

Lovitt Resources Inc.
CONSOLIDATED FINANCIAL STATEMENTS
Six months ending September 30, 2017
(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 STATEMENT OF FINANCIAL POSITION**

(Unaudited - Expressed in U.S. Dollars)

	<u>September 30</u> <u>2017</u>	<u>March 31</u> <u>2017</u> Audited
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,656	\$ 57,630
Accounts receivable	2,430	1,468
Prepaid expenses	1,312	1,573
Security deposit	4,006	3,722
	<u>\$ 12,404</u>	<u>\$ 64,393</u>
ASSETS HELD FOR SALE	-	-
PROPERTY PLANT AND EQUIPMENT	186,169	186,627
MINERAL PROPERTIES	581,088	543,440
PATRONAGE DIVIDENDS RECEIVABLE	2	2
	<u>\$ 779,663</u>	<u>\$ 794,462</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	44,536	\$ 11,526
Accrued interest payable	229,656	210,707
Note payable	5,737	4,314
Current portion of long term debt	923,797	869,694
	<u>\$ 1,203,726</u>	<u>\$ 1,096,241</u>
LONG-TERM DEBT	-	-
	<u>\$ 1,203,726</u>	<u>\$ 1,096,241</u>
SHAREHOLDER'S EQUITY (DEFICIENCY)		
SHARE CAPITAL	4,312,197	4,312,197
CONTRIBUTED SURPLUS	935,727	935,727
CURRENCY TRANSLATION RESERVE	(19,987)	(19,987)
DEFICIT	(5,652,000)	(5,529,716)
	<u>(424,063)</u>	<u>(301,779)</u>
	<u>\$ 779,663</u>	<u>\$ 794,462</u>

C. Lorne Brown DirectorDominic M. Lapenna Director

Lovitt Resources Inc.

Interim Condensed Consolidated Statement of Profit and Loss

(Unaudited - Expressed in U.S. Dollars)

	<u>Six months ending</u>	
	<u>30-Sep-17</u>	<u>30-Sep-16</u>
EXPENSES		
Depreciation	458	2,275
General and administrative	30,912	30,535
Interest on debt	29,715	25,640
Management fees	60,000	60,000
Foreign Exchange Gain/(Loss)	4,590	1,577
NET LOSS	<u>125,675</u>	<u>120,027</u>
MISCELLANEOUS INCOME	3,391	3,444
NET LOSS FOR THE PERIOD	(122,284)	(116,583)
LOSS PER SHARE - basic and diluted	0.013	0.013
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	9,324,951	9,324,951

Prepared by Management without benefit of audit.

Lovitt Resources Inc.

Interim Condensed Consolidated Statement of Cash Flows

(Unaudited - Expressed in US Dollars)

Six months ended Sept. 30th

	2017	2016
Cash flows from (used in) operating activities		
Net income (loss) for the quarter	(122,284)	(118,019)
Items not affecting cash		
Depreciation of property plant and equipment	458	2,460
Gain on sale of property plant and equipment		3,100
Gain on sale of assets held for sale	-	-
Changes in non-cash working capital		
Decrease (increase) in:		
Amounts receivable	(962)	671
Inventory and capital assets	(3,153)	
Prepaid expenses	(261)	(3,770)
Note receivable	-	-
Increase (decrease) in:		
Accounts payable and accrued liabilities	33,010	35,406
Accrued interest payable	18,949	33,515
Note payable	1,423	1,314
	(72,820)	(45,323)
Cash flows from investing activities		
Purchase of property, plant and equipment		-
Expenditure on mineral properties	(37,648)	(1,174)
Patronage dividends received	-	-
Proceeds from sale of assets held for sale	-	-
Proceeds from sale of property, plant and equipment	3,391	-
	(34,257)	(1,174)
Cash flows from financing activity		
Short term debt repayment	-	-
Short term debt proceeds	54,103	32,158
	54,103	32,158
Increase (decrease) in cash during the period	(52,974)	(14,339)
Cash, beginning of period	57,630	18,698
Cash, end of period	4,656	4,359

Lovitt Resources Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGE IN EQUITY

(Unaudited - Expressed in US Dollars)

	<u>Six Months ended</u>	
	<u>Sept. 30th</u>	<u>Sept. 30th</u>
	<u>2017</u>	<u>2016</u>
Share Capital:		
Balance, beginning of period	4,312,196	4,312,196
Shares issued in period, net of issue expense	--	--
Shares issued for mineral property lease	--	--
Fair value of options exercised	--	--
Fair value of warrants exercised	--	--
Balance, end of period	<u><u>4,312,196</u></u>	<u><u>4,312,196</u></u>
Contributed Surplus:		
Balance, beginning of period	935,727	935,727
Fair value, share-based option compensation	--	--
Fair value of options vested	--	--
Fair value of options transferred to share capital	--	--
Balance, end of period	<u><u>935,727</u></u>	<u><u>935,727</u></u>
Deficit:		
Balance, beginning of period	(5,529,716)	(5,645,058)
Loss for period	(122,284)	(114,919)
Balance, end of period	<u><u>5,652,000</u></u>	<u><u>(5,759,977)</u></u>
Total Shareholder's Equity (deficiency)	<u><u>(424,063)</u></u>	<u><u>(532,176)</u></u>

Prepared by management without benefit of audit.

