

Lovitt Resources Inc.
CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months ending June 30, 2011
(Expressed in U.S. Dollars)
(Unaudited)

Prepared by Management without benefit of audit.

Lovitt Resources Inc.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Expressed in U.S. Dollars)

	June 30, 2011	December 31, 2010 (Note 15)	January 1, 2010 (Note 15)
ASSETS			
CURRENT ASSETS			
Cash	\$ 211,365	\$ 590,051	\$ 3,544
Amounts receivable	4,038	7,615	10,134
Prepaid expenses	<u>9,940</u>	<u>17,020</u>	<u>1,687</u>
	225,343	614,686	15,365
ASSETS HELD FOR SALE (Note 4)	1	1	331,547
PROPERTY, PLANT AND EQUIPMENT (Note 5)	268,226	272,577	284,828
MINERAL PROPERTIES (Note 6)	292,887	282,766	240,802
PATRONAGE DIVIDENDS RECEIVABLE	<u>14,871</u>	<u>17,357</u>	<u>19,845</u>
	\$ <u>800,328</u>	\$ <u>1,187,387</u>	\$ <u>892,387</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 37,690	\$ 59,055	\$ 134,166
Accrued interest payable	267,766	239,804	269,478
Note payable (Note 7)	5,949	5,768	5,459
Current portion of long-term debt (Note 8)	<u>35,723</u>	<u>24,368</u>	<u>394,921</u>
	347,128	328,995	804,024
LONG-TERM DEBT (Note 8)	<u>941,800</u>	<u>1,141,800</u>	<u>920,000</u>
	<u>1,288,928</u>	<u>1,470,795</u>	<u>1,724,024</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
SHARE CAPITAL (Note 9)	3,824,432	3,803,346	2,492,110
RESERVES	32,866	32,866	23,369
DEFICIT	<u>(4,345,898)</u>	<u>(4,119,620)</u>	<u>(3,347,116)</u>
	<u>(488,600)</u>	<u>(283,408)</u>	<u>(831,637)</u>
	\$ <u>800,328</u>	\$ <u>1,187,387</u>	\$ <u>892,387</u>

See accompanying summary of accounting policies and notes to the interim condensed consolidated financial statements.

"C. Lorne Brown"

Director

"Dominic Lapenna"

Director

Prepared by Management without benefit of audit.

Lovitt Resources Inc.

Interim Condensed Consolidated Statement of Profit and Loss

US Dollars

	Three months ended June 30th		Six month's ended June 30th	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
EXPENSES				
Depreciation	2,740	(--)	5,675	(--)
General and administrative	70,166	108,496	109,442	136,668
Interest on long term debt	22,704	27,056	53,117	56,403
Management fees	30,555	15,000	60,769	30,000
Foreign exchange gain/loss	(--)	(5,724)	(--)	(4,148)
LOSS BEFORE OTHER ITEM	126,165	144,828	228,103	218,923
MISCELLANEOUS INCOME	1,200	500	2,825	nil
NET LOSS FOR THE PERIOD	124,965	144,328	226,278	215,722
LOSS PER SHARE- basic and diluted	0.02	0.02	0.03	0.03
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WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	8,067,451	6,414,051	8,027,451	5,212,051

Lovitt Resources Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited – Expressed in U.S. Dollars)

	Common shares		Reserves	Deficit	Total shareholders' equity
	Number of shares	Amount			
Balance at January 1, 2010 (Note 15)	5,212,051	\$ 2,492,110	\$ 23,369	\$ (3,347,116)	\$ (831,637)
Net loss for the period	—	—	—	(71,394)	(71,394)
Balance at March 31, 2010 (Note 15)	5,212,051	2,492,110	23,369	(3,418,510)	(903,031)
Net loss for the period	—	—	—	(701,110)	(701,110)
Commons shares issued for Financing in private placements	2,717,400	1,262,711	—	—	1,262,711
Common shares issued for exercise of warrants	98,000	48,525	—	—	48,525
Share of contribution surplus	—	—	9,497	—	9,497
Balance at December 31, 2010 (Note 15)	8,027,451	3,803,346	32,866	(4,119,620)	(283,408)
Net loss six months to June 30, 2011	—	—	—	(226,278)	(205,192)
Shares issued by warrant exercise	40,000	20,000.00	—	—	—
Balance at June 30, 2011	<u>8,067,451</u>	<u>\$ 3,824,346</u>	<u>\$ 32,866</u>	<u>\$ (4,345,898)</u>	<u>\$ (488,600)</u>

