the program, with more than 14,000 patients on anti-retroviral therapy."

[1] *UNAIDS 2004 Report on the Global AIDS Epidemic, July 2004.*

FINANCIAL REVIEW

Management's Discussion and Analysis

Risk Factors (continued)

An impact cost study performed in Botswana in 2001 indicated that the direct and indirect costs associated with HIV/AIDS without medical intervention amount to an average cost of 10.7% of salaries. In comparison, if a fully sponsored treatment protocol is implemented the benefits will exceed the costs when 3 years of additional productivity has been gained per HIV-positive patient. It has been our experience at Tati that this addition to life/productivity is readily achievable by those on the required treatment who adhere to the protocol. With the dramatic reduction of anti-retroviral medication costs in southern Africa over the past few years, the additional productivity required for the benefits to exceed the costs has reduced to between 1 and 2 years.

In developed countries the life expectancy and productivity of HIV/AIDS patients has been elevated to the same levels as other chronic diseases with the correct medical intervention and patient commitment. The pharmaceutical advances in anti-retroviral (ARV) treatment resulted in turning HIV/AIDS infection from a rapidly fatal disease into a chronic manageable disease. Botswana has implemented intervention measures as discussed above that are unequalled in the developing countries.

In addition to the services provided by the Government of Botswana, and in anticipation of the potential future impact of HIV/AIDS on Tati and its employees, the Tati Nickel operation implemented a comprehensive HIV/AIDS Intervention Strategy in 2001.The mission of Tati is to:

- Reduce the threat of HIV/AIDS to its business and the community
- Responsibly manage its human and financial resources
- Accept its corporate and social responsibilities

The objective of the HIV/AIDS initiative is to maintain the status of HIV-negative employees and extend the life, and quality of life of HIV-positive employees. The responsible, caring and compassionate management of the impact of HIV/AIDS will be achieved through a focused intervention program that meets the challenges of the pandemic and standards of HIV/AIDS care treatment equal to that of the developed world.

The program is focused on the reduction of the number of new HIV infections through HIV/AIDS awareness, peer education and condom distribution initiatives and the reduction of the AIDS related deaths with the promotion of HIV testing and ARV treatment.

Tati has developed a set of governing principles to administer its HIV/AIDS program as follows:

- Employees will be encouraged to confirm their HIV status with regular voluntary HIV testing
- Employees will be motivated to disclose their HIV status to the Chief Medical Officer for Company support
- Employees will be employed and promoted irrespective of their HIV status
- The Company will sponsor an AIDS Treatment Protocol with Highly Active Anti-Retroviral Medication (ARV) to disclosed and confirmed HIV-positive employees
- The Company will not tolerate unfair discrimination towards HIV-positive employees in the workplace
- The Company will sustain an HIV/AIDS awareness campaign with continued HIV training and compulsory annual HIV counselling of all employees
- The Company is committed to the containment of the HIV epidemic and the prevention of any new HIV infections by encouraging the use of condoms
- The Company will promote a responsible life style of employees with the free supply and distribution of condoms in strategic areas in the workplace
- The Company will adhere to strict confidentiality of the HIV status of employees

HIV/AIDS education and counselling are performed on a continuous basis by clinic staff at Tati Nickel to increase awareness among employees. Since 2001, a total of 227 employees have been counselled for HIV testing and 177 gave consent to be tested, equating to a counselling testing rate of 78%. At this time, 73 employees that have tested HIV-positive are employed. Only 44 of this group need to be on ARV treatment and 32, or 73% of these employees continue to strictly adhere to the treatment protocol. Defaulting patients are continuously counselled on the benefits of treatment intervention and encouraged to enrol in the initiative.

During 2004, 75,317 condoms were distributed free of charge, and the number of sexually transmitted diseases being treated in the clinic has been reduced by 48% over a 3 year period. Tati experienced 82 diagnosed cases of sexually transmitted diseases in 2004, compared to 98 in 2003, 112 in 2002, and 170 in 2001. Although a significant reduction in the number of sexually transmitted diseases (STDs) has been recorded, it still remains high. The relationship between STDs and HIV/AIDS is well recorded and remains a major concern. Steps to reduce the numbers further will continue in 2005.

Risk Factors (continued)

The number of patients counselled in 2004 was 83, with 82 HIV tested and 53 diagnosed with HIV. The fact that only 116, or 20% of employees know their HIV status indicates the continued lack of employee understanding of the major advantage of early diagnosis of HIV, knowing one's HIV status and the impact and importance of ARV. This situation continues to be emphasised through the ongoing counselling of employees.

An analysis of sick leave of employees remains within the accepted norm for industry in Southern Africa. The sick leave analysis includes all diseases, and is not only applicable to HIV/AIDS. The sick leave absenteeism rate correlates to the productivity loss due to sick leave. An indicator of the productivity loss is the number of days' sick leave taken versus the total number of potential working days. The monthly average for 2004 of 1.1% compared very favourably with 2003 of 0.8%, 2002 of 1.2%, and the norm for the industry of <2.5%.

With a current workforce of 587 at Tati Nickel, the deaths in service for 2004 were 0.8% (5 people) compared to 0.9% in 2003, 0.5% in 2002 and 0.3% in 2001. These are not only AIDS related deaths, but include all medical conditions.

Medical aid is compulsory and fully sponsored by Tati Nickel for all employees with no extra costs being incurred when patients are admitted and treated in hospital. The costs incurred by Tati Nickel that are directly linked to the HIV/AIDS testing and ARV treatment initiative was less than $0.1 million in 2004. While this amount is not a large component of overall employee compensation it should be noted that 2004 expenditures were 26% greater than 2003, and 62% greater than 2002.

The Company is proud of Tati's efforts to combat AIDS and educate its workforce, and is hopeful that Tati will achieve greater success in encouraging its workforce to use condoms, get tested for HIV, and participate in Tati's comprehensive ARV treatment program sponsored by the Company.

On the 27th January 2005, Tati was awarded top honours from four category awards, at the 2004 Red Ribbon Awards held at a function hosted by the Botswana Minister of Health and the US Ambassador to Botswana, in Gaborone. The award conferred by the Botswana Business Coalition on Aids (BBCA) was presented to Tati Nickel *'in recognition of HIV/AIDS as a Business issue and special recognition for a comprehensive HIV/AIDS Intervention Strategy and Business case best practice for 2004'.*

Environmental regulation and liability

The Company's activities are subject to laws and regulations controlling not only the mining of and exploration for mineral properties, but also the possible effects of such activities upon the environment. Environment laws may change and make the mining and processing of ore uneconomic, or result in significant environmental or reclamation costs. Environmental legislation provides for restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas which could result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties or the suspension or closure of mining operations. In addition, certain types of operations require the submission of environmental impact statements and approval thereof by government authorities.

Environmental legislation is evolving in a manner that may mean stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. Permits from a variety of regulatory authorities are required for many aspects of mine development, operation and reclamation.

Future legislation and regulations could cause additional expense, capital expenditures, restrictions, liabilities and delays in the development of the Company's properties, the extent of which cannot be predicted. In the context of environmental permits, including the approval of reclamation plans, the Company must comply with standards and laws and regulations which may entail costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. The Company does not maintain environmental liability insurance.

LionOre operates with the highest standards in respect of the environment and has a strong commitment to ensure that world class environmental standards are fully integrated into the construction, commissioning and operation of the Company's mining projects.

LionOre carries out extensive research and planning to ensure that environmental issues are properly addressed. The Company has a comprehensive system for monitoring environmental issues.

The Company has received awards for environmental diligence from the Western Australia Department of Mines (Winner – Golden Gecko Award for Environmental Excellence, in 2002) and the Western Australia Department of the Environment (Winner – Corporate/Business Leading by Example, 2003). LionOre also won the Australian Mining Prospector Award under the category "Excellence in Environmental Management", during 2004.

FINANCIAL REVIEW

Management's Discussion and Analysis

Risk Factors (continued)

Currency risks

The Company's revenue from operations is received in United States dollars while most of its operating expenses will be incurred in Botswana Pula, Australian dollars and South African rand. Accordingly, foreign currency fluctuations may adversely affect the Company's financial position and operating results. The Company does not currently engage in foreign currency hedging activities for regularly occurring operational transactions.

Effects of inflation on results of operations

A significant portion of the Company's operations are located in Botswana which has historically experienced relatively high rates of inflation. Since LionOre is unable to control the market price at which it sells the minerals it produces (except to the extent that it enters into forward sales contracts), it is possible that significantly higher inflation in the future in Botswana, without a concurrent devaluation of the local currency against the U.S. dollar or an increase in the price of such minerals, could have a material adverse effect upon LionOre's results of operations and financial condition. Inflation in Botswana has fluctuated between 6% and 9% in recent years.

Subject to the completion of the transaction to acquire 50% of the Nkomati Mine, a minor portion of the Company's operations from 2005 onwards may be located in South Africa which has historically experienced relatively high rates of inflation. Since LionOre is unable to control the market price at which it sells the minerals it produces (except to the extent that it enters into forward sales contracts), it is possible that significantly higher inflation in the future in South Africa, without a concurrent devaluation of the local currency against the U.S. dollar or an increase in the price of such minerals, could have a material adverse effect upon LionOre's results of operations and financial condition. Inflation in South Africa has fluctuated between 5% and 10% in recent years.

No assurance of titles or boundaries

The Company's interest in the properties in Botswana is comprised of a concession agreement between Tati Nickel and the GRB. The Company has not obtained title opinions with respect to the subject properties and, accordingly, no assurances can be given that there are no title defects affecting such properties. Title to the Company's properties may be challenged or impugned, and title insurance is generally not available. The Company's mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. In addition, the Company may be unable to operate its properties as permitted or to enforce its rights with respect to its properties.

Native Title and Aboriginal Heritage issues

Native title claims and Aboriginal heritage issues may affect the ability of LionOre and its Australian subsidiaries to pursue exploration, development and mining on their Australian properties. The mining tenements held by LionOre's Australian subsidiaries in Western Australia are subject to a number of registered and unregistered native title claims under the Native Title Act 1993 (Commonwealth) as amended ("NTA").

The NTA provides for native title claims to be filed in the Federal Court of Australia and, if a claim satisfies certain threshold requirements, to be registered by the National Native Title Tribunal pending the ultimate determination of the claim by the Federal Court. The NTA also provides for the Australian States and Territories to validate certain titles and tenements which may have been invalid by reason of the existence of native title and also establishes procedures which must be followed before actions which affect native title rights are undertaken, such as the grant of mining leases and other tenements. In the case of applications for mining leases, the procedure involves a period of negotiation with the registered native title claimants/holders and, if agreement cannot be reached, an arbitrated decision by the National Native Title Tribunal. Renewals of mining tenements and applications for exploration licenses may be exempted from this process in some circumstances. Registered native title claimants/holders also have the right to object to infrastructure titles (such as for power lines and pipelines) in which event a process of consultation and independent determination applies.

There is considerable complexity and uncertainty concerning the operation of native title laws in Australia. A number of LionOre's Australian mining tenements including mining leases at Thunderbox, Emily Ann and Black Swan were granted without undertaking the NTA procedures either because of State government policy at the time or because the view was taken, based on the precedent of the Full Federal Court of Australia decision in *Western Australia v. Ward [2000] 170 ALR 159 ("Miriuwung Gajerrong")* that any native title rights in the relevant areas had been extinguished by previous land dealings. The *Miriuwung Gajerrong* decision was appealed to the High Court of Australia which in August 2002 reversed aspects of the Full Federal Court decision in relation to extinguishment, thereby raising questions about the validity of mining tenements granted under the previous government policy. In the circumstances, the possible effect of the native title claims upon the mining tenements and in relation to native title compensation is not likely to be ascertained until the various native title claims affecting LionOre's Australian subsidiaries' mining tenements, including the Thunderbox, Emily Ann and Black Swan tenements, are decided by the Federal Court and determinations are made as to whether native title exists in the areas.

FINANCIAL REVIEW

Management's Discussion and Analysis

Risk Factors (continued)

The various native title claims affecting the Australian properties will be progressively heard by the Federal Court to decide whether native title exists in the areas. The hearing of the claims affecting the Thunderbox mine concluded in June 2004 and a decision is expected top be handed down by the Federal Court during mid 2005. However, in late 2001, LionOre's Australian subsidiaries negotiated a compensation agreement with three registered native title claim groups in relation to the Thunderbox mine thereby reducing the risk of any material adverse consequence arising from their native title claims, although the agreement did not include unregistered native title claimants. It is expected that the combined hearing of a further seven native title claims which affect some of LionOre's Australian tenements will commence in December 2005.

In addition, in Western Australia, Aboriginal sites of ethnographic and archaeological significance are protected under the Aboriginal Heritage Act 1972 (Western Australia). Any such sites must be avoided or consent must be obtained from the relevant State Minister to use the area for development purposes. The location of Aboriginal ethnographic sites is generally known only to the Aboriginal people who have a traditional association with and who may speak for the relevant area. Ethnographic and archaeological surveys have been undertaken in relation to some of LionOre's mining and exploration projects in western Australia and although some Aboriginal sites have been identified in the vicinity of the projects, these are not likely to materially interfere with current mining operations. However, difficulties have been experienced in completing an ethnographic survey with one native title claim group in relation to the Thunderbox mine (whose claim has not yet been registered under the NTA).

As mineral exploration and further Aboriginal site surveys are carried out additional sites may be identified. If any Aboriginal heritage sites were to be affected by mining operations, it would be possible to apply for Ministerial consent to use those areas. An established statutory process exists for this purpose although whether or not consent is given is a matter of Ministerial discretion. A required consent was obtained in relation to a site at the Emily Ann project.

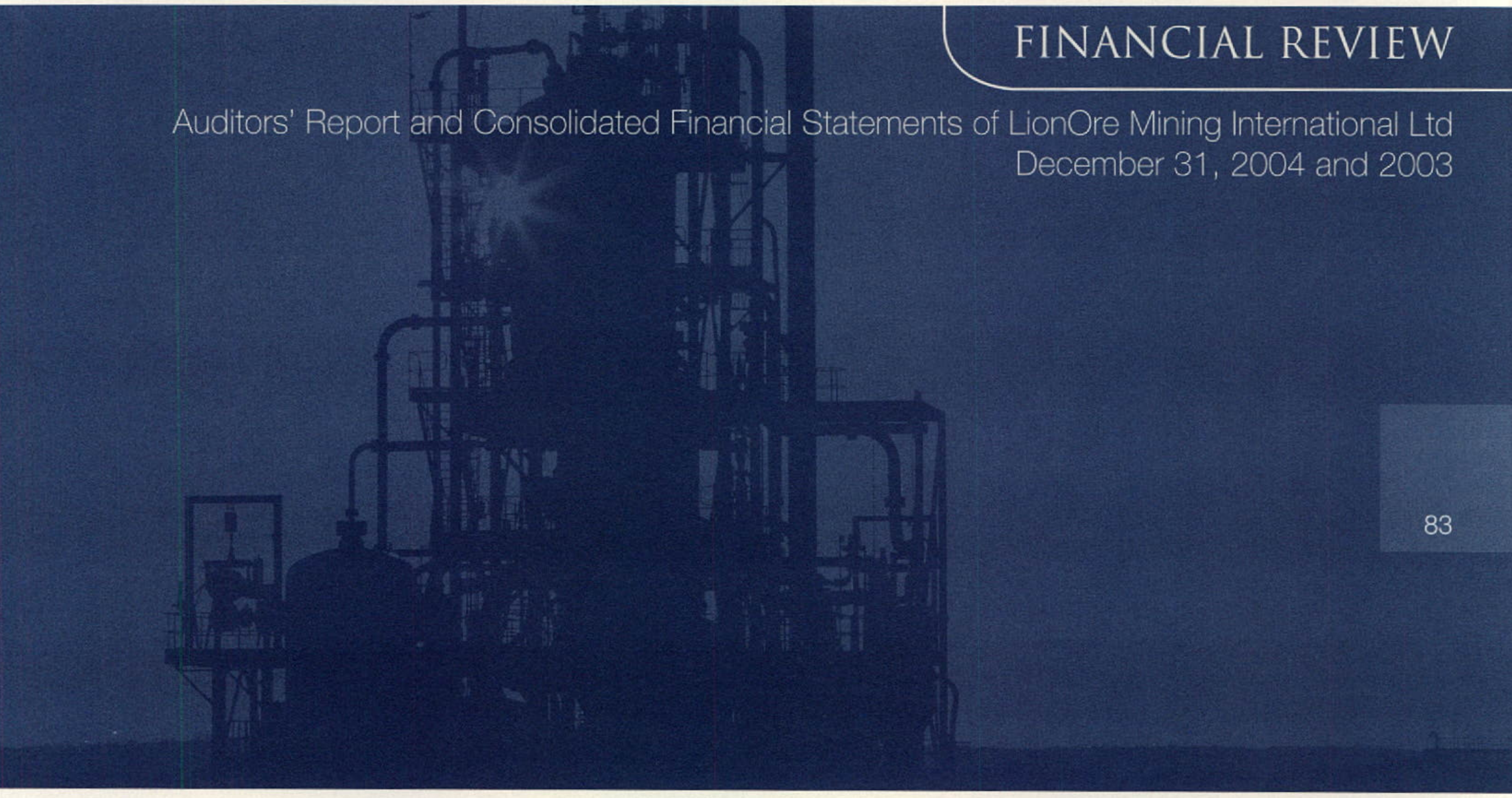
The resolution of native title and Aboriginal heritage issues is an integral part of exploration and mining operations in Australia and LionOre's Australian subsidiaries are committed to managing the issues effectively. However, in view of the legal and factual uncertainties, no assurance can be given that material adverse consequences will not arise in connection with native title and Aboriginal heritage issues.

