

# Lovitt Resources Inc.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the nine months ending December 31, 2016**

### **General**

The following discussion is management's assessment and analysis of the results and financial condition of the Lovitt Resources Inc. (the "Company") for the unaudited 3rd Quarter ending December 31, 2016, and should be read in conjunction with the audited annual financial statements as filed June 2, 2016, for the year ending March 31, 2016 and related notes, and the unaudited sixth-month statement dated September 30, 2016 and filed November 29, 2016. The preceding accounts were prepared using Canadian generally accepted accounting principles with data provided by management using appropriate controls and procedures. *All figures are reported in US \$ unless otherwise indicated.*

The Company has reported its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") January 1, 2011.

The above documents and additional information relating to the Company may be found at: <http://www.sedar.com> and <http://www.lovittresources.com>

Certain information included in this discussion may constitute forward-looking statements. Such statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different from those expressed or implied herein. Historical results, including trends which might appear, should not be taken as indicative of future results. The company must use historic data collected between 1949 and 1997 planning exploration, and since the majority of this information predates NI 43-101 standards, such data cannot be relied upon to make investment decisions. Any reference to historic data of any kind implies non-compliance with National Instrument 43-101.

### **Disclosure, Control and Procedures**

Management is responsible for the information disclosed in this document through the implementation of appropriate information systems, with procedures and controls designed to ensure that information used internally, and reported externally, is in all material respects complete and reliable. The CEO and CFO have certified in a public filing that the design and operation of such disclosures, controls, and procedures was effective for the third quarter ending December 31, 2016, and have declared that all material information relevant to this period is fairly presented and disclosed in this document.

### **Forward-Looking Information**

This interim management discussion and analysis ("Interim MD&A") contains forward-looking statements and information relating to Lovitt Resources Inc. (the "Company", or "LRC") and its wholly owned subsidiary the Lovitt Mining Corporation, Inc. ("LMC") based upon the beliefs of its management, with assumptions made by, and with information currently available to the Company. When used in this document, the words "anticipate", "believe", "expect", and "estimate" and similar expressions, as they relate to the Company, LMC, or its management, are intended to identify forward-looking statements.

This interim MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of working capital, and the estimated cost and availability

of funding for the continued operations of the Company. Many factors could cause actual results to vary considerably from any future results expressed or implied by such forward-looking statements.

## **1.1 This report is dated March 2, 2016**

## **1.2 Background and Overall Performance**

LMC assets in Wenatchee, Washington State, consist of over 270 acres of real estate, a cold storage building, mineral rights to over 670 acres, water rights, extensive gold and silver mine workings with engineered maps and drawings, co-op patronage, and an extensive Wenatchee Gold Belt database covering all activity and development over the past 60 years. Access to the mine is thru a portal on the 1250 level, and the company is sampling these workings to evaluate areas that might support future mining operations. In September of 2008, LRC contracted with Watts, Griffis and McQuat, mine and geological consulting engineers out of Toronto, Canada to produce a NI 43-101 report and to make recommendations regarding future mineral exploration. This report was dated November 30, 2016; this and historic reports are available at: <http://www.lovittresources.com> or in the company files at: <http://www.sedar.com>.

The Lovitt Gold Mine suspended operations in early 1967, due to the adverse economic climate of rising inflation and a fixed gold price of \$ 35.00 per oz. During the fifties and sixties, the mine was one of the top producing underground gold mines in the USA. The Wenatchee area is highly prospective for gold, as illustrated by the fact that the directly adjoining Cannon Mine was the 1<sup>st</sup> or 2<sup>nd</sup> largest underground gold mine in the USA between 1985 and 1995, when it produced 1.1 million ounces of gold and 1.6 million oz of silver. The Lovitt Mine produced over 410,000 ounces of gold and 626,000 ounces of silver between 1950 and 1967, with a small crew compared to that of the Cannon Mine.

A major asset of the company is the archives of LMC, which contain daily operational logs, engineering drawings, exploration and ore assay logs, and numerous reports commissioned during and after the production years of the Company. A wealth of information was assembled by various companies in the 1970's, 80's and 90's like Cyprus Anvil, Newmont Mining Corporation, United Mining, Teck Corporation and Asamera Minerals (US) Inc. The Lovitt Gold Mine workings are a major asset, with seven miles of tunnels horizontally and scores of raises between the 850 and 1550 levels, on four major levels and six sub-levels and produced a gold equivalent grade of 14.3 gm/t. The current cost of duplicating these workings would be in the order of \$ 60 million today.

Despite the reams of historical data assembled by senior companies concerning the Wenatchee Gold Belt, no one entity has been able to place this data in a cohesive database system to fully understand the deposition of gold in the area. In fact, post 1970, exploration companies mentioned above were mainly motivated to develop an open pit mining reserve, when in fact the Lovitt Mine was historically a high-grade vein stock gold mine with bonanza zones of gold and silver.