Lovitt Resources Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – Expressed in U.S. Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	\$ (124,965)	\$ (327,261)	\$ (226,278)	\$ (215,722)
Adjustments to reconcile net cash provided by operating activities				
Amortization of property, plant and equipment	2,740	--	4,351	--
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	386	5,865	3,577	(2,834)
Inventory & capital assets	--	(33,577)	--	(40,097)
Prepaid expenses	5,639	1,691	7,080	1,687
Notes receivable	--	--	--	--
Increase (decrease) in				
Accounts payable and accrued liabilities	(37,889)	(89,773)	13,388	(51,435)
Accrued interest payable	14,474	(90,382)	27,962	(60,661)
Notes payable	<u>21,366</u>	<u>(128)</u>	<u>181</u>	<u>70</u>
	(118,249)	(350,632)	(169,739)	(368,992)
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditure on mineral properties	(4,646)	--	(10,121)	--
Purchase of property, plant and equipment	--	--	(1,324)	--
Issuance of shares, net of offering costs	20,740	509,022	20,740	509,022
Proceeds on sale of property, plant and equipment	--	--	--	--
Patronage dividends received	--	--	2,486	--
	<u>16,094</u>	<u>509,022</u>	<u>11,781</u>	<u>509,022</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term debt	--	--	--	--
Repayment of long-term debt	<u>(200,000)</u>	<u>(131,864)</u>	<u>(208,643)</u>	<u>(115,607)</u>
	<u>(200,000)</u>	<u>(131,864)</u>	<u>(208,643)</u>	<u>(115,607)</u>
INCREASE (DECREASE) IN CASH DURING THE PERIOD				
	(302,155)	26,526	(366,601)	24,423
CASH, beginning of period	<u>513,520</u>	<u>1,441</u>	<u>590,051</u>	<u>3,544</u>
CASH (NET BORROWINGS), end of period	\$ <u>211,365</u>	\$ <u>27,967</u>	\$ <u>211,365</u>	\$ <u>27,967</u>
CASH (NET BORROWINGS) IS COMPRISED OF				
Cash	\$ 211,365	\$ 27,967	\$ 211,365	\$ 27,967
Cheques issued in excess of funds on deposits	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	\$ <u>211,365</u>	\$ <u>27,967</u>	\$ <u>211,365</u>	\$ <u>27,967</u>

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company is incorporated under the *Company Act* (British Columbia). The Company holds land and mineral interests located in Wenatchee, Washington, U.S.A. The Company currently owns 270 acres of land, and owns 100% of the mineral interest in approximately 200 acres and a 70% mineral interest in an additional 350 acres. In the past, the Company financed its operations by selling land.

The Company's common shares are listed on the TSX Venture Exchange under the trading symbol "LRC". The Company's share options and share purchase warrants are not listed.

The Company's principal office is located at Suite 708 – 1111 West Hastings Street, Vancouver, B.C., V6E 2J3.

These interim condensed consolidated financial statements are prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has made an assessment of its ability to continue as a going concern and is aware of material adverse conditions as set out below that may cast significant doubt on the validity of this assumption. At March 31, 2011, the Company has no source of operating cash flow and a deficit of \$ 4,220,933 (December 31, 2010 – \$ 4,119,620). At March 31, 2011, the Company had working capital of \$ 174,357 (2010 – \$ 285,691) and expects to incur further losses in the development of its business. Operations for the period ended March 31, 2011 were funded primarily from private placements.

The Company's ability to continue as a going concern is contingent on its ability to obtain additional financing. The current equity market conditions, the challenging funding environment and the low price of the Company's common shares make it dilutive and difficult to raise funds by the sale of the Company's shares. The junior resource industry has been severely impacted by the world economic situation, as it is considered to be a high-risk investment. In order to ensure its ability to continue operating, the Company expects to sell land and any remaining non-mining equipment and the cold storage building on five acres of land to finance a mineral exploration and development program. However, there is no assurance that any such activity will generate funds that will be available for investments or operations.

The interim condensed consolidated financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of, and classification of, liabilities which would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

The amounts shown as mineral properties and related deferred costs represent costs net of recoveries to date, less amounts written off, and do not necessarily represent present or future values. Recoverability of the amounts shown for mineral properties is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral property interest, and on future profitable production or proceeds from the disposition of the mineral property interests.