Key Personnel

The Company is depending on a relatively small number of key employees, the loss of any of whom could have an adverse effect on the Company. The Company does not have key person insurance on these individuals.

For more information about LionOre:

In addition to the Company's website, www.lionore.com, readers are encouraged to view the Company's Annual Information Form and other public regulatory filings. These can be found on SEDAR at www.sedar.com. Public filings may also be accessed through the Australian Stock Exchange website, www.asx.com.au and the London Stock Exchange website, www.londonstockexchange.com.



FINANCIAL REVIEW

Auditors' Report and Consolidated Financial Statements of LionOre Mining International Ltd
December 31, 2004 and 2003

CONSOLIDATED BALANCE SHEETS

As at December 31, 2004 and 2003 (expressed in thousands of US Dollars)

	2004	2003
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	$ 254,989	$ 35,256
Marketable securities (Note 5)	5,305	–
Accounts receivable (Note 6)	78,470	96,476
Inventories (Note 7)	29,429	11,596
Other	1,520	895
	369,713	144,223
Restricted cash (Note 4)	7,500	9,907
Property, plant and equipment (Note 8)	413,004	299,641
Mineral exploration and development properties (Note 9)	456,493	163,951
Other long-term investments and other assets (Note 10)	26,772	6,507
	$ 1,273,482	$ 624,229
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 11)	$ 88,971	$ 37,841
Short-term financing (Note 12)	–	3,950
Amount due on acquisition of MPI Mines Ltd (Note 3(a))	101,072	–
Current portion of long-term debt (Note 13)	24,837	35,428
	214,880	77,219
Long-term debt (Note 13)	138,475	41,537
Asset retirement obligations (Note 14)	34,442	10,265
Other (Note 9 (a))	16,742	7,748
Future income tax liabilities (Note 15)	205,960	77,441
Non-controlling interest (Note 16)	38,464	15,166
	648,963	229,376
SHAREHOLDERS' EQUITY		
Share capital (Note 17)	357,359	355,020
Shares to be issued on acquisition of MPI Mines Ltd (Note 3(a))	105,556	–
Equity component of convertible notes (Note 13(a))	24,780	–
Stock options (Note 17(d))	2,469	1,010
Share purchase warrants (Note 17(c))	–	764
Retained earnings (deficit)	51,450	(26,750)
Cumulative translation adjustment (Note 18)	82,905	64,809
	624,519	394,853
	$ 1,273,482	$ 624,229

See accompanying Notes to the Consolidated Financial Statements

Commitments and contingencies (notes 23 and 24)

APPROVED BY THE BOARD

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

Years ended December 31, 2004 and 2003 (expressed in thousands of US Dollars, except per share amounts)

	2004	2003
REVENUES		
Gross mineral sales	$ 399,497	$ 292,818
Third party treatment and refining costs	(61,288)	(45,001)
Net mineral sales	388,209	247,817
Contract revenues	4,347	106
	342,556	247,923
EXPENSES		
Operating costs	142,715	100,401
Depreciation and amortization	56,485	37,127
General and administrative	10,309	9,140
Stock based compensation	1,489	786
Contract and other expenses	5,074	77
	216,072	147,531
OPERATING EARNINGS	126,484	100,392
Foreign exchange loss	(8,076)	(7,468)
Gain on sale of marketable securities	–	2,936
Interest expense (Note 13(h))	(8,333)	(7,724)
Interest and investment income	7,205	1,540
Other income	1,933	–
EARNINGS BEFORE TAXATION AND NON-CONTROLLING INTEREST	119,213	89,676
Current income tax expense (Note 15)	(29,944)	–
Future income tax expense (Note 15)	(119)	(26,812)
EARNINGS BEFORE NON-CONTROLLING INTEREST	89,150	62,864
Non-controlling interest (Note 16)	(10,950)	(5,438)
NET EARNINGS	78,200	57,426
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	(26,750)	(84,176)
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ 51,450	$ (26,750)
Basic earnings per share	$ 0.40	$ 0.34
Diluted earnings per share	$ 0.40	$ 0.33
Weighted average number of common shares outstanding	194,636,453	170,932,636
Diluted weighted average number of common shares outstanding	196,472,080	173,695,025

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2004 and 2003 (expressed in thousands of US Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 78,200	$ 57,426
Items not involving cash:		
Depreciation and amortization	56,485	37,127
Future income tax expense	119	26,812
Gain on marketable securities	0	(2,936)
Non-controlling interest	10,950	5,438
Stock-based compensation	1,489	786
Unrealised foreign exchange loss (gain)	5,042	(1,413)
Write-off of exploration and development properties	868	412
Other	(799)	(6,061)
Changes in non-cash working capital (Note 21(a))	9,303	(47,343)
	161,657	70,248
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash acquired from MPI (Note 3(a))	36,993	–
Payment for buyout of MPI options (Note 3 (a))	(6,739)	–
Cash acquired from Dalrymple (Note 3(b))	–	4,168
Development of mineral properties	(8,688)	(10,917)
Exploration (Note 21(d))	(11,138)	(6,921)
Investment in property, plant and equipment	(51,723)	(19,717)
(Payments for) proceeds from investments	(7,459)	1,727
Other	(394)	760
	(49,148)	(30,900)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issue of share capital	1,545	16,682
Gross proceeds of borrowings	144,000	7,000
Financing costs	(4,827)	–
Repayment of borrowings	(41,952)	(52,888)
Other	(58)	(2,842)
	98,708	(32,048)
Effect of exchange rates on cash and cash equivalents	8,516	6,118
INCREASE IN CASH AND CASH EQUIVALENTS	219,733	13,418
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	35,256	21,838
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4)	$ 254,989	$ 35,256

See Note 21 for supplemental cash flow information

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

1. Description of operations

Description of business

LionOre Mining International Ltd. (the "Company" or "LionOre") is an international mining company headquartered in Canada with mining and exploration interests in Australia and Africa.

2. Accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

a) *Principles of consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiary companies with provisions for non-controlling interests. Inter-company transactions and balances have been eliminated. The Company's interest in the voting equity share capital of its principal subsidiaries is 100% except for the following:

Tati Nickel Mining Company (Proprietary) Limited	85%
Western Minerals Technology Pty Ltd	80%
MPI Nickel Pty Ltd (subsidiary of 100% owned MPI Mines Ltd)	80%

Investments in partnerships and joint ventures subject to joint control are consolidated on a proportionate basis. Under this method, the Company includes in its accounts its proportionate share of the assets, liabilities, revenues and expenses of the entity.

Investments in associated companies where the Company has a significant influence are accounted for by the equity method. Under this method the Company includes in its earnings its share of the earnings or losses of associated companies.

Other long-term investments in companies where the Company does not exercise significant influence are recorded at cost less provisions for impairment, if applicable, to recognize other than temporary declines in value.

b) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make 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 revenue and expenses during the reporting periods. Examples of estimates made by management include reserves and resources, depreciation, valuation of mineral properties and mine closure provisions. Actual results may differ from those estimates.

c) *Revenue recognition*

Revenue is recorded when risk and title passes to the buyer, the price is fixed or determinable and collection of the proceeds is reasonably assured. The passing of title and risk occurs upon shipment, based on terms of the off-take contracts. Revenue is recognised based on the prevailing commodity prices during the period of delivery. Prices used for provisionally priced shipments are based on London Metal Exchange ("LME") prices and are adjusted to actual prices at the time of final settlement. Provisionally priced shipments are assessed periodically between the time of the shipment and final settlement. If the value of metal in receivables is recorded at prices in excess of the market values, then the receivables are reduced through a negative adjustment to sales in the current period. Contract revenues are recorded as the related services are provided.

Effective January 1, 2004 the Company prospectively adopted Emerging Issues Committee Abstract 141 "Revenue Recognition" ("EIC 141") which had the effect of harmonizing Canadian revenue recognition standards with US generally accepted accounting principles. Revenue from the sale of gold is now recorded when refined gold is sold to a third party purchaser. Previously, gold revenue was recognised when the Company received credit for refined gold from a third party refinery in the form of a cashable gold-in-metal account, representing the equivalent ounces of refined gold. The impact of this change on the results of operations for the year ended December 31, 2004 was a decrease in revenues of $2.5 million and a decrease in net earnings of $0.2 million.

d) *Cash and cash equivalents*

Cash and cash equivalents include cash and money market instruments with an original term to maturity of ninety days or less.

2. Accounting policies (continued)

e) *Marketable securities*

Marketable securities are carried at the lower of cost and market value.

f) *Inventories*

Inventories of nickel concentrate and gold in process are valued at the lower of actual cost and net realizable value. Net realizable value is the amount estimated to be obtained from sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. Inventories of consumable supplies and spare parts expected to be used in production are valued at cost, less provisions for obsolescence.

g) *Deferred stripping costs*

Mining costs associated with open-pit deposits that have diverse waste-to-ore tonne ratios are deferred and amortized over the mine life. These mining costs arise from the removal of waste rock commonly referred to as "stripping costs". Amortization of amounts deferred is based on a ratio, calculated as estimated total waste mining costs divided by the current proven and probable reserves and mineral resources expected to be converted into mineral reserves. This ratio is used to calculate the current period production cost charged against earnings by multiplying the ratio times the reserves mined during the period. Amortization of deferred stripping costs is included within direct operating costs in the statement of earnings. This accounting method results in the smoothing of these costs over the life of the mine, rather than expensing them as incurred. The full amount of deferred stripping costs may not be expensed until the end of the life of the mine. Deferred stripping costs are included with related mining property, plant and equipment for impairment testing purposes.

h) *Foreign currency translation*

The Company translates monetary assets and liabilities that are denominated in foreign currencies at the rate of exchange in effect at the balance sheet date and non-monetary assets and liabilities at historical exchange rates. Revenues and expenses are translated at average rates in the month they occurred except for depreciation and amortization, which are translated using the same rates as the related assets. Foreign exchange gains and losses on monetary items are recorded on the statement of earnings as they occur.

Financial statements of all self-sustaining foreign operations are translated into U.S. dollars using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the year end while revenue and expense items are translated at the weighted average exchange rates prevailing during the year. Exchange gains and losses from the translation are deferred and recorded as cumulative translation adjustments in shareholders' equity until realized.

i) *Debt issue costs*

Debt issue costs are deferred and amortized over the term of the related debt using the straight-line method.

j) *Stock-based compensation plans*

Effective January 1, 2004, the Company adopted the revised CICA Handbook Section 3870 Stock-based Compensation and Other Stock-based Payments. The revised standard requires that the fair value of stock options granted after January 1, 2002 be expensed in the statement of earnings. Previously, the Company did not record the value of stock options issued to directors and employees as compensation expense, and instead disclosed pro-forma information on the fair value of stock compensation issued during the period in the notes to the financial statements.

The revised standard has been applied retroactively. See Note 17(d) for the effect of the change in accounting policy on the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

2. Accounting policies (continued)

k) Derivative instruments

Derivative instruments may be used to hedge interest rate, commodity price and exchange rate exposures. Where appropriate, hedge accounting principles are applied, under which gains and losses on derivatives are recognised in the statement of earnings on the same basis as the underlying hedged items.

Effective January 1, 2004, the Company adopted CICA guideline AcG 13 "Hedging Relationships" which establishes new standards for when hedge accounting may be applied. Gains and losses realized on forward commodity sales contracts that qualify for hedge accounting treatment under AcG 13 are recognised as adjustments to sales revenue when the related mineral sales are recorded. All other derivative financial instruments, which do not meet the hedge criteria under AcG 13, are recorded as an asset or liability with changes in the fair value of the instrument in each period recorded in investment income or loss. In 2004 the Company determined that the Company's gold hedging contracts would not qualify for hedge accounting treatment under AcG 13. Between January 1, 2004 and December 31, 2004, an amount of A$5.0 million ($3.7 million) has been recorded as investment income in the statement of earnings.

l) Property, plant and equipment

Acquisition costs of mineral development and exploration properties, direct exploration and development expenditures are deferred. Once in production, these costs will be amortized on a units-of-production basis over a property's expected economic life.

Property, plant and equipment are stated at the lower of net book value or estimated net recoverable value on the basis of undiscounted estimates of future cash flows. Maintenance, repairs and renewals are charged to operations. Major betterments and replacements are capitalized. Any gains or losses on disposition of property, plant and equipment are included in earnings in the period they occur.

Depreciation is calculated on a straight-line or unit-of production basis, as appropriate, over the lesser of an asset's estimated useful life and the life of the mineral property to which it relates.

Interest costs related to expenditures on development and construction of mining property, plant and equipment are capitalized and amortized on the same basis as the related assets. Capitalization ceases when the mine enters commercial operation or development ceases.

m) Mineral exploration and development properties

The Company follows the method of accounting for its mineral exploration and development properties whereby all costs related to acquisition, exploration and development are capitalized by property. The carrying value of these properties is reviewed periodically and either written off when it is determined that the expenditures will not result in the discovery of economically recoverable ore reserves or transferred to property, plant and equipment when construction of the mine is completed.

The recoverability of amounts shown for exploration properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to finance the development of the properties and on the future profitable production or proceeds from the disposition thereof.

n) Mine closure provisions

Effective January 1, 2004 the Company adopted CICA Handbook Section 3110 "Asset Retirement Obligations". Under this new standard, the present value of future mine closure obligations is determined when the obligation is incurred and recorded as a liability with a corresponding increase in the carrying value of the related mining assets. The carrying value is amortized over the life of the related mining assets on a units-of-production basis and the related liabilities are accreted to the original estimated amount of the liability through charges each period in the statement of earnings. Previously, future estimated mine closure costs were accrued on a units-of-production basis over the life of the mine.

The standard has been applied retroactively and consequently, prior years' financial statements have been restated. At December 31, 2003, the deficit was increased by $0.4 million, property, plant and equipment was increased by $4.5 million, site closure provisions were increased by $5.1 million and the cumulative translation adjustment was decreased by $0.2 million. The opening deficit at January 1, 2003 was increased by $0.5 million and net earnings for 2003 were increased by $0.1 million. Net earnings for 2004 were decreased by $0.1 million.

2. Accounting policies (continued)

o) Impairment of long-lived assets

Effective January 1, 2004 the Company adopted CICA Section 3063 which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. Under the provision of the standard, a two-step process determines impairment of long-lived assets held for use. The first step determines whether impairment exists, and if so, the second step measures the amount of the impairment. Impairment exists if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. The amount of the impairment loss is determined as the amount by which the long-lived asset's carrying value exceeds its fair value. There is no impact on LionOre's financial statements as a result of the implementation of this standard.

p) Income taxes

Future income taxes are recognised for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognised is limited to the amount that is more likely than not to be realized.

q) Convertible notes

The convertible notes are separated into their debt and equity components according to the fair values of the components at the date of issue. The carrying value of the notes will be less than their face value because a portion of the face value of the convertible notes is attributed to the value ascribed to the holders' option to convert the principal amount into common shares and is classified in shareholders' equity as "Equity component of convertible notes". The liability component of the notes will be accreted to their face value over the period to maturity. The non-cash accretion will serve to increase the interest expense over the cash interest paid, increasing the effective rate of interest on the convertible notes reflected in the financial statements.

