

**Lovitt Resources Inc.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2010**  
**(Expressed in U.S. Dollars)**

*This statement was prepared by management without benefit of audit.*

**Lovitt Resources Inc.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Expressed in U.S. Dollars)

	June 30, 2010 <u>(Unaudited)</u>	December 31, 2010 <u></u>
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	\$ 27,967	\$ 3,544
Amounts receivable	12,968	10,134
Inventory	--	--
Current portion of land held for sale	--	--
Prepaid expenses	<u>--</u>	<u>1,667</u>
	40,935	15,365
LOAN RECEIVABLE	--	--
ASSET HELD FOR RESALE (Note 2)	331,547	331,547
PROPERTY, PLANT AND EQUIPMENT	284,828	284,828
MINERAL PROPERTIES	280,759	240,802
PATRONAGE DIVIDENDS RECEIVABLE	<u>19,845</u>	<u>19,845</u>
	\$ <u>957,914</u>	\$ <u>892,387</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 82,731	\$ 134,166
Accrued interest payable	208,817	269,478
Notes payable (Note 3)	5,389	5,459
Current portion of long-term debt (Note 5)	<u>270,574</u>	<u>394,921</u>
	567,511	804,024
LONG-TERM DEBT (Note 5)	<u>928,740</u>	<u>920,000</u>
	<u>1,496,251</u>	<u>1,724,024</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 4)	3,001,132	2,492,110
CONTRIBUTED SURPLUS	23,369	23,369
RETAINED EARNINGS (DEFICIT)	<u>(3,562,838)</u>	<u>(3,347,116)</u>
	<u>(538,337)</u>	<u>(831,637)</u>
	\$ <u>957,914</u>	\$ <u>892,837</u>

See notes to interim consolidated financial statements.

Approved by the Board C. Lorna Brown Director Dominic Lapenna Director

This statement was prepared by management without benefit of audit.

# Lovitt Resources Inc.

## INTERIM CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

(Expressed in U.S. Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
REVENUE				
Rental and other income	500	1,081	3,200	4,081
	<u>500</u>	<u>1,081</u>	<u>3,200</u>	<u>4,081</u>
EXPENSES				
Amortization of property, plant and equipment	--	--	--	--
General and administrative	108,496	22,537	136,668	52,770
Interest on long-term debt	27,056	20,821	56,403	47,518
Interest-other	--	-	--	--
Management fees	15,000	15,000	30,000	30,000
Foreign exchange loss (gain)	(5,724)	287	(4,149)	2,834
	<u>144,828</u>	<u>58,645</u>	<u>(218,922)</u>	<u>133,122</u>
INCOME (LOSS) BEFORE OTHER ITEMS	<u>(144,328)</u>	<u>(57,564)</u>	<u>(215,722)</u>	<u>(129,041)</u>
OTHER ITEMS				
Equity income (loss) on investment	--	--	--	--
Gain/loss on sale of land	--	--	--	--
Gain on sale of other assets	--	5,000	--	5,000
Gain on sale of water rights	--	--	--	--
	<u>0</u>	<u>5,000</u>	<u>0</u>	<u>5,000</u>
NET INCOME (LOSS) FOR THE PERIOD	<u>(144,328)</u>	<u>(52,564)</u>	<u>(215,722)</u>	<u>(124,041)</u>
RETAINED EARNINGS (DEFICIT), beginning of period	<u>(3,418,510)</u>	<u>(3,067,181)</u>	<u>(3,347,116)</u>	<u>(2,995,704)</u>
RETAINED EARNINGS (DEFICIT), end of period	\$ <u>(3,562,838)</u>	\$ <u>(3,119,745)</u>	\$ <u>(3,562,838)</u>	\$ <u>(3,119,745)</u>
EARNINGS (LOSS) PER SHARE – basic	\$ <u>(0.02)</u>	\$ <u>(0.01)</u>	\$ <u>(0.03)</u>	\$ <u>(0.02)</u>
EARNINGS (LOSS) PER SHARE – diluted	\$ <u>(0.02)</u>	\$ <u>(0.01)</u>	\$ <u>(0.03)</u>	\$ <u>(0.02)</u>

See notes to interim consolidated financial statements.

