
Lovitt Resources Inc.
Consolidated Financial Statements
For the years ended March 31, 2017 and 2016
(Expressed in U.S. Dollars)



Independent Auditor's Report

To the Shareholders of Lovitt Resources Inc.

We have audited the accompanying consolidated financial statements of Lovitt Resources Inc., which comprise the consolidated statements of financial position as at March 31, 2017 and March 31, 2016, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years ended March 31, 2017 and March 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lovitt Resources Inc. as at March 31, 2017 and March 31, 2016, and its financial performance and its cash flows for the years ended March 31, 2017 and March 31, 2016 in accordance with International Financial Reporting Standards.



D&H Group LLP
Chartered Professional Accountants
10th Floor, 1333 West Broadway
Vancouver, BC V6H 4C1

dhgroup.ca
t 604.731.5881
f 604.731.9923

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Lovitt Resources Inc.'s ability to continue as a going concern.

Vancouver, B.C.
August 2, 2017

"D&H Group LLP"

Chartered Professional Accountants

Lovitt Resources Inc.

Consolidated Statements of Financial Position

March 31, 2017 and 2016

(Expressed in U.S. Dollars)

	2017	2016
	\$	\$
Assets		
Current assets		
Cash	57,630	18,698
Amounts receivable	1,468	1,165
Prepaid expenses	1,573	-
Security deposit	<u>3,722</u>	<u>3,816</u>
	64,393	23,679
Assets held for sale (Note 3)	-	1
Property, plant and equipment (Note 4)	186,627	214,064
Mineral properties (Note 5)	543,440	517,496
Patronage dividends receivable	<u>2</u>	<u>2</u>
	794,462	755,242
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	11,526	30,773
Accrued interest payable (Note 12)	210,707	188,042
Note payable (Note 6)	4,314	4,423
Current portion of long-term debt (Note 7)	<u>869,694</u>	<u>949,261</u>
	1,096,241	1,172,499
Shareholders' equity (deficiency)		
Share capital (Note 8)	4,312,197	4,312,197
Contributed surplus	935,727	935,727
Currency translation reserve	(19,987)	(20,123)
Deficit	<u>(5,529,716)</u>	<u>(5,645,058)</u>
	<u>(301,779)</u>	<u>(417,257)</u>
	794,462	755,242

Nature of operations and going concern - see Note 1

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved for issue by the Board of Directors on August 2, 2017 and are signed on its behalf by:

_____, Director

"C. Lorne Brown"

_____, Director

"Dominic Lapenna"

Lovitt Resources Inc.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

	2017	2016
	\$	\$
Expenses		
Depreciation of property, plant and equipment (Note 4)	2,800	12,892
General and administrative (Note 12)	99,952	39,506
Interest on long-term debt (Note 12)	51,545	58,844
Management fees (Note 12)	<u>132,898</u>	<u>158,774</u>
	<u>287,195</u>	<u>270,016</u>
Loss before other items	<u>(287,195)</u>	<u>(270,016)</u>
Other items		
Impairment of assets held for sale	(1)	-
Miscellaneous items	7,744	379
Gain on sale of assets held for sale (Note 3)	-	73,400
Gain on sale of property	<u>394,794</u>	<u>23,310</u>
	<u>402,537</u>	<u>97,089</u>
Net income (loss) for the year	<u>115,342</u>	<u>(172,927)</u>
Other comprehensive income (loss) for the year		
Foreign currency translation	136	(11,446)
Comprehensive income (loss) for the year	<u>115,478</u>	<u>(184,373)</u>
Net income (loss) per share - basic and diluted	0.01	(0.02)
Weighted average number of common shares outstanding	9,324,051	9,324,051

The accompanying notes are an integral part of these consolidated financial statements.

Lovitt Resources Inc.

Consolidated Statements of Changes in Equity

For the years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

	Number of common shares	Common shares amount \$	Preferred shares amount \$	Contributed surplus \$	Currency translation reserve \$	Deficit \$	Total shareholders' equity (deficiency) \$
Balance at December 31, 2014	9,324,951	4,312,196	1	935,727	(8,677)	(5,472,131)	(232,884)
Comprehensive income (loss) for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,446)</u>	<u>(172,927)</u>	<u>(184,373)</u>
Balance at March 31, 2016	9,324,951	4,312,196	1	935,727	(20,123)	(5,645,058)	(417,257)
Comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>136</u>	<u>115,342</u>	<u>115,478</u>
Balance at March 31, 2017	9,324,951	4,312,196	1	935,727	(19,987)	(5,529,716)	(301,779)

The accompanying notes are an integral part of these consolidated financial statements.

Lovitt Resources Inc.