The issue costs attributed to the liability component of the notes are recorded as deferred financing costs in other assets and amortized into income over the period to maturity.

r) Research and development

The Company incurs research and development costs in connection with the development and potential commercialization of new nickel processing technology. Research costs are expensed as incurred. Development costs are deferred to the extent that their recovery can reasonably be regarded as assured. Revenues from testing of pre-production prototypes are applied to reduce research and development costs.

s) Earnings per share

Basic earnings per share are computed by dividing the net earnings by the weighted average number of common shares outstanding during the year. The diluted earnings per share reflects the potential dilution by including other common share equivalents, including outstanding stock options and warrants, using the treasury stock method, and convertible debentures and notes, using the if converted method, in the weighted average number of common shares outstanding during the year, if dilutive.

t) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

3. Acquisitions

a) Acquisition of MPI Mines Ltd

On October 17, 2004, LionOre announced a takeover offer for all of the outstanding shares of MPI Mines Ltd (MPI), a publicly traded Australian nickel and gold mining company. The offer comprised cash of Australian dollar ("A$")1.00 and 0.1675 LionOre shares for every issued and outstanding MPI share.

The offer was conditional on obtaining more than 50% of MPI shares and on the demerger of MPI's gold assets and the redistribution of the de-merged assets to the shareholders.

The offer closed on December 22, 2004, with greater than 94% acceptances. LionOre immediately began proceedings to compulsorily acquire the remaining outstanding shares of MPI, which resulted in obtaining 100% ownership. Subsequent to December 31, 2004 the Company issued 21,691,295 common shares valued at $105.6 million and paid cash consideration of A$129.5 million ($98.0 million) to complete the transaction.

The acquisition has been accounted for using the purchase method and LionOre has consolidated the net assets and operations of MPI with effect from December 31, 2004. The allocation of the purchase price based on the consideration paid and a preliminary estimate of the fair value of MPI net assets acquired is as follows:

Cash	$	36,993
Other current assets		12,334
Mineral properties, plant and equipment		83,892
Mineral exploration properties		228,824
Other assets		24
		362,067
Less: Liabilities		(126,136)
Non-controlling interest		(9,619)
	$	226,312
Consisting of:		
Share consideration due	$	105,556
Cash consideration due		97,977
Costs of acquisition		22,779
	$	226,312

The value of the share consideration due was determined based on the average market price of the Company's shares over the two day period before and after October 18, 2004, being the first trading day subsequent to LionOre's announcement of the takeover offer.

The preliminary determination of the fair value of the MPI assets and liabilities acquired is based on LionOre management's best estimate at the date of these financial statements. The Company is completing its assessment of the fair value of net assets acquired, including obtaining independent appraisals for certain assets, and expects to finalize its estimate prior to June 30, 2005. Any changes to the preliminary allocation of fair value of MPI net assets acquired will be recorded in the period they are determined.

The cash consideration due at the date of acquisition of $98.0 million, plus the fair value of LionOre shares issued and the estimated costs of the acquisition amount to $226.3 million. The consideration paid has been applied to the value of the net assets of MPI acquired in order to reflect the fair values of assets acquired at the date of acquisition. A future income tax liability resulting from the revaluation of the net assets acquired of $82.3 million has been applied to increase the carrying value of mineral and exploration properties.

The costs of acquisition include amounts for stamp duty, the buy-out of options held by MPI employees and professional fees related to the acquisition.

De-merger of gold assets of MPI

As a condition of the offer for MPI, the gold assets of MPI were de-merged and distributed to the shareholders of MPI as a capital return and in-specie distribution prior to acquisition. Neither LionOre nor MPI retained any interest in MPI's former gold assets, which are now held in a separate public company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

3. Acquisitions (continued)

b) Merger Agreement with Dalrymple Resources NL

Effective October 30, 2003, the Company merged with Dalrymple Resources NL ("Dalrymple"), a company incorporated in Australia and listed on the Australian Stock Exchange. Dalrymple was LionOre's partner in the Wildara Joint Venture, which holds nickel and gold in the North-Eastern Goldfields region of Western Australia, including the Thunderbox gold mine and the nearby Waterloo and Amorac nickel deposits. The ownership structure of these projects and surrounding exploration tenements at the time of the merger was LionOre 60% (operator) and Dalrymple 40%.

Under the terms of the merger, Dalrymple shareholders received one LionOre share for every 2.92 Dalrymple shares, which resulted in LionOre issuing 24,989,396 new shares to Dalrymple shareholders. LionOre has consolidated the net assets and results of operations of Dalrymple from October 30, 2003.

The purchase method of accounting for the transaction has been applied, with LionOre identified as the acquirer.

The fair value of Dalrymple net assets acquired as at October 30, 2003, are as follows:

Cash	$	**4,168**
Other current assets		**3,332**
Producing mineral properties, plant & equipment		**25,169**
Mineral exploration properties		**79,391**
		112,060
Less:Liabilities		**11,101**
	$	**100,959**
Consisting of:		
Share consideration	$	**100,841**
Costs of acquisition		**118**
	$	**100,959**

The value of the share consideration of $100.8 million plus the costs of acquisition of $0.1 million exceeds the $13.3 million book value of the net assets acquired by $87.6 million. The excess has been allocated to the mineral properties, plant and equipment, and mineral exploration properties in order to reflect the fair values of assets acquired at the date of acquisition.

Effective in 2003 the Australian tax regime was significantly revised such that Australian entities could elect to file their Australian tax returns on a consolidated basis. At the date of acquisition of Dalrymple, the Company had determined that it would file its Australian tax returns on a consolidated basis; however, it had not determined the specific impact on the tax basis of the Dalrymple assets. The Company anticipated an increase in the tax basis of assets to an amount approximating fair value subject to numerous restrictions. As a result of this expected increase in tax basis, the Company did not recognize the future tax liability resulting from the revaluation of Dalrymple assets for accounting purposes, pending determination of the tax values under the tax consolidation regime. The Company determined the tax values applicable to its assets under the consolidated tax regime with the assistance of a third party consultant and filed the Company's first consolidated tax return for the December 2003 tax year in late 2004.

The amount of future tax liability relating to the purchase price of Dalrymple assets acquired, in excess of the effect of the increase in tax basis of the assets resulting from the tax consolidation, has been recorded as an adjustment to the fair value of assets acquired at the acquisition date. The effect of this adjustment was to increase in 2004 the fair value of producing mineral properties, plant and equipment and mineral exploration properties acquired by $5.5 million and $23.9 million respectively, and increase future income tax liabilities by $29.4 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

4. Cash and restricted cash

Cash and cash equivalents consist of the following at December 31:

		2004		2003
Cash	$	88,142	$	26,127
Short term deposits		166,847		9,129
Total cash and cash equivalents	$	254,989	$	35,256
Restricted cash	$	7,500	$	9,907

An amount of $7.5 million has been placed in a reserve account in relation to Tati Nickel's loans with Rand Merchant Bank (Note 13(f)) and is recorded as restricted cash. This amount can be released, subject to certain conditions, in the event of a shortfall in cash flows. Otherwise, the funds will be utilized to fund the final four principal repayments of the Phoenix expansion loan.

Subsequent to year end $98.0 million of cash was deposited with a major Australian bank to be held as security against an Australian dollar denominated temporary credit facility in the amount of A$130.0 million ($101.5 million). A$122.8 million ($95.8 million) has been drawn down on the facility and the funds were used to pay the cash portion of consideration due to MPI shareholders.

As at December 31, 2003, an amount of A$3.2 million ($2.4 million) was held for the debt service and performance guarantees related to the project financing for the Emily Ann mine (Note 13(e)(i)). The amounts were released after the final project loan repayment was made in early 2004.

5. Marketable securities

At December 31, 2004 marketable securities consist of equity shares traded on a public stock exchange. These securities are included in current assets and are reported at the lower of cost and market value. When market value is determined to be below carrying value the securities are written down and a charge is taken to the statement of earnings. The book value of marketable securities at December 31, 2004 was $5.3 million and the market value was $5.6 million.

6. Accounts receivable

		Australia		Botswana		Other		Total 2004		2003
Mineral sales receivable	$	16,946	$	53,123	$	–	$	70,069	$	92,299
Other		3,891		3,344		1,166		8,401		4,177
	$	20,837	$	56,467	$	1,166	$	78,470	$	96,476

In Australia, mineral sales receivable consists of receivables for sales of nickel concentrate and gold. A substantial portion of estimated amounts due on shipments of nickel concentrate from the port of Esperance are received within a few weeks from the date of shipment, in accordance with the off-take agreements. The final amount is determined after the ore has been processed and the quality of the concentrate assessed. This final determination is typically made within five to six months from the date of shipment.

In Botswana, payment terms are set out in the ore and concentrate purchase agreement, which stipulates that payment is to be received within 150 days for base metals; and between 240 and 300 days for precious metals. Certain provisional payments for 70% of the estimated amount due in respect of nickel and 90% of that due in respect of remaining metals, less applicable charges, are receivable within 60 days.

All nickel concentrate sales of the company are invoiced in US dollars. Gold sales are denominated in Australian dollars.

7. Inventories

		2004		2003
Nickel concentrate	$	10,977	$	1,667
Gold in process		5,027		2,356
Parts and supplies		13,425		7,573
	$	29,429	$	11,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

8. Property, plant and equipment

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Producing mining properties	$ 314,219	$ 78,590	$ 235,629	$ 158,679
Plant and equipment	238,065	60,690	177,375	140,962
	$ 552,284	$ 139,280	$ 413,004	$ 299,641

Included in plant and equipment are capital expenditures incurred on the construction and related design and engineering costs of the Activox® demonstration plant in the amount of $24.6 million. These costs will be amortized on commencement of commercial production of the full scale Activox® plant.

9. Mineral exploration and development properties

	2004	2003
Mineral exploration and development properties, beginning of year	$ 163,951	$ 41,631
Expenditures incurred during the year	26,849	17,838
Acquisitions of exploration and development properties	236,255	79,391
Change in estimates of fair value related to Dalrymple acquisition	23,943	–
Write down in carrying value	(965)	(412)
Translation adjustment	6,460	25,503
Mineral exploration and development properties, end of year	$ 456,493	$ 163,951

The balance of exploration and development properties consists of the following:

	2004	2003
Australia Nickel Interests		
Maggie Hays (a)	$ 59,637	$ 47,002
Honeymoon Well and other MPI (b)	236,255	–
Northeastern Goldfields – Wildara (c)	48,467	36,936
East Kimberly (d)	1,257	–
Other (f)	15,793	12,116
	361,409	96,054
Australia Gold Interests		
Northeastern Goldfields – Wildara (c)	46,478	36,939
Thunderbox near-mine (c)	38,409	24,423
Other (f)	171	969
	85,058	62,331
Africa Nickel – Tati (e)	10,026	5,567
	$ 456,493	$ 163,951

Details of the exploration and development properties are as follows:

(a) In May 2002, LionOre secured an exclusive option from QNI Pty Ltd to acquire its 69% interest in the Maggie Hays deposit. The option also includes QNI's 67% interest in the surrounding Lake Johnston exploration tenements. The Company exercised this option at a total cost of A$16.7 million ($10.1 million) on March 4, 2003. The cost of this option has been treated as an addition to mineral exploration and development properties. An amount of A$1.6 million ($1.3 million) payable to QNI related to this transaction due within one year of December 31, 2004 is included in accrued liabilities. Additional amounts payable of A$7.0 million ($5.4 million) are included in other liabilities. Amounts are payable in equal quarterly installments, with the final payment to be made in January 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

9. Mineral exploration and development properties (continued)

(b) As part of the acquisition of MPI Mines Ltd (MPI) (Note 3(a)), the Company acquired the Honeymoon Well project, a nickel sulfide deposit with an estimated nickel resource of approximately 1 million tonnes of contained nickel. The company also acquired a number of other prospective properties.

(c) As part of the Dalrymple merger (Note 3(b)), LionOre obtained ownership of tenements around the Thunderbox ore body which include a number of gold prospects. In addition to these, the Company also acquired mineral and exploration rights to various nickel tenements including 40% of the Waterloo and Amorac nickel deposits that the Company did not already own.

(d) During 2003, LionOre entered into an agreement with Thundelarra Explorations Ltd (Thundelarra) to earn a 60% interest in a portion of Thundelarra's tenements in the East Kimberley region of Western Australia by funding A$5.0 million ($3.8 million) of exploration on the tenements over a four year period commencing in 2004.

(e) The Company, as part of the acquisition of a controlling interest in Tati Nickel, has acquired mineral and exploration rights related to a mining lease held in Northeastern Botswana together with a prospecting license for an area adjacent to the mining lease. Subsequent to the acquisition, the Company carried out a near-mine drilling program with the objective of adding to the current resource/reserve estimate.

(f) The Company has interests in a number of other exploration projects.

(g) For those investments in partnerships and joint ventures subject to joint control described above, the Company uses the proportionate consolidation method of accounting. Consequently, these consolidated financial statements include amounts for the Company's proportionate share of those partnerships' and joint ventures' assets, liabilities and cash flows as follows:

		2004		2003
Capital assets	$	**4,149**	$	–
Revenue	$	**–**	$	37,945
Net earnings for the year	$	**–**	$	15,929
Cash flows provided by operating activities	$	**–**	$	24,391
Cash flows used in investing activities	$	**(4,149)**	$	(9,823)
Cash flows used in financing activities	$	**–**	$	(8,897)

The revene, earnings and cash flows in 2003 represent the results of the Wildara joint venture prior to October 30, 2003, when LionOre's ownership became 100% through the acquisition of joint venture partner Dalrymple.

10. Other long-term investments and other assets

		2004		2003
Debt issue costs	$	**3,810**	$	1,072
Thundelarra (a)		**2,740**		2,640
Breakaway Resources (b)		**2,341**		–
Deferred hedging asset – gold forward sales contracts		**8,021**		–
Deferred stripping costs		**6,078**		–
Other		**3,782**		2,795
	$	**26,772**	$	6,507

(a) During 2003, LionOre purchased 7.8 million shares of Thundelarra Explorations Ltd. and was granted 11.0 million options in Thundelarra for a total cost of A$3.5 million ($2.6 million). LionOre owns approximately 11% of Thundelarra on an undiluted basis at December 31, 2004. LionOre and Thundelarra also entered into a joint venture agreement as described in Note 9(d).

(b) During 2004, LionOre made an A$3 million ($2.1 million) placement and strategic alliance with Breakaway Resources NL Limited ("Breakaway"), an Australian Stock Exchange-listed junior nickel and gold explorer. Under the agreement, LionOre Australia subscribed for 65.2 million shares at A$0.046, giving it a 14% interest in Breakaway. LionOre will have a pre-emptive right to enter into an off-take agreement for the treatment of nickel ore and/or concentrates produced from any of Breakaway's tenements.

(Expressed in thousands of US Dollars, except where noted)

11. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities were $72.6 million in Australia, $12.2 million in Botswana and $4.2 million in the Company's other locations. In the previous year accounts payable and accrued liabilities were $21.2 million in Australia, $13.9 million in Botswana and $2.7 million in the Company's other locations. The MPI accounts payable and accrued liabilities assumed were $22.1 million and the costs of acquisition that remained unpaid at December 31, 2004, were $9.1 million.

12. Short-term financing

(a) Through its 85% owned subsidiary Tati Nickel, the Company has a revolving credit facility with Barclay's Bank (Botswana) for Botswana pula (BP) 40 million ($9.3 million). The facility bears interest at Botswana Prime less 1%. At December 31, 2003, $4.0 million was drawn on the facility and was recorded on the balance sheet as short-term financing at that date. As at December 31, 2004 there are no amounts outstanding under the facility.

(b) Tati Nickel has an available credit facility with a major international bank for up to $10 million. The facility bears interest at LIBOR + 1.5%. At December 31, 2004 and 2003 there were no amounts drawn on the facility.