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**Lovitt Resources Inc.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in U.S. Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ (144,328)	\$ (52,564)	\$ (215,722)	\$ (124,041)
Adjustments to reconcile net cash provided by operating activities				
Amortization of property, plant and equipment	--	--	--	43,823
Gain on disposal of land	--	--	--	--
Gain on sale of other assets	--	--	--	--
Gain on disposal of water rights	--	--	--	--
Equity loss on investment	--	--	--	--
Decrease (increase) in				
Amounts receivable	5,865	3,896	(2,834)	1,453
Inventory & capital assets	(33,577)	(4,369)	(40,097)	(52,333)
Prepaid expenses	1,691	--	1,687	418
Notes receivable	--	--	--	--
Increase (decrease) in				
Accounts payable and accrued liabilities	(89,773)	5,707	(51,435)	(830)
Accrued interest payable	(90,382)	13,718	(60,661)	28,075
Notes payable	(128)	293	70	174
	<u>(350,632)</u>	<u>(33,319)</u>	<u>(368,992)</u>	<u>(147,084)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Advances to affiliate	--	--	--	--
Purchase of property, plant and equipment	--	--	--	--
Issuance of shares, net of offering costs	509,022	--	509,022	--
Proceeds on sale of property, plant and equipment	--	--	--	--
Proceeds on sale of water rights	--	--	--	--
	<u>509,022</u>	<u>(0)</u>	<u>509,022</u>	<u>(0)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from long-term debt	--	25,038	--	146,311
Repayment of long-term debt	(131,864)	--	(115,607)	--
	<u>(131,864)</u>	<u>25,038</u>	<u>(115,607)</u>	<u>146,311</u>
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	26,526	(8,281)	24,423	(773)
CASH, beginning of period	<u>1,441</u>	<u>11,925</u>	<u>3,544</u>	<u>4,417</u>
CASH (NET BORROWINGS), end of period	\$ <u>27,967</u>	\$ <u>3,644</u>	\$ <u>27,967</u>	\$ <u>3,644</u>
<b>CASH (NET BORROWINGS) IS COMPRISED OF</b>				
Cash	\$ 27,967	\$ 3,644	\$ 27,967	\$ 3,644
Cheques issued in excess of funds on deposits	--	--	--	--
	\$ <u>27,967</u>	\$ <u>3,644</u>	\$ <u>27,967</u>	\$ <u>3,644</u>

*See notes to interim consolidated financial statements.*

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Expressed in U.S. Dollars)

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### 1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on a basis consistent with the Company's annual audited financial statements for the year ended December 31, 2009. These interim financial statements do not include all the note disclosures required for annual financial statements and therefore should be read in conjunction with the Company's annual audited financial statements for the year ended December 31, 2009.

The Company is incorporated under the *Company Act* (British Columbia). The Company holds land and mineral interests located in Wenatchee, Washington, U.S.A., also equipment, a house and a controlled-atmosphere warehouse facility.

Effective November 23, 2005, the Company changed its name from Grange Gold Corporation to Lovitt Nutriceutical Corporation. On September 15, 2008 the Company changed its name to Lovitt Resources Inc. from Lovitt Nutriceutical Corporation.

Prior to January 1, 2007, the Company earned rental income from its warehouse and equipment, which is partially rented to Lovitt Farms, Inc. and earned consulting revenue for providing services and expertise to Lovitt Farms, Inc. However, in 2006, Lovitt Farms ceased operations. Accordingly, all amounts invested and advanced to Lovitt Farms, Inc. were written off as of December 31, 2006.

In June of 2008, the Company decided to actively explore its mineral interest which is situated in the Lovitt Gold Mine in Wenatchee WA and a mineral interest in the surrounding land.

