

# **LORNEX CAPITAL INC.**

**Condensed Interim Consolidated Financial Statements (Unaudited)**

**Three and Six Months Ended June 30, 2012 and 2011**

**(Expressed in Canadian Dollars)**

# **LORNEX CAPITAL INC.**

(the "Company")

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**Three and six months ended June 30, 2012 and 2011**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The management of Lornex Capital Inc. is responsible for the preparation of the accompanying unaudited condensed interim consolidated financial statements. The unaudited condensed interim consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of condensed interim consolidated financial statements and are in accordance with IAS 34 - Interim Financial Reporting.

The Company's auditor has not performed a review of these condensed interim consolidated 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.

August 24, 2012

# LORNEX CAPITAL INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)  
(Expressed in Canadian Dollars)

	June 30, 2012	December 31, 2011
	\$	\$
<b>Assets</b>		
Current:		
Cash and cash equivalents	1,025,707	1,111,857
Amounts receivable	9,360	15,664
Prepaid expenses and deposits	7,000	2,000
	1,042,067	1,129,521
Equipment	4,263	4,177
Exploration and evaluation assets (Note 3)	92,317	88,957
	1,138,647	1,222,655
<b>Liabilities</b>		
Current:		
Accounts payable and accrued liabilities	19,896	15,214
<b>Shareholders' equity</b>		
Share capital (Note 4)	4,191,070	4,175,770
Reserves (Note 4)	168,103	121,963
Deficit	(3,240,422)	(3,090,292)
	1,118,751	1,207,441
	1,138,647	1,222,655

Nature of Operations (Note 1)

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

## LORNEX CAPITAL INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)  
(Expressed in Canadian Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Administrative Expenses:				
Consulting fees	-	8,800	-	11,800
Depreciation	326	326	628	636
Management fees	27,000	16,200	32,400	32,400
Office, rent and administration (Note 5)	22,728	23,823	38,236	44,384
Professional fees (Note 5)	2,560	7,686	2,870	10,658
Regulatory fees	3,102	3,095	8,302	8,295
Share-based payments (Note 4)	6,579	(1,166)	46,140	(2,037)
Transfer agent	2,498	3,444	3,479	4,057
Travel, promotion and shareholder communication	2,291	62,982	22,534	136,233
	67,084	125,190	154,589	246,426
Loss before other items	(67,084)	(125,190)	(154,589)	(246,426)
Other items:				
Finance costs	(46)	(109)	(150)	(244)
Finance income	2,742	1,631	4,609	4,176
	2,696	1,522	4,459	3,932
Loss and comprehensive loss for the period	(64,388)	(123,668)	(150,130)	(242,494)
Basic and diluted loss per share (Note 4(f))	(0.01)	(0.03)	(0.02)	(0.05)

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

## LORNEX CAPITAL INC.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)  
(Expressed in Canadian Dollars)

	Share capital		Reserves			Deficit	Total shareholders' equity	
	Note	Common shares	Amount	Stock options	Warrants			Total
		#	\$	\$	\$			\$
<b>Balance, January 1, 2011</b>		<b>4,171,912</b>	<b>3,619,811</b>	<b>111,708</b>	<b>6,666</b>	<b>118,374</b>	<b>(2,720,972)</b>	<b>1,017,213</b>
Comprehensive loss for the period		-	-	-	-	-	(242,494)	(242,494)
Exercise of options	4(c)	8,333	8,205	(5,455)	-	(5,455)	-	2,750
Exercise of warrants	4(c)	616,667	185,000	-	-	-	-	185,000
Share-based payments		-	-	(2,037)	-	(2,037)	-	(2,037)
<b>Balance, June 30, 2011</b>		<b>4,796,912</b>	<b>3,813,016</b>	<b>104,216</b>	<b>6,666</b>	<b>110,882</b>	<b>(2,963,466)</b>	<b>960,432</b>
<b>Balance, January 1, 2012</b>		<b>7,090,662</b>	<b>4,175,770</b>	<b>115,297</b>	<b>6,666</b>	<b>121,963</b>	<b>(3,090,292)</b>	<b>1,207,441</b>
Comprehensive loss for the period		-	-	-	-	-	(150,130)	(150,130)
Share-based payments		-	-	46,140	-	46,140	-	46,140
Private placement	4(c)	100,000	17,000	-	-	-	-	17,000
Share issue costs		-	(1,700)	-	-	-	-	(1,700)
<b>Balance, June 30, 2012</b>		<b>7,190,662</b>	<b>4,191,070</b>	<b>161,437</b>	<b>6,666</b>	<b>168,103</b>	<b>(3,240,422)</b>	<b>1,118,751</b>