13. Long-term debt

	2004	2003
3.8% convertible notes, due July 2011 (a)	$ **119,543**	$ –
12% unsecured debentures, due June 2004 (b)	**–**	8,218
MPI Nickel redeemable convertible note, due 2005 (c)	**3,122**	–
Tati purchase loan (d)	**10,000**	15,000
Project loans		
Australia (e)	**12,608**	25,060
Botswana (f)	**17,753**	28,600
Other	**286**	87
	163,312	76,965
Less:		
Current portion of debentures and notes	**3,122**	8,218
Current portion of Tati purchase loan	**5,000**	5,000
Current portion of project loans	**16,572**	22,150
Current portion of other	**143**	60
	24,837	35,428
Total long-term debt	$ **138,475**	$ 41,537

(a) 3.8% Convertible Notes

On July 29, 2004, LionOre issued $140.0 million, and on August 27, 2004 a further $4.0 million, of senior unsecured Convertible Notes due in July 2011. Net proceeds, after payment of the underwriters' commission and other expenditures associated with the issue, were $139.1 million. The Notes are convertible into approximately 23.5 million common shares of the Company beginning November 30, 2004. The Convertible Notes trade on the Luxembourg Stock Exchange.

The Convertible Notes carry a coupon of 3.80% per annum with a conversion price of US$6.13 per common share, representing a premium of 37% over the weighted average price of LionOre's shares on the Toronto Stock Exchange on June 29, 2004, of Canadian ("C")$6.02 and based on a USD/CAD exchange rate at that date of 1.3445.

The Notes are redeemable at the option of the Holder on August 31, 2009 at a price equal to 100% of the principal amount together with interest accrued but unpaid at that date. The Notes may be redeemable at the option of the Company in whole or in part at any time after July 29, 2004 but prior to July 29, 2011 at a redemption price equal to the aggregate of:

1) their principal amount together with the accrued but unpaid interest to the date fixed for redemption; and
2) the Make Whole Payment, which is an amount of $2,183 in respect of each $10,000 principal amount of Notes, and which decreases pro-rata on a daily basis to the maturity date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

13. Long-term debt (continued)

The Company also has the option to effect redemption with either a combination of cash and shares, or shares, in lieu of cash.

On the date of the issue, the value of the convertible feature of the Notes was determined to be $24.8 million, and the liability component was valued at $118.3 million. The value of the convertible feature has been determined using the residual method. According to this method, the liability component of the debenture is valued by calculating the present value of the future interest and principal cash payments to be made to the note holders using the Company's estimated borrowing rate at the date of issue of 7% for similar notes without a conversion privilege. The remaining value, after deducting the liability component from the face value of the Notes, is attributed to the convertible features and classified as equity on the balance sheet.

The discount on the liability component is being amortized into earnings as interest expense and will, over the term of the debenture, serve to increase the liability component to the face value of $144.0 million at maturity. The interest expense recorded in the financial statements will reflect an effective rate of approximately 7% over the life of the instrument, while cash interest will be paid annually on the face value of the notes at a rate of 3.8%.

(b) 12% Unsecured Debentures

During 2001, the Company raised C$10.85 million through a private placement of Special Warrants exchangeable for unsecured debentures and Share Purchase Warrants. Each Special Warrant was priced at C$1,000 and was exchangeable, without payment of any further consideration, for a unit comprised of C$1,000 principal amount of unsecured debentures and 110 Share Purchase Warrants. On the date of issue the value of the share purchase warrants was determined to be $0.9 million, resulting in a residual value for the unsecured debentures of $6.3 million The unsecured debentures had a term of three years and a 12% coupon rate. Each Share Purchase Warrant was exercisable to June 18, 2004 to purchase one common share of the Company at a price of C$2.00.

The value of the Share Purchase Warrants was amortized to income as interest expense and served to increase the value of the unsecured debentures up to their original value of C$10.85 million.

The debentures were repaid at their maturity date of June 18, 2004. All outstanding share purchase warrants were exercised prior to their maturity.

(c) MPI Nickel Redeemable Convertible Note

MPI Nickel Pty Ltd ("MPI Nickel") has an outstanding A$4.0 million ($3.1 million) redeemable convertible note to a subsidiary of OMG Kokkola Chemicals Holding BV ("OMG"). OMG owns 20% of MPI Nickel. Interest is payable every three months at a rate of Bank Bill Rate plus 1% per annum. The convertible note must be redeemed for cash or converted at the option of MPI Nickel on or before June 30 2005, although pre-payments can be made.

OMG may exercise its option to convert on June 30, 2005. OMG may only convert in proportion to the amount which MPI Mines has, pursuant to the Alliance Agreement, subscribed for in equity in MPI Nickel. MPI Mines owns 80% of MPI Nickel. In this manner, MPI Nickel and OMG keep their respective 80/20 proportionate shareholdings in MPI Nickel.

MPI Nickel is not entitled to borrow any funds or enter into any other security arrangements or any foreign exchange or commodity hedging transactions other than in the ordinary course of its business. MPI Nickel is also not entitled to pay any dividends or make any other distributions or return of capital to its shareholders prior to the maturity date of the Note on June 30, 2005.

(d) Tati Purchase Loan

To finance the purchase of 43.35% of Tati Nickel in September 2002, the Company entered into a loan agreement with Barclays Bank plc for $20.0 million. The loan bears interest at LIBOR + 2.5% (5.28% at December 31, 2004) and is repayable in eight semi-annual installments, beginning June 2003. The loan is secured by the shares of Francistown Mining and Explorations Ltd., LionOre's wholly-owned subsidiary which holds, directly and indirectly, the 85% interest in Tati Nickel. At December 31, 2004 the remaining amount payable on the loan was $10.0 million.

(Expressed in thousands of US Dollars, except where noted)

13. Long-term debt (continued)

(e) Project Loans- Australia

i) The Company has a loan of $A11.5 million ($9.0 million) with Macquarie Bank Limited for the construction of the plant and associated infrastructure at the Thunderbox gold mine. The loan, bearing interest at the Bank Bill Rate + 1.65% (7.2% at December 31, 2004), is repayable in twelve quarterly installments, which began in February 2003. The loan is secured by a first ranking charge over all assets and undertakings of LionOre Australia (Wildara) NL, including a mining mortgage over certain tenement interests.

ii) The Company has a loan of $A4.7 million ($3.6 million) loan associated with the construction of the Black Swan Nickel operations. The loan, assumed by the Company with the Black Swan operations during 2004, is repayable in quarterly installments to June 30, 2005. The loan bears an interest rate of 4.7%.

iii) The Company had a loan associated with the construction of the Emily Ann nickel mine of approximately A$5.0 million ($3.9 million) at December 31, 2003. The loan was repaid in 2004.

(f) Project loans – Tati Nickel – Botswana

i) Tati Nickel has an outstanding loan from Rand Merchant Bank for $17.0 million for construction of the new concentrator and mine expansion at the Phoenix mine site. The loan bears interest at an effective rate of 7.35% per annum. Principal repayments are due in 12 equal consecutive semi-annual installments which began in November of 2003.

The loan is secured by amounts on deposit in a reserve account as described in Note 4, as well as a charge over other deposit accounts, a first mortgage over the mining leases related to the Phoenix mine, and an assignment of the Company's rights under the Ore and Concentrate Purchase Agreement with Centametall AG.

At December 31, 2003, Tati Nickel had a second loan from Rand Merchant Bank for $7.0 million for the construction of the Activox® demonstration plant at the Tati mine site. The loan was repaid during 2004.

ii) Tati Nickel has a loan for BP3.3 million ($0.8 million) the proceeds of which were used for exploration. The loan bears interest at 8% per annum. The loan is repayable in 16 equal semi-annual installments which began on June 30, 2001.

(g) Details of the minimum future principal repayments are as follows:

2005	$	24,837
2006		8,985
2007		4,004
2008		3,988
2009		1,888
Thereafter to 2011		119,610
	$	163,312

(h) Interest Expense on long term debt totalled $7.5 million (2003: $6.5 million).

14. Asset retirement obligations

The asset retirement obligations consist of mine closure provisions as well as retirement obligations for processing facilities. The Company has recorded the following asset retirement obligations:

		2004		2003
Balance, beginning of year	**$**	**10,265**	$	6,466
Addition of provisions for assets acquired during the year		**6,822**		–
Accretion of provisions		**575**		1,759
Change in estimates		**15,261**		–
Translation adjustment		**1,519**		2,040
Balance, end of year	**$**	**34,442**	$	10,265

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

14. Asset retirement obligations (continued)

The total undiscounted amount of estimated cash flows as at December 31, 2004 required to settle the obligations is $58.7 million, which has been discounted using a credit adjusted, risk-free rate of 5%. The mine closure obligations, on an undiscounted basis, for the Thunderbox mine of $4.7 million, for the Lake Johnston operations of $6.5 million, and for the Black Swan operations of $4.3 million are expected to be paid out between 2007 and 2009. The mine closure obligations, on an undiscounted basis, of $14.7 million related to the Phoenix mine are expected to be paid out after 2015. The amounts and timing of asset retirement obligations will vary depending on a number of factors including exploration success and alternative mining plans.

The asset retirement obligation for the Bulong Nickel Processing Plant on an undiscounted basis has been estimated at $28.6 million. This assessment is based on a preliminary evaluation and will be re-assessed on a periodic basis. The timing of payments in relation to this obligation will vary depending upon a number of alternative uses for the plant assets and is not determinable at this time.

15. Income taxes

The Company's provision for income taxes reported differs from the amounts computed by applying the cumulative Canadian federal and provincial income tax rates to the earnings before tax provision as a result of the following:

		2004		2003
Provision for income taxes computed at the statutory rate	**$**	**(43,060)**	$	(33,057)
Lower effective tax rate on earnings in foreign jurisdictions		**12,364**		9,880
Tax benefits not recognised on current year losses		**(1,760)**		(370)
Reduction in valuation allowance due to recognition of the benefit of prior years' tax loss carried forward		**946**		–
Non deductible items and other		**1,447**		(3,265)
Provision for future income taxes	**$**	**(30,063)**	$	(26,812)
Consisting of:				
Current income tax expense	**$**	**(29,944)**	$	–
Future income tax expense		**(119)**		(26,812)
	$	**(30,063)**	$	(26,812)

The tax effects of temporary timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

		2004		2003
Future income tax assets:				
Non-capital loss carry forwards	**$**	**22,705**	$	25,789
Other		**–**		5,580
		22,705		31,369
Less: valuation allowance		**(8,524)**		(5,942)
Net future income tax assets	**$**	**14,181**	$	25,427
Future income tax liabilities:				
Exploration and development properties	**$**	**140,639**	$	53,046
Plant and equipment		**78,609**		49,786
Other		**893**		36
		220,141		102,868
Net future income tax liabilities	**$**	**205,960**	$	77,441

As at December 31, 2004, the Company has estimated a non-capital loss carry-forward in Canada of approximately $23.6 million, which can be applied to reduce future Canadian income taxes payable and will expire in 2005 to 2011. The tax benefit of this loss carry-forward has not been recognised in these financial statements.

(Expressed in thousands of US Dollars, except where noted)

16. Non-controlling interest

The Company's non-controlling interests are determined as follows:

		Tati Nickel (a)		MPI Nickel (b)		Total
Balance at January 1, 2003	$	7,598	$	–	$	**7,598**
Non-controlling interest in net income		5,438		–		**5,438**
Dividends paid to non-controlling shareholders		(625)		–		**(625)**
Translation adjustments		2,755		–		**2,755**
Balance at December 31, 2003	$	15,166	$	–	$	**15,166**
Non-controlling interest established upon acquisition		–		9,619		**9,619**
Non controlling interest in net income		10,950		–		**10,950**
Dividends paid to non-controlling shareholders		(983)		–		**(983)**
Translation adjustments		3,408		304		**3,712**
Balance at December 31, 2004	$	28,541	$	9,923	**$**	**38,464**

(a) The Government of the Republic of Botswana holds a 15% interest in Tati Nickel, LionOre's 85% owned subsidiary.

(b) Through the acquisition of MPI Mines Ltd, LionOre acquired 80% of MPI Nickel Ltd. (MPI Nickel). MPI Nickel owns the Black Swan Nickel Operations and the Honeymoon Well nickel sulfide deposit . OMG Kokkola Chemicals Holdings BV, a part of the USA based OMG Group, owns a 20% interest in MPI Nickel.

(c) Aqueous Metallurgy Pty Ltd (Aqueous) holds a 20% interest in LionOre's 80% subsidiary Western Minerals Technology (WMT). Aqueous is a private Australian company controlled by the General Manager of WMT. There is currently no obligation related to the minority interest held by Aqueous due to cumulative net losses incurred by WMT. All of these cumulative losses have been fully recorded by LionOre. LionOre holds an option to purchase the 20% non-controlling interest in WMT for A$5.0 million ($3.9 million). This option expires December 31, 2006.

17. Share capital

The Company's authorized share capital consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series. At December 31, 2004, the Company has issued the following common shares:

	No. of Shares		Amount
Balance at December 31, 2002	163,702,704	$	237,408
Issued pursuant to Dalrymple merger agreement (a)	24,989,396		100,841
Shares issued to Inco Limited (b)	4,000,000		15,381
Exercise of warrants (c)	115,500		260
Exercise of stock options (d)	1,270,000		1,130
Balance at December 31, 2003	194,077,600	$	355,020
Exercise of warrants (c)	1,001,000		2,229
Exercise of stock options (d)	35,000		110
Balance at December 31, 2004	195,113,600	$	357,359

Subsequent to December 31, 2004, LionOre issued 21,691,295 shares as a portion of the consideration due for the acquisition of MPI.

There are no preference shares issued and outstanding at December 31, 2004.

a) *Purchase of Dalrymple*

In November 2003, LionOre issued 24,989,396 common shares to the former shareholders of Dalrymple Resources NL (Dalrymple) to effect the merger agreement that was signed by LionOre and Dalrymple on June 3, 2003. (Note 3(b))

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

17. Share capital (continued)

b) Private placement

On March 21, 2003, 4,000,000 shares of the Company were issued to Inco Limited at a price of C$5.75 per share. Gross proceeds were C$23 million ($15.4 million). The proceeds were substantially used to pay down debt owing to Inco in the amount of $14.0 million. The debt was originally incurred to fund the construction of the processing facility at the Emily Ann Nickel mine.

c) Share Purchase Warrants

During 2004, 1,001,000 (2003 – 115,500) share purchase warrants issued in connection with the 12% unsecured debentures (Note 13(b)) were exercised for cash proceeds of $1.5 million (2003 – $0.2 million). An initial value of $0.8 million (2003 – $0.1 million) was attributed to these share purchase warrants at the time of issue and as such was reclassified from the value of share purchase warrants to share capital at the time of exercise. No warrants remain outstanding as at December 31, 2004.

d) Stock option Plan

The Company has a stock option plan whereby it may grant options to its employees, directors and officers to purchase common shares. Under the plan, the exercise price of each option equals the average of the market closing price of the Company's shares for the preceding five days prior to the date of the grant and an option's maximum term is 10 years. At December 31, 2004, 8,495,000 (2003 – 8,530,000) common shares were reserved for issuance under the stock option plan, including 3,865,000 (2003 – 4,965,000) shares for options which have not yet been issued.

A summary of the status of the Company's stock option plan as of December 31, 2004 and 2003, and changes during the years ended on those dates is presented below:

(exercise prices in Canadian dollars)

Stock Option Activity	Issued and Outstanding Options		Weighted Average Exercise Price
Balance at December 31, 2002	3,815,000	$	2.20
Exercised	(1,270,000)		1.24
Granted	1,075,000		6.03
Cancelled	(55,000)		4.35
Balance at December 31, 2003	3,565,000	$	3.67
Exercised	(35,000)		3.14
Granted	1,100,000		7.22
Balance at December 31, 2004	4,630,000	$	4.51

The following table summarizes the employee stock options outstanding and exercisable at December 31, 2004:

(Exercise prices in Canadian dollars)

Range of Exercise Prices	Number of options Outstanding	Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price	Number of options Exercisable	Weighted-Average Remaining Contractual Life		Weighted-Average Exercise Price
		(Years)				(Years)		
$0.85 - $1.38	840,000	4.32	$	1.17	840,000	4.32	$	1.17
$2.30 - $3.14	825,000	6.43		2.83	825,000	6.43	$	2.83
$3.80 - $4.50	815,000	2.41		4.04	815,000	2.41	$	4.04
$5.78 - $5.80	840,000	8.24		5.80	–	–	$	–
$6.35 - $7.45	1,310,000	9.09		7.19	–	–	$	–
	4,630,000	6.42	$	4.51	2,480,000	4.39	$	2.67

(Expressed in thousands of US Dollars, except where noted)

17. Share capital (continued)

On January 1, 2004, the Company adopted the revised CICA Handbook Section 3870 *Stock-based Compensation and Other Stock-based Payments* as described in Note 2(j). As a result of the retroactive application of the revised standard, the prior years' financial statements have been restated. At December 31, 2003, the deficit has increased by $1.0 million and a stock options account included in the shareholders' equity section of the balance sheet has been established with a value of $1.0 million. The net earnings for the year ended December 31, 2003, decreased by $0.8 million, and the opening deficit at January 1, 2003, has increased by $0.2 million.

