

# Lovitt Resources Inc.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**For the sixth-month period ending September 30, 2018**

### **General**

The following management discussion and analysis (“MD&A”) for Lovitt Resources Inc. (the “Company”) for the unaudited six months ending September 30, 2018 should be read in conjunction with the Company’s audited annual financial statements for the year ended March 31, 2018 and the notes contained therein, and the six months statement for the period ending September 30, 2017, as filed on Sedar. The preceding accounts were prepared using generally accepted Canadian 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 currently issued.

Financial statements and summary information derived therefrom are prepared in accordance with International Financial Reporting Standards (“IFRS”). Consequently, all comparative financial information presented in this MD&A reflects the consistent application of IFRS.

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 in 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 six-months ending September 30, 2018 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 September 4, 2019**

## **1.2 Background and Overall Performance**

LMC assets in Wenatchee, Washington State, consist of over 250 acres of real estate, mineral rights to over 600 acres, water rights, extensive gold and silver mine workings with engineered maps and drawings, co-op fruit processing patronage, and a Wenatchee Gold Belt database covering all activity and development over the past 60 years. Current access to the mine is thru a portal on the 1250 level, and the company sampling these workings with approximately seven miles of tunnels to evaluate areas that might support future mining operations. In September of 2008, LRC hired 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 July 31, 2009 and is available online at: <http://www.lovittresources.com>.

The Lovitt Gold Mine suspended operations in 1966, due to an adverse economic climate of rising inflation and a fixed gold price of \$ 37.00 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 adjoining Cannon Mine was the 2<sup>nd</sup> largest underground gold mine in the USA during the late 1980’s and early 1990’s, when it produced 1.1 million ounces of gold. The Lovitt Mine produced over 410,000 ounces of gold and 626,000 ounces of silver between 1950 and 1966, with a small crew 1/10th that of the Cannon Mine. The Lovitt mine was the 5<sup>th</sup> largest underground gold mine in the US when operations ceased.

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 over the production years of 1949-1966. Even more significant is the wealth of information assembled on the Lovitt Gold Mine by major mining companies of the 1970’s, 80’s and 90’s like Cyprus Anvil, Newmont Mining Corporation, United Mining, Teck Corporation and Asamera Minerals (US) Inc., operator of the adjoining Cannon Mine. The Lovitt Gold Mine underground workings are a major asset, with several miles of tunnels horizontally and scores of raises between the 850 and 1550 levels, on four major levels and six sub-levels. The current cost of duplicating these workings at current contracting rates would be in the order of \$1,000 per foot, up from \$100 per foot 15 years ago.

Despite the reams of historical data assembled by senior companies exploring 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 porphyritic gold mine with bonanza zones of gold and silver.

The company believes that shareholder value might be best enhanced by a joint venture with a senior company partner to develop the Lovitt Gold mine. The company has sold surplus land, buildings and equipment for working capital since 2014, with the benefit that substantial shareholder dilution was avoided. Shares outstanding have not increased since 2014. Once a project to mine and re-habilitate the mine has been accomplished, the remaining surface land tenure has substantial value as a resort destination property. As part of selling surplus assets, land was sold for \$25,000 to \$69,000 per acre over the past several years with a 1950's average cost base of \$50.00 per acre.

**1.3 Selected Annual Information:** Please refer to the most recent annual report.

### 1.4 Result of Operations

Corporate activity over the current 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 British Columbia and WA State.

The company continues to offer surplus equipment and real estate for sale surplus to the gold mining property to generate operating capital.

### G&A

Six months to September 30th	2018	2017
Accounting and audit	17,529	1,624
Legal fees	820	-
Filing fees and regulatory	2,123	217
General office and supplies	32	1,023
Office rent and storage	5,550	1,803
Telephone & Communications	64	4,623
Travel, meetings, lodging	4,289	3,432
Bank fees	308	626
Promotion	-	-
Utilities	-	-
Contract labor	-	13,162
Postage and Courier	-	260
Miscellaneous	762	4,142
<b>Total</b>	<b>31,477</b>	<b>30,912</b>

A building owned by the Company was sold in February of 2017 as illustrated by high revenue in the March'17 quarter in the following table. G&A expenses were similar in 2017 and 2018

due to the high labor costs in the preparation and sale of the building, offset by the requirement to rent office space in late 2017 and 2018 and audit fees that were paid earlier in 2018.