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

## LORNEX CAPITAL INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)  
(Expressed in Canadian Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Operating activities:				
Loss for the period	(64,388)	(123,668)	(150,130)	(242,494)
Adjustments for non-cash items:				
Depreciation	326	326	628	636
Share-based payments	6,579	(1,166)	46,140	(2,037)
Changes in non-cash working capital items:				
Amounts receivable	8,671	2,007	6,304	604
Prepaid expenses and deposits	(5,000)	-	(5,000)	4,268
Accounts payable and accrued liabilities	7,076	(5,430)	4,682	(12,072)
	(46,736)	(127,931)	(97,376)	(251,095)
Investing activities:				
Exploration and evaluation assets	-	-	(3,360)	(6,768)
Purchase of equipment	(714)	(490)	(714)	(490)
	(714)	(490)	(4,074)	(7,258)
Financing activities:				
Shares issued for cash	-	135,000	17,000	187,750
Share issue costs	-	-	(1,700)	-
	-	135,000	15,300	187,750
Increase (decrease) in cash and cash equivalents	(47,450)	6,579	(86,150)	(70,603)
Cash and cash equivalents, beginning of period	1,073,157	852,261	1,111,857	929,443
Cash and cash equivalents, end of period	1,025,707	858,840	1,025,707	858,840
Supplemental cash flow information:				
Non-cash financing activity:				
Fair value of stock options transferred to share capital upon exercise (Note 4)	-	-	-	5,455

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

# LORNEX CAPITAL INC.

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended June 30, 2012 and 2011  
(Unaudited)

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## 1. Nature of Operations

The Company was incorporated on July 26, 2000 under the Canada Business Corporations Act and is engaged in the acquisition, exploration and development of mineral properties in Canada. The Company's common shares are traded on the TSX Venture Exchange ("Exchange") under the symbol "LOM". On August 29, 2011, the Company consolidated its capital stock on a three-for-one-basis (Note 4(b)).

The head office, principal address and records office of the Company are located at Suite 507 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8. The Company's registered office address is Suite 1780 - 400 Burrard Street, Vancouver, British Columbia, Canada, V6C 3A6.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The Company's ability to continue as a going concern and the recoverability of the amounts capitalized for mineral properties and related deferred exploration expenditures are dependent upon the ability of the Company to raise additional financing in order to complete the exploration and development of its resource properties, the discovery of economically recoverable reserves, the attainment of future profitable production or proceeds from disposition of the Company's resource properties. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to achieve any of the foregoing and continue as a going concern. Any adjustment required to the amounts and reclassification of assets and liabilities may be significant. At June 30, 2012, the Company had not yet achieved profitable operations and has accumulated losses of \$3,240,422 (December 31, 2011- \$3,090,292).

Management has estimated that the Company will have adequate funds from existing working capital to meet corporate, administrative and other obligations for the next twelve months. The Company will require additional financing as it determines to acquire additional properties or accelerate its work programs. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms.

## 2. Significant Accounting Policies

### (a) Basis of presentation

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting* ("IAS 34"), using accounting policies consistent 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"). The accounting policies and methods of computation applied by the Company in these condensed interim consolidated financial statements are the same as those applied in the Company's annual financial statements as at and for the year ended December 31, 2011.

The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2011.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 24, 2012.

### (b) Use of estimates and judgments

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. There has been no significant change to the Company's estimation and judgment from those disclosed in note 2 to the audited financial statements for the year ended December 31, 2011.