During 2003 the Company implemented a shareholders' rights plan which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all their shares in the event a third party attempts to acquire a significant interest in the Company.

The plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group other than a permitted bidder bids to acquire or acquires 20% or more of the Company's common shares. The rights separate from the shares and are exercisable 10 days after a person has acquired or commenced a take-over bid to acquire 20% or more of the Company's shares other than by a take-over bid permitted by the plan. Each right, other than those held by the acquiring person, permits the purchase of a share at a 50% discount to their market price. The rights plan will expire at the termination of the Annual Meeting of shareholders to be held in May 2006 unless it is reconfirmed by a majority of the votes cast at the meeting.

The plan will not be triggered if a bid meets certain criteria (a permitted bid). These criteria include that:

- The offer must be made to all shareholders of the Company;
- The takeover bid must be made by way of a takeover bid circular and expire not less than 60 days after the date of the bid circular, and
- If more than 50% of the voting shares have been tendered and not withdrawn by independent shareholders pursuant to the Takeover Bid within the 60 day period, the bidder must make a public announcement of that fact and of the fact that the takeover bid must remain open for deposits of shares for not less than ten business days from the date of such public announcement.

18. Cumulative translation adjustment

		2004		2003
Balance, beginning of year	$	64,809	$	4,418
Unrealised exchange gain on translation		19,273		61,172
Realized translation adjustment on dividend from investee		(1,177)		(781)
Balance, end of year	$	82,905	$	64,809

19. Segmented information

The company operates in the following business segments which have been segregated based on geographic location and by metal sold, reflecting the way management organizes segments within the business for making operating decisions and assessing performance.

Descriptions of each segment are as follows:

Australia Gold – The Company owns and operates the Thunderbox gold mine located in the North eastern Goldfields of Western Australia and has a number of prospective gold exploration properties.

Australia Nickel – All of the Company's nickel operations in Australia are located in Western Australia. In the Lake Johnston region, the Company owns the Emily Ann and Maggie Hays underground nickel mines (collectively the Lake Johnston Operations). Maggie Hays is currently in the pre-commissioning stage. LionOre also owns 80% of the Silver Swan underground and Black Swan open pit nickel mines (collectively the Black Swan Operations) in the Kalgoorlie region of Western Australia.

In addition to these producing mining properties, LionOre holds a number of other exploration properties that are prospective for nickel throughout various regions, most notably the Honeymoon Well, Waterloo and Amorac nickel sulfide deposits in the North eastern Goldfields region.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

19. Segmented information (continued)

Africa Nickel – The Company's operations in Africa are carried out in Botswana by LionOre's 85% owned subsidiary Tati Nickel. Tati operates the Phoenix mine, which is an open pit nickel mine located near Francistown in North eastern Botswana. This segment was formerly referred to as Botswana.

Other – The Company has administrative offices that carry on corporate administrative activities and support services for mining operations. Services such executive management, investor relations, accounting and treasury, human resources, legal and other administrative support services are functions of these offices. The segmented information for the Company's Perth office is now included in the "Other" segment, which also includes the Company's offices in Toronto and London. The Perth office expenses are of a similar nature to the other administrative office expenses and were not separately significant to report on a individual basis.

The accounting policies used in these business segments are the same as those described in the significant accounting policies in Note 2 to these financial statements.

Comparative segmented financial information is as follows:

	2004				
	Australia Nickel	Australia Gold	Africa Nickel	Other	Total
Gross mineral sales					
Nickel	$ 98,841	$ –	$ 179,050	$ –	**$ 277,891**
Gold	–	63,316	461	–	**63,777**
Copper	1,373	–	27,558	–	**28,931**
Platinum group metals	–	–	16,429	–	**16,429**
Other minerals	5,195	124	7,150	–	**12,469**
Total gross mineral sales	105,409	63,440	230,648	–	**399,497**
Third party treatment and refining costs	(19,346)	(151)	(41,791)	–	**(61,288)**
Net mineral sales	86,063	63,289	188,857	–	**338,209**
Contract revenues	–	–	–	4,347	**4,347**
Total revenues	$ 86,063	$ 63,289	$ 188,857	$ 4,347	**$ 342,556**
Earnings before undernoted items:	$ 53,463	$ 21,127	$ 105,807	$ (3,571)	**$ $176,826**
Interest expense	(112)	(1,111)	(2,153)	(4,957)	**(8,333)**
Interest and investment income	882	3,999	1,074	1,250	**7,205**
Depreciation and amortization	(17,254)	(23,080)	(15,732)	(419)	**(56,485)**
Income taxes recovery (expense)	(8,663)	1,289	(20,569)	(2,120)	**(30,063)**
Earnings before non-controlling interest	$ 28,316	$ 2,224	$ 68,427	$ (9,817)	**$ 89,150**
Capital assets	$ 468,414	$ 169,249	$ 211,315	$ 20,519	**$ 869,497**
Other assets	67,478	24,331	121,516	190,660	**403,985**
Total segment assets	$ 535,892	$ 193,580	$ 332,831	$ 211,179	**$ 1,273,482**
Capital expenditures	$ 43,108	$ 11,006	$ 17,211	$ 223	**$ 71,548**

(Expressed in thousands of US Dollars, except where noted)

19. Segmented information (continued)

	2003				
	Australia Nickel	Australia Gold	Africa Nickel	Other	Total
Gross mineral sales					
Nickel	$ 84,844	$ –	$ 126,512	$ –	$ 211,356
Gold	–	51,526	349	–	51,875
Copper	760	–	15,207	–	15,967
Platinum group metals	–	–	10,227	–	10,227
Other minerals	2,049	19	1,325	–	3,393
Total gross mineral sales	87,653	51,545	153,620	–	292,818
Third party treatment and refining costs	(16,805)	(122)	(28,074)	–	(45,001)
Net mineral sales	70,848	51,423	125,546	–	247,817
Contract revenues	–	–	–	106	106
Total revenues	$ 70,848	$ 51,423	$ 125,546	$ 106	$ 247,923
Earnings before undernoted items:	$ 46,943	$ 32,727	$ 57,878	$ (4,561)	$ 132,987
Interest expense	(240)	(951)	(3,395)	(3,138)	(7,724)
Interest and investment income	466	433	539	102	1,540
Depreciation and amortization	(14,272)	(12,273)	(10,295)	(287)	(37,127)
Future income taxes recovery (expense)	(10,637)	(6,661)	(10,169)	655	(26,812)
Earnings before non-controlling interest	$ 22,260	$ 13,275	$ 34,558	$ (7,229)	$ 62,864
Capital assets	$ 96,995	$ 167,582	$ 197,891	$ 1,124	$ 463,592
Other assets	46,079	17,263	74,428	22,867	160,637
Total segment assets	$ 143,074	$ 184,845	$ 272,319	$ 23,991	$ 624,229
Capital expenditures	$ 23,078	$ 5,024	$ 9,242	$ 211	$ 37,555

20. Related party transactions

LionOre's 80% owned subsidiary MPI Nickel Ltd. has an off-take agreement with OMG Kokkola Chemicals Holdings BV (OMG) to sell concentrates produced from the Black Swan nickel operations. As at December 31, 2004, the Company has receivables due from OMG in the amount of $1.9 million. OMG owns a 20% interest in MPI Nickel which holds the Black Swan Operations.

MPI Nickel also has an outstanding A$4.0 million ($3.1 million) redeemable convertible note due to a subsidiary of OMG. The terms of the convertible note are detailed in Note 13(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of US Dollars, except where noted)

21. Supplemental cash flow information

(a) Changes in non-cash working capital

		2004		2003
Accounts receivable	$	24,772	$	(51,036)
Inventories		(11,413)		(1,931)
Other current assets		326		(596)
Accounts payable and accrued liabilities		(4,382)		6,220
	$	9,303	$	(47,343)

(b) Cash payments of interest and income taxes

		2004		2003
Cash payments for interest	$	7,575	$	7,449
Cash payments for income taxes	$	22,436	$	1,423

(c) Non-cash financing activities

		2004		2003
Net assets acquired by issue of shares (Note 3(a)) and (b)	$	105,556	$	100,841

(d) Exploration

Amounts spent on exploration of $11.1 million (2003: $6.9 million) do not include expenditures incurred in 2004 of $2.5 million (2003: $1.9 million) on exploration in the Lake Johnston region. The amounts were fully funded by Inco Limited pursuant to a joint venture agreement.

22. Financial instruments and risks

(a) Interest rate risk

The Company is subject to interest rate risk that arises from fluctuations in interest rates on its floating rate debt with an aggregate carrying value of $22.1 million at December 31, 2004. The Company does not currently use derivative instruments to manage interest rate risk.

(b) Commodity price risk

Nickel

The Company's future nickel sales revenues will vary from time to time with movements in prevailing market nickel prices. In order to manage the price risk associated with financial market fluctuations and meet the requirement of the Company's project financier to the Emily Ann Mine, a nickel hedging program was entered into in Australia. This nickel hedging program was concluded in 2004, coinciding with the repayment of the project financing.

Gold

The Company's gold sales revenue will vary from time to time with movements in gold market prices. At December 31, 2004, 226,380 ounces of gold, covering approximately 59% of estimated future gold production, were the subject of gold forward sales contracts at a price of A$568 per ounce over the period from January 2005 to July 2007. At December 31, 2004, the Company's gold hedge book (on a present value basis) compared to prevailing market prices showed an unrealised loss of A$6.5 million ($5.1 million).

(c) Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, short-term financing and long-term debt approximates fair value due to the short-term nature of the instruments or the fact that they bear interest at floating rates which approximates market rates.

22. Financial instruments and risks (continued)

(d) Concentration of credit risk

All production from Tati Nickel in Botswana is sold through Centametall AG of Switzerland. Smelting is performed at BCL Limited, of Botswana pursuant to a smelting agreement between Centametall and BCL. The smelter matte produced by BCL from Tati ore and concentrates is refined pursuant to a refining agreement between Centametall and Rio Tinto Zimbabwe (Empress Nickel Refinery) and a refining agreement between Centametall and Falconbridge (FNA Refinery).

All mineral concentrates from the Lake Johnston operations in Australia are sold, in accordance with an off-take agreement, to Inco Limited of Canada. All mineral concentrates from the Black Swan operations are sold, in accordance with an off-take agreement, to OMG Kokkola Chemicals BV, a subsidiary of USA based OM Group.

The Thunderbox gold mine in Australia produces gold bullion for direct sale to the financial markets in Australia. Currently the company sells all of its gold bullion to Macquarie Bank Limited.

23. Commitments

(a) Joint venture agreements

The Company has to perform exploration and expend funds in order to retain its interest in formalized agreements with joint venture participants. The amount of these future exploration commitments as at December 31, 2004 is A$7.0 million ($5.5 million).

(b) Tenement obligations

In order to maintain current rights of tenure to exploration tenements, the Company and the joint ventures in which it participates are required to pay lease rentals and to meet the minimum expenditure requirements of the Department of Minerals and Energy (Western Australia). These obligations are subject to amendment upon expiry of the exploration leases or when application for a mining license is made. These obligations are not provided for in the financial statements. The amount payable for the twelve months ending December 31, 2005 is A$8.6 million ($6.7 million).

(c) Funding obligations

The Company has entered into an agreement with Western Areas NL, an Australian publicly listed mining company which may require LionOre to provide funding in the form of a loan for up to A$20 million ($15.6 million), if certain conditions are met. The loan is to be used for development of nickel projects from which the Company will have rights over off-take of ores and/or concentrates.

24. Contingencies

(a) Native Title Claims

A number of native title claims have been applied for under the Native Titles Act 1993 (Cth) ("NTA") over areas of Western Australia in which the Company has an interest. The National Native Title Tribunal has registered some of these claims as the first step in the procedures established under the NTA to enable determination, by the Federal Court of Australia, of whether native title exists.

Although the final effect of these applications is uncertain, they currently do not have a significant effect on the activities of the Company.

(b) Contingent purchase consideration

In connection with the purchase of the Bulong Nickel Project Plant assets in April of 2004, the Company has a contingent payment of A$7.0 million which will be payable if the plant is recommissioned. The Company is not currently in a position to determine whether the plant will be recommissioned.

(c) BCL Claim

BCL Limited has claimed an amount of approximately $1.1 million against Tati Nickel related to the specification of concentrates delivered to the BCL smelter. BCL claims that the concentrates supplied did not meet specifications outlined under the smelting agreement and therefore the processing of these concentrates had an adverse effect on BCL operations. The issue is under negotiation, and the outcome is not determinable at this time.

(d) Other Claims

The Company is also a party to certain other claims incurred in the normal course of business which, are not expected to have, individually or in the aggregate, a material impact on the results of operations or financial position of the Company.

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(Expressed in thousands of US Dollars, except where noted)

25. Subsequent events

(a) Acquisition of 50% of the Nkomati mine in South Africa.

On February 2, 2005, LionOre announced the acquisition of a 50% share in the Nkomati nickel mine ("Nkomati") in South Africa for a total consideration of $48.5 million, payable in two stages. LionOre purchased its share from African Rainbow Minerals Limited ("ARM") who will retain the remaining 50% ownership of Nkomati. The mine consists of two deposits, a Massive Sulphide Body ("MSB"), which is currently being mined, and a lower grade, but significantly larger, disseminated ore-body, which offers new production potential.

The MSB operation is expected to continue at current production levels until the third quarter of 2007. The lower grade disseminated ore-body offers significant expansion potential and is estimated to have a 16 year mine life. The partners plan to carry out a further expansion study to assess pit optimization, concentrator design, use of proprietary Activox ® technology, the PGM recovery process and project economics.

Of the total consideration $28.5 million will be paid to ARM on completion of certain conditions. A number of these conditions remain to be fulfilled, including approval in terms of the South African Competitions Act and South African Exchange Control Regulations. These conditions are expected to be fulfilled within 120 days from the date of announcement. If both parties agree to proceed with the expansion project, LionOre will pay an additional $20 million in cash to ARM.

(b) Payment of consideration to MPI shareholders.

On January 7, 2005 LionOre issued 20,566,803 common shares and paid A$122.8 million ($93.1 million) to the shareholders of MPI as consideration for the 94.8% of shares tendered under the take-over bid as of December 22, 2004 (Note 3 (a)).

On February 7, 2005, LionOre issued a further 1,124,492 common shares and paid A$6.7 million ($5.1 million) to compulsorily acquire the remaining 5.2% of MPI shares issued and outstanding.

AUDITORS' REPORT

To the Shareholders of
LionOre Mining International Ltd.:

We have audited the consolidated balance sheets of LionOre Mining International Ltd. as at December 31, 2004 and 2003 and the consolidated statements of earnings and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 4, 2005

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements may include amounts which are based on the best estimates and judgments of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three independent directors not involved in the daily operations of the Company. The function of the Audit Committee is to review the quarterly and annual consolidated financial statements, review the adequacy of the system of internal controls, review any relevant accounting, financial and security regulatory matters and recommend the appointment of external auditors. The Audit Committee meets regularly with management and the external auditors of the Company to satisfy itself that their responsibilities have been properly discharged.