The company believes that shareholder value can be best enhanced by an outright sale or joint venture of the Lovitt Gold mine to a senior or mid-tier mining company, with permitting staff to deal with various agencies involved to approve mining and re-habilitation. By also selling surplus land, buildings and equipment for additional capital, the Company could refocus its effort towards building and expanding a mineral portfolio Washington State and Western Provinces in Canada with a goal to transform into a project generator and investment company. The land remaining after re-habilitation of the mine is expected to be designated as a "resort destination property" with substantial potential and benefit to the Wenatchee, WA community. The company believes

of capital. Comments concerning the investment of future exploration funds are subject to political risk in any jurisdiction. Most jurisdictions in the world have developed considerable political risk towards exploration and mining development.

### 1.3 Selected Annual Information: N/A

### 1.4 Result of Operations

Sale of surplus equipment and real estate provided the main revenue for the company over the past three years. This revenue, plus occasional loans from Directors has been sufficient to fund the company without equity dilution since 2012. (See subsequent events Section 1.16 below)

Corporate activity over the period centered upon 1) the sale of real estate and surplus equipment to generate revenue 2) developing an exploration plan to expand the gold and silver resource inside and around the Lovitt Gold Mine in Wenatchee, WA, and 3) Investigating potential mining and exploration opportunities in WA State and Canada.

The company continues an offer for sale a 8,800 sq.ft. cold storage plant on 5 acres for \$440,000, and remaining surplus equipment for \$20,000 to provide working capital. (See Subsequent Events).

### G&A

Three months ending December 31st	2016	2015
Accounting and audit	925	4,758
Legal fees	916	-
Filing fees and regulatory	5,695	1,672
General office and supplies	504	5,354
Office rent and storage	2,376	2,376
Telephone & Communications	1,468	1,218
Travel, meetings, lodging	4,524	7,307
Bank fees	463	376
Promotion	-	-
Utilities	376	310
Contract labor	11,063	7,370
Postage and Courier	146	132
Miscellaneous	734	10,715
<b>Total</b>	<b>29,190</b>	<b>41,589</b>

Due to a change in year-end from Dec 31, 2015 to March 31<sup>st</sup> of the current year, certain legal and audit expenses normally paid by September 30<sup>th</sup> have been pushed into the quarter ending December 31<sup>st</sup>, 2016. Consequently, the annual meeting and audit expenses in legal and accounting are understated to date in 2016, but will be additive to G&A in the current quarter. General office and supply expense is lower due to supplies carried over from the previous period. On balance the remaining expenses are similar in amounts period to period. Promotion is on hold until the company re-activates exploration of the Lovitt Gold Mine in 2017.

## 1.5 Summary of Quarterly Results

	Dec'16	Sep'16	Jun'16	Mch'16	Dec'15	Sep'15	Jun'15	Mch'15
	\$	\$	\$	\$	\$	\$	\$	\$
	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
Revenue	nil	344	24,593	10,841	16,613	8,548	24,593	36,494
Net Income	-67,037	-57,826	-56,551	-50,508	-65,799	-64,623	-56,551	-36,462
Earnings p/s	-0.007	-0.006	-0.006	-0.004	-0.007	-0.007	-0.006	-0.004

Revenue for all quarters in the above table results from the sale of surplus equipment and/or real estate. Net income was steady on average over the eight quarters with slower business activity associated with summer months. The current quarter is the lowest for revenue of the eight periods due to small or no equipment or real estate sales in the quarter ending September and December 2016. Revenue and net income increased markedly in Dec'14 due to the sale of real estate, and revenue in March'15 and June'15 increased due to higher equipment sales.

The net income loss throughout the period was relatively stable, with variance from the highest to the lowest values within 20% of the mean.

## 1.6 Liquidity

The company has four distinct asset areas from which to derive liquidity:

1. Real Estate sales
2. Surplus equipment held for sale
3. Revenue from potential mineral production, subject to permitting issues.
4. Borrow funds, or issue shares in a private placement or public offering.

The company has experienced a chronic working capital deficit for several years. The audited statement for the period ending September 31, 2016 indicates a working capital deficit of - 526,881. About 50% of this deficit is due to a note placed in current liabilities due to be paid out when surplus real estate is sold. During the nine month period to December 31, 2016 accounts payable increased by \$ 35,406 to \$ 66,179. The company intends to raise capital when metals markets rebound and financial conditions improve, with the objective to improve the current ratio, acquire properties, and increase exploration in the Lovitt Gold Mine.

If real estate and equipment currently offered for sale is sold at the offered price, the company could raise in excess of \$ 500,000. Excess funds raised through asset sales will be used to pay down debt and improve working capital, whilst also maintaining the current level of exploration activity. The company is investigating various financing avenues anticipating a robust exploration program in the Lovitt Gold Mine in 2017.

