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*Investment Analysis for Intelligent Investors*

April 8, 2010

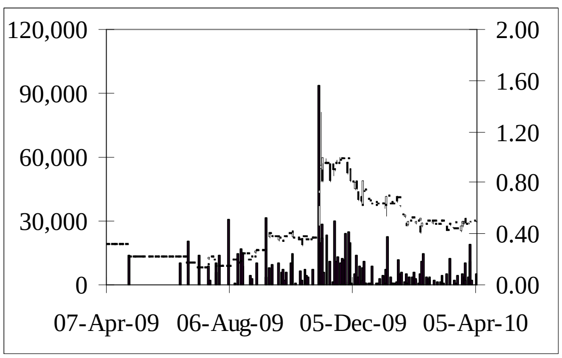
# Lovitt Resources Ltd. (TSXV: LRC) – Further Testing of Blasted Material in I-49 Stope Averages 6.6 g/t Gold

**Sector/Industry: Junior Exploration/Mining** **www.lovittresources.com**

**Market Data (as of April 8, 2010)**

| | |
|---|---|
| **Current Price** | **C$0.48** |
| **Fair Value** | **C$3.00** |
| **Rating*** | **BUY** |
| **Risk*** | **5 (Highly Spec)** |
| 52 Week Range | C$0.14 - C$1.35 |
| Shares O/S | 5,152,051 |
| Market Cap | C$2.45 mm |
| Current Yield | N/A |
| P/E (forward) | N/A |
| P/B | -3.25 |
| YoY Return | 48.4% |
| YoY TSXV | 72.9% |

*see back of report for rating and risk definitions




**Investment Highlights**

- Assay results from 47 samples taken from pre-blasted material in the I-49 stope returned an average grade of 6.6 g/t gold.
- Similar pre-blasted material has been identified in adjacent stopes potentially totaling an additional 50,000 tons.
- Pre-blasted material is accessible through the extensive network of drifts, raises and chutes.
- We believe the potential for the company to ship and toll process pre-blasted material within our original 12 months time frame still exists.
- On March 16, 2010, the company announced a non-brokered private placement of up to 1.20 million units ($0.45 per unit) to raise up to $0.54 million.
- <u>We reiterate our BUY rating, and maintain our fair value estimate at $3.00 per share. Note that our value per share estimate will drop to $2.52 per share if and when the proposed financing is completed due to dilution.</u>

| **Key Financial Data (FYE - Dec 31) (US$)** | **2008** | **2009 (9 mo)** |
|---|---|---|
| Cash | 4,417 | 77,424 |
| Working Capital | (609,006) | (681,737) |
| Mineral Assets | 88,465 | 138,012 |
| Total Assets | 852,689 | 871,100 |
| Net Income | (192,434) | (216,469) |
| EPS | (0.04) | (0.04) |

*Lovitt Resources Ltd. is a junior exploration company focusing its exploration and development efforts in the Wenatchee Gold Belt located in Central Washington State. The company's flagship property is the Lovitt Mine Property located just outside of Wenatchee, WA.*

***Lovitt Gold Mine***

*Further I-49 Sampling*

The company has completed an additional sampling program on the I-49 stope inside the Lovitt Gold mine. The sampling program was completed on a grid of 25 x 25 feet with a five foot sampling radius. A total of 47 samples have been processed to date, indicating average grades of 6.6 g/t gold (0.19 oz/ton). These grades are slightly lower than the 7.09 g/t returned in previous sampling, but we do not see the results as poor and are pleased that various portions of the **pre-blasted material continue to return grades suitable for the company to gravity concentrate or toll mill**.

As noted in our initiating report, the I-49 stope is estimated to host upwards of 50,000 tons – which the company now estimates is closer to, or greater than, 100,000 tons – of broken material accessible through previously developed drifts and raises. The company has initiated an internal study to investigate the feasibility of processing the I-49 ore by concentrating the gold with company owned gravity equipment or through toll milling. **The material in the I-49 stope is attractive because it is already broken, it is of sufficient grade to potentially support toll milling and it is accessible through the extensive network of underground drifts, raises and chutes.**

Subject to financing, the company will still pursue a program that will test the center of I-49 material by drilling the material from drifts located below the stope.

*Additional Blasted material Found*

The vast underground development is continuing to prove useful in advancing the project. Two adjoining interconnected stopes near the I-49 were recently explored and appear to host an additional 50,000 tons of similarly blasted material. Grades are currently unknown.

*Matthews Lease*

Subject to adequate financing, the company is planning on conducting a diamond drilling program on the Matthews lease sometime within 2010.