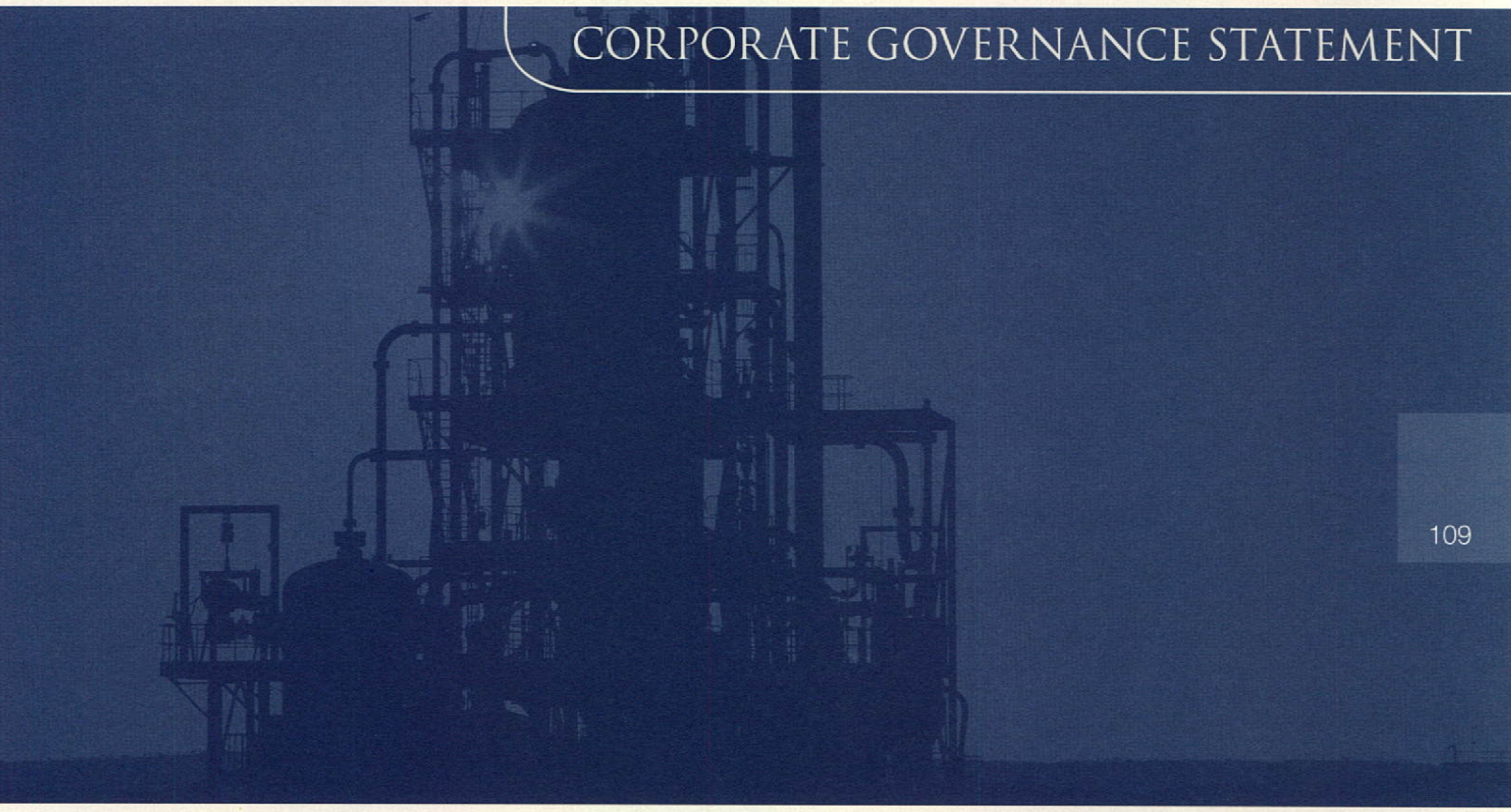
The external auditors, Deloitte & Touche LLP, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the consolidated financial statements. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with generally accepted accounting principles in Canada. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

Colin H Steyn
President and Chief Executive Officer

Theodore C Mayers
Chief Financial Officer and Corporate Secretary

Toronto, Ontario
March 15, 2005

CORPORATE GOVERNANCE STATEMENT



CORPORATE GOVERNANCE STATEMENT

Details of the Company's corporate governance practices for the year ended December 31, 2004 are set out below.

ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" (ASX Recommendations) and the TSX Guidelines for Corporate Governance (TSX Guidelines) apply to the Company.

The ASX Recommendations require companies to disclose in their annual reports whether their corporate governance practices follow these recommendations, together with the reasons for any departure from these recommendations.

In accordance with Canadian law, the Company provides all security holders of the Company with a document entitled Management Proxy Circular accompanying the Notice of Meeting before any annual meeting of the Company is held (Management Proxy Circular). The Management Proxy Circular is a comprehensive document which sets out detailed information about the corporate governance of the Company and the practices of the Company by reference to the TSX governance guidelines.

The Management Proxy Circular is lodged with ASX in compliance with ASX Listing Rule 3.17.

Role of the Board

The Board is responsible for approving all material business decisions of the Company and monitoring its progress and the results of operations on an ongoing basis. The entire Board also assumes responsibility for the development of the Company's approach to corporate governance. Corporate governance issues are discussed at least quarterly.

ASX Recommendation 1.1 suggests that the board adopt a formal statement of matters reserved to it or a formal board charter. The Board has not adopted a formal statement or board charter. The Board is in the process of developing a formal Board Charter which will be adopted in due course.

Structure of the Board

The Board has determined that its current size of 8 directors is effective for productive discussion and decision-making. There are 3 executive directors (CEO, CFO and Chair) who participate in the day to day operations of the Company and the remaining 5 directors on the Board are considered to be independent, non-executive directors. The independence of these directors is discussed annually in the Management Proxy Circular.

Members of the Board during the year were:

Donald Bailey	Chair, Executive Director
Gilbert Playford	Vice Chair, Non-Executive Director
Colin Steyn	CEO, Executive Director
Ted Mayers	CFO, Executive Director, Corporate Secretary
Louis Riopel	Non-Executive Director
Alan Thompson	Non-Executive Director
Oyvind Hushovd	Non-Executive Director
Joshua Pitt	Non-Executive Director

Details of the background and experience of each director are set out on page 8 of this report.

ASX Recommendation 2.2 suggests that the chair should be an independent director. The Board had determined that, in light of Mr Bailey's extensive experience in mining and role in founding the Company, he is the best candidate to make decisions and take actions that are in the best interests of the Company and its shareholders.

Nominating Committee

The Nominating Committee is responsible for the identification and evaluation of prospective Board members and for making recommendations to the Board in respect to the appointment of new Board members.

New Directors are given a package of comprehensive information on the Company, the responsibilities of a Board member and the Company's corporate governance practices. New Board members also meet with senior executives to review the information and engage in discussion about the Company. These meetings also provide a forum for the new Board member to pose any questions related to the information package or receive any clarification on information that may not be covered in the package.

The members of the Nominating Committee during the year were Oyvind Hushovd (Chairman), Alan Thompson and Joshua Pitt. There was no meeting of the Nominating Committee during the year.

ASX Recommendation 2.4 suggests that the Nominating Committee should have a charter that clearly sets out its role and responsibilities, composition, structure and membership requirements. The Nominating Committee has not adopted a formal charter. A formal charter is presently being developed and will be adopted in due course.

CORPORATE GOVERNANCE STATEMENT

Code of conduct and ethical standards

The Company has a securities trading policy which provides up to date guidance to directors, employees, consultants and contractors to ensure that any trading in securities and derivative products is conducted in accordance with all applicable laws and good business ethics.

ASX Recommendations 3.1 and 3.3 suggest that the company adopt a code of conduct to guide the directors, the CEO, CFO and any other key executives as to the practices necessary to maintain confidence in the company's integrity and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. A code of business ethics (which will incorporate existing securities trading policies) is presently being developed and will be adopted in due course.

Continuous disclosure

The Board conscientiously monitors legal and regulatory developments in Canada, Australia, the United Kingdom and the United States regarding corporate governance including a number of proposals for increasing accountability and improving continuous disclosure. This monitoring process, which may include consultations with external legal and financial advisers, is an ongoing process with a view to implementing changes as appropriate.

ASX Recommendation 5.1 suggests a company should establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure compliance at a senior management level. As this is a constantly evolving process, the Company has determined that a formal written policy is not required.

Audit committee & risk management

Under the Audit Committee Charter, the Audit Committee assists the Board in fulfilling its responsibilities by monitoring, in order to gain reasonable assurance as to the integrity of the financial statements of the Company, the compliance with legal and regulatory requirements and the independence and performance of the Company's external auditors. The Audit Committee is also mandated to provide an open avenue of communication among the external auditors, financial and senior management and the Board, and to establish and monitor procedures designed to improve the quality and reliability of the disclosure of the Company's financial-condition and results of operations. A representative of the external auditor attends the annual general meeting and is prepared to answer questions.

The members of the Audit Committee during the year were Louis Riopel (Chairman), Gilbert Playford and Alan Thompson. Details of the background and experience of each director are set out on page 8 of this report. There were 7 meetings of the Audit Committee during the year which were attended by all members.

The Board has approved a Company risk management policy. The Company believes it is sufficient to guide Board members and management in identification and management of risks. Under this policy the Board receives information on business risks and risk management on a quarterly basis.

Compensation Committee - remuneration and performance

The purpose of the Compensation Committee is to assist the Board in monitoring, reviewing and approving the Company's compensation policies and practices and administering the Company's stock option plan and annual bonus plans. The Compensation Committee bases its recommendations with respect to senior management compensation and stock option awards on the individual's and the Company's performance against the Company's strategic, operational and financial objectives. A report on executive compensation is also discussed annually in the Management Proxy Circular.

The Board makes decisions regarding the hiring of senior executives such as the CEO and CFO. The Board ensures that the persons selected have adequate experience and training. The Board supports management needs for professional development, monitors the performance of senior management and regularly reviews succession planning issues.

The Compensation Committee determines the adequacy and form of compensation of directors to reflect the time commitment, level of responsibility undertaken and performance achieved by each director and senior management.

The members of the Compensation Committee during the year were Gilbert Playford (Chairman), Alan Thompson and Oyvind Hushovd. There was one meeting of the Compensation Committee during the year which was attended by all members.

The objectives of the CEO are outlined at least annually in conjunction with the annual strategic planning process.

ASX Recommendation 8.1 suggests a company should disclose the process for performance evaluation of the board, its committees and individual directors and key executives. At this time there is no formal process or written policy in place for evaluation of the Board as a whole, its committees or individual directors. The Company is of the view that the Company's performance to date as reflected by growth in the size and value of the Company which reflects the quality of the Board precludes the need for formal assessments at this time.

CORPORATE GOVERNANCE STATEMENT

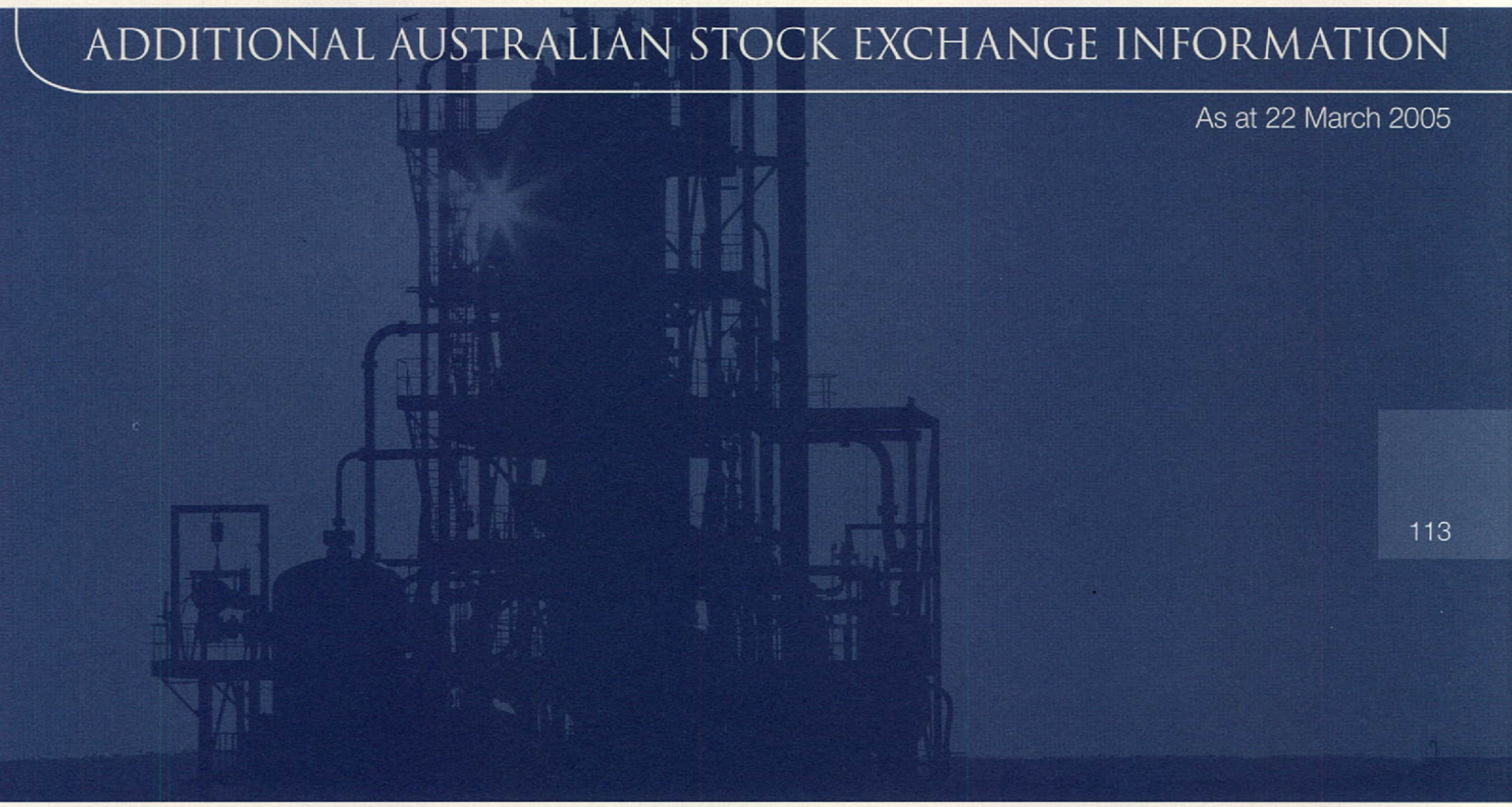
Communications

The Board and CEO/CFO discuss procedures for communicating with shareholders, stakeholders, analysts and other interested persons on a regular basis. The Board reviews on a quarterly basis a selection of media coverage of the Company's activities. The Board approves all annual and quarterly reports and any financing documents. The CEO and CFO jointly approve any minor press releases, which may or may not be reviewed and approved by the Board depending on whether the contents include material information about the Company.

ASX Recommendation 6.1 suggests a company should design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings ASX Recommendation 10.1 suggests the Company establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.- Given the efficiency of current Company communications practice, the Board has concluded that there it is no urgency to adopt a formal communications policy or code of conduct to guide compliance.

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

As at 22 March 2005



ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

As at 22 March 2005

Place of Incorporation

LionOre was incorporated in Canada.

Not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act

LionOre is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares in LionOre in relation to substantial holdings and takeovers.

Limitations imposed on the acquisition of LionOre securities

In Canada, acquisitions of securities by takeover bid are regulated by provincial securities legislation. Generally, under this legislation, an offer to acquire securities from a shareholder resident in a Canadian province which will result in the offeror (including joint actors) holding 20% or more of the issued capital of the company constitutes a takeover bid. Subject to limited exceptions (e.g. the purchase at not more than market price of up to 5% of outstanding shares over 12 months, private offers to no more than 5 persons at no greater than 115% of market price and purchases from treasury), an offeror must:

(a) provide all shareholders with a takeover bid circular describing the terms of the offer and, if securities of the offeror form part of the consideration, including prospectus level disclosure about the offeror and its business;

(b) keep the bid open for at least 35 days; and

(c) deliver the circular and extend the offer to each shareholder of the company, with the ultimate purchase of shares being pro rata amongst those shareholders who have tendered their shares under the bid. Rules also provide an early warning system to notify the market of significant accumulations of securities.

Under federal corporate law, if a takeover bid is accepted by the holders of not less than 90% of the outstanding shares (excluding shares held at the date of the bid by or on behalf of the offeror) the offeror is entitled, and the remaining shareholders can require the offeror, to acquire the remaining shares either on the same terms of the takeover bid or at fair market value, as elected by the shareholder.

Canadian rules also provide an early warning system to notify the market of significant accumulation of securities. Under this system an acquirer must issue a press release and file a report with provincial securities commissions upon the initial acquisition (whether from market purchases, treasury or otherwise) of 10% or more of the share capital of a public company and thereafter upon each acquisition of an additional 2%.