2. SIGNIFICANT ACCOUNTING POLICIES

Conversion to international financial reporting standards

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. These interim condensed consolidated financial statements represent the Company's initial presentation of its results and financial position under IFRS. These interim condensed consolidated financial statements for the three months ended March 31, 2011 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of IFRS* along with the accounting policies the Company expects to adopt in its December 31, 2011 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

As these are the Company's first interim condensed consolidated financial statements prepared in accordance with IFRS, the Company's disclosure exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and the additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's interim condensed consolidated financial statements under IFRS as the reader will be able to refer to the annual consolidated financial statements which will be prepared in accordance with IFRS.

Basis of preparation

These interim condensed consolidated financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these interim condensed consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flows information.

Prepared by Management without benefit of audit.

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

The preparation of these interim condensed consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in Note 15.

Principles of consolidation

These interim condensed 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.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions are continuously assessed by management. The estimates and assumptions are based on historical experience and other factors, including realistic assessment of future developments. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next fiscal year include the assumptions and estimates relating to but not limited to, fair values for purposes of impairment analysis and the realizable value of deferred income tax assets.

Cash equivalents

The Company considers all highly liquid investments with original maturity of three months or less when purchased to be cash equivalents. There are no cash equivalents at June 30, 2011.

Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated amortization and, where necessary, write-downs for impairment. 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.

Mineral properties

Mineral property costs and exploration, development and field support costs directly relating to mineral properties are deferred until there is reasonable certainty as to the existence of economically recoverable mineral reserves and the property to which they relate is placed into production, sold or abandoned. 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. Administrative costs and other exploration costs that do not relate to any specific property are expensed as incurred.

Mineral properties represent net expenditures incurred and capitalized as of the balance sheet date and do not necessarily reflect present or future values. The Company follows procedures to verify title for each of its mineral properties in accordance with industry standards and, to the best of its knowledge these mineral properties are in good standing. These procedures, however, will not necessarily prevent future challenges by third parties as to the validity of the Company's interests in its mineral properties.

Patronage dividends receivable

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

Provisions for site restoration

Obligations to retire a non-current asset, including dismantling, restoration and similar activities, are provided for at the time they are incurred or an event occurs giving rise to such an obligation. The Company is subject to laws and regulations relating to environmental matters, including land reclamation and discharge of hazardous materials, in all jurisdictions in which it operates. The Company may be found to be responsible for damage caused by prior owners and operators of its unproven mineral interests and in relation to interests previously held by the Company. The Company believes it has conducted its exploration and evaluation activities in compliance with applicable environment laws and regulations.

On initial recognition, the estimated fair value of a provision is recorded as a liability and a corresponding amount is added to the capitalized cost of the related non-current asset. The liability is increased over time through periodic charges to profit and loss. The provision is evaluated at the end of each reporting period for changes in the estimated amount or timing of settlement of the obligation. The Company is not presently aware of any such obligations.

Impairment of non-financial assets

Impairment tests for non-financial assets are performed when there is an indication of impairment. At each reporting date, an assessment is made to determine whether there are any indications of impairment. If any indication of impairment exists, an estimate of the non-financial asset's recoverable amount is calculated. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset's value in use. If the carrying value of a non-financial asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit and loss so as to reduce the carrying amount of the non-financial asset to its recoverable amount.

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Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based payments

The fair value, at the grant date, of equity-settled shares awards is charged to comprehensive loss over the period for which the benefits of employee and others providing similar services are expected to be received. The corresponding accrued entitlement is recorded in the share award reserve. The fair value of awards is calculated using the Block-Scholes pricing model which considers the following factors:

- Exercise price
- Expected volatility
- Risk-free interest rate
- Expected live of the award
- Current market price of the underlying shares
- Expected forfeitures

Revenue recognition

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

Land and other capital asset 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.

Foreign currency translation

Functional and presentation currency

The financial statements of the Company's subsidiary are prepared in the local currency of their home jurisdictions. Consolidation of the subsidiary includes re-measurement from the local currency to the Company's functional currency. The Company's functional currency, being the currency of the primary economic environment in which the Company operates, is the U.S. dollar. The interim condensed consolidated financial statements are presented in U.S. dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary's financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year, which amounted to 6,15,775 shares (December 31, 2010 – 6,157,775 shares). Diluted earnings (loss) per share is presented using the treasury stock method and is calculated by dividing the net income (loss) applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

Income taxes

Income taxes expense is comprised of current and deferred income taxes. Current and deferred income taxes are recognized in profit and loss, except for income taxes relating to items recognized directly in equity or other comprehensive income.