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2017

(Unaudited – Expressed in U.S. Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company is incorporated under the *Company Act* (British Columbia). The Company holds land and mineral interests located in Wenatchee, Washington, U.S.A. The Company currently owns 270 acres of land, and mineral interests in approximately 300 acres. Since 2012, the Company financed its operations by selling land, a cabin, a building and surplus equipment.

The Company's common shares are currently traded on the TSX NEX Exchange under the trading symbol "LRC.H" and on the US OTCQB market with trading symbol "LRCFF".

The Company's principal office is located at 7001 Nicholson Road, Abbotsford, BC V4X 2G5.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Conversion to international financial reporting standards

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. These interim condensed consolidated financial statements represent the Company's initial presentation of its results and financial position under IFRS. These interim condensed consolidated financial statements for the nine months ended September 30, 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and IFRS 1 *First-time Adoption of IFRS* along with the accounting policies the Company adopted in its December 31, 2012 financial statements. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable at that time. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

Basis of preparation

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

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

Principles of consolidation

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

Critical accounting estimates and assumptions

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

2. SIGNIFICANT ACCOUNTING POLICIES, con't

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 September 30, 2017.

Property, plant and equipment

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

Mineral properties

Mineral property costs and exploration, development and field support costs directly relating to mineral properties are deferred until there is reasonable certainty as to the existence of economically recoverable mineral reserves and the property to which they relate is placed into production, sold or abandoned. Costs are amortized against future production from the property. Costs of abandoned properties are written off at the earlier of the decision to abandon the property or the expiry date of assessment work on the property. Administrative costs and other exploration costs that do not relate to any specific property are expensed as incurred.

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

Patronage dividends receivable

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

Provisions for site restoration

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

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

Impairment of non-financial assets

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

Share-based payments

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

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

Revenue recognition

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

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

Foreign currency translation

Functional and presentation currency

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

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

Foreign currency transactions

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

Earnings (loss) per share

Earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the quarter, which amounted to 9,324,951 shares (September 30, 2017 – 9,324,951 shares). Diluted earnings (loss) per share is presented using the treasury stock method and is calculated by dividing the net income (loss) applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

Income taxes

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

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

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

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

Financial instruments

Financial assets

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

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

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 September 30, 2016 the Company has not classified any financial assets as available for sale on its balance sheet.

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 December 31, 2016 the Company has not classified any financial liabilities as fair value through profit or loss.

Share capital

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

Transaction costs

The Company recognizes transaction costs incurred, in connection with the issuance of capital, 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.

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

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. 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 longer.

3. CHANGES IN ACCOUNTING POLICIES

Recognition of expense

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

IFRS – Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. The Company issues share purchase warrants but does not issue any share options; hence this change in policy had no effect on the Company's financial statements.

Forfeitures

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

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. The Company issues share purchase warrants but does not issue any share options; share options vest immediately when awarded; hence this change in policy had no effect on the Company's financial statements.

4. ASSETS HELD FOR SALE

The Company sells surplus equipment, supplies and real estate in the normal course of business. At present, there is not a plan to adopt a formal plan for the sale of assets. Real estate is on the books of the company at 1950's prices and the company sells land excess to mining needs to raise working capital.

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Lovitt Resources Inc.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2017

(Unaudited - Expressed in U.S. Dollars)

5. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Equipment</u>	<u>Building</u>	<u>Computer equipment</u>	<u>Total</u>
COST:					
Balance at March 31, 2016	181,082	46,905	587,122	29,025	844,134
Additions/disposals/transfers	-	-	-	-	-
Balance at September 30, 2016	<u>181,082</u>	<u>46,905</u>	<u>587,122</u>	<u>29,025</u>	<u>844,134</u>
DEPRECIATION					
Balance at June 30, 2016	-	44,606	561,277	26,562	630,070
DEPRECIATION	-	-	-	185	185
Plus cumulative impairment losses	-	-	-	-	-
Balance at September 30, 2016	<u>181,082</u>	<u>44,506</u>	<u>561,277</u>	<u>26,747</u>	<u>632,530</u>
Carrying amt. at September 30, 2016	<u>181,082</u>	<u>2,399</u>	<u>25,845</u>	<u>2,278</u>	<u>211,604</u>
Carry amount September 30, 2015	<u>181,082</u>	<u>23,047</u>	<u>26,258</u>	<u>3,284</u>	<u>233,671</u>
COST:					
Balance at March 31, 2017	177,810	50,405	-	30,005	258,220
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Balance September 30, 2017	<u>177,810</u>	<u>50,405</u>	<u>-</u>	<u>30,005</u>	<u>258,220</u>
DEPRECIATION					
Balance as at March 31, 2017	-	43,620	-	27,973	71,593
Depreciation	-	306	-	152	458
	-	-	-	-	-
Balance at September 30, 2017	<u>177,810</u>	<u>43,926</u>	<u>-</u>	<u>28,125</u>	<u>249,861</u>
Carrying amt. at September 30, 2017	<u>177,810</u>	<u>6,479</u>	<u>-</u>	<u>1,880</u>	<u>186,169</u>
Carrying amount at March 31, 2017	<u>177,810</u>	<u>6,785</u>	<u>-</u>	<u>2,463</u>	<u>187,058</u>