Consolidated Statements of Cash Flows

For the years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

	2017	2016
	\$	\$
<hr/>		
Cash flows from (used in) operating activities		
Net income (loss) for the year	115,342	(172,927)
Items not affecting cash		
Depreciation of property, plant and equipment	2,800	12,892
Gain on sale of property	(394,794)	(23,310)
Gain on sale of assets held for sale	-	(73,400)
Impairment of assets held for sale	1	-
Changes in non-cash working capital		
Decrease (increase) in		
Amounts receivable	(303)	761
Security deposit	94	(3,816)
Note receivable	-	50,000
Prepaid expenses	(1,573)	-
Increase (decrease) in		
Accounts payable and accrued liabilities	(19,247)	(12,564)
Accrued interest payable	22,665	60,674
Note payable	(109)	(522)
	<u>(275,124)</u>	<u>(162,212)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,478)	(1,149)
Expenditures on mineral properties	(25,944)	(45,914)
Patronage dividends received	-	4,445
Proceeds from sale of assets held for sale	-	73,400
Proceeds from sale of property	<u>423,909</u>	<u>36,000</u>
	<u>393,487</u>	<u>66,782</u>
Cash flows from (used in) financing activities		
Long-term debt proceeds	200,632	111,155
Repayment of long-term debt	<u>(280,199)</u>	<u>-</u>
	<u>(79,567)</u>	<u>111,555</u>
Effect of exchange rate changes	136	(11,446)
Increase in cash during the year	38,932	4,279
Cash, beginning of year	<u>18,698</u>	<u>14,419</u>
Cash, end of year	57,630	18,698

The accompanying notes are an integral part of these consolidated financial statements.

Supplemental cash flow information (Note 13)

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(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 finances 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 Suite 217 - 179 Davie Street, Vancouver, B.C., V6Z 2Y1.

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 March 31, 2017, the Company has no source of operating cash flow and a deficit of \$ 5,529,716 (March 31, 2016 - \$ 5,645,058). At March 31, 2017, the Company had a working capital deficiency of \$ 1,031,848 (March 31, 2016 - \$ 1,148,820) 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. In order to ensure its ability to continue operating, the Company expects to sell land and any remaining non-mining equipment 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 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 interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

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 March 31, 2017, 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, judgments 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.

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 judgments or assessments made by management.
- ii) Management is required to assess the functional currency of each entity in the Company. In concluding that the U.S. 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.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

2. Significant accounting policies - continued

- 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 a 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 estimates of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. 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 or 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, 2017 and 2016, there were no decommissioning liabilities.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

2. Significant accounting policies - continued

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, 2017 and 2016.

Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and, where necessary, write-downs for impairment. Land is reclassified as held for sale upon being listed for sale.

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful lives of the assets, at a rate between 20% and 50% commencing when the related asset is available for use.

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 environmental 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.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

2. Significant accounting policies - continued

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.

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.

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.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

2. Significant accounting policies - continued

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 operate, 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 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 loss.

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 are 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.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

2. Significant accounting policies - continued

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 receivables 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 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 loss except for losses in value that are considered other than temporary. At March 31, 2017 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 March 31, 2017 and 2016, 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.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

2. Significant accounting policies - continued

New standards and interpretations not yet adopted

The following is an overview of accounting standard changes that the Company will be required to adopt in future years. The Company does not expect to adopt any of these standards before their effective dates. The Company continues to evaluate the impact of these standards on its consolidated financial statements.

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, 2018. In the year of adoption, the Company is required to provide additional disclosures relating to the reclassified financial assets and liabilities. The Company may, but is not required to, apply the standard retroactively. In and after the year of adoption, certain disclosures relating to financial assets will change to conform to the new categories.

IFRS 15 - Revenue from Contracts with Customers. The standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 - *Revenue*, IAS 11 - *Construction Contracts*, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers; the main exceptions are leases, financial instruments and insurance contracts.

IFRS 16 - Leases. The standard specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

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. During the year ended March 31, 2017, the Company recorded an impairment charge on the remaining carrying value. Any subsequent gain or loss on sale of the high pressure equipment will be recorded in the period the equipment is sold.