Current income taxes, if any, are the expected amount payable or receivable on the taxable income or loss for the year, calculated in accordance with applicable taxation laws and regulations, using income tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to amounts payable or receivable relating to previous years.

Deferred income taxes are provided using the liability method based on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the interim condensed consolidated financial statements. Deferred income taxes is determined using income tax rates and income tax laws and regulations that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Financial instruments

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss.

Financial assets classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through profit and loss. Cash is classified as fair value through profit or loss.

Prepared by Management without benefit of audit.

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable and patronage dividends receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with realized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. A March 31, 2011 the Company has not classified any financial assets as available for sale.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities, accrued interest payable, note payable and long-term debt are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At April 30, 2011 the Company has not classified any financial liabilities as fair value through profit or loss.

Share capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Transaction costs

The Company recognizes transaction costs incurred in connection with the issuance of capital as share issuance costs which are netted against gross proceeds from related transactions rather than being expensed as incurred. Transaction costs for assets and liabilities classified as "fair value through profit or loss" or "available for sale" are expensed as incurred. Transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Effective interest method

The effective interest method calculates the amortized cost of a financial instrument asset or liability and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or liability, or where appropriate, a shorter period. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as fair value through profit or loss.

3. NEW ACCOUNTING STANDARD AND RECENT PRONOUNCEMENTS

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after January 1, 2012 or later periods.

IFRS 9, Financial Instruments, Classification and Measurement, effective for the Company's annual reporting period beginning January 1, 2013. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as fair value through profit or loss, financial guarantees and certain other exceptions. The Company anticipates that the adoption of this standard will have no material impact on its consolidated financial statements except for additional disclosures.

IFRS 10 Consolidated Financial Statements, effective the Company's annual reporting period beginning January 1, 2013. Early application is permitted. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidated – Special Purpose Entities". The company is currently evaluating the impact of this standard on its consolidated financial statements.

IFRS 11 Joint Arrangements, effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS supersedes the current IAS 31 "Interest in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Ventures". The Company is currently evaluating the impact of this standards on its consolidated financial statements.

IFRS 12 Disclosure of Interest in Other Entities, IFRS 12 effectively for annual period beginning on or after January 1, 2013 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

IFRS 13 Fair Value Measurements is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). The Company is currently evaluating the impact of this standards on its consolidated financial statements.

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

3. **NEW ACCOUNTING STANDARD AND RECENT PRONOUNCEMENTS** - continued

IFRS 7 Financial instruments: disclosure The Accounting Standards Board approved the incorporation of the IASB's amendments to IFRS 7 Financial Instruments: Disclosures and the related amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards into Part 1 of the Handbook. These amendments were made to Part I in January 2011 and are effective for annual periods beginning on or after July 1, 2011. Earlier application is permitted. The Amendments relate to required disclosures for transfers of financial assets to help users of the financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements.

4. **ASSETS HELD FOR SALE**

In 2008, the Company had reclassified the net book value of its high pressure equipment, originally recorded as property, plant and equipment, to assets held for sale. The Company expected to sell this equipment in 2009 for net proceeds greater than its carrying value. However, the market for such equipment is limited and specialized, and the net recoverable amount on sale cannot be readily determined. Hence the high pressure equipment has been written down to a nominal value. Any subsequent gain or loss on the sale of the high pressure equipment will be recorded in the period the equipment is sold.

At June 30, 2011, the Company has a cold storage plant and related five acres of land available for sale. The plant and land have nominal carrying values.