The above is only a short summary of certain takeover bid and related requirements and reference must be made to applicable Canadian corporate and securities legislation, including the requirements of the TSX, for further details of takeover bid provisions and other regulated transactions such as insider bids, related party transactions and private placements, among others.

No Substantial Shareholders

No person has a substantial shareholdings in LionOre within the meaning of section 617B of the Australian Corporations Act 2001

Number of LionOre securities quoted on ASX

Number	Class
216,804,895	Common Shares

Voting Rights

All LionOre common shares carry one vote per share.

All CHESS Depository Interests (CDIs) have been issued over LionOre common shares.

CDI holders are the beneficial owner of common shares and although they are not entitled to attend and vote at LionOre shareholder meetings, CDI holders may direct CHESS Depository Nominees Pty Ltd, as the legal holder of their LionOre common shares, to cast proxy votes at the relevant meeting.

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

As at 22 March 2005

Numbers of LionOre securities not quoted on ASX

Number	Class
5,830,000	Stock Options (Employee) Stock Option Plan
14,400	Unsecured Debentures – US$144,000,000 unsecured convertible notes issued in $10,000 units

Distribution Schedule of the number of holders of equity securities

	Common Shares*	Employee Stock Options
1 – 1,000	1,737	–
1,001 – 5,000	920	–
5,001 – 10,000	153	1
10,001 – 100,000	140	19
100,001 and over	32	16
Total	**2,982**	**36**
Holdings less than a marketable parcel	63	–

*The holders of common shares in this Distribution Schedule means registered holders of common shares (shareholders) as recorded in LionOre's securities register as well as CDI holders whose common shares are held CHESS Depository Nominees Pty Ltd.

Stock Exchange Listings

LionOre securities are quoted as "LIM" on the TSX and the ASX, "LOR" on the LSE and "LIONORE" on the Botswana Stock Exchange.

Registered Office in Australia and Principal Administrative Office

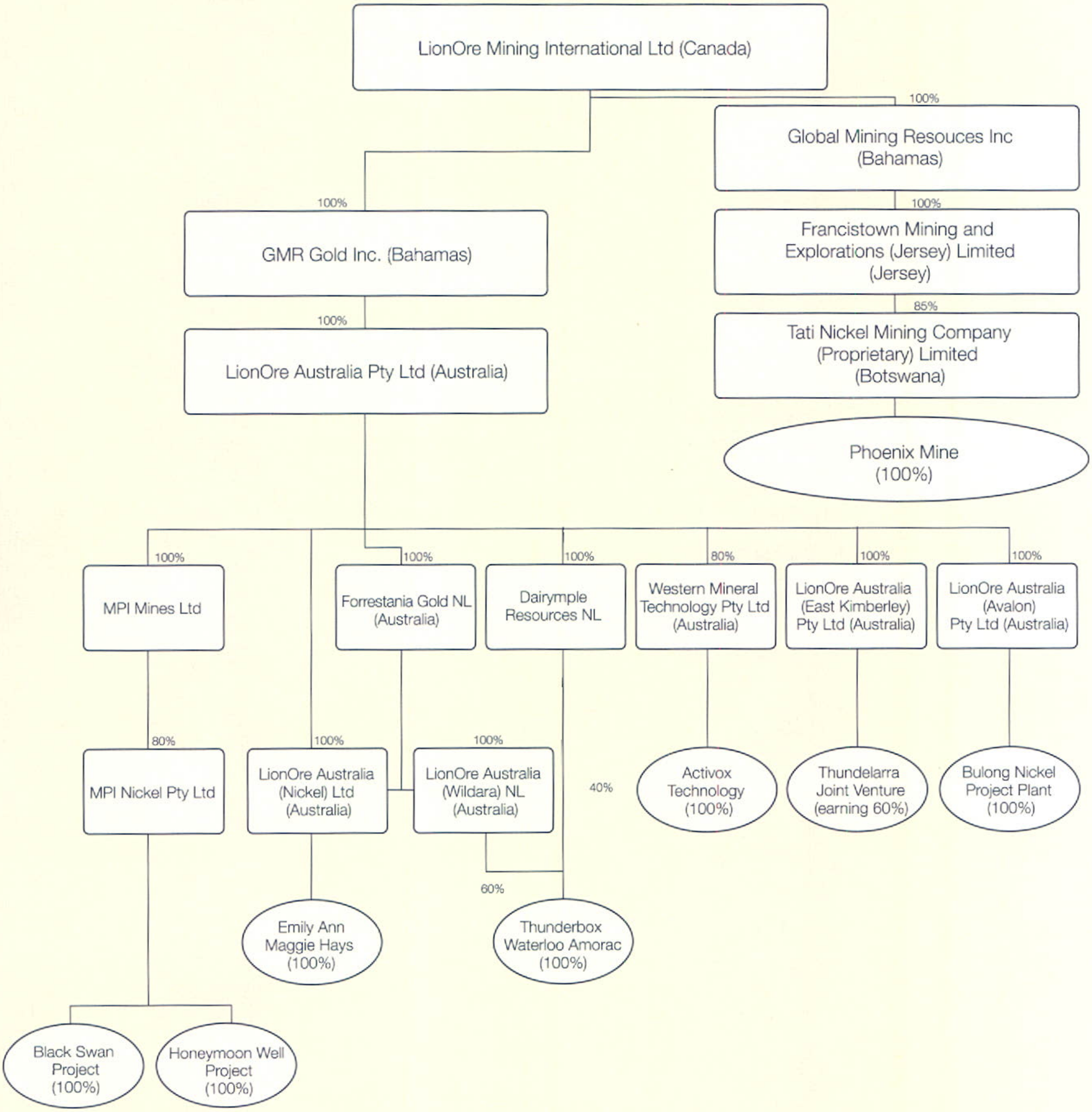
Registered office in Australia
Level 2
10 Ord Street
West Perth WA 6005
Australia

Principal Administrative Office
20 Toronto Street
12th Floor
Toronto Ontario, Canada M5C 2B8

ADDITIONAL AUSTRALIAN STOCK EXCHANGE INFORMATION

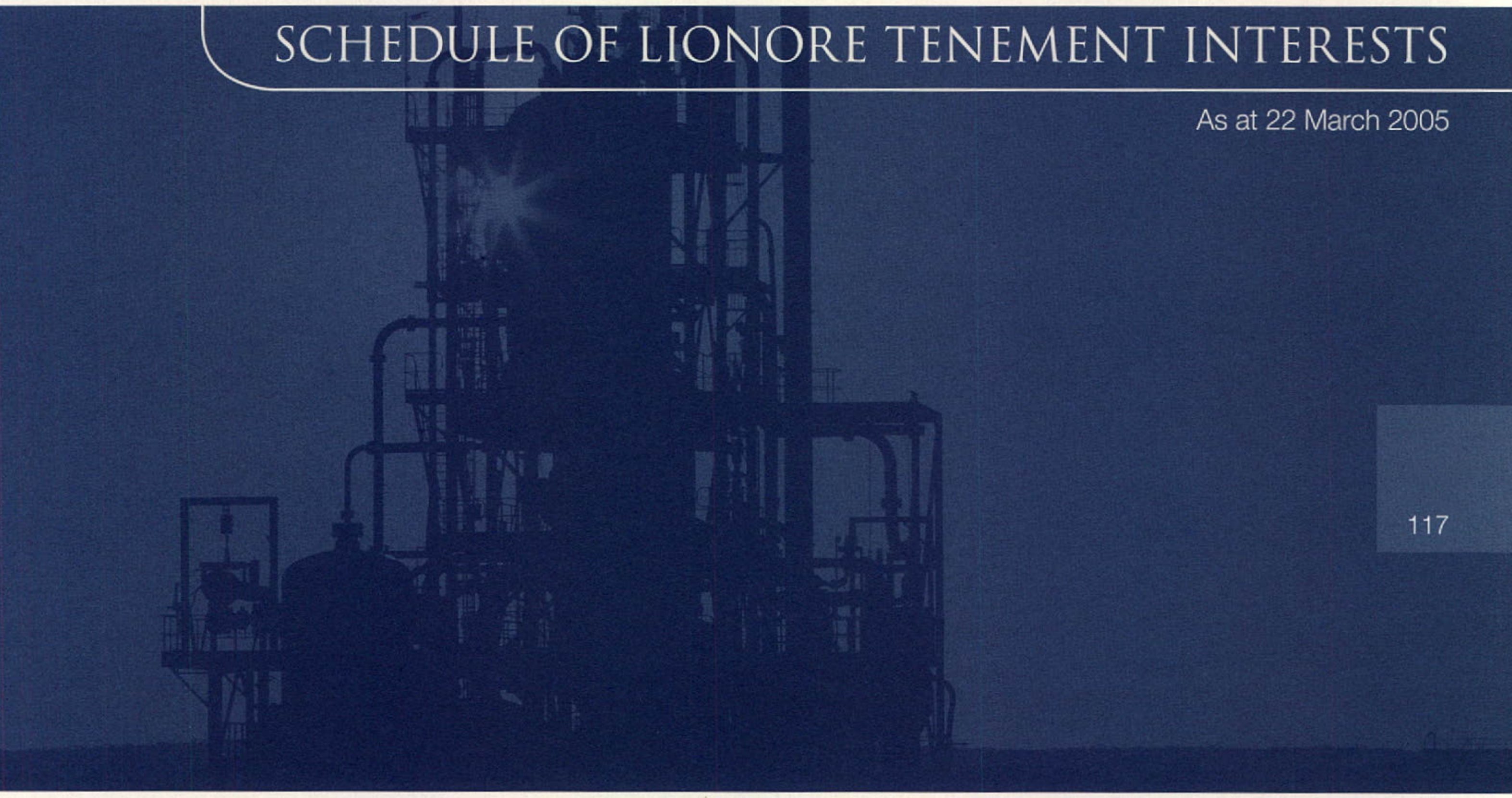
As at 22 March 2005

The following chart indicates the corporate structure of the Company and its subsidiaries, the percentage of voting securities held, the jurisdictiion of incorporation and their respect interest in various mineral projects and mining properties.



SCHEDULE OF LIONORE TENEMENT INTERESTS

As at 22 March 2005



SCHEDULE OF LIONORE TENEMENT INTERESTS

Lionore Project	Tenement		Status	Equity
Lake Johnston Operations – Australia				
Emily Ann Project[1]	M	63/0283	G	100%
	M	63/0284	G	100%
	GPL	63/0004	G	100%
	L	63/0051	G	100%
	L	63/0052	G	100%
	L	63/0055	G	100%
Maggie Hays Project[2]	M	63/0163	G	100%
Lake Johnston Regional[3]	E	63/0296	G	100%
	E	63/0297	G	100%
	E	63/0318	G	100%
	E	63/0349	G	100%
	E	63/0362	G	100%
	E	63/0426	G	100%
	E	63/0427	G	100%
	E	63/0428	G	100%
	E	63/0429	G	100%
	E	63/0430	G	100%
	E	63/0431	G	100%
	E	63/0432	G	100%
	E	63/0471	G	100%
	E	63/0542	G	100%
	E	63/0547	G	100%
	E	63/0735	G	100%
	E	63/0778	G	100%
	E	63/0779	G	100%
	M	63/0282	G	100%
	M	63/0292	G	100%
	M	63/0302	G	100%
	P	63/1213	G	100%
	E	63/0837	G	100%
	E	63/0585	A	100%
	E	63/0838	A	100%
	M	63/0293	A	100%
	M	63/0294	A	100%
	M	63/0426	A	100%
	M	63/0427	A	100%
	M	63/0428	A	100%
	M	63/0434	A	100%
	M	63/0435	A	100%
	M	63/0436	A	100%
	M	63/0437	A	100%
	M	63/0438	A	100%
	M	63/0439	A	100%
	M	63/0440	A	100%
	M	63/0441	A	100%
	M	63/0442	A	100%
	M	63/0443	A	100%
	M	63/0455	A	100%
	M	63/0456	A	100%
Lake Johnston Regional[3]	M	63/0457	A	100%
	M	63/0458	A	100%
	M	63/0459	A	100%
	M	63/0460	A	100%
	M	63/0461	A	100%
	M	63/0462	A	100%
	M	63/0463	A	100%
	M	63/0464	A	100%
	M	63/0465	A	100%
	M	63/0466	A	100%
	M	63/0467	A	100%
	M	63/0468	A	100%
	M	63/0497	A	100%
	M	63/0498	A	100%
	M	63/0499	A	100%
	M	63/0500	A	100%
	M	63/0501	A	100%
	M	63/0502	A	100%
	M	63/0503	A	100%
	M	63/0504	A	100%
	M	63/0505	A	100%
	M	63/0506	A	100%
	M	63/0507	A	100%
	M	63/0508	A	100%
	M	63/0509	A	100%
	M	63/0510	A	100%
	M	63/0520	A	100%
	M	63/0521	A	100%
	M	63/0522	A	100%
	M	63/0523	A	100%
	M	63/0524	A	100%
	M	63/0539	A	100%
	M	63/0565	A	100%
	M	63/0566	A	100%
Maggie Hays South[4]	E	63/0625	G	EI
Medcalf[5]	E	63/0801	G	EI
Northeastern Goldfields Operations – Australia				
Wildara	E	36/235	G	100%
	L	36/155	G	100%
	L	36/157	G	100%
	L	36/158	G	100%
	M	36/473	G	100%
	M	36/474	G	100%
	M	36/475	G	100%
	M	36/476	G	100%
	M	36/502	G	100%
	M	36/503	G	100%
	M	36/504	G	100%
	M	36/512	G	100%

SCHEDULE OF LIONORE TENEMENT INTERESTS

Northeastern Goldfields Operations – Australia (continued)

Lionore Project	Tenement		Status	Equity
Wildara	M	36/516	G	100%
	M	36/524	G	100%
	M	36/526	G	100%
	M	36/541	G	100%
	M	36/542	G	100%
	M	36/547	G	100%
	M	36/548	G	100%
	M	36/599	G	100%
	M	36/600	G	100%
	M	36/604	G	100%
	M	37/771	G	100%
	M	37/772	G	100%
	M	37/877	G	100%
	M	37/878	G	100%
	P	36/1338	G	100%
	P	36/1472	G	100%
	P	36/1473	G	100%
	P	37/6412	G	100%
	P	37/6558	G	100%
	E	36/478	A	100%
	E	36/516	A	100%
	E	37/611	A	100%
	E	37/755	A	100%
	L	36/181	A	100%
	P	36/1512	A	100%
Lehman's Well[6]	M	36/35	G	90%
	M	36/421	G	90%
	M	36/462	G	90%
	M	36/494	G	90%
	M	36/513	G	90%
	M	36/525	G	90%
	M	36/527	G	90%
	M	36/584	G	90%
	M	36/585	G	90%
	M	36/586	G	90%
	M	36/587	G	90%
	M	36/588	G	90%
	M	36/589	G	90%
	P	36/1436	G	90%
	P	36/1439	G	90%
	P	36/1440	G	90%
Wilson Creek[7]	E	36/306	G	75.91%
	M	37/437	G	75.91%
	M	37/493	G	75.91%
	M	37/494	G	75.91%
	M	36/582	A	75.91%
	M	37/998	A	75.91%

Lionore Project	Tenement		Status	Equity
Yillaree[8]	E	36/245	G	80%
	E	36/273	G	80%
	M	36/505	G	80%
	M	36/506	G	80%
	M	36/507	G	80%
	M	36/511	G	80%
	P	36/1339	G	80%
	P	36/1340	G	80%
	P	36/1341	G	80%
Spider Well[9]	M	36/427	G	60%
	M	36/428	G	60%
	M	36/429	G	60%
	M	36/466	G	60%
	M	36/521	G	60%
Goongarrie-Scotia	E	29/144	G	100%
	E	29/162	G	100%
	E	29/170	G	100%
	E	29/522	G	100%
	M	24/279	G	100%
	M	24/336	G	100%
	E	24/123	A	100%
	E	29/523	A	100%
	E	29/529	A	100%
	M	29/244	A	100%
	M	29/245	A	100%
	M	29/246	A	100%
	M	29/250	A	100%
	M	29/259	A	100%
	M	29/260	A	100%
	M	29/261	A	100%
	M	29/262	A	100%
	M	29/305	A	100%
	M	29/306	A	100%
	M	29/307	A	100%
	M	29/308	A	100%
	M	29/315	A	100%
	M	29/316	A	100%
	M	29/317	A	100%
	M	29/318	A	100%
	P	24/3784	A	100%
Mt Clifford	E	37/228	G	100%
	E	37/267	G	100%
	E	37/309	G	100%
	P	37/5088	G	100%
	P	37/5089	G	100%
	P	37/5090	G	100%
	P	37/5224	G	100%
	P	37/5272	G	100%
	P	37/5439	G	100%
	P	37/5440	G	100%