During the year ended March 31, 2016, the Company sold assets classified as assets held for sale for net proceeds of \$ 73,400, which is included in miscellaneous income on the consolidated statement of loss.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

4. Property, plant and equipment

	\$	\$	\$	\$	\$	\$
	Land	Equipment	Building	Computer equipment	Vehicles	Total
Cost:						
Balance as at December 31, 2014	181,082	89,105	587,122	27,877	900	886,086
Additions	-	-	-	1,148	-	1,148
Disposals	-	(42,200)	-	-	-	(42,200)
Balance as at March 31, 2016	181,082	46,905	587,122	29,025	900	845,034
Additions	-	3,500	-	980	-	4,480
Disposals	(3,272)	-	(587,122)	-	-	(590,394)
Balance as at March 31, 2017	177,810	50,405	-	30,005	900	259,120
Accumulated depreciation:						
Balance as at December 31, 2014	-	61,991	560,864	23,835	900	647,590
Depreciation for the year	-	9,882	413	2,597	-	12,892
Adjustment for disposals	-	(29,512)	-	-	-	(29,512)
Balance as at March 31, 2016	-	42,361	561,277	26,432	900	630,970
Depreciation for the year	-	1,259	-	1,541	-	2,800
Adjustment for disposals	-	-	(561,277)	-	-	(561,277)
Balance as at March 31, 2017	-	43,620	-	27,973	900	72,493
Carrying amount:						
At March 31, 2016	181,082	4,544	25,845	2,593	-	214,064
At March 31, 2017	177,810	6,785	-	2,032	-	186,627

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

5. Mineral properties	2017	2016
	\$	\$
Lovitt Mineral Property - Washington, U.S.A.	1	1
Golden King and MacBeth claims - Washington, U.S.A.	1	1
Deferred exploration costs	<u>543,438</u>	<u>517,494</u>
	543,440	517,496

As at March 31, 2017, deferred exploration costs were as follows:

	\$
Geology and consulting	250,364
Assay fees	22,650
Travel	106,028
Supplies and permits	33,399
Field expenditures	<u>130,997</u>
Total	543,438

As at March 31, 2016, deferred exploration costs were as follows:

	\$
Geology and consulting	250,364
Assay fees	22,211
Travel	101,827
Supplies and permits	30,944
Field expenditures	<u>112,148</u>
Total	517,494

The Lovitt Mineral Property represents a 100% undivided interest in 200 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 a 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. In 2017, the Company incurred \$ 25,944 (2016 - \$ 45,914) of exploration costs.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

6. Note payable

The Company has a promissory note payable of \$ 4,314 (2016 - \$ 4,423) to a corporation owned by a director of the Company. The note bears interest at 5% per annum, is not collateralized, and has no fixed terms of repayment.

7. Long-term debt	2017 \$	2016 \$
Loan from a corporation controlled by a director of the Company - no required monthly payments; interest calculated at 5% per annum, not collateralized, due on demand	94,380	94,380
Loan from a director of the Company and his immediate family - no required monthly payments; interest calculated at 5% per annum; not collateralized, due on demand	500,314	349,881
Loan from corporation controlled by a director of the Company - no required monthly payments; interest calculated at 5% per annum; not collateralized, due on demand	25,000	25,000
Loan from a corporation controlled by a director of the Company - no required monthly payments; interest calculated at 5% per annum; not collateralized, due on demand	250,000	250,000
Loan from a director of the Company - no required monthly payments; interest calculated at 5% per annum; secured by land	-	210,000
Loan from a director of the Company - no required monthly payments; interest calculated at 12% per annum; secured by land	-	20,000
	<u>869,694</u>	<u>949,261</u>
Less: Current portion	<u>(869,694)</u>	<u>(949,261)</u>
	-	-

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

8. Share capital

Authorized - unlimited number of common shares without par value
- 100,000,000 preferred shares with par value of \$ 0.00001 per share

(a) *Reconciliation of changes in share capital*

No private placements occurred during the 2017 and 2016 fiscal years.

(b) *Warrants*

No warrants are outstanding as at March 31, 2017 and 2016.

(c) *Share option plan*

The Company has established a rolling share option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSXV. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of five years.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

The Company had no share options outstanding as at March 31, 2017 and 2016.

(d) *Preferred shares:*

	<u>Number</u>	<u>Amount</u>	\$
Balance as at March 31, 2017 and 2016	75,160	1	

Preferred shares issued are comprised of 75,160 non-cumulative preferred series A issue 1 shares with a face value of \$ 10 each, and a 5% annual coupon rate.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

9. Segmented information

As at March 31, 2017 and 2016 the Company's identifiable assets, revenue and net income (loss) in each of the geographic areas is as follows:

			2017 \$
	Identifiable assets	Revenue	Net income (loss)
United States	779,155	-	326,329
Canada	<u>15,307</u>	<u>-</u>	<u>(210,987)</u>
	794,462	-	115,342
<hr/>			
			2016 \$
	Identifiable assets	Revenue	Net income (loss)
United States	749,364	-	63,067
Canada	<u>5,878</u>	<u>-</u>	<u>(235,994)</u>
	755,242	-	(172,927)