**Development Timeline:** The company is in the process of becoming Mine Safety and Health Administration (MSHA) compliant which will allow the company to rehabilitate underground workings. The company will then be able to remove pre-blasted material to be processed either on-site or through toll milling. We feel that toll milling offers the shortest route to cash flow as grinding and sorting circuits would still be required to be purchased and implemented in order to utilize on-site gravity concentration.

In our initiating report we discussed the potential for the company to begin shipping ore for toll milling within 12 months. **We believe that should the company acquire adequate financing, they will be able to ship and custom mill loose material removed during the rehabilitation of underground workings. We would however, like to see the company delineate enough material to allow for the company to supply a milling operator with a constant supply.** The most likely source for such material is the I-49 stope which, as noted above, is to be drill tested in the near term.

In addition to drill testing the I-49 material and the Matthews lease, the company plans on drill testing the Lovitt Gold Mine vein system to depth where targets remain.

***Financials***

The company posted a net loss of US$0.22 million (EPS: -$0.04) in the nine-month period ended September 2009. We estimate the company had a burn rate (spending on operations and investing activities) of US$0.01 million per month in the first nine months in 2009, down from US$0.04 million in FY2008 (12 month period ended December 2008). The following table shows a summary of the company's cash and liquidity position.

| (in US$) | 2008 | 2009 (9 mo) |
|---|---|---|
| Working Capital | (609,006) | (681,737) |
| Current Ratio | 0.01 | 0.11 |
| LT Debt / Assets | 0.91 | 0.99 |
| Cash from Financing Activities | 24,346 | 154,917 |
| Monthly Burn Rate (incl. exploration) | (40,223) | (9,101) |

At the end of September 2009, the company had US$0.08 million in cash. The working capital deficit was US$0.68 million. The company has long-term debt of US$0.86 million (total debt is US$1.29 million; of which, US$0.42 million is categorized as current liabilities). A significant portion of the company's debt is due in 2010. About US$0.86 million of the company's total debt accounts for loans from corporations controlled by directors of the company.

The company is currently planning the following to meet the required payments:

- On March 16, 2010, the company announced a non-brokered private placement of up to 1.20 million units ($0.45 per unit) to raise up to $0.54 million. Each unit will consist of one common share and one non-transferable share purchase warrant (exercise price - $0.50; term - about one year).
- Sale of its non-mining assets - management believes the market value of their non-mining assets is about US$1 million.
- Based on our discussions with management, the company is currently planning a "convertible preferred share" deal, which would allow the conversion of its debt to preferred shares.

**We believe the company has to be successful in at least two of the above mentioned plans in order to avoid liquidity problem.**

**Options and Warrants Outstanding:** The company currently has no outstanding options or warrants.

***Valuation***

Our DCF and real options valuations on the company changed little as we did not make any significant changes to our models. The valuation dropped slightly because of lower working capital. Our comparables valuation increased from $3.10, to $3.24 per share, as the average Enterprise Value (EV) to resource of LRC's peers increased from $41/oz, to $43/oz. The following table shows a summary of our revised valuation on LRC.

| **Valuation Summary** | **Revised** | **Previous** |
|---|---|---|
| DCF | $2.61 | $2.62 |
| Real Options | $3.14 | $3.15 |
| Comparables | $3.24 | $3.10 |
| **Average** | **$3.00** | **$2.96** |

The following table shows the sensitivity of our valuation (average of DCF, real options and comparables) to changes in our long-term gold price and discount rate assumptions.

| | | **Discount Rate** | | |
|---|---|---|---|---|
| | | **8%** | **11.5%** | **15%** |
| **Gold Price (US$/oz)** | **$500** | ($0.27) | ($0.22) | ($0.18) |
| | **$625** | $1.22 | $1.08 | $0.97 |
| | **$750** | $3.40 | **$3.00** | $2.66 |
| | **$875** | $5.71 | $5.08 | $4.54 |
| | **$1,000** | $8.05 | $7.18 | $6.46 |
| | **$1,125** | $10.39 | $9.29 | $8.37 |

***Rating***

**We reiterate our BUY rating, and maintain our fair value estimate at $3.00 per share. Note that our valuation will drop to $2.52 per share if and when the proposed financing (of up to $0.54 million) is completed due to dilution.**

***Risks***

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The value of the company is dependent on commodity prices.
- The company has not defined any NI 43-101 compliant resource estimates and does not currently have any operating mines.
- The success of drilling, project development and resource expansion are important long-term success factors for these projects.
- Access to capital and share dilution.

**We continue to rate the company's shares a RISK of 5 (Highly Speculative).**

**Fundamental Research Corp. Equity Rating Scale:**
**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
**Hold** – Annual expected rate of return is between 5% and 12%
**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
**Suspended or Rating N/A—** Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**
**1 (Low Risk) -** The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk) -** The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk) -** The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative) -** The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative) -** The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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