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Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Water rights</u>	<u>Mining equipment</u>	<u>Building</u>	<u>Equipment</u>	<u>Computer equipment</u>	<u>Vehicles</u>	<u>Total</u>
COST								
Balance as at January 1, 2011	\$ 181,082	\$ 8,088	\$ 76,074	\$ 587,122	\$ –	\$ 6,147	\$ 26,166	\$ 884,679
Additions	–	–	–	–	–	1,324	–	1,324
Disposals	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–
Balance as at June 30, 2011	<u>181,082</u>	<u>8,088</u>	<u>76,074</u>	<u>587,122</u>	<u>–</u>	<u>7,471</u>	<u>26,166</u>	<u>886,003</u>
Depreciation and cumulative impairment losses								
Balance as at June 30, 2011	–	–	34,446	552,596	–	4,940	23,055	615,037
Depreciation	–	–	2,081	209	–	191	259	2,740
Additions to cumulative Impairment losses	–	–	–	–	–	–	–	–
Balance as at June 30, 2011	<u>–</u>	<u>–</u>	<u>36,527</u>	<u>552,805</u>	<u>–</u>	<u>5,131</u>	<u>23,314</u>	<u>617,777</u>
Carry amount at June 30, 2011	\$ <u>181,082</u>	\$ <u>8,088</u>	\$ <u>39,547</u>	\$ <u>34,317</u>	\$ <u>–</u>	\$ <u>2,340</u>	\$ <u>2,852</u>	\$ <u>268,226</u>
	<u>Mining Land</u>	<u>Water rights</u>	<u>Equipment</u>	<u>Computer Building</u>	<u>Equipment</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Total</u>
COST								
Balance as at January 1, 2010	\$ 181,082	\$ 8,088	\$ 76,074	\$ 587,122	\$ –	\$ 4,585	\$ 26,166	\$ 883,117
Additions	–	–	–	–	–	1,526	12,287	13,813
Disposals	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–
Balance as at December 31, 2010	<u>181,082</u>	<u>8,088</u>	<u>76,074</u>	<u>587,122</u>	<u>–</u>	<u>6,147</u>	<u>26,166</u>	<u>896,930</u>
Depreciation and cumulative impairment losses								
Balance as at January 1, 2010	–	–	21,301	551,336	–	4,011	21,641	598,289
Depreciation	–	–	10,954	1,050	–	678	1,131	13,813
Additions to cumulative Impairment losses	–	–	–	–	–	–	–	–
Balance as at December 31, 2010	<u>–</u>	<u>–</u>	<u>32,255</u>	<u>552,386</u>	<u>–</u>	<u>4,689</u>	<u>22,772</u>	<u>612,102</u>
Carry amount at December 31, 2010	\$ <u>181,082</u>	\$ <u>8,088</u>	\$ <u>43,819</u>	\$ <u>34,736</u>	\$ <u>–</u>	\$ <u>21,458</u>	\$ <u>3,397</u>	\$ <u>284,828</u>

Prepared by Management without benefit of audit.

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

6. MINERAL PROPERTIES	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Lovitt Mineral Property - Washington, U.S.A.	\$ 1	\$ 1	\$ 1
Golden King and MacBeth Claims - Washington, U.S.A.	1	1	1
Deferred exploration costs	<u>292,877</u>	<u>282,764</u>	<u>240,800</u>
	\$ <u>292,877</u>	\$ <u>282,766</u>	\$ <u>240,802</u>

The Lovitt Mineral Property represents a 100% undivided interest in 200 acres and a 70% undivided interest in 350 acres with mineral rights. The Golden King and MacBeth 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 investor of Lovitt Mining Company Inc., as an incentive to a buyout concluded in 2004.

Mineral properties include nominal acquisition costs as they were written down in prior years. During the three months ended June 30, 2011, the Company incurred \$ 4,636 of exploration costs.

During 2009, the Company's wholly-owned subsidiary Gold King Inc., entered into a lease agreement with B.J. Matthews, Trustee of the B.J. Matthews and Geneva G. Matthews Trust for the exclusive right to explore, mine, and produce on a 155 acre property located in Chelan County, in the State of Washington. In addition to an initial payment of \$ 25,000 and the issuance of 60,000 common shares of the Company upon signing the agreement, the agreement also requires the following payments:

\$ 15,000 on November 1, 2010 (paid)
\$ 20,000 on November 1, 2011
\$ 30,000 on November 1, 2012

Subsequent to November 1, 2013, the lease will continue for an additional 15 years with an annual \$ 30,000 base payment required, increasing each subsequent year based on the increase in the Consumer Price Index. In addition, the Company is required to pay a production royalty of 3% of the net returns from the sale or disposition of minerals extracted from the property. The Company also has an option to purchase the fee title to the property which expires on April 30, 2017.

7. NOTE PAYABLE

The Company has a promissory note payable of US \$ 5,949 (December 31, 2010 and January 1, 2010 – CDN \$ 5,737) to a shareholder of the Company. The note is non-interest bearing, not collateralized, and has no fixed terms of repayment.

Lovitt Resources Inc.