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

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

10. Financial instruments and risk management - continued

The fair value of financial instruments at March 31, 2017 and 2016 are summarized as follows:

	March 31, 2017		March 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Fair value through profit or loss				
Cash	57,630	57,630	18,698	18,698
Amounts receivable	1,468	1,468	1,165	1,165
Patronage dividends receivable	2	2	2	2
Financial liabilities				
Other financial liabilities				
Accounts payable and accrued liabilities	11,526	11,526	30,773	30,773
Accrued interest payable	210,707	210,707	188,042	188,042
Note payable	4,314	4,314	4,423	4,423
Long-term debt to related parties*	869,694	- 869,694	949,261	949,261

*The amounts shown for fair value represent the amount of funds required for immediate settlement.

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.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

10. Financial instruments and risk management - continued

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.

11. Income taxes

The Company has non-capital losses for Canadian income tax purposes of approximately \$ 619,000 (CAD \$ 823,000) available to reduce future years' taxable income. The Company also has net operating loss carryforwards for tax purposes of approximately \$ 2,752,000 (2016 - \$ 2,566,000) available for deduction against future taxable income in the United States. The benefit of these non-capital losses has not been recognized in the Company's accounts as there is no reasonable assurance such benefit will be realized. If unused, the non-capital losses will expire as follows: \$ 46,000 in 2026, \$ 5,000 in 2027, \$ 867,000 in 2029, \$ 366,000 in 2030, \$ 564,000 in 2031, \$ 540,000 in 2032, \$ 259,000 in 2033, \$ 181,000 in 2034, \$ 266,000 in 2035, \$ 55,000 in 2036, and \$ 222,000 in 2037.

The Company has undepreciated Mineral Property Cost for US tax purposes of \$ 461,427. These available deductions have no expiry date and can be offset against future taxable income. The potential tax benefit of these amounts has not been reflected in these accounts.

The significant components of the Company's unrecognized deferred income taxes are as follows as at March 31, 2017 and 2016:

	2017	2016
	\$	\$
Deferred income tax assets		
Benefit of loss carryforwards	1,097,000	1,065,000
Benefit of resources tax pool	<u>227,000</u>	<u>229,000</u>
	<u>1,324,000</u>	<u>1,294,000</u>

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

11. Income taxes - continued

The following is a reconciliation of the statutory combined federal and provincial income taxes to the effective income taxes:

	2017	2016
	\$	\$
Income taxes (recovery) at statutory income taxes rates (2017 - 26%; 2016 - 26%)	(61,000)	(21,000)
Effect of foreign income taxed at different rates	(13,000)	(4,000)
Unrecognized benefit of income	<u>74,000</u>	<u>25,000</u>
Actual income tax rate recovery	-	-

12. Related party transactions

As at March 31, 2017, accounts payable includes \$ 660 (2016 - \$ 660) owed to a director and members of his immediate family and \$ 8,534 (2016 - \$ 8,751) owed to two corporations owned by a director.

As at March 31, 2017, accrued interest payable includes \$ 49,584 (2016 - \$ 29,756) due to a director and members of his immediate family and a corporation owned by the director. Accrued interest payable also includes \$ 161,123 (2016 - \$ 158,286) due to corporations controlled by directors.

As at March 31, 2017, long-term debt includes loans outstanding of \$ 500,314 (2016 - \$ 349,881) to a director and members of his immediate family member. Long term debt also includes loans outstanding of \$ 369,380 (2016 - \$ 599,380) to corporations controlled by directors. See also Note 6 for note payable to related party.

During the year ended March 31, 2017, the Company was charged \$ 150,887 (2016 - \$ 174,265) for accounting, consulting, salary and benefits, management services and casual labour provided by directors and members of their immediate families and by a corporation owned by a director of the Company.

During the year ended March 31, 2017, the Company paid \$ 6,858 (2016 - \$ 9,615) for office rent to a director. Also, during the year ended March 31, 2017, the Company was charged \$ 51,545 (2016 - \$ 58,844) for interest on the outstanding loans from a director of the Company (and members of his immediate family) and by corporations controlled by a management personnel and directors during the year ended March 31, 2017.

Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

During the year ended March 31, 2017, \$ 120,000 (2016 - \$ 150,500) was charged for management fees by the CEO.

Lovitt Resources Inc.

Notes to the Consolidated Financial Statements

Years ended March 31, 2017 and 2016

(Expressed in U.S. Dollars)

13. Supplemental cash flow information

During 2017, \$ 132,898 of non-cash management fees were recorded as an increase to long-term debt.

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 and property, plant and equipment.

There were no changes to the Company's approach to capital management during 2017 or 2016. The Company is not subject to externally imposed capital requirements.