

# **LORNEX CAPITAL INC.**

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

**Three Months Ended March 31, 2014 and 2013**

**(Expressed in Canadian Dollars)**

# **LORNEX CAPITAL INC.**

**(the "Company")**

## **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**Three months ended March 31, 2014 and 2013**

### **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.

May 21, 2014

# LORNEX CAPITAL INC.

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

	March 31, 2014	December 31, 2013
	\$	\$
<b>Assets</b>		
Current:		
Cash and cash equivalents	702,834	746,216
Amounts receivable	8,839	6,659
Prepaid expenses and deposits	7,000	7,000
	<u>718,673</u>	<u>759,875</u>
Equipment	1,962	2,113
	<u>720,635</u>	<u>761,988</u>
<b>Liabilities</b>		
Current:		
Accounts payable and accrued liabilities	13,568	13,124
<b>Shareholders' equity</b>		
Share capital (Note 4)	4,197,736	4,197,736
Reserves (Note 4)	119,026	117,368
Deficit	(3,609,695)	(3,566,240)
	<u>707,067</u>	<u>748,864</u>
	<u>720,635</u>	<u>761,988</u>

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 March 31,	
	2014	2013
	\$	\$
Administrative Expenses:		
Bank charges	80	91
Depreciation	151	214
Management fees (Note 5)	-	16,200
Office, rent and administration (Note 5)	33,414	21,536
Professional fees (Note 5)	370	310
Regulatory fees	5,700	5,200
Share-based payments (Note 4)	4,339	896
Transfer agent	929	734
Travel, promotion and shareholder communication	-	5,206
	<u>44,983</u>	<u>50,387</u>
Loss before other items	(44,983)	(50,387)
Other items:		
Interest income	2,207	2,256
Impairment of exploration and evaluation asset	(3,360)	(3,360)
	<u>(1,153)</u>	<u>(1,104)</u>
Comprehensive loss for the period	<u>(46,136)</u>	<u>(51,491)</u>
Loss per common share – basic and diluted	(0.01)	(0.01)
Weighted average number of common shares outstanding – basic and diluted	<u>7,190,662</u>	<u>7,190,662</u>

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					shareholders' equity
	Notes	Common	Amount	Stock	Deficit	
		shares		options		
		#	\$	\$	\$	\$
<b>Balance, December 31, 2012</b>		<b>7,090,662</b>	<b>4,197,736</b>	<b>167,349</b>	<b>(3,437,174)</b>	<b>927,911</b>
Comprehensive loss for the period		-	-	-	(51,491)	(51,491)
Share-based payments		-	-	896	-	896
<b>Balance, March 31, 2013</b>		<b>7,190,662</b>	<b>4,197,736</b>	<b>168,245</b>	<b>(3,488,665)</b>	<b>877,316</b>
Comprehensive loss for the period		-	-	-	(128,952)	(128,952)
Share-based payments		-	-	500	-	500
Forfeited options	4(c)	-	6,666	(51,377)	51,377	-
<b>Balance, December 31, 2013</b>		<b>7,190,662</b>	<b>4,197,736</b>	<b>117,368</b>	<b>(3,566,240)</b>	<b>748,864</b>
Comprehensive loss for the period		-	-	-	(46,136)	(46,136)
Share-based payments		-	-	4,339	-	4,339
Forfeited options	4(c)	-	-	(2,681)	2,681	-
<b>Balance, March 31, 2014</b>		<b>7,190,662</b>	<b>4,197,736</b>	<b>119,026</b>	<b>(3,609,695)</b>	<b>707,067</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 March 31,	
	2014	2013
	\$	\$
Operating activities:		
Loss for the period	(46,136)	(51,491)
Adjustments for non-cash items:		
Depreciation	151	213
Share-based payments	4,339	896
Changes in non-cash working capital items:		
Amounts receivable	(2,180)	(1,784)
Prepaid expenses and deposits	-	69
Accounts payable and accrued liabilities	444	(520)
	(43,382)	(52,617)
Decrease in cash and cash equivalents	(43,382)	(52,617)
Cash and cash equivalents, beginning of period	746,216	925,794
Cash and cash equivalents, end of period	702,834	873,177
Cash and cash equivalents are comprised of the following:		
Cash	22,834	123,177
Guaranteed Investment Certificates	680,000	750,000
	702,834	873,177

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 Months Ended March 31, 2014 and 2013  
(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".

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 700 - 1199 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3T5.

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.

At March 31, 2014, the Company had not yet achieved profitable operations and has accumulated losses of \$3,609,695 (December 31, 2013 -\$3,566,240). As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

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.

Management has estimated that the Company will have adequate funds from existing working capital to meet corporate, administrative and other obligations over 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. Summary of Significant Accounting Policies

### (a) Basis of presentation and consolidation

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, 2013.