The future viability of the Company is dependent upon the continued support of its creditors and its ability to generate profits and positive cash flow from its activities.

#### **Changes in accounting policies**

Effective January 1, 2007, the Company adopted three new Canadian Institute of Chartered Accountants accounting standards ("CICA"): CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; and Section 1530, Comprehensive Income. These sections apply to fiscal years beginning on or after October 1, 2006. These new standards have been adopted on a prospective basis with no restatements to prior periods' financial statements.

#### **Financial instruments – recognition and measurement**

This new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. Changes to the measurement of existing financial assets and liabilities at the date of adoption would be adjusted to opening retained earnings as noted above.

Patronage dividends are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, accrued interest payable, notes payable and long-term debts are classified as other financial liabilities, which are measured at amortized cost, using the effective interest rate method. The Company has no available for sale assets or held for trading instruments.

#### **Hedging**

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

#### **Comprehensive income**

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. This new standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in "other comprehensive income" until it is considered appropriate to recognize into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

The Company has no "other comprehensive income or loss" transactions during the three months ended March 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Expressed in U.S. Dollars)

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### 1. BASIS OF PRESENTATION - continued

#### **Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Lovitt Mining Company, Inc. (a U.S. corporation). Lovitt Mining Company, Inc.'s financial statements include the accounts of its wholly owned subsidiary, Gold King Inc. (a U.S. corporation). All significant inter-company balances and transactions have been eliminated.

#### **Cash equivalents**

The Company considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents.

#### **Inventory**

Inventory is charged to operations once the related revenue is recognized. Inventory is stated at the lower of cost and net realizable value.

#### **Investments in and advances to affiliates**

Investments in affiliates over which the Company exercises control or has significant influence are accounted for on the equity basis. Investments in affiliates over which the Company does not exercise control nor has significant influence are accounted for at cost.

#### **Property, plant and equipment**

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is provided on a straight-line basis over the expected useful life of each property, plant and equipment. Land is reclassified as held for sale upon being listed for sale.

The Company has a house and a cold storage building, both on 5 acres of and listed for sale, for a total asking sale price of \$ 570,000.

#### **Mineral properties and deferred expenditures**

Mineral properties and deferred expenditures are recorded at cost. Expenditures related to the mineral properties are deferred until there is reasonable certainty as to the existence of economically recoverable mineral reserves. Costs are amortized against future production from the property. Costs of abandoned properties are written off at the earlier of the decision to abandon the property or the expiry date of assessment work on the property.

The carrying value of mineral properties and deferred expenditures represent costs to date, net of amounts written off, and do not necessarily reflect present or future values.

#### **Patronage dividends receivable**

Patronage dividends are accounted for using the equity method and are redeemable at the discretion of the issuing cooperative.

#### **Asset retirement obligations**

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to earnings using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As at June 30, 2007, the Company does not have any asset retirement obligations.

#### **Impairment of long-lived assets**

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

#### **Income taxes**

Income taxes are recorded on a tax allocation basis. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are recognized using enacted income tax rates. The effect of changes in effective income tax rates is recognized in income in the period in which the change occurs. Future income tax assets are recognized with respect to deductible temporary differences and loss carry forwards only to the extent their realization is considered more likely than not.

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### June 30, 2010

(Expressed in U.S. Dollars)

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#### 1. BASIS OF PRESENTATION - continued

##### Revenue recognition

Land sales are recognized when title transfers to the purchaser, when collection of sales proceeds is reasonably assured and when all other obligations have been fulfilled.

Consulting revenue is recognized in the period the services are rendered and when collection is reasonably assured.

Rent, interest and other revenue is recognized in the period the amounts are earned and when collection is reasonably assured.

##### Foreign currency translation

The accounts of the Company and its consolidated subsidiary are measured using the U.S. dollar as the functional currency. Monetary items in the parent company that are denominated in Canadian dollars are translated into U.S. dollars using exchange rates in effect at the balance sheet date and non-monetary items are translated using historical exchange rates. Exchange gains or losses arising on the transaction or settlement of foreign currency denominated monetary items are included in the determination of net income.