SCHEDULE OF LIONORE TENEMENT INTERESTS

Northeastern Goldfields Operations – Australia (continued)

Lionore Project	Tenement		Status	Equity
Mt Clifford	P	37/5441	G	100%
	P	37/5442	G	100%
	P	37/6452	G	100%
	E	37/761	A	100%
	E	37/762	A	100%
	M	37/1019	A	100%
	M	37/1021	A	100%
	M	37/1024	A	100%
	M	37/1028	A	100%
	M	37/1092	A	100%
	M	37/1109	A	100%
	M	37/1110	A	100%
	M	37/1111	A	100%
	M	37/1112	A	100%
	M	37/616	A	100%
	M	37/806	A	100%
	M	37/810	A	100%
	M	37/811	A	100%
	M	37/812	A	100%
	M	37/813	A	100%
	M	37/814	A	100%
	M	37/815	A	100%
	M	37/930	A	100%
Ulysses[10]	M	40/166	G	40%
Kookynie - Melita	E	40/177	G	100%
	E	40/46	G	100%
	P	40/1089	G	100%
	P	40/1090	G	100%
	P	40/1093	G	100%
	P	40/1094	G	100%
	E	37/628	A	100%
	E	40/120	A	100%
	E	40/131	A	100%
	E	40/146	A	100%
	E	40/162	A	100%
	E	40/165	A	100%
	E	40/173	A	100%
	E	40/179	A	100%
	E	40/196	A	100%
	E	40/201	A	100%
	M	40/224	A	100%
	M	40/233	A	100%
	M	40/234	A	100%
	M	40/235	A	100%
	M	40/236	A	100%
	M	40/298	A	100%
	M	40/299	A	100%
	M	40/305	A	100%

Lionore Project	Tenement		Status	Equity
Yunndaga – Golden State[11]	P	29/1344	G	12.5%
	P	29/1354	G	12.5%
	P	29/1355	G	12.5%
	P	29/1356	G	12.5%
	P	29/1357	G	12.5%
	P	29/1358	G	12.5%
	P	29/1359	G	12.5%
	P	29/1360	G	12.5%
	P	29/1361	G	12.5%
	M	29/203	A	12.5%
	M	29/210	A	12.5%
Yunndaga – Heron[12]	P	29/1362	G	12.5%
	P	29/1363	G	12.5%
	P	29/1364	G	12.5%
	P	29/1365	G	12.5%
	P	29/1366	G	12.5%
	P	29/1367	G	12.5%
	P	29/1368	G	12.5%
	P	29/1369	G	12.5%
	M	29/209	A	12.5%
Gidgee	E	57/484	A	100%
	M	57/293	A	100%
	M	57/294	A	100%
Misc Murchison	E	51/859	A	100%
	M	20/334	A	100%
Misc NE Goldfields	E	31/336	G	100%
	E	36/467	G	100%
	E	37/575	G	100%
	E	37/580	G	100%
	E	37/672	G	100%
	E	37/744	G	100%
	P	36/1492	G	100%
	E	36/497	A	100%
	E	37/673	A	100%
	E	37/715	A	100%
Ajava[13]	P	24/3193	G	26%
	P	24/3194	G	26%
	M	24/662	A	26%

SCHEDULE OF LIONORE TENEMENT INTERESTS

Lionore Project	Tenement		Status	Equity
Avalon (Bulong) Project – Australia				
Avalon Project	M	25/75	G	100%
	M	25/76	G	100%
	M	25/77	G	100%
	M	25/78	G	100%
	M	27/189	G	100%
	L	27/55	G	100%
	L	27/56	G	100%
East Kimberley Region – Australia				
East Kimberley[14]	E	80/2607	G	EI
	E	80/2634	G	EI
	E	80/2635	G	EI
	E	80/2716	G	EI
	E	80/2746	G	EI
	E	80/2748	G	EI
	E	80/2749	G	EI
	E	80/2817	G	EI
	E	80/2824	G	EI
	E	80/2827	G	EI
	E	80/2835	G	EI
	E	80/2836	G	EI
	E	80/2865	G	EI
	E	80/2866	G	EI
	E	80/2867	G	EI
	P	80/1426	G	EI
	P	80/1427	G	EI
	P	80/1506	G	EI
	E	80/3276	A	EI
	E	80/3285	A	EI
	E	80/3323	A	EI
	E	80/3293	A	EI
	E	80/3294	A	EI
	P	80/1519	A	EI

Lionore Project	Tenement		Status	Equity
Southern Cross (Forrestania) Region – Australia				
Forrestania-All Minerals[15]	E	74/0121	G	100%
	E	77/0085	G	100%
	E	77/0272	G	100%
	E	77/0372	G	100%
	E	77/0413	G	100%
	E	77/0479	G	100%
	E	77/0546	G	100%
	E	77/0635	G	100%
	E	77/0636	G	100%
	E	77/0735	G	100%
	M	77/0099	G	100%
	M	77/0326	G	100%
	M	77/0464	G	100%
	M	77/0467	G	100%
	M	77/0468	G	100%
	M	77/0493	G	100%
	P	77/3007	G	100%
	P	77/3008	G	100%
	E	77/0806	A	100%
	M	74/0098	A	100%
	M	74/0099	A	100%
	M	74/0100	A	100%
	M	74/0101	A	100%
	M	74/0109	A	100%
	M	77/0696	A	100%
	M	77/0698	A	100%
	M	77/0699	A	100%
	M	77/0700	A	100%
	M	77/0701	A	100%
	M	77/0704	A	100%
	M	77/0705	A	100%
	M	77/0874	A	100%
	M	77/0885	A	100%
	M	77/0895	A	100%
	M	77/0925	A	100%
	M	77/0986	A	100%
	M	77/1019	A	100%
	M	77/1020	A	100%
	M	77/1021	A	100%
	M	77/1041	A	100%
	M	77/1086	A	100%
	M	77/1061	A	100%

SCHEDULE OF LIONORE TENEMENT INTERESTS

Lionore Project	Tenement		Status	Equity
Southern Cross (Forrestania) Region – Australia (continued)				
Forrestania - Nickel Only[16]	E	74/0167	G	100% NRO
	E	77/0072	G	100% NRO
	E	77/0476	G	100% NRO
	E	77/0477	G	100% NRO
	E	77/0478	G	100% NRO
	E	77/0494	G	100% NRO
	GPL	77/0037	G	100% NRO
	GPL	77/0038	G	100% NRO
	GPL	77/0045	G	100% NRO
	GPL	77/0047	G	100% NRO
	GPL	77/0048	G	100% NRO
	GPL	77/0049	G	100% NRO
	GPL	77/0050	G	100% NRO
	GPL	77/0068	G	100% NRO
	GPL	77/0070	G	100% NRO
	GPL	77/0071	G	100% NRO
	GPL	77/0072	G	100% NRO
	GPL	77/0073	G	100% NRO
	L	77/0059	G	100% NRO
	L	77/0085	G	100% NRO
	L	77/0096	G	100% NRO
	L	77/0107	G	100% NRO
	L	77/0170	G	100% NRO
	L	77/0174	G	100% NRO
	L	77/0175	G	100% NRO
	M	77/0324	G	100% NRO
	M	77/0544	G	100% NRO
	M	77/0545	G	100% NRO
	M	77/0669	G	100% NRO
	M	77/0693	G	100% NRO
	M	77/0812	G	100% NRO
	P	77/2610	G	100% NRO
	P	77/2615	G	100% NRO
	P	77/2616	G	100% NRO
	P	77/2640	G	100% NRO
	P	77/2653	G	100% NRO
	P	77/2667	G	100% NRO
	P	77/2678	G	100% NRO
	P	77/2803	G	100% NRO
	P	77/2804	G	100% NRO
	M	74/0111	A	100% NRO
	M	74/0112	A	100% NRO
	M	74/0113	A	100% NRO
	M	77/0680	A	100% NRO
	M	77/0691	A	100% NRO
	M	77/0692	A	100% NRO
	M	77/0694	A	100% NRO
	M	77/0703	A	100% NRO
	M	77/0719	A	100% NRO
	M	77/0720	A	100% NRO
	M	77/0761	A	100% NRO
	M	77/0878	A	100% NRO

Lionore Project	Tenement		Status	Equity
Forrestania - Nickel Only[16]	M	77/0879	A	100% NRO
	M	77/0880	A	100% NRO
	M	77/0881	A	100% NRO
	M	77/0882	A	100% NRO
	M	77/0883	A	100% NRO
	M	77/0884	A	100% NRO
	M	77/0890	A	100% NRO
	M	77/0891	A	100% NRO
	M	77/0892	A	100% NRO
	M	77/0896	A	100% NRO
	M	77/0949	A	100% NRO
	M	77/0950	A	100% NRO
	M	77/0951	A	100% NRO
	M	77/0952	A	100% NRO
	M	77/0966	A	100% NRO
	M	77/1061	A	100% NRO
Southern Goldfields Misc – Australia				
Cave Hill	E	15/0819	A	100%
Black Swan Nickel – Australia				
Black Swan[17]	E	27/067	G	80%
	M	27/039	G	80%
	M	27/0200	G	80%
	M	27/0214	G	80%
	M	27/0216	G	80%
	M	27/0288	A	80%
	M	27/0289	A	80%
	M	27/0417	A	80%
	M	27/0418	A	80%
	L	27/057	G	80%
	L	27/058	G	80%
	L	27/059	G	80%
	L	27/074	A	80%
	L	27/075	A	80%
	P	27/1433	G	80%
	P	27/1434	G	80%
	P	27/1584	A	80%

SCHEDULE OF LIONORE TENEMENT INTERESTS

Lionore Project	Tenement		Status	Equity
Honeymoon Well Project – Australia				
Abercromby[18]	E	53/0447	G	80%
	M	53/0590	A	80%
	M	53/0693	A	80%
	P	53/0759	G	80%
Abercromby (Barrack)[19]	M	53/0336	G	72%
Honeymoon Well[20]	L	53/066	G	80%
	L	53/089	G	80%
	L	53/090	G	80%
	L	53/091	A	80%
	L	53/092	A	80%
	L	53/0139	G	80%
Honeymoon Well[21]	M	53/035	G	80%
	M	53/036	G	80%
	M	53/055	G	80%
	M	53/0100	G	80%
	M	53/0949	G	80%
East Honeymoon Well[22]	E	53/0804	G	80%
	M	53/0458	A	80%
	M	53/0522	A	80%
	M	53/0908	A	80%
Albion Downs – Australia				
Albion Downs North[23]	L	53/031	G	40%
	M	53/0243	G	40%
	M	53/0371	G	40%
	M	53/0483	G	40%
	M	53/0484	G	40%
	M	53/0485	G	40%
Albion Downs Central - Jericho[24]	M	53/0411	G	40%
	M	53/0486	G	40%
	M	53/0487	G	40%
Albion Downs South	M	53/0238	G	80%
	M	53/0239	G	80%
	M	53/0240	G	80%
	M	53/0241	G	80%
	M	53/0242	G	80%
	M	53/0493	A	80%

Lionore Project	Tenement		Status	Equity
Queensland Tenements – Australia				
Mount Osprey[25]	EPM	8515	G	37.85%
	EPM	11698	G	37.85%
Tati – Botswana				
Tati	ML	88/2	G	85%
	P	8/2001	G	85%

Key:

P	Prospecting Licence
E	Exploration Licence
L	Miscellaneous Licence
M	Mining Lease
GPL	General Purpose Lease
EPM	Exploration Permit Minerals
ML	Mining Licence
NRO	Nickel Rights Only
EI	Earning Interest
G	Granted
A	Application

Notes:

1 Pursuant to the terms of the Lake Johnston and Bounty Nickel Project Earn in and Joint Venture Heads of Agreement, Inco funds exploration on the tenements in exchange for the opportunity to participate in future discoveries and offtake arrangements.

2 Pursuant to the terms of the Lake Johnston and Bounty Nickel Project Earn in and Joint Venture Heads of Agreement, Inco funds exploration on the tenements in exchange for the opportunity to participate in future discoveries and offtake arrangements.

3 Pursuant to the terms of the Lake Johnston and Bounty Nickel Project Earn in and Joint Venture Heads of Agreement, Inco funds exploration on the tenements in exchange for the opportunity to participate in future discoveries and offtake arrangements.

4 LionOre is earning a 70% interest in the tenement pursuant to the terms of the Maggie Hays South Joint Venture Heads of Agreement with Heron Resources Ltd.

5 LionOre is earning a 51% interest in the tenement pursuant to the terms of the Medcalf Joint Venture Heads of Agreement with Jaloro Pty Ltd.

SCHEDULE OF LIONORE TENEMENT INTERESTS

Notes continued:

[6] LionOre's equity in the tenements is held pursuant to the terms of the Lehman's Well Joint Venture with Black Mountain Gold NL.

[7] LionOre's equity in the tenements is held pursuant to the terms of the Wilson Creek Joint Venture with Tarmoola Australia Pty Ltd.

[8] LionOre's equity in the tenements is held pursuant to the terms of the Yillaree Joint Venture with Hampton Hill Mining NL.

[9] LionOre's equity in the tenements is held pursuant to the terms of the Spider Well Joint Venture with Devant Pty Ltd and Charles George Chitty.

[10] LionOre's equity in the tenements is held pursuant to the terms of the Melita Joint Venture with Sons of Gwalia Ltd.

[11] LionOre's equity in the tenements is held pursuant to the terms of the Menzies Joint Venture with Golden State Resources Ltd.

[12] LionOre's equity in the tenements is held pursuant to the terms of the Menzies Joint Venture with Heron Resources Ltd.

[13] LionOre's equity in the tenements is held pursuant to the terms of the Ajava Joint Venture with Kundana Gold Pty Ltd.

[14] LionOre is earning a 60% interest in the tenements pursuant to the terms of the Joint Venture Heads of Agreement with Thundelarra Exploration Ltd.

[15] Pursuant to the terms of the Lake Johnston and Bounty Nickel Project Earn in and Joint Venture Heads of Agreement, Inco funds exploration on the tenements in exchange for the opportunity to participate in future discoveries and offtake arrangements.

[16] Pursuant to the terms of the Lake Johnston and Bounty Nickel Project Earn in and Joint Venture Heads of Agreement, Inco funds exploration on the tenements in exchange for the opportunity to participate in future discoveries and offtake arrangements.

[17] LionOre's equity in the tenements is held pursuant to the terms of an Alliance Agreement between OMG, MPI, MPI Nickel and Black Swan Nickel (Alliance Agreement).

[18] LionOre's equity in the tenements is held pursuant to the terms of the Alliance Agreement and the Honeymoon Well Gold Joint Venture with Perilya Ltd (under which Perilya Ltd has a right to earn a 70% interest in the gold rights in respect of the tenements).

[19] LionOre's equity in the tenements is held pursuant to the terms of the Alliance Agreement and the Abercromby Well Joint Venture with Barrack Mines Ltd.

[20] LionOre's equity in the tenements is held pursuant to the terms of the Alliance Agreement.

[21] LionOre's equity in the tenements is held pursuant to the terms of the Alliance Agreement and the Honeymoon Well Gold Joint Venture with Perilya Ltd (under which Perilya Ltd has a right to earn a 70% interest in the gold rights in respect of the tenements).

[22] LionOre's equity in the tenements is held pursuant to the terms of the Alliance Agreement.

[23] LionOre's equity in the tenements is held pursuant to the terms of the Alliance Agreement and the Albion Downs Joint Venture with WMC Resources Ltd.

[24] LionOre's equity in the tenements is held pursuant to the terms of the Alliance Agreement and the Albion Downs Joint Venture with WMC Resources Ltd.

[25] LionOre's equity in the tenements is held pursuant to the terms of the Mount Osprey Exploration Joint Venture with Birla Mt Gordon Pty Ltd.

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