

**Lovitt Resources Inc.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ending March 31, 2015**  
**(Expressed in U.S. Dollars)**  
**(Unaudited)**

#### **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed consolidated unaudited interim financial statements have been prepared by and are the responsibility of the management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# Lovitt Resources Inc.

## INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - Expressed in U.S. Dollars)

	March 31 2015	December 31 2014
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	42,266	\$ 14,419
Accounts receivable	2,144	1,926
Prepaid expenses	10,000	-
	<u>\$ 54,410</u>	<u>16,345</u>
ASSETS HELD FOR SALE		
	1	1
Note Receivable	-	125,000
PROPERTY PLANT AND EQUIPMENT	236,130	238,497
MINERAL PROPERTIES	479,828	471,582
PATRONAGE DIVIDENDS RECEIVABLE	2,218	4,447
	<u>\$ 772,587</u>	<u>\$ 855,872</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	37,735	\$ 43,337
Accrued interest payable	138,220	127,368
Note payable	4,523	4,945
Current portion of long term debt	-	-
	<u>\$ 180,478</u>	<u>175,650</u>
LONG-TERM DEBT	858,106	913,106
	<u>\$ 1,038,584</u>	<u>1,088,756</u>
<b>SHAREHOLDER'S EQUITY (DEFICIENCY)</b>		
SHARE CAPITAL	4,312,197	4,312,197
CONTRIBUTED SURPLUS	935,727	935,727
CURRENCY TRANSLATION RESERVE	(5,296)	(8,677)
DEFICIT	<u>(5,508,625)</u>	<u>(5,472,131)</u>
	<u>(265,997)</u>	<u>(232,884)</u>
	<u>\$ 772,587</u>	<u>\$ 855,872</u>

C. Lorne Brown Director

Dominic Lapenna Director

# Lovitt Resources Inc.

## Interim Condensed Consolidated Statement of Profit and Loss

(Unaudited - Expressed in U.S. Dollars)

	<u>Three months ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
EXPENSES		
Depreciation	2,366	2,529
General and administrative	29,488	11,656
Interest on long term debt	11,102	8,876
Management fees	30,000	30,000
LOSS BEFORE OTHER ITEM	<u>72,956</u>	<u>50,497</u>
MISCELLANEOUS INCOME	36,462	1,695
NET LOSS FOR THE PERIOD	(36,494)	(49,802)
LOSS PER SHARE- basic and diluted	0.004	0.005
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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	9,324,951	9,324,951

# Lovitt Resources Inc.

## INTERIM CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY

(Unaudited - Expressed in US Dollars)

	Three Months Ended	
	March 31,	
	2015	2014
<b>Share Capital:</b>		
Balance, beginning of period	4,312,197	4,312,197
Shares issued in period, net of issue expense	--	--
Shares issued for mineral property lease	--	--
Fair value of options exercised	--	--
Fair value of warrants exercised	--	--
<b>Balance, end of period</b>	<b>4,312,197</b>	<b>4,312,197</b>
<b>Contributed surplus:</b>		
Balance, beginning of period	935,727	935,727
Fair value, share-based option compensation of option vesting	--	--
Fair value of options transferred to share capital	--	--
<b>Balance, end of period</b>	<b>935,727</b>	<b>935,727</b>
<b>Deficit:</b>		
Balance, beginning of period	(5,472,131)	(5,442,371)
Loss for period	(36,494)	(49,802)
<b>Balance, end of period</b>	<b>(5,508,625)</b>	<b>(5,442,371)</b>
<b>Shares Outstanding</b>	<b>9,324,951</b>	<b>9,324,951</b>

*Prepared by management without benefit of audit.*

# Lovitt Resources Inc.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited – Expressed in U.S. Dollars)

	Three months ended March 31,	
	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>		
Net loss for the quarter	\$ (36,462)	\$ (49,802)
Item not affecting cash		
Depreciation of property, plant and equipment	2,366	2,529
Changes in non-cash working capital items:		
Decrease (increase) in		
Amounts receivable	(218)	(40)
Prepaid expenses	(10,000)	-
Increase (decrease) in		
Accounts payable and accrued liabilities	(5,602)	(826)
Accrued interest payable	10,852	(8,876)
Note payable	(422)	35,655
	<u>(39,486)</u>	<u>(20,820)</u>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		
Sale of equipment and note	103,652	-
Expenditures on mineral properties	(8,246)	(4,134)
Patronage dividends received	<u>26,927</u>	<u>(3,063)</u>
	<u>122,333</u>	<u>(7,197)</u>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(55,000)	-
Reduction of long-term debt	<u>-</u>	<u>17,999</u>
	<u>(55,000)</u>	<u>17,999</u>
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	<u>27,847</u>	<u>(10,018)</u>
CASH, beginning of period	<u>14,419</u>	<u>14,237</u>
CASH, end of period	\$ <u><u>42,266</u></u>	\$ <u><u>4,219</u></u>

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ending March 31, 2015

(Expressed in U.S. Dollars)

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### 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 principal office is located at 7001 Nicholson Avenue, Abbotsford, BC V4X 2G5.