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8. LONG-TERM DEBT	<u>June 30, 2011</u>	<u>December 31, 2010</u>	<u>January 1, 2010</u>
Loan from a director of the Company – no required monthly payments; bearing interest at 8%, not collateralized, due April 30, 2009, subsequently extended to October 31, 2012	\$ 56,800	\$ 56,800	\$ 56,800
Loan from a director of the Company and his Immediate Family – no required monthly payments; interest calculated at 8% per annum; not collateralized due April 30, 2009, subsequently due on demand	26,259	14,904	160,155
Loan from corporation controlled by a director of the Company – no required monthly payments; interest calculated at 8% per annum; not collateralized, due April 30, 2009, subsequently extended to October 31, 2012	100,000	100,000	100,000
Loan from 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 April 30, 2009, subsequently extended to October 31, 2012	510,000	510,000	510,000
Loan from a corporation controlled by a director of the Company – no required monthly payments; interest calculated at 6% per annum; not collateralized, due April 30, 2009, subsequently extended to October 31, 2012	65,000	65,000	65,000
Loan – requiring minimum monthly payments of \$ 2,100 representing interest only, calculated at 12% per annum; collateralized by a pledge of the Company's land, excluding the mineral rights and the plant; due July 1, 2009; subsequently extended to June 1, 2012	210,000	410,000	410,000
Promissory note – payable to a vendor; repayable in Monthly instalments of \$ 8,096 including interest calculated at 10.25% per annum; due September 1, 2009; subsequently due on demand	9,464	9,464	9,464
Truck loan – requiring monthly instalments of \$ 350; does not bear interest; collateralized by a pledge of the vehicle; due October 14, 2010; repaid during 2010	–	–	3,502
	<u>977,523</u>	<u>1,166,168</u>	<u>1,314,921</u>
Less: Current portion	<u>(35,723)</u>	<u>(24,368)</u>	<u>(394,921)</u>
	<u>\$ 941,800</u>	<u>\$ 1,141,800</u>	<u>\$ 920,000</u>

The Company is required to make the following principal payments in each of the next fiscal years ending December 31:

2011	\$ 35,723
2012	<u>941,800</u>
	<u>\$ 977,523</u>

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Lovitt Resources Inc.

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For the three months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

9. SHARE CAPITAL AND RESERVES

Authorized - unlimited number of common shares without par value.

Issued	Number	\$
Balance, as at January 1, 2010 and March 31, 2010	5,212,051	2,492,110
Issued during the period		
For cash		
private placements, net of issue cost of \$ 96,451(a)	2,717,400	1,262,711
exercise of warrants (b)	<u>98,000</u>	<u>48,525</u>
Balance, as at December 31, 2010	8,027,451	3,803,346
Issued during the period thru exercise of 40,000 wts for \$ 21,086	<u>40,000</u>	<u>21,086</u>
Balance as at June 30, 2011	8,067,451	3,824,432

(a) Private placements

In April 2010, the Company completed a private placement of 1,200,000 units at a price of CDN \$ 0.45 per unit for gross proceeds of \$ 540,432 (CDN \$ 540,000). Each unit consists of one common share and one share purchase warrant. Each full share purchase warrant is exercisable at a price of CDN \$ 0.50 per share. The warrants are exercisable for one year from the date of approval. Total share issue costs of \$ 65,784 were incurred.

In December 2010, the Company completed a private placement of 1,500,000 units at a price of CDN \$ 0.55 per unit for gross proceeds of \$ 818,730 (CDN \$ 825,000). Each unit consists of one common share and one share purchase warrant. Each full share purchase warrant is exercisable at a price of CDN \$ 0.65 per share. The warrants are exercisable for one year from the date of approval. The Company incurred share issue costs of \$ 96,451, which includes 9,570 for the issuance of 17,400 private placement units for finders fees.

(b) Exercise of warrants

In November 2010, 98,000 warrants were exercised at a prices of CDN \$ 0.50 and CDN \$ 0.65 per warrant for gross proceeds of \$ 48,525 (CDN \$ 49,000).

Reserves consist of the accumulated fair value of share purchase warrants recognized as share-based payment expense.