# LORNEX CAPITAL INC.

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended June 30, 2012 and 2011  
(Unaudited)

## 3. Exploration and Evaluation Assets

A summary of exploration expenditures of the six months ended June 30, 2012 and the year ended December 31, 2011 are as follows:

	\$
Balance, December 31, 2010	35,168
Exploration:	
Consulting and geological fees	47,444
Wages and contract work	3,388
Property maintenance costs	2,957
	<u>53,789</u>
Balance, December 31, 2011	88,957
Exploration:	
Property maintenance costs	3,360
	<u>92,317</u>

The Company acquired a 100% interest in the AMI claims by staking and purchase by way of the issuance of 300,000 common shares of the Company valued at \$75,000 and a cash payment of \$77,030. The property is subject to a 1% NSR royalty.

## 4. Share Capital and Reserves

### (a) Authorized

An unlimited number of common shares without par value.

### (b) Issued share capital

On August 29, 2011, the Company consolidated its share capital on a 3 for 1 basis. All share and per share information contained in these consolidated financial statements reflect the post-consolidated share numbers. As at June 30, 2012, there were 7,190,622 issued and fully paid common shares (December 31, 2011 - 7,090,622).

### (c) Shares issuances

On January 3, 2012, the Company completed a non-brokered private placement of 100,000 units at a price of \$0.17 per unit for gross proceeds of \$17,000. Each unit consisted of one common share and one-half of one transferable common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.25 per common share for a period of two years expiring January 3, 2014. The warrants are subject to an acceleration provision whereby if at any time from four months and one day after the closing of the financing, the closing price of the Company's common shares on the Exchange over a period of 10 consecutive trading days exceeds \$0.35, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 calendar days after the date of such notice. The Company paid a finder's fee of \$1,700 with respect to the private placement.



# LORNEX CAPITAL INC.

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended June 30, 2012 and 2011  
(Unaudited)

## 4. Share Capital and Reserves - continued

### (c) Shares issuances - continued

On November 8, 2011, the Company closed a non-brokered private placement of 2,293,750 units at a price of \$0.16 per unit for gross proceeds of \$367,000. Each unit consisted of one common share and one-half of one transferable common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.25 per common share expiring November 8, 2013. The warrants are subject to an acceleration provision whereby if at any time from four months and one day after the closing of the financing, the closing price of the Company's common shares on the Exchange over a period of 10 consecutive trading days exceeds \$0.35, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 calendar days after the date of such notice. The Company incurred regulatory expenses of \$4,246 with respect to the private placement.

During the year ended December 31, 2011, 8,333 common shares of the Company were issued upon the exercise of stock options at \$0.33 per share for proceeds of \$2,750. As a result of this exercise, \$5,455 was transferred from stock options reserve for equity settled share based transactions to share capital.

During the year ended December 31, 2011, 616,667 common shares were issued for gross proceeds of \$185,000 on the exercise of 616,667 warrants at \$0.30 per share.

### (d) Warrants

The continuity of share purchase warrants issued and outstanding is as follows:

	Warrants	Weighted Average
	#	Exercise Price
		\$
Balance, December 31, 2010	1,913,331	0.66
Private placement	1,146,875	0.25
Exercised	(616,667)	0.30
Expired	(716,667)	0.30
Balance, December 31, 2011	1,726,872	0.67
Private placement	50,000	0.25
Expired	(579,997)	1.50
Balance, June 30, 2012	1,196,875	0.25

Share purchase warrants outstanding at June 30, 2012 are as follows:

Warrants	Exercise Price	Expiry Date
#	\$	
1,146,875	0.25	November 8, 2013
50,000	0.25	January 3, 2014

# LORNEX CAPITAL INC.

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended June 30, 2012 and 2011  
(Unaudited)

## 4. Share Capital and Reserves - continued

### (e) Stock options

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the plan have a term not to exceed 10 years and vesting periods that range from zero to 18 months.