Management believes that long term debt is adequately covered by assets, since its substantial real estate portfolio is carried on the balance sheet at circa 1950 prices. Directors believe that debt is more attractive than equity when compared to the dilution involved in issuing shares at a distressed market valuation.

The company is totally dependent upon real estate and surplus equipment sales, borrowing, or equity financing in the venture capital markets to maintain liquidity.

## **1.7 Capital Resources**

It should be noted that the LMC, wholly owned subsidiary of LRC owns and acquired about 250 acres of land on the city limits of Wenatchee, WA in the 1950's and 60's. Current land valuations are substantially higher than the book value of these assets, and this appreciation is not reflected in the balance sheet.

The company holds a substantial mineral interest in approximately 600 acres surrounding the Lovitt Mine, including the patented claims of the Lovitt Mine. LMC was incorporated as a for profit gold mining company in Washington State in 1949, and before suspending operations in 1967, the company produced 410,480 ounces of gold and 625,850 ounces of silver. The company reactivated exploration of its mineral asset when gold hit all-time highs of US \$ 1,900 per ounce in 2011. The company had written its mineral asset off in 2003 in accordance with accounting convention since no expenditure had been made on the Lovitt mineral interest for several years. The write off was approximately \$ 2,000,000 and the Directors of the Company believe that the current market value of the mineral interest is considerably in excess of \$ 517,496 stated the 2016 audited statement for the period ending March 31, 2016.

Real estate potentially for sale is carried at 1950's prices when land could be purchased outside the city limits of Wenatchee, WA for \$ 50-60 per acre and the current market value is substantially higher than the book value of \$ 182,082. The company also has surplus equipment and a building currently offered for sale at prices sufficient to substantially pay down debt and carry the overhead of the Company well into 2017. (See Subsequent events section 1.16 below)

## **1.8 Off Balance Sheet Arrangements – N/A**

## **1.9 Transactions with Related Parties**

During the nine month period ending December 31, 2016 the Company was charged \$ 90,000 (2015- \$90,000) for accounting, consulting, and management services provided by a director and officer of the Company. The company accrued \$ 13,335 in the quarter for interest on outstanding loans from related parties. During this period the Company paid \$ 6,750 CDN (2015 – \$ 6,750) in rent for 1,500 sq.ft of office and storage space to a Director of the Company. Family members of a Director accrued \$ 9,500 CDN in casual labor fees and a salary of \$12,215 CDN for was paid for work, travel, and sales & marketing services.

Long term debt to December 31, 2016 includes loans outstanding of \$ 791,419 (2015-\$ 913,106) individually or to Corporations controlled by Directors of the Company. \$ 230,000 in long term debt owed to a former Director has been removed from long term debt since it was scheduled for payout upon the sale of real estate (see Subsequent Events 1.16 below).

## **1.10 N/A**

## **1.11 Proposed Transactions: None**

## **1.12 Critical Accounting Estimates**

### ***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.

### ***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 value 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. At June 30<sup>th</sup> of 2016 there were no decommissioning liabilities.
- (iv) The valuation of financial instruments which are classified as fair value through profit or loss – See Note 10 in the 2016 Annual Statements.

## **1.13 Changes in Accounting Policies**

### **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 currently 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 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.

## **1.14 Financial Instruments and Risk Management**

### **Fair value**

The fair value of financial instruments at December 31, 2016 and March 31, 2016 is summarized in Notes to the Consolidated Financial Statement for the 3rd quarter ending December 31, 2016.

### **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 Notes

### *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.

## **1.15 Capital**

The company had 9,324,951 shares outstanding at December 31, 2016. The Company recognizes transaction costs incurred with the issuance of capital as share issuance costs which are netted against gross proceeds from related transactions rather than being expressed as incurred. No financings were completed and no warrants were issued or exercised in the nine months ending December 31, 2016.

## **1.16 Subsequent Events:**

The company continues to focus upon the potential acquisition of mineral properties in Canada by staking, option, or outright purchase, and has resumed exploration by sampling in the Lovitt Gold Mine. The company is also pursuing exploration opportunities in WA State.

Subsequent to December 31, 2016 the company continued to offer for sale equipment and real estate surplus to its needs. The company announced by news release February 16, 2016 that it sold a 8,800 sq. ft. building for net proceeds of \$ 422,000. The book value of this asset was \$22,000. If further equipment and real estate is sold, sufficient capital will be generated to carry the company through 2017 without external equity financing and resultant share dilution at current levels of activity, unless the company raises exploration funds for the Lovitt Mine or another mine or exploration opportunity.

**C. Lorne Brown, President**

**Lovitt Resources Inc.**

**Dated: March 2, 2017**

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