The consolidated interim financial statements are presented in Canadian dollars unless otherwise noted. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Rosswoll Industries Inc., incorporated in British Columbia. All significant intercompany balances and transactions were eliminated on consolidation.

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, 2013.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on May 21, 2014.

# LORNEX CAPITAL INC.

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

Three Months Ended March 31, 2014 and 2013  
(Unaudited)

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## 2. Summary of Significant Accounting Policies (Continued)

### (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 consolidated 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, 2013.

## 3. Exploration and Evaluation Assets

Cumulative expenditures incurred by the Company on its property are summarized as follows:

	\$
Balance, December 31, 2012	-
Exploration:	
Property maintenance costs	3,360
Impairment	(3,360)
Balance, December 31, 2013	-
Exploration:	
Property maintenance costs	3,360
Impairment	(3,360)
Balance, March 31, 2014	-

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.

On September 10, 2012, certain claims have lapsed and as a result, during three months ended March 31, 2014, the Company recognized an impairment of \$3,360 (2013 - \$3,360) on the property.

## 4. Share Capital and Reserves

### (a) Authorized

An unlimited number of common shares without par value.

### (b) Issued share capital

As at March 31, 2014, there were 7,190,622 issued and fully paid common shares (December 31, 2013 - 7,190,622).



# LORNEX CAPITAL INC.

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

Three Months Ended March 31, 2014 and 2013  
(Unaudited)

## 4. Share Capital and Reserves (Continued)

### (c) Warrants

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

	Warrants #	Weighted Average Exercise Price \$
Balance, December 31, 2012	1,196,875	0.25
Expired	(1,146,875)	0.25
Balance, December 31, 2013	50,000	0.25
Expired	(50,000)	0.25
Balance, March 31, 2014	-	-

### (d) 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, 2012	656,334	0.22
Forfeited	(132,333) <sup>(1)</sup>	0.23
Balance, December 31, 2013	524,001	0.22
Forfeited	(25,000) <sup>(2)</sup>	0.22
Granted	195,000	0.10
Balance, March 31, 2014	694,001	0.19

<sup>(1)</sup> During the year ended December 31, 2013, the fair value of 132,333 forfeited options of \$51,377 was reclassified from reserves to deficit.

<sup>(2)</sup> During the three months ended March 31, 2014, the fair value of 25,000 forfeited options of \$2,681 was reclassified from reserves to deficit.

# LORNEX CAPITAL INC.

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

Three Months Ended March 31, 2014 and 2013  
(Unaudited)

## 4. Share Capital and Reserves (Continued)

### (d) Stock options (Continued)

Stock options outstanding at March 31, 2014 are as follows:

Exercise Price \$	Options Outstanding #	Expiry Date	Options Exercisable #
0.21	71,667 <sup>(1)</sup>	April 17, 2019	71,667
0.21	53,334 <sup>(1)</sup>	June 14, 2020	53,334
0.21	209,000 <sup>(1)</sup>	October 5, 2016	209,000
0.245	165,000 <sup>(1)</sup>	January 5, 2017	165,000
0.10	195,000	March 20, 2024	48,750
	694,001		547,751

<sup>(1)</sup> Subsequent to March 31, 2014, the exercise price of these stock options was amended to \$0.10 per share. The amendment to the terms of these options is subject to approval by the Exchange and the repricing of insiders' options is subject to disinterested shareholder approval.

The Company uses the fair value method of accounting for all share-based compensation to directors, officers, employees and consultants providing similar service. During the three months ended March 31, 2014, the Company recorded share-based payments of \$4,339 (2013 - \$896) 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:

	2014	2013
Risk free interest rate	1.66%	-
Expected dividend yield	0%	-
Expected stock price volatility	105.10%	-
Expected life	5.56 years	-

The weighted average fair value of options granted during the three months ended March 31, 2014 was \$0.08 (2013 - \$nil) per option.

## 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 March 31,	
	2014	2013
	\$	\$
Office, rent and administration <sup>(1)</sup>	28,600	16,300

<sup>(1)</sup> Of these fees, \$6,900 (2013 - \$4,200) was allocated to the CFO of the Company.

# LORNEX CAPITAL INC.

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

Three Months Ended March 31, 2014 and 2013  
(Unaudited)

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## 5. Related Party Balances and Transactions (Continued)

### (b) Compensation of key management personnel

	Three Months Ended March 31,	
	2014	2013
	\$	\$
Short-term benefits - management fees <sup>(1)</sup>	6,900	20,400
Share-based compensation	2,580	900
	9,480	21,300

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 prepaid expenses and deposits:

	March 31, 2014	December 31, 2013
	\$	\$
Company having directors and officers in common	2,000	2,000