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the six months ended September 30, 2017 (Unaudited – Expressed in U.S. Dollars)

6. MINERAL PROPERTIES	<u>September 30, 2017</u>	<u>March 31, 2017</u> AUDITED
Lovitt Mineral Property - Washington, U.S.A.	\$ 1	\$ 1
Golden King and MacBeth Claims - Washington, U.S.A.	1	1
Deferred exploration costs	<u>581,088</u>	<u>543,440</u>
	\$ <u>581,088</u>	\$ <u>543,440</u>

The Lovitt Mineral Properties encompass 600 acres of mineral rights with 40 acres of patented claims, and mine workings with 3,000 feet of workings horizontally and 800 feet vertically. The Lovitt mine suspended operations in 1966 when inflation and a fixed gold price of \$37 per oz. marginalized profits. The Golden King and MacBeth patented claims produced 410,000 oz of gold and 600,000 oz. of silver between 1950 and 1966 at a grade of 0.40 oz/gold per ton. The mineral interest is subject to a 5% net smelter royalty, payable to former minority investors of Lovitt Mining Company Inc. as an incentive to a buyout agreement concluded in 2005.

Mineral properties include nominal acquisition costs as they were written down in prior years. During the six-months ended September 30, 2017, the Company incurred \$ 37,648 in exploration and maintenance costs.

During 2009, the Company's wholly-owned subsidiary Gold King Inc., entered into a lease agreement with B.J. Matthews, Trustee of the B.J. Matthews and Geneva G. Matthews Trust for the exclusive right to explore, mine, and produce on a 155 acre property located in Chelan County, in the State of Washington. 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 \$ 30,000 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. The company believes that the property has merit, but lower gold prices from a peak in early 2011 were negative to financing deep diamond drill exploration.

7. NOTE PAYABLE

The Company has a promissory note payable of \$ (\$ 5,737 US) 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 CONDENSED FINANCIAL STATEMENTS

For the six months ended September 30, 2017

Unaudited - Expressed in U.S. Dollars

8. LONG-TERM DEBT	<u>September 30, 2017</u>	<u>Audited March 31, 2017</u>
Loan from a director of the Company- no required monthly payments; bearing interest at 5%; not collateralized, interest rate of 5% due on demand.	\$ 94,380	\$ 94,380
Loan from a director of the Company and his immediate family no required monthly payments; interest 5% annually, not collateralized, due on demand.	554,417	500,314
Loan from a corporation controlled by a director of the Company-no required monthly payment; not collateralized, with interest of 5%, due on demand	250,000	250,000
Loan from a corporation controlled by a director of the company - no required monthly payments, with interest at 5%, not collateralized, due on demand.	25,000	25,000
	<u>\$ 923,797</u>	<u>869,694</u>

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2017

(Unaudited – Expressed in U.S. Dollars)

9. SHARE CAPITAL AND RESERVES

Authorized – Unlimited number of common shares without par value

Issued	Number	\$
Balance, as at March 31, 2017 (Audited)	9,324,951	4,312,187
Issued during the six months ending September 30, 2017	Nil	
Balance, as at September 30, 2017	9,324,951	4,312,197

No options and no warrants were outstanding as of September 30, 2017

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

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

Credit risk

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

Liquidity risk

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

Interest rate risk

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

Foreign exchange risk

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

Price risk

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

12. RELATED PARTY TRANSACTIONS

During the six-month period ending September 30, 2017 the Company was charged \$ 60,000 (2016- \$60,000) for accounting, consulting, and management services provided by a director and officer of the Company. During this period the Company paid \$ 4,500 CDN (2016 –\$4,500) in rent for 1,000 sq.ft. of office and storage space to a Director of the Company. Family members of a Director were paid \$11,765 CDN for contract labor or salary for work, travel, and sales & marketing services over the same six-month period.

Long term debt to December 31, 2017 includes loans outstanding of \$ 791,419 (2016-\$ 913,106) individually or to Corporations controlled by Directors of the Company. Interest of \$20,871 was accrued on loans outstanding to Directors over the six-month period. ending September 30, 2017.

Lovitt Resources Inc.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended September 30, 2017

(Unaudited – Expressed in US \$)

13. CAPITAL MANAGEMENT

The Company manages capital as its share of 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 was no change to the Company's approach to capital management during 2016 and 2017. The Company is not subject to externally imposed capital requirements.

14. SUBSEQUENT EVENTS

The company continues to focus upon the potential acquisition of mineral properties in Western Canada and the US by staking, option, or outright purchase. Work is in progress to permit a diamond drill program to explore a highly prospective area for gold adjacent to historic high-grade gold production area in the Lovitt Gold Mine.

Subsequent to September 30, 2017 the company continued to offer for sale equipment and real estate surplus to its needs. The company is developing building lots for sale on land unrelated to mining adjacent to a sub-division development in Wenatchee, WA