##### Comparative figures

Certain 2009 figures have been reclassified to conform to the presentation used in the current period.

#### 2. ASSETS HELD FOR SALE

June 30, 2010	December 31, 2009
\$ 331,547	\$ 331,547
<u>\$ 331,547</u>	<u>\$ 331,547</u>

#### 3. NOTES PAYABLE

Promissory note – payable to a director of the Company;  
non-interest bearing, not collateralized, and  
has no fixed terms of repayment (CDN – \$ 5,737)

June 30, 2010	December 31, 2009
5,389	4,710
<u>\$ 5,389</u>	<u>\$ 4,710</u>

#### 4. SHARE CAPITAL

##### Authorized: Unlimited number of shares without par value

Shares Issued:	# shares	\$
Balance at March 31, 2010:	5,212,051	2,492,110
Issued during Q-2 2010 for cash:	1,200,000	540,000
Shares issued as a fee:	2,000	
Less share issue costs:		-30,978
Shares outstanding June 30, 2010:	6,414,051	3,001,132

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Expressed in U.S. Dollars)

### 4. SHARE CAPITAL, continued

On April 12, 2010 the company completed a private placement of 1,200,000 Units for 45 cents per Unit, with each unit one share and one warrant. The warrants have a term of one year, with an expiry date of April 12, 2011 and an exercise price of 50 cents per share.

### 5. LONG-TERM DEBT

	June 30, 2010	December 31, 2009
Loan – requiring minimum monthly payments of \$ 2,600 representing interest only, calculated at 12% per annum; collateralized by a pledge of 221 acres of land owned by the Company; due Dec. 31, 2010	260,000	260,000
Loan- requiring minimum monthly payments of \$ 1,500 representing interest only, calculated at 12% per annum; collateralized by a pledged of a building on five acres of land; due upon sale of the property.	150,000	150,000
Loan from a corporation controlled by a director of the Company and his Immediate family with no required monthly payments; interest calculated at 8% per annum; not collateralized, due Oct 1, 2011.	48,644	160,155
Loan from a corporation controlled by a director of the Company – no required monthly payments; interest calculated at 8% per annum; not collateralized; due October 1, 2011.	100,000	100,000
Debenture due to a corporation controlled by a director of the Company – no required monthly payments; interest calculated at 8% per annum; collateralized by a pledge of all the Company's assets excluding mineral rights, due October 1, 2011.	510,000	510,000
Loans from a corporation controlled by a director of the Company – no required monthly payments; interest calculated at 8% per annum; not collateralized; due October 1, 2011.	65,000	65,000
Loan from a Director of the Company- no required monthly payments; bearing Interest at 8% per annum; collateralized by a pledge of the Company's assets excluding mineral rights; due October 1, 2011	56,800	56,800
Promissory note – payable to a vendor	8,870	9,464
Truck loan – requiring monthly instalments of \$ 644 including interest calculated at 2.9% per annum; collateralized by a pledge of the vehicle; due August 28, 2009	--	--
Truck loan – requiring monthly instalments of \$ 350; does not bear interest; collateralized by a pledge of the vehicle; due October 14, 2010	<u>1,704</u>	<u>3,502</u>
	1,199,314	1,314,921
Less: Current portion	<u>(270,574)</u>	<u>(394,921)</u>
	\$ <u><u>928,740</u></u>	\$ <u><u>920,000</u></u>

The Company is required to make the following principal payments in each of the next fiscal years ending:

December 31, 2009	\$ 10,574
December 31, 2010	<u>1,190,444</u>
	\$ <u><u>1,288,195</u></u>

## 6. SEGMENTED INFORMATION

As at June 30, 2010 and December 31, 2009, the Company and its subsidiaries operated in land development and assessing the mineral potential of the wholly owned Lovitt Mine. Identifiable assets, revenues and net loss in each of the geographic areas are as follows:

	Quarter ending June 30, 2010		
	Identifiable assets	Revenue	Net income (loss)
United States	\$ 877,530	\$ --	\$ (71,477)
Canada	<u>5,266</u>	<u>--</u>	<u>--</u>
	\$ <u>890,092</u>	\$ <u>--</u>	\$ <u>(71,477)</u>

  

	Year ending December 31, 2009		
	Identifiable assets	Revenue	Net income (loss)
United States	\$ 887,322	\$ --	\$ (351,142)
Canada	<u>5,065</u>	<u>--</u>	<u>--</u>
	\$ <u>892,387</u>	\$ <u>--</u>	\$ <u>(351,142)</u>

## 7. MINERAL PROPERTIES

	June 30, 2010
Lovitt Mineral Property- Washington State, USA	\$ 1
Gold King and MacBeth Claims, Washington State, USA	1
Deferred exploration costs	<u>280,759</u>
	\$ <u>280,761</u>

The Lovitt Mineral interest consists of a 100% undivided interest in 200 acres and a 70% undivided interest in 350 acres. The Gold King and MacBeth patented claims represent a 100% undivided interest in 40 acres with mineral rights. This latter mineral interest is subject to a 5% net smelter royalty payable to former minority shareholders of the Lovitt Mining Company, Inc. as an incentive to a buyout concluded in 2004.

## 8. RELATED PARTY TRANSACTIONS

Unless otherwise stated, related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

During the three month period ended June 30, 2010 the company was charged \$ 15,000 (2009- \$ 15,000) for accounting, consulting and management services provided by a director and officer of the Company, and \$ 6,308 (2009- \$ 2,128) was paid for casual labour and consulting services, of which \$ 6,308 was provided by family members of a Director and Officer of the Company. All amounts due to the officer and director were accrued.

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Expressed in U.S. Dollars)

### 7. SEGMENTED INFORMATION

As at September 30, 2009 and December 31, 2008, the Company and its subsidiaries operated in land development and assessing the mineral potential of the wholly owned Lovitt Mine. Identifiable assets, revenues and net loss in each of the geographic areas are as follows:

	June 30, 2010		
	Identifiable assets	Revenue	Net income (loss)
United States	\$ 844,580	\$ 4,081	\$ (105,714)
Canada	<u>45,512</u>	<u>—</u>	<u>(18,327)</u>
	\$ <u>890,092</u>	\$ <u>4,081</u>	\$ <u>(124,041)</u>

  

	December 31, 2009		
	Identifiable assets	Revenue	Net income (loss)
United States	\$ 850,915	\$ 656	\$ (262,291)
Canada	<u>1,774</u>	<u>—</u>	<u>69,855</u>
	\$ <u>852,689</u>	\$ <u>656</u>	\$ <u>(192,434)</u>

### 8. MINERAL PROPERTIES

	June 30, 2010
Lovitt Mineral Property- Washington State, USA	\$ 1
Gold King and MacBeth Claims, Washington State, USA	1
Deferred exploration costs	<u>138,012</u>
	\$ <u>138,014</u>

The Lovitt Mineral interest consists of a 100% undivided interest in 200 acres and a 70% undivided interest in 350 acres. The Gold King and MacBeth patented claims represent a 100% undivided interest in 40 acres with mineral rights. The mineral interest is subject to a 5% net smelter royalty payable to former minority shareholders of the Lovitt Mining Company, Inc. as an incentive to a buyout concluded in 2004.

### 9. RELATED PARTY TRANSACTIONS

Unless otherwise stated, related party transactions are measured at the exchange amount, being the amount of consideration established and agreed to by the related parties.

During the six month period ended June 30, 2010 the company was charged \$ 45,000 (2008- \$ 45,000) for accounting, consulting and management services provided by a director and officer of the Company, and \$ 14,347 for casual labor and consulting services provided by family members of a Director and Officer of the Company.