The continuity of stock options issued and outstanding is as follows:

	Options Outstanding #	Weighted Average Exercise Price \$
Balance, December 31, 2010	299,000	0.43
Granted	214,000	0.21
Exercised	(8,333)	0.33
Forfeited	(33,333)	0.33
Balance, December 31, 2011	471,334	0.21
Granted	185,000	0.245
Balance, June 30, 2012	656,334	0.22

Stock options outstanding at June 30, 2012 are as follows:

Exercise Price \$	Options Outstanding #	Expiry Date	Options Exercisable #
0.21	117,333 <sup>(1)</sup>	Sept. 26, 2013	117,333
0.21	86,667 <sup>(1)</sup>	April 17, 2019	86,667
0.21	53,334 <sup>(2)</sup>	June 14, 2020	53,334
0.21	214,000	October 5, 2016	107,000
0.245	185,000	January 5, 2017	185,000
	656,334		549,335

<sup>(1)</sup> On October 31, 2011, the exercise price of these stock options was amended from \$0.33 to \$0.21 per share.

<sup>(2)</sup> On October 31, 2011, the exercise price of these stock options was amended from \$0.90 to \$0.21 per share.

During the year ended December 31, 2011, the Company modified the terms of 257,335 stock options previously granted to certain directors, officers, employees and consultants of the Company. These options had original exercise prices between \$0.33 and \$0.90 per share with expiry dates between 2013 and 2020 and were re-priced to have an exercise price of \$0.21 per share. All other terms of the stock options remain the same. The repricing of insiders' options was approved by disinterested shareholders and accepted by the Exchange during the six months ended June 30, 2012. The repricing of non-insider options resulted in the recognition of approximately \$1,856 of additional share-based compensation during the year ended December 31, 2011, and the repricing of insiders' options resulted in the recognition of approximately \$3,520 of additional share-based compensation during the six months ended June 30, 2012.

# LORNEX CAPITAL INC.

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended June 30, 2012 and 2011  
(Unaudited)

## 4. Share Capital and Reserves - continued

### (e) Stock options - continued

The Company uses the fair value method of accounting for all share-based payments to directors, officers, employees and consultants providing similar service. During the six months ended June 30, 2012, the Company recorded share-based compensation of \$42,620 (2011 - \$(2,037)) for stock options granted and vested during the period.

The fair values of the stock options granted were estimated on the respective grant dates using the Black-Scholes option pricing model, with the following weighted average assumptions:

	2012	2011
Risk free interest rate	1.10%	-
Expected dividend yield	0%	-
Expected stock price volatility	114.50%	-
Expected life	4.19 years	-

The weighted average fair value of options granted during the six months ended June 30, 2012 was \$0.19 (2011 - \$Nil) per option.

### (f) Loss per share

Basic loss per share was calculated based on the following weighted average number of common shares outstanding for the period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Loss per share - basic and diluted	0.009	0.03	0.02	0.05
Loss for the period	64,388	123,668	150,130	242,494
	#	#	#	#
Weighted average number of shares outstanding:				
Issued common shares, beginning of period	7,190,662	4,180,246	7,090,662	4,171,912
Private placement	-	-	98,901	-
Options exercised	-	-	-	7,274
Warrants exercised	-	574,689	-	288,932
Weighted average number of shares - basic and diluted	7,190,662	4,754,935	7,189,563	4,468,118

# LORNEX CAPITAL INC.

Notes to Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)

Three and Six Months Ended June 30, 2012 and 2011  
(Unaudited)

## 5. Related Party Balances and Transactions

### (a) Related party transactions

The Company incurred the following transactions with companies having directors in common:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Office, rent and administration	21,680	18,100	34,080	34,600
Legal fees	308	2,566	308	2,566
	21,988	20,666	34,388	37,166

### (b) Compensation of key management personnel

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	\$	\$	\$	\$
Short-term benefits - management fees	27,000	16,200	32,400	32,400
Share-based compensation	6,331	(1,073)	10,656	(2,015)
	33,331	15,127	43,056	30,385

The Company's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and consist of its Directors, Chief Executive Officer and Chief Financial Officer.

### (c) Related party balances

The following related party amounts are included in (i) prepaid expenses and deposits and (ii) accounts payable and accrued liabilities:

	June 30, 2012	December 31, 2011
	\$	\$
Company having directors and officers in common (i)	7,000	2,000
A company controlled by a director and officer of the Company (ii)	6,048	-
Companies having directors and officers in common (ii)	11,680	-

These transactions occurred in the normal course of operations and were measured at the exchange amounts established and agreed to by the related parties. Any amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.