Details of share purchase warrant transactions during 2011 and 2010 are as follows:

	Number	Weighted average exercise price (CDN \$/share)
Outstanding, as at January 1, 2010 and March 31, 2010	—	
Issued	2,717,400	0.58
Exercised	(98,000)	0.50
Expired	<u>—</u>	
Outstanding, as at December 31, 2010	2,619,400	0.59
Issued	—	
Exercised	40,000	
Expired	<u>1,079,400</u>	
Outstanding, as at June 30, 2011	<u>1,500,000</u>	0.65

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at June 30, 2011:

Number	Exercise price (CDN \$)	Expiry date
1,500,000	0.65	December 17, 2011

Subsequent to the three month period ended March 31, 2011, 40,000 warrants were exercised at a price of \$ 0.50 per warrant for gross proceeds of \$ 20,000, and 1,062,000 warrants expired. No options have been issued pursuant to the Incentive Stock Option Plan of the Company.

Prepared by Management without benefit of audit.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited – Expressed in U.S. Dollars)

10. SEGMENTED INFORMATION

As at June 30, 2011, December 31, 2010 and January 1, 2010 the Company's identifiable assets, revenue and net income (loss) in each of the geographic areas is as follows:

	June 30, 2011		
	Identifiable assets	Revenue	Net income (loss)
United States	\$ 581,409	\$ –	\$ (124,965)
Canada	530,807	–	–
	<u>\$ 1,112,216</u>	<u>\$ –</u>	<u>\$ (124,956)</u>
	December 31, 2010		
	Identifiable assets	Revenue	Net income
United States	\$ 587,198	\$ –	\$ (752,396)
Canada	600,189	–	–
	<u>\$ 1,187,387</u>	<u>\$ –</u>	<u>\$ (752,396)</u>
	January 1, 2010		
	Identifiable assets	Revenue	Net income (loss)
United States	\$ 887,322	\$ –	\$ (351,142)
Canada	5,065	–	–
	<u>\$ 892,387</u>	<u>\$ –</u>	<u>\$ (351,142)</u>

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value

Fair value hierarchy

IFRS 7 establishes a fair value hierarchy, for financial instruments measured at fair value, that reflects the significance of inputs used in making fair value measurements as follows:

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

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3 – inputs for the asset or liability that are not based upon observable market data

The fair value of cash and marketable securities is based on Level 1 inputs for the fair value hierarchy.

The fair value of financial instruments at June 30, 2011 and December 31, 2010 summarized as follows:

	June 30, 2011		December 31, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
<i>Fair value through profit or loss</i>				
Cash	\$ 211,365	\$ 513,520	\$ 590,051	\$ 590,051
<i>Loans and receivables</i>				
Patronage dividends receivable	14,871	14,871	17,357	17,357
Amount receivable	4,038	1,000	2,000	2,000
Financial Liabilities				
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	\$ 37,690	\$ 53,289	\$ 59,055	\$ 59,055
Accrued interest payable	267,766	253,292	239,804	239,804
Note payable	5,949	5,949	5,768	5,768
Long-term debt (+)	403,466	403,466	419,464	419,464
Long-term debt to related parties	754,059	754,059	746,704	746,704

Prepared by Management without benefit of audit.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended June 30, 2011

(Unaudited – Expressed in U.S. Dollars)

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued

+ Based on management's assessment, the carrying value of long-term debt reasonably approximates its fair value.

* The fair value of related party loans is not disclosed as the fair values are not reliably measureable due to the lack of readily available market comparable data.

b) Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. Cash and amounts receivable are exposed to credit risk due to the potential for counterparties to default on their contractual obligations. The maximum potential loss on all financial instruments is equal to the carrying amount of those items. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

Liquidity risk

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash, in addition to listing assets that it can sell. The Company intends also to raise additional financing through the issuance of capital and its ability to do so is dependent on a number of factors including market acceptance, stock price and exploration results. See also Note 1.

Interest rate risk

Not payable and long-term debt bear interest at fixed rates, or do not bear interest, and therefore do not expose the Company to interest rate cash flow risk.

Foreign exchange risk

The Company is subject to foreign exchange rate risk as the Company incurs transactions and has assets and liabilities denominated in Canadian dollars, whereas the Company's functional and reporting currency is the U.S. dollar.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company's portfolio of properties has exposure to predominantly gold. The price of this commodity will affect the value of the Company and the potential value of its properties.

12. RELATED PARTY TRANSACTIONS

During the three months ended June 30, 2011, the Company was charged \$ 39,142 (2010-\$ 21,308) for accounting, consulting, management services and casual labor provided by directors and officers of the Company, and by corporations owned by directors and officers and members of their immediate families. Also, during this period, the Company was charged \$ 13,995 (2010 – \$ 13,176) for interest on the outstanding loans from related parties. At June 30, 2011, accrued interest payable includes \$ 267,766 (2010– \$ 208,817) due to corporations owned by officers or directors of the Company and immediate family members.