These 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 December 31, 2014, the Company has no source of operating cash flow and a deficit of \$ 5,392,569 (December 31, 2013 – \$ 5,392,569). At December 31, 2014, the Company had working capital deficiency of \$ 143,245 (December 31, 2013 – working capital deficiency \$ 143,245) and expects to incur further losses in the development of its business.

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.

These 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

#### **Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the year ended December 31, 2013, using significant accounting policies outlined below.

These 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 consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flows information.

#### **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.

#### **Critical Judgments and Sources of Estimation Uncertainty**

The preparation of these consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### For the three months ending March 31, 2015

(Expressed in U.S. Dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES – continued

##### *Critical Judgments*

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involved judgment or assessments made by management.
- (ii) Management is required to assess the functional currency of each entity in the Company. In concluding that the US dollar is the functional currency of the parent and its subsidiary, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant, the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- (iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined that there were no impairment indicators present in respect of the Lovitt Mineral Property and as result no impairment test was performed.

- (iv) Although the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.
- (v) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expense and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdiction in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal and economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in Note 11.

##### *Estimation Uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next fiscal year:

- (i) Depreciation expense is allocated based on assumed useful life of property, plant, and equipment. Should the useful life differ from the initial estimate, an adjustment would be made in the statement of operations.
- (ii) The assessment of any impairment of mineral properties and property, plant, and equipment is dependent upon estimates of the recoverable amount that take into account factors such as reserves, economic and market conditions and the useful life of assets.
- (iii) The cost estimates are updated periodically during the life of a mine to reflect known developments (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration, and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations, and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration, or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. As at March 31, 2015 there were no decommissioning liabilities.
- (iv) The valuation of financial instruments which are classified as fair value through profit or loss.

##### **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 March 31, 2015.

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

Property, plant and equipment are carried at historical cost less accumulated depreciation and, where necessary, write-downs for impairment. Depreciation is provided over the expected useful life of each property, plant and equipment. The useful lives are reviewed annually. Land is reclassified as held for sale upon being listed for sale.

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### For the three months ended March 31, 2015

(Expressed in U.S. Dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES – continued

##### **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.

##### **Decommissioning liability**

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 decommissioning liability is recorded as a liability and a corresponding amount is added to the capitalized cost of the related non-current asset. Costs for restoration of site damage which is created on an ongoing basis during the exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a pre-tax-risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The decommissioning liability 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.

##### **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 deduction from equity, net of any related income tax effects.

Non-cumulative preferred shares without mandatory redemption features are accounted for in accordance with the substance of the contractual arrangement and, as such, are classified as equity.

Dividends paid on preferred shares classified as equity are recorded against the deficit and are included in the statement of changes in equity.

##### **Equity Financing**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

##### **Share-Based Payment Transactions**

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the contributed surplus included in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ending March 31, 2015

(Expressed in U.S. Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES - continued

#### **Revenue recognition**

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

Land and other property, plant and equipment 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 subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of the subsidiaries includes re-measurement from the local currency to the subsidiaries functional currency. The subsidiaries' functional currency, being the currency of the primary economic environment in which the subsidiaries operates, is the U.S. dollar. These consolidated financial statements are presented in U.S. dollars.

Exchange rates published by the Bank of Canada were used to translate the accounts in preparing 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 income (loss).

#### **Loss per share**

Basic loss per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

#### **Current and deferred income taxes**

Income tax 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 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 comprehensive income (loss). Cash is classified as fair value through profit or loss.

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. At December 31, 2013 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.

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### For the three months ending March 31, 2015

(Expressed in U.S. Dollars)

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#### 2. SIGNIFICANT ACCOUNTING POLICIES - continued

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 March 31, 2015 the Company has not classified any financial liabilities as fair value through profit or loss.