## 1.5 Summary of Quarterly Results

	Sep'18	Jun'18	Mch'18	Dec'17	Sep'17	Jun'17	Mch'17	Dec'16
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	212	nil	3,790	nil	nil	24,593	377,600	nil
Net Income	(70,011)	(48,900)	(53,869)	(90,971)	(48,900)	(56,551)	296,892	(67,037)
Earnings p/s	(0.005)	(0.005)	(0.006)	(0.010)	(0.005)	(0.006)	0.032	(0.007)

The March'17 and June'17 quarters show elevated revenue from the sale of real estate peripheral to the mine property. The annual loss per quarter disregarding the two high income quarters was remarkably consistent reflecting the tight control of company expenses.

## 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.
4. Borrow funds, or issue shares in a private placement or public offering.

The company intends to raise equity capital in 2018 with improved financial conditions, with the objective to initiate underground and surface diamond drilling in and around the Lovitt Gold Mine to convert geological reserves to proven and probable.

If real estate under survey is sold the company could raise in excess of \$ 100,000 over the next six months. Funds raised in excess of overhead will help fund the exploration program.

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

The company is totally dependent upon asset sales, borrowing, or financing in the venture capital markets to maintain liquidity.

## 1.7 Capital Resources

It should be noted that LMC, the wholly owned subsidiary of LRC owns about 250 acres of land on the city limits of Wenatchee, WA acquired 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 the area surrounding the Lovitt Mine, with the most important a mineral interest in 200 acres including the 100% owned 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 had written most of its mineral asset off in

2003 in accordance with accounting conventions, since no expenditure had been made on the Lovitt mineral properties for several years. The write off was approximately \$ 2,000,000 and Directors of the Company believe that the current market value of the mineral interest is considerably in excess of \$ 560,666 stated the balance sheet of the current statement for the six months ending September 30, 2018.

Most Company land potentially for sale is carried at 1950's prices of less than 75.00 per acre and some of this land was sold in the past decade at \$20,000 to \$40,000 per acre to raise capital. It is expected that land currently under development could sell over 50,000 per acre. With eventual rehabilitation of the mine the land will be designated tourist destination, in an area with considerable tourist potential. The company has surplus equipment and land for sale sufficient to carry the basic overhead of the Company through 2018.

#### **1.8 Off Balance Sheet Arrangements: None**

#### **1.9 Transactions with Related Parties**

During the sixth-month period ending September 30, 2018 the Company was charged \$ 60,000 (2017 - \$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 (2017 -\$ 4,500) in rent for 1,100 sq. ft. of office and storage space to a Director of the Company. Family members of a Director were paid or accrued \$ 12,600 for contract labor or salary for work, travel, and sales & marketing services over the same six-month period.

The September 30, 2018 statement includes loans outstanding of \$ 1,093,226 (2017-\$ 923,707) to Directors or to Corporations controlled by Directors of the Company, and a former Director of the Company. Interest of \$ 14,840.80 was accrued on these loans over the six-month period to September 30, 2018.

#### **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 widespread throughout the financial statements, and that 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 of 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 of September 30, 2018, no decommissioning liabilities have been brought to the attention of LMC.
- (iv) The valuation of financial instruments which are classified as fair value through profit or loss – See Note 10 in the Annual Statements for the year ending March 31, 2018.

### **1.13 Changes in Accounting Policies: None**

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

#### **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.

## **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 September 30, 2018, unchanged from 2014. 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 expressed as incurred. No financings were completed, and no shares or warrants were issued in the six-month period ending September 30, 2018.

### **1.16 Subsequent Events:**

The company continues to focus upon the potential acquisition of mineral properties in Western Canada by staking, option, or outright purchase, and recently resumed underground exploration in the Lovitt Gold Mine. The company filed a permit application to diamond drill in an area where senior mining companies in the 1980's achieved impressive results adjacent to an area of historic high-grade gold production in the Lovitt Gold Mine.

Subsequent to the six-month period ending September 30, 2018 the company continued to offer equipment and real estate for sale surplus to its needs, to generate working capital. The company may enter the public market for funding to pay for the diamond program when a drill permit is awarded.

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