13. CAPITAL MANAGEMENT

The Company manages as capital its share capital and long-term debt. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to acquire and explore mineral interests. The Company funds operations and exploration activities from the issuance of shares generally through private placements, obtaining loans and selling its assets held for sale.

There were no changes to the Company's approach to capital management during 2011 and 2010. The Company is not subject to externally imposed capital requirements.

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2011

(Unaudited – Expressed in U.S. Dollars)

14. TRANSITION TO IFRS

The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these condensed interim consolidated financial statements were prepared as described in note 2, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement, in those financial statements, of compliance with IFRS. The Company will make this statement when it issues its 2011 annual consolidated financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "transition date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption.

a) Initial elections upon IFRS adoption

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

IFRS Exemption options

Share-based payments – IFRS 2 Share-based payments encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company has chosen to apply the exemption under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by the transition date. No adjustments were recorded as a result of applying this exemption.

IFRS Mandatory exceptions

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

b) Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The Company's first time adoption of IFRS did not have an effect on the total operating, investing and financing cash flows. The following represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted for equity and comprehensive loss.

c) Changes in accounting policies

Share-based payments

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to share options and other share-based payments that are not vested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Share options and other share-based payments prior to November 7, 2002 are not taken in account under IFRS 2;
- Share options and other share-based payments subsequent to November 7, 2002 are only taken into account if they have not vested as at January 1, 2010;
- From January 1, 2010, all share options and other share-based payments will be expensed in accordance with the policy stated in Note 2.

Recognition of expense

Canadian GAAP – For share option awards and other share-based payments with graded vesting, the total fair value of the award is recognized on a straight-line basis over the period necessary to vest the award.

IFRS – Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. The Company's share options vest immediately when awarded; hence this change in policy had no effect on the Company's financial statements.

Forfeitures

Canadian GAAP – Forfeitures of award are recognized as they occur.

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. The Company's share options vest immediately when awarded; hence this change in policy had no effect on the Company's financial statements.

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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14. TRANSITION TO IFRS –

Share-based payment reserve

Canadian GAAP – On expiry of share options and share purchase warrants, the related contributed surplus is not reclassified.

IFRS – On expiry of share options and share purchase warrants, the related share-based payment reserve is reclassified to deficit.

d) **Adjustments on transition to IFRS**

The Company has reclassified amounts recorded in contributed surplus relating to share options to reserve.

Reconciliation of comprehensive loss

	<u>Three months ended June 30, 2011</u>		<u>Year ended December 31, 2010</u>	
	<u>Canadian GAAP</u>	<u>Effect of transition IFRS</u>	<u>Canadian GAAP</u>	<u>Effect of transition IFRS</u>
EXPENSES				
Amortization of property, plant and equipment	\$ 2,740	\$ Nil	\$ 13,813	\$ Nil
General and administrative	70,166	--	259,098	--
Interest on long-term debt	22,704	--	104,626	--
Management fees	30,555	--	112,332	--
Foreign exchange	--	--	--	--
	<u>(102,938)</u>	<u>Nil</u>	<u>(445,243)</u>	<u>--</u>
INCOME (LOSS) BEFORE OTHER ITEMS	<u>(102,938)</u>	<u>Nil</u>	<u>(445,243)</u>	<u>Nil</u>
OTHER ITEMS				
Write-down of equipment held for sale			(331,546)	--
Interest income				--
Miscellaneous income	<u>1,625</u>	<u>--</u>	<u>4,285</u>	<u>--</u>
	<u>(101,313)</u>	<u>Nil</u>	<u>(327,261)</u>	<u>Nil</u>
NET LOSS AND COMPREHENSIVE LOSS OF THE PERIOD	\$ <u>(101,313)</u>	\$ <u>Nil</u>	\$ <u>(327,261)</u>	\$ <u>Nil</u>

15. SUBSEQUENT EVENTS

The company continues to market real estate with no sales pending as of September 1, 2011.

The Company has an application in progress with the Chelan County Planning Department for a diamond drill permit for up to three drill pads on the Matthews property. The company expects to receive permit approval in Q-3 2011. Each drill pad will accommodate multiple drill holes.