##### 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.

##### Recent accounting pronouncements

The following accounting standards, amendments and interpretations have been issued and are mandatory for the current and future accounting periods unless otherwise indicated, earlier application is permitted.

- (i) IFRS 9 - *Financial Instruments*. This standard partially replaces IAS 39 – *Financial Instruments: Recognition and Measurement*. IFRS 9 measures financial assets, after initial recognition, at either amortized cost or fair value. Existing IAS 39 classifies financial assets into four measurement categories. The standard is effective for annual periods beginning on or after January 1, 2015. The standard, which may be early adopted, must be applied retrospectively. Management is current assessing the impact of this standard on the Company's accounting policies and financial statement presentation.
- (ii) IFRS 10 *Consolidated Financial Statements*; effective for annual periods beginning on or after 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*. There was no impact on the Company's Financial statements upon adoption of this standard on January 1, 2013.
- (iii) 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 11 supersedes the current IAS 31 *Interest in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. There was no impact on the Company's Financial statements upon adoption of this standard on January 1, 2013.
- (iv) IFRS 12 *Disclosure of Interest in Other Entities*; effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. There was no impact on the Company's Financial statements upon adoption of this standard on January 1, 2013.
- (v) IFRS 13 *Fair Value Measurement*, 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 measurement (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). There was no impact on the Company's Financial statements upon adoption of this standard on January 1, 2013.

#### 3. 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.

Also at March 31, 2015, the Company has a cold storage plant and related five acres of land available for sale. The plant and land have nominal carrying values. During the quarter ending March 31, 2015, this property continues to be actively for sale.

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015 and 2014

(Unaudited – Expressed in U.S. Dollars)

### 4. PROPERTY, PLANT AND EQUIPMENT

	Land	Water rights	Equipment	Building	Computer equipment	Vehicles	Total
<b>COST</b>							
Balance as at January 1, 2014	\$ 181,082	\$ 8,088	\$ 89,105	\$ 587,122	\$ 27,877	\$ 900	\$ 893,274
Additions	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance as at March 31, 2014	181,082	8,088	89,105	587,122	27,877	900	893,274
Additions	-	-	-	-	-	-	-
Dispositions	-	(8,088)	-	-	-	-	(8,088)
Balance as at March 31, 2015	\$ 181,082	\$ -	\$ 89,105	\$ 587,122	\$ 27,877	\$ 900	\$ 886,086
<b>ACCUMULATED DEPRECIATION</b>							
Balance as at January 1, 2015	\$ -	\$ -	\$ 61,991	\$ 560,864	\$ 23,835	\$ 900	\$ 647,590
Depreciation to March 31, 2015	-	-	1,356	-	1,010	-	2,366
Adjustment for disposals	-	-	-	-	-	-	-
Balance as at March 31, 2015	-	-	63,347	560,864	24,845	900	649,956
<b>CARRYING AMOUNT</b>							
At March 31, 2014	\$ 181,082	\$ 8,088	\$ 32,537	\$ 32,525	\$ 7,073	\$ -	\$ 261,305
At March 31, 2015	\$ 181,082	\$ -	\$ 25,758	\$ 26,258	\$ 3,032	\$ -	\$ 236,130

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015

(Unaudited – Expressed in U.S. Dollars)

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5. MINERAL PROPERTIES	March 31, 2015	December 31, 2014
Lovitt Mineral Property - Washington, U.S.A.	\$ 1	\$ 1
Golden King and MacBeth Claims - Washington, U.S.A.	1	1
Deferred exploration costs	<u>479,828</u>	<u>471,582</u>
	\$ <u>479,828</u>	\$ <u>471,582</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 2005.

Mineral properties include nominal acquisition costs as they were written down in prior years. During the nine months ended March 31, 2015, the Company incurred \$ 8,243 in exploration costs with the mining property on a care and maintenance basis.

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. An initial payment of \$25,000 was made and \$60,000 common shares of the Company were issued upon signing the agreement. Additional lease payments in the amount of \$50,000 were made in 2010 and 2011. This agreement was terminated in 2012, and a write off of \$ 114,627 was recorded as noted in the 2012 annual audited statements.

### 6. NOTE PAYABLE

The Company has a promissory note payable of \$ 5,737 to a shareholder of the Company. The note bears interest of 5%, is not collateralized, and has no fixed terms of repayment.

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# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the quarter ending March 31, 2015

Unaudited - Expressed in U.S. Dollars

7. LONG-TERM DEBT in US \$	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Loan from a director of the Company- no required monthly payments; bearing interest at 5%; not collateralized, interest rate of 5% due October 31, 2016	\$ 94,380	\$ 94,380
Loan by a director of the Company and his immediate family no required monthly payments; interest 5% annually, not collateralized, due October 31, 2016	258,726	145,618
Loan by a corporation controlled by a director of the Company; bearing interest at 5%; collateralized by land at 5%, collateralized by land, due October 31, 2016	250,000	215,000
Loan by a director of the company, no required monthly payments, collateralized by land, with interest at an annual rate of 5%, due October 31, 2016	230,000	210,000
Loan by a corporation controlled by a director of the company - no required monthly payments, with interest at 5% annually, due October 31, 2016	25,000	100,000
	<u>\$ 833,106</u>	<u>\$ 764,998</u>
Less Current Portion	<u>-</u>	<u>-</u>
	<u>\$ 833,106</u>	<u>\$ 764,998</u>

# Lovitt Resources Inc.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015

(Unaudited – Expressed in U.S. Dollars)

### 8. SHARE CAPITAL AND RESERVES

Authorized - unlimited number of common shares without par value.

	<u>Number</u>	<u>\$</u>
Balance, as at December 31, 2014	9,324,951	4,312,197
Issued during the three months ending March 31, 2014	Nil	
Balance, as at March 31, 2015	9,324,951	4,312,197

No options were exercised during the period, and no warrants or options are outstanding as of March 31, 2015.

### 9. SEGMENTED INFORMATION

As at March 31, 2014 and March 31, 2015 the Company's identifiable assets, revenue and net income (loss) in each of the geographic areas is as follows:

	<u>March 31, 2014</u>		
	<u>Identifiable assets</u>	<u>Revenue</u>	<u>Net income (loss)</u>
United States	\$ 737,996	\$ –	\$ (50,497)
Canada	<u>11,012</u>	<u>–</u>	<u>–</u>
	<u>\$ 749,008</u>	<u>\$ –</u>	<u>\$ (50,497)</u>
	<u>March 31, 2015</u>		
	<u>Identifiable assets</u>	<u>Revenue</u>	<u>Net income</u>
United States	\$ 708,435	\$ –	\$ (36,462)
Canada	<u>15,325</u>	<u>–</u>	<u>–</u>
	<u>\$ 723,760</u>	<u>\$ –</u>	<u>\$ (36,462)</u>

### 10. 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 is based on Level 1 inputs for the fair value hierarchy.

# Lovitt Resources Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2015 and March 31, 2014

(Expressed in U.S. Dollars)

### 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – continued

The fair value of financial instruments at December 31, 2014 and December 15, 2015 are summarized as follows:

	December 31, 2014		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial Assets</b>				
<i>Fair value through profit or loss</i>				
Cash	\$ 14,237	\$ 14,237	\$ 42,266	\$ 42,266
Loans and receivables	603	603	2,144	2,144
Patronage dividends receivable	7,463	7,463	2,218	2,218
<b>Financial Liabilities</b>				
<i>Other financial liabilities</i>				
Accounts payable and accrued liabilities	\$ 60,084	\$ 60,084	\$ 37,735	\$ 37,735
Accrued interest payable	88,710	88,710	138,220	138,220
Note payable	5,737	5,737	5,737	5,737
Long-term debt to non-related parties(+)	115,900	115,900	--	--
Long-term debt to related parties (+)	734,999	734,999	858,106	858,106

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

#### 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 and patronage dividends 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*

Note 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 parent and subsidiaries' 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.

# **Lovitt Resources Inc.**

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended March 31, 2015**

**(Unaudited – Expressed in U.S. Dollars)**

### **13.. RELATED PARTY TRANSACTIONS**

During the three months ended March 31, 2015, a Director charged the Company \$ 30,000 (2014 - \$ 30,000) for accounting, consulting, and management services. A casual labor fee in the amount of \$ 3,500 (2014-2,500) was paid to family members of directors and officers of the Company during the quarter. The Company was charged \$ 10,832 (2014 – \$ 9,900) for interest accrued on outstanding loans to related parties.

### **14. 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 to date in 2015 and nil in previous years. The Company is not subject to externally imposed capital requirements.

### **15. SUBSEQUENT EVENTS**

The company continues to offer real estate and surplus equipment for sale for approximately 600,000. The real estate market in Wenatchee, WA remains depressed with low sales volume. The company continued to focus upon the potential acquisition of mineral properties in British Columbia, Saskatchewan and Manitoba by staking, option, or outright purchase.

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